农夫山泉

農夫山泉股份有限公司

NONGFU SPRING CO., LTD.

Stock Code : 9633

GLOBAL OFFERING

(in alphabetical order)

Joint Sponsors, Joint Global Coordinators and Joint Bookrunners

CICC Morgan Stanley

Other Joint Global Coordinator and Joint Bookrunner

citi

Other Joint Bookrunner

CITIC SECURITIES

IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

农夫山泉

NONGFU SPRING CO., LTD.
農夫山泉股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	**388,231,800 H Shares (subject to the Over-allotment Option)**
Number of Hong Kong Offer Shares	:	**27,176,400 H Shares (subject to reallocation)**
Number of International Offer Shares	:	**361,055,400 H Shares (subject to reallocation and the Over-allotment Option)**
Maximum Offer Price	:	**HK$21.50 per H Share plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal value	:	**RMB0.1 per H Share**
Stock Code	:	**9633**

Joint Sponsors, Joint Global Coordinators and Joint Bookrunners
(in alphabetical order)

CICC Morgan Stanley

Other Joint Global Coordinator and Joint Bookrunner

citi

Other Joint Bookrunner

CITIC SECURITIES

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in "Appendix VII — Documents Delivered to the Registrar of Companies in Hong Kong and Available for Inspection", has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between the Joint Global Coordinators and the Company on the Price Determination Date, which is expected to be on or about Friday, August 28, 2020 and, in any event, not later than Tuesday, September 1, 2020. The Offer Price is expected to be not more than HK$21.50 per Offer Share and is expected to be not less than HK$19.50 per Offer Share, unless otherwise announced.

The Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the Underwriters) may, where considered appropriate and with our consent, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this prospectus (which is HK$19.50 to HK$21.50) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range will be published on the website of the Hong Kong Stock Exchange at www.hkexnews.hk and on the website of the Company at www.nongfuspring.com as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. See "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" for further details.

We are incorporated, and most of our businesses are operated, in the PRC. Potential investors should be aware of the differences in legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investments in PRC-incorporated businesses. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the H Shares. Such differences and risk factors are set out in the sections headed "Risk Factors," "Appendix IV — Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions" and "Appendix V — Summary of the Articles of Association". Potential investors should consider carefully all the information set out in this prospectus and, in particular, the matters discussed in the abovementioned sections.

Prospective investors of the Hong Kong Offer Shares should note that the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe, and to procure subscribers for, the Hong Kong Offer Shares, are subject to termination by the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for Termination" for such grounds. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except that Offer Shares may be offered, sold or delivered (a) in the United States solely to QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act or (b) outside the United States in offshore transactions in reliance on Regulation S.

Prior to making an investment decision, prospective investors should consider carefully all the information set out in this prospectus, including the risk factors set out in "Risk Factors". The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in "Underwriting".

Tuesday, August 25, 2020

Latest time to complete electronic applications under **White Form eIPO** service through the designated website **www.eipo.com.hk**[2]	11:30 a.m. on Friday, August 28, 2020
Application lists open[3]	11:45 a.m. on Friday, August 28, 2020
Latest time to lodge **WHITE** and **YELLOW** Application Forms	12:00 noon on Friday, August 28, 2020
Latest time to give electronic application instructions to HKSCC[4]	12:00 noon on Friday, August 28, 2020
Latest time to complete payment of **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Friday, August 28, 2020
Application lists close[3]	12:00 noon on Friday, August 28, 2020
Expected Price Determination Date[5]	Friday, August 28, 2020

(1) Announcement of:

- the Offer Price;
- the level of applications in the Hong Kong Public Offering;
- the level of indications of interest in the International Offering; and
- the basis of allocation of the Hong Kong Offer Shares

to be published on our website at **www.nongfuspring.com**[6] and the website of the Stock Exchange at **www.hkexnews.hk**[6] on or before . . . . Monday, September 7, 2020

(2) Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in "How to Apply for Hong Kong Offer Shares – 11. Publication of Results" in this prospectus from . . . . Monday, September 7, 2020

(3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Stock Exchange at **www.hkexnews.hk** and the Company's website at **www.nongfuspring.com**[6] from ...... Monday, September 7, 2020

Result of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) will be available at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a "search by ID" function from .... Monday, September 7, 2020

H Share certificates in respect of wholly or partially successful applications to be dispatched or deposited into CCASS on or before[7] .... Monday, September 7, 2020

White Form e-Refund payment instructions/refund cheques in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering to be dispatched on or before[8] [9] .... Monday, September 7, 2020

Dealings in H Shares on the Hong Kong Stock Exchange expected to commence at .... 9:00 a.m. on Tuesday, September 8, 2020

Notes:

(1) All dates and times refer to Hong Kong local dates and time, except as otherwise stated. For details of the structure of the Global Offering, including conditions of the Hong Kong Public Offering, please refer to "Structure of the Global Offering" in this prospectus.

(2) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. **If you have already submitted your application through the designated website at www.eipo.com.hk and obtained an application reference number from the designated website before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.**

(3) If there is/are a tropical cyclone warning signal number 8 or above, a "black" rainstorm warning signal and/or Extreme Conditions in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, August 28, 2020, the application lists will not open on that day. Please refer to "How to Apply for Hong Kong Offer Shares – 10. Effect of Bad Weather on the Opening of the Application Lists" in this prospectus.

(4) Applicants who apply for the Hong Kong Offer Shares by giving electronic application instructions to HKSCC via CCASS should refer to "How to Apply for Hong Kong Offer Shares – 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS" in this prospectus.

(5) The Price Determination Date is expected to be on or about Friday, August 28, 2020, and, in any event, not later than Tuesday, September 1, 2020. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators and us on or before Tuesday, September 1, 2020, the Global Offering will lapse.

(6) None of the websites or any of the information contained on the websites forms part of this prospectus.

(7) No temporary documents of title will be issued in respect of the Offer Shares. H Share certificates for the Hong Kong Offer Shares will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with their terms prior to 9:00 a.m. on the Listing Date. Investors who trade H Shares on the basis of publicly available allocation details prior to the receipt of H Share certificates or prior to the H Share certificates becoming valid do so at their own risk.

(8) e-Refund payment instruction/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application.

(9) Applicants who have applied on **WHITE** Application Forms or **White Form eIPO** for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or H Share certificates in person from our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, September 7, 2020. Applicants being individuals who are eligible for personal collection may not authorize any other person to collect on their behalf. Applicants being corporations who are eligible for personal collection must attend through their authorized representatives bearing letters of authorization from their corporation stamped with the corporation's chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to our H Share Registrar. Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering may collect their refund cheques, if any, in person but may not elect to collect their H Share certificates as such H Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit to their or the designated CCASS Participants' stock account as stated in their Application Forms. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants. Uncollected refund cheques and H Share certificates will be dispatched promptly by ordinary post to the addresses as specified in the applicants' Application Forms at the applicants' own risk. For details of the arrangements, please refer to "How to Apply for Hong Kong Offer Shares" in this prospectus.

Applicants who have applied through the **White Form eIPO** service and paid their application monies through single bank account may have refund monies (if any) dispatched to the bank account, in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions, in the form of refund cheques, by ordinary post at their own risk.

H Share certificates and/or refund cheques (if applicable) for applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected H Share certificates and/or refund cheques will be dispatched by ordinary post, at the applicants' risk, to the addresses specified in the relevant applications.

Further information is set out in "How to Apply for Hong Kong Offer Shares – 13. Refund of Application Monies" and "How to Apply for Hong Kong Offer Shares – 14. Dispatch/Collection of H Share Certificate(s) and Refund Monies" in this prospectus.

The H Share certificates will only become valid certificates of title provided that the Global Offering has become unconditional in all respects and neither the Hong Kong Underwriting Agreement nor the International Underwriting Agreement is terminated in accordance with their respective terms prior to 8:00 a.m. on the Listing Date. The Listing Date is expected to be on or about Tuesday, September 8, 2020. Investors who trade the H Shares on the basis of publicly available allocation details prior to the receipt of H Share certificates or prior to the H Share certificates becoming valid certificates of title do so entirely at their own risk.

The above expected timetable is a summary only. You should refer to "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for the Hong Kong Offer Shares.

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IMPORTANT NOTICE TO INVESTORS

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. The Hong Kong Public Offering is made solely on the basis of the information contained and the representations made in this prospectus. The Company has not authorised anyone to provide you with any information or to make any representation that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or advisors, or any other person or party involved in the Global Offering.

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This summary is intended to provide you with an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide whether to invest in the Offer Shares. Some of the particular risks of investing in the Offer Shares are set out in "Risk Factors" and you should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leader in the packaged drinking water and beverage business in the PRC with devotion to providing consumers with high-quality products. According to the F&S Report, we ranked first in the packaged drinking water market in China in terms of market share for eight consecutive years from 2012 to 2019. We were among the top three players in tea beverage, functional beverage and juice beverage markets in China in terms of retail sales value in 2019. The table below sets forth the main categories of our products.

Product Category	Brand Logo	Product Image	Ranking of Market Share(1)	Market Share in 2019(1)	Revenue in 2019 (RMB million)
Packaged drinking water products	农夫山泉 NONGFU SPRING		1st	20.9%	14,346
Tea beverage products	东方树叶		3rd	7.9%	3,138
	茶π				
Functional beverage products	尖叫		3rd	7.3%	3,779
	维他命水				
Juice beverage products	农夫果园		3rd	3.8%	2,311
	水溶 C100				
	NFC NOT FROM CONCENTRATE				
	17.5°				
Total					**23,574**

Note:

(1) According to the F&S Report, our market share in each relevant product category market is calculated based on the retail sales value in 2019.

Since our establishment in 1996, we have adhered to the principle that "every drop of Nongfu Spring has its source" (「每一滴農夫山泉都有它的源頭」). We have successfully realized the strategic layout of China's top ten quality water sources (as shown below). We comply with the applicable PRC laws and regulations on the water extraction from the natural water sources. We submit water-taking applications to relevant governmental entities and demonstrate the reasonableness of the extractable volume with reference to actual conditions of the water sources. We obtain water-taking permits and mining permits (which are only applicable to mineral water) after the approval by relevant government entities, or under a few circumstances enter into water supply agreements with third-party state-owned water supply companies that possess water-taking permits. The ten water sources are located in different regions of China which cover the entire national market supply. The above natural water sources are located in excellent ecological environments and have outstanding water quality. We treat the quality natural water with the necessary process, including filtration and sterilization. Our packaged drinking water products contain minerals that are beneficial to human body, such as potassium, sodium, calcium, magnesium and metasilicate. Our packaged drinking water products include natural drinking water and natural mineral water.

We have established dual growth engines, packaged drinking water and beverage, which enhance our competitive advantage and reduce the risks of fluctuating operating results. Our packaged drinking water products, as consumption necessities, satisfy consumers' basic drinking needs. Our beverage products satisfy their diverse and personal drinking needs. The distribution of both packaged drinking water and beverage products through the same distributors helps to increase their business scale and profitability, which in turn encourages them to focus more on promoting our products. The diversity of our products also enables us to flexibly form different product mixes based on the characteristics of different markets and channels, which helps us to develop differentiating advantages in the channel competition. A diverse product portfolio also enlarges our share of shelves in retail points of sale, increases single-store sales volume, and improves the efficiency of distribution channels.

In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, the revenue from our beverage products accounted for 41.1%, 40.5%, 38.8%, 42.4% and 36.6% of our total revenue, respectively. For tea beverages, we have launched Tea π (茶π), which was the new beverage product that recorded the highest retail sales value in its first 12 months of launch in China during the decade from 2010 to 2019. We have also launched the traditional Chinese tea product series, Oriental Leaf (東方樹葉). Our functional beverage products, Scream (尖叫) and Victory Vitamin Water (力量帝維他命水), were popular among consumers who pursue a healthy lifestyle. Our juice products include low concentration juice Water Soluble C100 (水溶C100), medium concentration juice Farmer's Orchard (農夫果園), and high-quality not-from-concentrate pure juice, including Nongfu Spring (農夫山泉) NFC juice series and 17.5° juice series. We believe that"Good Fruit Juice is Grown" (「好果汁是種出來的」). We have built an apple processing and juicing production base in Xinjiang Uygur Autonomous Region and an orange processing and juicing production base in Jiangxi Province. Such production bases provide raw materials for our not-from-concentrate juice products.

The table below sets forth a breakdown of revenue contribution from our five product categories for the periods indicated.

	Year Ended December 31,						Five Months Ended May 31,			
	2017		2018		2019		2019		2020	
	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue
							(Unaudited)			
Packaged drinking water products	10,120	57.9%	11,780	57.5%	14,346	59.7%	5,602	56.5%	5,360	61.9%
Tea beverage products	2,597	14.8%	3,036	14.8%	3,138	13.1%	1,479	14.9%	1,166	13.5%
Functional beverage products	2,936	16.8%	3,322	16.2%	3,779	15.7%	1,837	18.5%	1,085	12.5%
Juice beverage products	1,468	8.4%	1,855	9.1%	2,311	9.6%	870	8.8%	752	8.7%
Other products[1]	370	2.1%	482	2.4%	447	1.9%	129	1.3%	301	3.4%
Total	**17,491**	**100.0%**	**20,475**	**100.0%**	**24,021**	**100.0%**	**9,917**	**100.0%**	**8,664**	**100.0%**

Note:

(1) Other products primarily include other beverage products such as coffee beverage, soda water beverage, sparkling flavored beverage and plant-based yogurt products, and agricultural products such as fresh fruits. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, revenue from other beverage products were RMB188 million, RMB81 million, RMB86 million, RMB16 million and RMB168 million, respectively, accounting for 1.1%, 0.4%, 0.4%, 0.2% and 1.9% of our total revenue, respectively. Revenue and gross profit from other products for the five months ended May 31, 2020 increased significantly as compared with the same period of last year, mainly due to the soda water beverage and coffee beverage launched in the second half of 2019.

The table below sets forth a breakdown of our gross profit and gross profit margin by product category for the periods indicated.

	Year Ended December 31,						Five Months Ended May 31,			
	2017		2018		2019		2019		2020	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB (million)	%	RMB (million)	%	RMB (million)	%	RMB (million)	%	RMB (million)	%
Packaged drinking water products	6,123	60.5%	6,656	56.5%	8,633	60.2%	3,413	60.9%	3,366	62.8%
Tea beverage products	1,505	58.0%	1,764	58.1%	1,873	59.7%	901	60.9%	718	61.6%
Functional beverage products	1,528	52.0%	1,655	49.8%	1,922	50.9%	929	50.6%	578	53.3%
Juice beverage products	561	38.2%	762	41.1%	802	34.7%	319	36.7%	307	40.8%
Other products[1]	92	24.9%	84	17.4%	81	18.1%	14	10.9%	150	49.8%
Total	**9,809**	**56.1%**	**10,921**	**53.3%**	**13,311**	**55.4%**	**5,576**	**56.2%**	**5,119**	**59.1%**

Note:

(1) Other products primarily include other beverage products such as coffee beverage, soda water beverage, sparkling flavored beverage and plant-based yogurt products, and agricultural products such as fresh fruits.

We have maintained a healthy business growth. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, our revenue was RMB17,491 million, RMB20,475 million, RMB24,021 million, RMB9,917 million and RMB8,664 million, respectively. From 2017 to 2018 and from 2018 to 2019, our revenue increased by 17.1% and 17.3%, respectively, which were much higher than the growth rates of 5.0% and 6.6% in the PRC soft beverage industry, and the growth rates of 2.7% and 3.4% in the global soft beverage industry in the same periods, according to the F&S Report. In addition, we are one of the most profitable companies in the PRC soft beverage industry. In 2017, 2018 and 2019, our net profit margin was 19.4%, 17.6% and 20.6%, respectively, which was much higher than the average net profit margins of 6.9%, 7.1% and 9.6% in the PRC soft beverage industry and 3.9%, 7.6% and 8.5% in the global soft beverage industry during the same periods, according to the F&S Report. Our profitability derives from our focus on consumer demands and the introduction of high-quality products, the pricing of which is typically at high level in the industry. According to the F&S Report, in 2019, the average retail price of our packaged drinking water products, tea beverage products, functional beverage products and juice beverage products was approximately RMB3,200 per ton, RMB8,200 per ton, RMB7,600 per ton and RMB10,500 per ton, respectively. In 2019, the average retail price of the packaged drinking water products, tea beverage products, functional beverage products (excluding energy beverage products) and juice beverage products in the industry was approximately RMB2,100 per ton, RMB4,200 per ton, RMB6,500 per ton and RMB4,900 per ton, respectively. Our revenue and gross profit increased from 2017 to 2019, primarily due to an increase in the sales of our products, particularly the packaged drinking water products. During the Track Record Period, our gross profit margin and net profit margin fluctuated slightly, primarily due to (i) changes in the average procurement price of PET, the primary raw materials of our products, and (ii) the effect of product mix.

The table below sets forth a breakdown of our sales volume and average selling price per ton by product category for the periods indicated.

		Year Ended December 31,			Five Months Ended May 31,	
		2017	2018	2019	2019	2020
Packaged drinking water products	Thousand tons	9,020	10,827	13,382	5,111	5,014
	RMB/Ton	1,122	1,088	1,072	1,096	1,069
Tea beverage products	Thousand tons	670	750	754	348	274
	RMB/Ton	3,876	4,048	4,162	4,251	4,257
Functional beverage products	Thousand tons	849	944	1,082	522	301
	RMB/Ton	3,458	3,519	3,493	3,520	3,604
Juice beverage products	Thousand tons	336	421	512	184	150
	RMB/Ton	4,369	4,406	4,514	4,727	5,010
Other products	Thousand tons	82	70	78	16	55
	RMB/Ton	4,512	6,886	5,731	8,032	5,481

During the Track Record Period, the average selling price per ton of packaged drinking water products decreased slightly, primarily due to an increase in the proportion of revenue from medium- to large-sized packaged drinking water products, which had relatively low average selling prices per ton. The average selling price per ton of tea beverage products increased, primarily due to the slight increase in the selling prices of relevant products. The average selling price per ton of functional beverage products increased from 2017 to 2018 and from the first five months of 2019 to the first five months of 2020, primarily due to an increase in the proportion of the revenue from Victory Vitamin Water (力量帝維他命水), which had relatively high average selling prices per ton. The average selling price per ton of juice beverage products increased from 2018 to 2019 and from the first five months of 2019 to the first five months of 2020, primarily due to an increase in the proportion of revenue from medium and high concentration juice which had relatively high average selling prices per ton.

The table below sets forth a breakdown of the components of our cost of sales and as percentages of our total revenue for the periods indicated.

	Year Ended December 31,						Five Months Ended May 31,			
	2017		2018		2019		2019		2020	
	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue
Raw materials	4,660	26.7%	5,819	28.4%	6,613	27.6%	2,774	28.0%	2,055	23.7%
Including: PET	2,228	12.7%	3,044	14.9%	3,382	14.1%	1,423	14.3%	998	11.5%
Packaging materials	1,037	5.9%	1,341	6.5%	1,390	5.8%	564	5.7%	519	6.0%
Manufacturing overheads	1,505	8.5%	1,845	9.2%	2,045	8.5%	792	8.0%	770	8.9%
Salaries of production personnel	364	2.1%	418	2.0%	527	2.1%	162	1.6%	147	1.7%
Water gathering and treatment cost	116	0.7%	131	0.6%	135	0.6%	49	0.5%	54	0.6%
Total	**7,682**	**43.9%**	**9,554**	**46.7%**	**10,710**	**44.6**	**4,341**	**43.8%**	**3,545**	**40.9%**

The cost of PET is the largest component of our cost of raw materials. During the Track Record Period, the average procurement price of PET increased by 26.0% from RMB6,426 per ton in 2017 to RMB8,097 per ton in 2018, decreased by 12.6% to RMB7,074 per ton in 2019, and further decreased by 15.5% to RMB5,975 per ton in the five months ended May 31, 2020.

MARKETING, SALES AND CUSTOMERS

We implement a multi-brand strategy. We have long-term plans for our brands and strong brand communication capabilities. Many of our slogans are well recognized by the consumers, including "Nongfu Spring tastes a bit sweet" (「農夫山泉有點甜」), " We are not manufacturers of water. We are porters of nature" (「我們不生產水，我們只是大自然的搬運工」) and "Tea π , Be My Own Style" (「茶π，自成一派」). We are committed to conveying the spirit and proposition of the brands to the consumers. Our series of micro-movies, "Porters" series showcase the real and ordinary daily work of our employees or cooperative partners to convince our customers that we do not take shortcuts, we work in a down-to-earth manner, and we achieve extraordinary brand pursuits in the ordinary. The "Nature" series of our micro-movies vividly illustrate that "the quality of the water source defines the quality of life." We believe that these micro-movies have been widely recognized by consumers, and have enhanced the brand reputation and consumer loyalty.

We have established a nationwide sales network with in-depth market penetration, covering all provinces, municipalities and prefecture-level administrative divisions across China. We sell our products through traditional channel, modern channel, catering channel, e-commerce channel and other channels (such as the new retail channel represented by vending machines). We mainly operate a single-layer distribution system. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, the revenue from the distribution to our distributors accounted for 95.0%, 94.6%, 94.2%, 95.1% and 93.6% of our total revenue, respectively. As of May 31, 2020, we covered more than 2.43 million retail points of sale across China through 4,454 distributors. In addition, we also adopt a direct sale model to certain customers. We identify direct sale customers by taking into considerations their reputation, industry experience, synergies with our business and purchase amount. Our direct sale customers mainly include national or regional supermarkets, chained convenience stores, e-commerce platforms, restaurants, airlines and large corporate customers. As of May 31, 2020, we had 247 direct sale customers.

We continue to incorporate our best practice gained from sales management into our information management system. All of our distributors use our Nongfu Cooperative Partner System (the "**NCP system**"). We manage about 12,000 front-line sales personnel and sales managers from us or our distributors in real time through the NCP system which is available on mobiles and personal computers.

PRODUCTION BASES

Our production bases of packaged drinking water are built in close proximity to the water sources. We have also built the processing and juicing production bases for oranges and apples in Jiangxi Province and Xinjiang Uygur Autonomous Region, respectively. As of May 31, 2020, we had 12 production bases with 144 production lines of packaged drinking water and beverage, seven production lines of fresh fruit juicing and three production lines of fresh fruit processing in aggregate. 17 of our drinking water production lines can fill as fast as 81,000 bottles per hour. 14 of our beverage production lines can achieve the Log6 sterilization standard. We determine whether to construct new production plants with reference to the utilization rates of our production lines and the market conditions. As of the Latest Practicable Date, we primarily planned to increase the production capacity of the production bases in Thousand-island Lake, Zhejiang Province (浙江千島湖), Wanlv Lake, Guangdong Province (廣東萬綠湖) and Mount Changbai, Jilin Province (吉林長白山).

RAW MATERIALS, PACKAGING MATERIALS AND SUPPLIERS

The principal raw material we use in the production of our products is PET, which is used in manufacturing bottles. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, the costs arising from PET amounted to RMB2,228 million, RMB3,044 million, RMB3,382 million, RMB1,423 million and RMB998 million, accounting for 29.0%, 31.9%, 31.6%, 32.8% and 28.2% of our total cost of sales, respectively. Apart from raw materials, we also need packaging materials such as cardboard boxes and shrink wraps to produce our products. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, the costs of packaging materials accounted for 13.5%, 14.0%, 13.0%, 13.0% and 14.6% of our total cost of sales, respectively. We have maintained stable and long-term relationships with our major suppliers. We only procure raw materials and packaging materials from the suppliers already listed on our supplier catalogue. We consider several factors in the evaluation and selection of suppliers, including but not limited to the supplier's background, reputation, industry experience, and most importantly the quality and price of their supplies. All new suppliers must go through our internal supplier admission process before entering into supply agreements with us. Some of them are subject to an onsite inspection conducted by us on their production plants on an as-needed basis to test the raw material and packaging material samples and evaluate their production processes and quality management.

COMPETITIVE STRENGTHS AND DEVELOPMENT STRATEGIES

We believe our competitive strengths are as follows:

(i) We are a leading PRC soft beverage company with scale, growth potentials and profitability;

(ii) We have preemptively obtained access to ten quality water sources, which forms a long-term and stable competitive strength, reflecting our unique strategic vision;

(iii) We have established dual growth engines, packaged drinking water and beverage, which enhance our competitive advantage and reduce the risks of fluctuating operating results;

(iv) We have built a super brand in the PRC soft beverage market with our belief in natural and healthy products and perseverance of promoting brand spirit;

(v) We have established a nationwide sales network with in-depth market penetration supported by information systems to improve distribution efficiency and manage operational risks;

(vi) We have industry-leading equipment and manufacturing capabilities with an efficient logistics and transportation network and stringent quality assurance system; and

(vii) We have a forward-looking, perseverant and passionate founding management team.

We intend to implement the following development strategies:

(i) continuous brand building;

(ii) steady increase in the breadth of distribution and unit retail sales value;

(iii) further expansion of production capacity;

(iv) greater investment in developing fundamental capabilities; and

(v) exploring overseas market opportunities.

RISK FACTORS

Investing in the Offer Shares involves certain risks, which could be categorized into (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to legal, compliance and regulatory matters; and (iv) risks relating to the Global Offering.

Some of the major risks we are exposed to are as follows:

(i) Our business relies on consumer demand for our products. Any shift in consumer demand, or any unexpected situation with a negative impact on consumer demand may materially and adversely affect our business and results of operations;

(ii) Any damage to our brand or reputation may materially and adversely affect our business and results of operations;

(iii) If the water sources become contaminated or the supply is unable to satisfy our business needs, our results of operations and business prospects may be materially and adversely affected; and

(iv) Any product quality issue could materially and adversely affect our results of operations.

SUMMARY OF THE KEY FINANCIAL DATA

Summary of the Consolidated Statements of Profit or Loss

	Year Ended December 31,						Five Months Ended May 31,			
	2017		2018		2019		2019		2020	
	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue
Revenue	**17,491**	**100.0%**	**20,475**	**100.0%**	**24,021**	**100.0%**	**9,917**	**100.0%**	**8,664**	**100.0%**
Cost of sales	(7,682)	(43.9%)	(9,554)	(46.7%)	(10,710)	(44.6%)	(4,341)	(43.8%)	(3,545)	(40.9%)
Gross profit	**9,809**	**56.1%**	**10,921**	**53.3%**	**13,311**	**55.4%**	**5,576**	**56.2%**	**5,119**	**59.1%**
Other income and gains	402	2.3%	534	2.6%	774	3.2%	277	2.8%	188	2.2%
Selling and distribution expenses	(4,890)	(28.0%)	(5,218)	(25.5%)	(5,816)	(24.2%)	(2,252)	(22.7%)	(2,127)	(24.6%)
Administrative expenses	(859)	(4.9%)	(1,065)	(5.2%)	(1,383)	(5.8%)	(523)	(5.3%)	(595)	(6.9%)
Other expenses	(19)	(0.1%)	(405)	(2.0%)	(371)	(1.5%)	(7)	(0.0%)	(3)	(0.0%)
Finance costs	(8)	(0.0%)	(4)	(0.0%)	(16)	(0.1%)	(1)	(0.0%)	(23)	(0.3%)
Profit before tax	**4,435**	**25.4%**	**4,763**	**23.2%**	**6,499**	**27.0%**	**3,070**	**31.0%**	**2,559**	**29.5%**
Income tax expense	(1,049)	(6.0%)	(1,151)	(5.6%)	(1,545)	(6.4%)	(710)	(7.2%)	(628)	(7.2%)
Profit for the year/period	**3,386**	**19.4%**	**3,612**	**17.6%**	**4,954**	**20.6%**	**2,360**	**23.8%**	**1,931**	**22.3%**
Other comprehensive income										
Exchange differences on translation of foreign operation	(2)	(0.0%)	0	0.0%	3	0.0%	1	0.0%	1	0.0%
Total comprehensive income for the year/period	**3,384**	**19.4%**	**3,612**	**17.6%**	**4,957**	**20.6%**	**2,361**	**23.8%**	**1,932**	**22.3%**
Attributable to:										
Owners of the parent	3,379	19.4%	3,606	17.6%	4,950	20.6%	2,357	23.8%	1,931	22.3%
Non-controlling interests	5	0.0%	6	0.0%	7	0.0%	4	0.0%	–	0.0%
Non-IFRS financial measure – Adjusted profit for the year/period										
Profit for the year/period	3,386	19.4%	3,612	17.6%	4,954	20.6%	2,360	23.8%	1,931	22.3%
Equity-settled share award expenses	–	–	–	–	157	0.7%	–	–	–	–
Donations	4	0.0%	365	1.8%	362	1.5%	1	0.0%	2	0.0%
Listing expenses	–	–	–	–	7	0.0%	–	–	22	0.3%
Non-IFRS financial measure – Adjusted profit for the year/period	**3,390**	**19.4%**	**3,977**	**19.4%**	**5,480**	**22.8%**	**2,361**	**23.8%**	**1,955**	**22.6%**

As our adjusted profit for the year/period is not calculated in accordance with IFRS, it is considered a non-IFRS financial measure. We believe that adjusted profit for the year/period can better illustrate the underlying trends in our business because it eliminates the impacts of non-recurring items or items that our management considers not directly indicative of our daily operations. Equity-settled share award expenses and listing expenses were non-recurring items and are not directly indicative of the operations of our packaged drinking water and beverage business. Donations are also not directly indicative of the operation of our packaged drinking water and beverage business. However, such non-IFRS financial measure we presented may not be directly comparable to similar measures presented by other companies. The use of this non-IFRS measure should not be considered as substitute for analysis of, our results of operations or financial condition as reported under IFRS. See "Financial Information – Non-IFRS Financial Measure."

Summary of the Consolidated Statements of Financial Position

	As of December 31,			As of May 31,
	2017	2018	2019	2020
	(RMB million)			
Current assets	6,857	8,841	4,372	7,135
Current liabilities	(5,197)	(6,163)	(7,441)	(8,847)
Net current assets/(liabilities)	**1,660**	**2,678**	**(3,069)**	**(1,712)**
Non-current assets	9,766	12,109	13,424	13,806
Non-current liabilities	(261)	(371)	(473)	(461)
Total equity	**11,165**	**14,416**	**9,882**	**11,633**
Non-controlling interest	**38**	**44**	**–**	**–**

Our net current assets increased from RMB1,660 million as of December 31, 2017 to RMB2,678 million as of December 31, 2018, primarily due to an increase in the cash generated from our operation. Our total equity decreased as compared with that as of December 31, 2018 and we recorded net current liabilities of RMB3,069 million as of December 31, 2019, primarily due to the dividend payments to the Shareholders of the Company. Our net current liabilities decreased from RMB3,069 million as of December 31, 2019 to RMB1,712 million as of May 31, 2020, primarily due to an increase in our net cash and bank balances of RMB2,977 million primarily attributable to the cash from our operation. Taking into account that (i) we expect to continuously record net cash inflows generated from operating activities from June to August 2020, (ii) approximately 10% of the net proceeds from the Global Offering will be used for working capital and other general corporate purposes, and (iii) our unutilized and unrestricted banking facilities of RMB8,479 million as of June 30, 2020, we believe that we will be able to maintain sufficient funds to meet our working capital requirements or other financing needs. Our net current liabilities position was primarily attributable to the dividends paid to the Shareholders of the Company of RMB9,598 million in 2019. We believe our net liabilities position will be improved after the Listing with net cash inflows generated from operating activities. See "Financial Information – Liquidity and Capital Resources" and "Risk Factors – Risks Relating to Our Business – We recorded net current liabilities as of December 31, 2019 and May 31, 2020, which might expose us to certain liquidity risks and could constrain our operational flexibility."

Summary of the Consolidated Statements of Cash Flows

	Year Ended December 31,			Five Months Ended May 31,	
	2017	**2018**	**2019**	**2019**	**2020**
			(RMB million)		
				(Unaudited)	
Operating profit before working capital changes	**5,456**	**5,959**	**8,080**	**3,638**	**3,327**
Changes in working capital	24	(334)	647	(343)	177
Cash generated in operations	**5,480**	**5,625**	**8,727**	**3,295**	**3,504**
Income tax paid	(869)	(1,176)	(1,511)	(754)	(656)
Interest received	95	185	272	105	25
Interest paid	(9)	(4)	(16)	(2)	(23)
Net cash generated from operating activities	4,697	4,630	7,472	2,644	2,850
Net cash (used in)/generated from investing activities	(4,646)	(3,674)	643	(1,791)	(603)
Net cash (used in)/generated from financing activities	(444)	(457)	(8,697)	(33)	929
Net increase/(decrease) in cash and cash equivalents	**(393)**	**499**	**(582)**	**820**	**3,176**
Cash and cash equivalents at beginning of the year/period	1,257	863	1,364	1,364	783
Effect of foreign exchange rate changes	(1)	2	1	2	1
Cash and cash equivalents at end of the year/period	**863**	**1,364**	**783**	**2,186**	**3,960**

In 2017, we recorded net cash outflows, primarily due to our net cash used in investing activities of RMB4,646 million, mainly attributable to (i) purchases of items of property, plant and equipment of RMB2,273 million; and (ii) an increase in time deposits with original maturity of more than three months when acquired, which were used in investing activities, of RMB2,200 million. In 2019, we recorded net cash outflows, primarily due to our net cash used in financing activities of RMB8,697 million, mainly attributable to dividends paid to the Shareholders of the Company of RMB9,598 million.

Key Financial Ratios

	Year Ended/As of December 31,			Five Months Ended/ As of May 31,	
	2017	2018	2019	2019	2020
Gross profit margin(1)	56.1%	53.3%	55.4%	56.2%	59.1%
Net profit margin(2)	19.4%	17.6%	20.6%	23.8%	22.3%
Adjusted net profit margin for the year/period(3)	19.4%	19.4%	22.8%	23.8%	22.6%
Return on assets(4)	23.1%	19.2%	25.6%	N/M(9)	N/M(9)
Return on equity(5)	35.0%	28.2%	40.8%	N/M(9)	N/M(9)
Current ratio(6)	1.32	1.43	0.59	N/A	0.81
Quick ratio(7)	1.04	1.13	0.35	N/A	0.61
Gearing ratio(8)	0.9%	0.3%	10.5%	N/A	18.5%

Notes:

(1) Equals gross profit divided by revenue. See "Financial Information – Results of Operations – Gross Profit and Gross Profit Margin."

(2) Equals profit for the year/period divided by revenue.

(3) Equals adjusted profit for the year/period divided by revenue. See "Financial Information – Results of Operations." Adjusted profit for the year/period is a non-IFRS financial measure.

(4) Equals profit for the year divided by the average of the beginning and ending total assets for that year and multiplied by 100%.

(5) Equals profit for the year divided by the average of the beginning and ending total equity for that year and multiplied by 100%.

(6) Equals current assets divided by current liabilities as of the same date.

(7) Equals current assets less inventories and divided by current liabilities as of the same date.

(8) Equals total debt (including interest-bearing borrowings and lease liabilities) divided by total equity and multiplied by 100%.

(9) These ratios are not meaningful as numbers for the period are not comparable to the numbers for the year.

The gearing ratio increased from 0.3% as of December 31, 2018 to 10.5% as of December 31, 2019, primarily due to (i) a decrease in our total equity as we paid dividends of RMB9,598 million to the Shareholders of the Company in 2019, and (ii) we obtained interest-bearing borrowings of RMB1,000 million in 2019. The gearing ratio further increased to 18.5% as of May 31, 2020, primarily due to an increase of RMB1,113 million in our interest-bearing borrowings as of May 31, 2020 as compared with that as of December 31, 2019, mainly attributable to the increased loans to ensure the stability of our business operations, in view of the potential impacts of the COVID-19 outbreak to our operations and the relevant preparations we should make.

OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, Mr. Zhong Shanshan held approximately 87.4472% interest in our share capital, including approximately 17.8634% direct interest and approximately 69.5838% indirect interest through Yangshengtang. Mr. Zhong Shanshan is interested in 100% of the registered capital of Yangshengtang, including 98.3800% direct interest and 1.6200% indirect interest through Hangzhou Youfu, which is wholly owned by Mr. Zhong Shanshan. Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), Mr. Zhong Shanshan will hold approximately 84.4128% interest in our share capital, including approximately 17.2435% direct interest and approximately 67.1693% indirect interest through Yangshengtang. Accordingly, Mr. Zhong Shanshan and Yangshengtang will remain as our Controlling Shareholders immediately after the Listing.

IMPACT OF THE COVID-19 OUTBREAK

Since the end of December 2019, the outbreak of COVID-19 has materially and adversely affected the global economy. During the COVID-19 outbreak, the PRC government implemented strict measures to control the outbreak in China, including schools and business closures, transport bans and workplace shutdowns. Affected by the COVID-19 outbreak and the government's relevant control measures, business operations of our production bases were temporarily suspended after the Chinese New Year in 2020. We have fully resumed our business operations since March 2020. The COVID-19 outbreak also affected our third-party logistics suppliers. By the end of April 2020, all of our third-party logistics suppliers resumed work. During the COVID-19 outbreak, demands for consumer goods was significantly affected by the reduced consumer mobility and the closure of retail points of sale. As a result, we received less orders from customers. Our revenue and net profit in the five months ended May 31, 2020 decreased by 12.6% and 18.2%, respectively, compared with that in the five months ended May 31, 2019. Packaged drinking water, as a consumption necessity, addresses consumers' basic drinking needs, and such needs were less affected by the COVID-19 outbreak. As a result, revenue from our packaged drinking water products in the five months ended May 31, 2020 decreased slightly by 4.3% as compared with that in the five months ended May 31, 2019. Revenue from tea beverage products, functional beverage products and juice beverage products decreased by 21.2%, 40.9% and 13.6%, respectively. We provided temporary credit period to certain distributors for their cashflow in order to assist them in coping with the impact of the COVID-19 outbreak. The provision of such credit period resulted in an increase of our trade and bills receivables turnover days in the five months ended May 31, 2020 by 0.5 days. If there is a resurgence of COVID-19 cases in the future, our revenue, gross profit margins and net profit may be negatively affected. See "Financial Information – Impact of the COVID-19 Outbreak."

We had unrestricted deposits of RMB7,162 million as of July 31, 2020. Assuming our operations will remain at a similar level as compared with the first five months of 2020, our revenue in the second half of 2020 would be 12.6% less as compared with that in the same period in 2019. Even in such circumstances, we would still have sufficient working capital to maintain our daily operations. In addition, taking into consideration the cash payment of dividend of RMB7,800 million prior to the Listing and our plan to use 10% of the net proceeds from the Global Offering as our working capital, we would still have sufficient working capital to maintain our daily operations.

Assuming the worst case scenario of the COVID-19 outbreak, in which we:

- cease all operations from September 2020 onward, which assumes that from September 2020 onward, we will not earn or incur (a) any revenue and costs in relation to sales activities, (b) any expenses in relation to marketing activities, (c) any expenses in relation to the production of products, and (d) expenses in relation to R&D activities;
- keep all of our employees and make all their salaries payments;
- settle all of our outstanding trade payables as of August 31, 2020;
- estimate the settlement of trade receivables on a prudent basis by taking into account our historical settlement patterns;
- use 10% of the net proceeds from the Global Offering as our working capital;
- sell all of our inventories as of August 31, 2020;
- make the cash payment of dividend of RMB7,800 million prior to the Listing; and
- use our unutilized and unrestricted overdraft facilities when needed, which was RMB8,479 million as of June 30, 2020;

we would have sufficient cashflow for our business to remain financially viable for at least the 12 months ending August 31, 2021, which includes, but is not limited to the timely payment as the following:

- employee's salaries payments;
- lease payments;
- payments for existing purchases plans for long-term assets; and
- repayments of bank loans.

RECENT DEVELOPMENT

Our Directors confirmed that, as of the date of this prospectus, save as disclosed in this subsection, there has been no material adverse change in our financial or trading position or prospects since May 31, 2020.

Our revenue decreased by 6.2% from RMB12,310 million in the six months ended June 30, 2019 to RMB11,545 million in the six months ended June 30, 2020, which represented a smaller decrease as compared with the 12.6% decrease in revenue from the five months ended May 31, 2019 to the five months ended May 31, 2020. The foregoing selected unaudited financial data in relation to our revenue in the six months ended June 30, 2020 is derived from our unaudited interim financial statements for the six months ended June 30, 2020. Our unaudited interim financial statements for the six months ended June 30, 2020 have been reviewed by our reporting accountants in accordance with Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants.

The selected unaudited financial data shows that our revenue increased at a higher rate in June 2020 compared with June 2019, primarily due to the sales growth in our packaged water products. Our business is gradually recovering from the impact from the COVID-19 outbreak, and we believe that our business operations are returning to the normal level prior to the COVID-19 outbreak.

According to the information currently available, our Directors are of the view that the COVID-19 outbreak would not have a material adverse effect on our results of operations in the twelve months ending December 31, 2020 and our long-term business development.

The heavy rainfall in July 2020 resulted in floods across several provinces in China. Such rainfall and floods had a negative impact on the sales of our products at retail points of sale, as some retail points of sale were temporarily closed due to the rainfall or the floods. In addition, the delivery of our products to some retail points of sale were disrupted. As a result, our revenue and profit were adversely affected. Such adverse impact is expected to be only temporary as the weather conditions had improved and the floods had become under control in mid-August 2020. Our production was not materially and adversely affected by the rainfall or the floods.

DIVIDENDS

With respect to 2017, 2018 and 2019 financial years, we paid dividends of RMB367 million, RMB367 million and RMB9,598 million to the Shareholders of the Company, respectively. At our shareholders' general meeting held in March 2020, we declared dividend of RMB900 million in total, consisting of RMB720 million share dividends and RMB180 million cash dividends. Such dividends have been fully paid in April 2020. At the same shareholders' general meeting, it was resolved that all of our distributable historical retained profit as of December 31, 2019 shall be retained by our existing Shareholders as of the date of the shareholders' general meeting. Any declaration and payment as well as the amount of dividends will be subject to our Articles of Association and the relevant PRC laws, according to which the dividends may be paid only out of distributable profits as determined under PRC GAAP or IFRSs, whichever is lower. Accordingly, we declared RMB7,800 million of such historical retained profit as dividends to our existing Shareholders on August 14, 2020 and we intend to pay all such dividends in cash before the completion of the Global Offering. We believe that the distribution of these dividends will not have a material impact on the sufficiency of our working capital after the Listing. We had unrestricted deposits of RMB7,162 million as of July 31, 2020. We expect to continuously record net cash inflows from operating activities from August 2020 onward. Therefore, we believe that we will be able to maintain sufficient funds to meet our working capital requirements and debt obligations. We do not intend to take out extra bank borrowings for the purpose of dividends settlement.

We currently do not have a pre-determined dividend payout ratio. The Board may declare, and the Company may pay, dividends after taking into account our results of operations, financial condition, cash flow, operating and capital expenditure requirements, future business development strategies and estimates and other factors as it may deem relevant. Our historical declarations of dividends may not reflect our future declarations of dividends.

DISTRIBUTABLE RESERVES

Pursuant to our Articles of Association and following the Listing Rules, the amount of our retained profits available for distribution shall be the lower of the amount determined under PRC GAAP and that determined under IFRSs. Although the calculation of net profit and distributable reserves under PRC GAAP differs from that under IFRS, we do not expect such difference to have a material impact on our future decision to declare or pay dividends. As of May 31, 2020, we had RMB8,375 million under IFRSs as reserve available for distribution. After the payment of the declared dividends of RMB7,800 million, our distributable reserves will be reduced by RMB7,800 million accordingly.

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commission and fees incurred in connection with the Listing and the Global Offering. Based on the mid-point of the indicative Offer Price range for the Global Offering and assuming the Over-allotment Option is not exercised, our listing expenses are estimated to be approximately RMB201 million (including underwriting commission), accounting for approximately 2.8% of the gross proceeds from the Global Offering. During the Track Record Period, we incurred RMB29 million of listing expenses, which has been charged to our consolidated statements of profit or loss. We expect to incur additional expenses of approximately RMB172 million after May 31, 2020, of which RMB32 million is expected to be charged to our consolidated statements of profit or loss and RMB140 million will be capitalized expenses. The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. Our Directors do not expect such listing expenses to have a material adverse impact on our results of operation for 2020.

STATISTICS OF THE GLOBAL OFFERING

The statistics in the following table are based on the assumptions that (i) the Global Offering is completed and 388,231,800 H Shares are issued and sold in the Global Offering; (ii) the Over-allotment Option is not exercised; and (iii) 11,188,231,800 Shares are issued and outstanding following the completion of the Global Offering.

	Based on an Offer Price of HK$19.50 per H Share	Based on an Offer Price of HK$21.50 per H Share
Market capitalization of the Shares following the completion of the Global Offering	HK$218,171 million	HK$240,547 million
Unaudited pro forma adjusted consolidated net tangible assets per Share of the Company attributable to owners of the Company [1]	HK$1.82	HK$1.88

Note:

(1) The unaudited pro forma adjusted consolidated net tangible assets per Share of the Company attributable to owners of the Company were calculated after adjustments as specified in "Appendix II – Unaudited Pro Forma Financial Information." The unaudited pro forma adjusted consolidated net tangible assets per share does not take into account the cash dividend distribution of approximately RMB7,800.0 million declared on August 14, 2020. Had such dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share would be approximately RMB0.93, assuming an Offer Price of HK$19.50 per Share, and RMB0.99, assuming an Offer Price of HK$21.50 per Share.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK$7,768 million, after deducting underwriting commissions, fees and estimated expenses payable by us in connection with the Global Offering, assuming an Offer Price of HK$20.50 per Share, being the mid-point of the indicative Offer Price range stated in this prospectus, and assuming no exercise of the Over-allotment Option. We currently intend to apply these net proceeds for the following purposes:

(i) approximately 25%, or HK$1,942 million, will be used for brand building;

(ii) approximately 25%, or HK$1,942 million, will be used for purchasing equipment such as refrigerators, warm cabinets and smart retail equipment to expand our sales capabilities;

(iii) approximately 20%, or HK$1,553 million, will be used for capital expenditure for increasing the production capacity;

(iv) approximately 10%, or HK$777 million, will be used for strengthening fundamental capabilities in business operations;

(v) approximately 10%, or HK$777 million, will be used for repaying bank loans; and

(vi) approximately 10%, or HK$777 million, will be used for working capital and other general corporate purposes.

This prospectus includes forward-looking statements. All statements other than statements of historical facts contained in this prospectus, including, without limitation, those regarding our future financial position, our strategies, plans, objectives, goals, targets and future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words "believe," "expect," "estimate," "predict," "aim," "intend," "will," "may," "plan," "consider," "anticipate," "seek," "should," "could," "would," "continue," or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among other things, the following:

- our ability to successfully implement our business plans and strategies;
- future developments, trends and conditions in the industry and markets in which we operate or into which we intend to expand;
- our business prospects;
- our capital expenditure plans;
- our financial condition and performance;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business and our business plans;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and markets in which we operate; and
- global political and economic conditions, including those related to the PRC and other relevant jurisdictions in which we have or intend to have business operations.

Additional factors that could cause actual performance or achievements to differ materially include, but not limited to, those discussed under "Risk Factors" and elsewhere in this prospectus. We caution you not to place undue reliance on these forward-looking statements, which reflect our management's view only as of the date of this prospectus. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

An investment in the Shares involves various risks. You should consider carefully all the information set out in this prospectus and, in particular, the risks described below before making an investment in the Shares.

The occurrence of any of the following events could materially and adversely affect our business, financial position, results of operations or prospects. If any of these events occurs, the trading price of the Shares could decline and you may lose all or part of your investment. You should seek professional advice from your relevant advisors regarding your prospective investment in the context of your particular circumstances.

RISKS RELATING TO OUR BUSINESS

Our business relies on consumer demand for our products. Any shift in consumer demand, or any unexpected situation with a negative impact on consumer demand may materially and adversely affect our business and results of operations.

Our business relies on consumer demand for our products, which depends substantially on factors such as (i) consumer spending patterns, (ii) consumer preferences and tastes, (iii) consumer income, (iv) consumer perceptions of and confidence in our product quality and food safety, and (v) consumer awareness of healthy lifestyle. Driven by accelerating urbanization process, increasing disposable income and consumption upgrade, the demand for packaged drinking water and beverage has been growing continuously. Changes in any of the above at any time could result in decline in consumer demand for our products. Our business development will depend partly on our ability to (i) anticipate, identify or adapt to such changes, (ii) introduce new attractive products and marketing strategies in a timely manner, and (iii) develop appropriate sales network accordingly.

Although we dedicate substantial resources to consumer-centric market research and data analysis to upgrade our existing products and to develop, design and launch new products, we cannot assure you that our product portfolio will continuously lead the market trends. Any changes in consumer preferences and tastes may impose downward pressure on sales and pricing of our products or lead to increases in selling and distribution expenses.

The outbreak of COVID-19 adversely affected, and may continue to affect, the demand for our products, our business operations and financial conditions.

Since the end of December 2019, the outbreak of COVID-19 has materially and adversely affected the global economy. During the COVID-19 outbreak, the PRC government implemented strict measures to control the outbreak in China, including school and business closures, transport bans and workplace shutdowns. Consumer demand was significantly affected by the outbreak and the government's relevant control measures. According to the National Bureau of Statistics, China's GDP in the first quarter of 2020 was RMB20,650.4 billion, which decreased by 6.8% compared with the first quarter in 2019; China's total retail sales of consumer goods decreased by 16.2% in the first four months of 2020, compared with the same period in 2019.

During the COVID-19 outbreak, the mobility of consumers was reduced and retail points of sale were closed, and the sales of our products decreased compared with that during the same period in 2019. In addition, affected by the COVID-19 outbreak and the government's relevant control measures, business operation of our production bases was temporarily suspended after the Chinese New Year in 2020. We have fully resumed our business operations since March 2020. The COVID-19 outbreak also affected our third-party logistics suppliers. By the end of April 2020, all of our third-party logistics suppliers resumed work. Our revenue and net profit in the five months ended May 31, 2020 decreased by 12.6% and 18.2%, respectively, compared with that in the five months ended May 31, 2019. If the COVID-19 outbreak continues, it may affect the sales of our products and the supply of imported equipment. Although our inventory of raw material not-from-concentrate juice for 2020 is adequate, the COVID-19 outbreak may affect the supply of overseas juice raw materials in 2021. See "Financial Information – Impact of the COVID-19 Outbreak – Production and Supply Chain." We cannot assure you that the outbreak will not persist, or that there will not be similar events in the future. If the COVID-19 outbreak continues, our business, results of operations and financial condition will continue to be adversely affected. See "Financial Information – Impact of the COVID-19 Outbreak."

Any damage to our brand or reputation may materially and adversely affect our business and results of operations.

Our business relies on consumers' recognition of and their trust in our brand. Our brand and reputation may be damaged by product defects, product liability claims, consumer complaints, negative rumors, negative media coverage or any other forms of negative publicity. Any complaint, claim or negative publicity against us or our products, even if meritless or immaterial to our operations, could damage our brand and reputation, and divert management's attention and resources from other important business concerns, which may materially and adversely affect our business and results of operations.

If water sources become contaminated or the supply is unable to satisfy our business needs, our results of operations and business prospects may be materially and adversely affected.

We currently draw water from natural water sources. The high quality and stable supply of water from such sources are essential to our business operations. Although the quality and the quantity of such water supply have not materially deteriorated since they were secured, we cannot assure you that the quality and the quantity of such water supply will not be adversely affected by factors including pollution, geological changes, natural disasters, climate and other environmental changes, as well as other factors beyond our control.

We have continuously been looking for new high-quality water sources to support our long-term business growth. Before we secure a water source, we need to conduct a series of investigations and assessments, such as water quality monitoring, water supply assessments, assessments on establishment conditions for water plants and evaluation on potential operation capacity of such water plants. In addition, we are required to obtain a number of approvals, such as the water-taking permit and the mining permit from the government, in order to secure the water source. We cannot assure you that we will be able to secure new water sources that could meet our business needs and support our growth in a timely manner.

If the quality or the quantity of the water supply from existing water sources deteriorate due to environmental factors or other reasons, and we are unable to timely secure new water sources, our water supply may be insufficient to meet our business needs, which will in turn materially and adversely affect our results of operations and business prospects.

Any product quality issue could materially and adversely affect our results of operations.

We believe that the quality of our products is critical to our success. In addition to risks associated with the processing and labelling of our products, some third parties, such as (i) suppliers of raw materials and packaging materials, (ii) logistics service providers, (iii) distributors, and (iv) operators at points of sale, could also affect the quality of our products or lead to inventory obsolescence if these third parties fail to provide raw materials, packaging materials or services to us with satisfactory quality.

We have established stringent quality control systems to ensure the quality of our products. Our quality control systems primarily consist of quality control measures for raw materials and packaging materials, production process, finished goods storage, and delivery and sales. See "Business – Production" and "Business – Quality Control." The effectiveness of our quality control systems depends on a number of factors, including the design of our quality control systems and our ability to ensure our employees complying with our quality control policies and procedures. We cannot assure you that the design of our quality control systems will be effective at all times. We also cannot assure you that all our employees will always comply with the quality control policies and will not make any mistakes when executing quality control procedures.

Any product quality issue resulted from failure of our quality control systems or other reasons could expose us to product liability claims, negative publicity, government scrutiny, investigation or intervention, administrative actions and product recalls or returns, which could materially and adversely affect our brand, reputation, results of operations, financial condition and business prospects.

Our marketing activities may not be effective in attracting consumers, which may in turn adversely affect our results of operations.

We conduct various marketing activities to promote our products to consumers. We promote our brands and products to consumers through our social media accounts and third-party social media accounts. We communicate with consumers in a comprehensive approach through advertising, campaigns using bottle labels, variety show title sponsorships, product placement in film and television programmes, celebrity endorsements, sports event sponsorships, social media marketing, and cross-industry cooperation. These marketing campaigns may incur significant marketing expenses. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, our selling and distribution expenses were RMB4,890 million, RMB5,218 million, RMB5,816 million, RMB2,252 million and RMB2,127 million, respectively. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, our advertising and promotion expenses were RMB982 million, RMB1,234 million, RMB1,219 million, RMB428 million and RMB399 million, respectively, which represented 5.6%, 6.0%, 5.1%, 4.3% and 4.6% of our total revenue, respectively.

We cannot assure you that our marketing activities will enable us to achieve our sales targets. The effectiveness of sales and marketing activities is relatively hard to predict and evaluate. Their effects may be delayed, resulting in a delayed revenue growth which may not be fully reflected during the period in which the sales and marketing activities took place. If the results of our marketing activities fail to meet our expectation, or if we fail to conduct the marketing activities as planned, our results of operations, financial condition, market share, brand and reputation may be adversely affected.

Any failure to successfully upgrade our existing products or to develop, launch and promote new products may adversely affect our business development plans and profitability.

The choices and preferences of consumers may be influenced by new products that appear in the market. Accordingly, we have been continuously improving the flavour and packaging of our existing products, as well as developing, launching and promoting new products to maintain our competitiveness. To support our product upgrade and expansion plans, we need to devote significant resources in researching and developing our products, and recruiting production and marketing professionals that are appropriate for our products. Moreover, we need to select suitable suppliers of raw materials and packaging materials, logistics service providers and distributors. All these tasks involve risks, and require substantial planning, effective execution and significant expenditures.

We also cannot assure you that our upgraded or new products will be able to generate positive cash flows or become profitable within a short period of time or at all. If we fail to bring upgraded or new products to the market in a cost-effective manner, our profitability, results of operations and business prospects may be adversely affected.

Failure to compete effectively may adversely affect our market share and profitability.

Our industry is highly competitive, and the competition may further intensify. Some of our competitors have solid positions in several market segments with longer operating histories, global vision or greater financial, research and development or other resources. These competitors focus on specific products, regions or channels, which allow them to compete better in terms of understanding consumers, market influence and costs. As a result, our competitors may introduce better products or adapt more quickly to the evolving industry trends or market demands.

Our current or potential competitors may provide products that are highly similar to ours. We also cannot assure you that imitation or counterfeiting of our products, logos or brands will not occur in the market. It is often difficult to identify or eliminate those imitated or counterfeit products in a timely manner. Such incidents may affect our reputation and brand.

It is also possible that there will be significant consolidation or development of alliances in our industry, which may enable our competitors to rapidly acquire significant market share. Furthermore, competition may cause competitors to substantially increase their advertising expenses and marketing activities or to engage in unreasonable or predatory pricing behavior, or may even result in activities, whether legal or illegal, designed to undermine our brand and reputation or to influence consumers' confidence in our products. Any failure to respond to such competition effectively may materially and adversely affect our brand, reputation, results of operations, financial condition and business prospects.

We may not be able to maintain our revenue growth and profitability.

Our revenue increased from RMB17,491 million in 2017 to RMB20,475 million in 2018 and further to RMB24,021 million in 2019, with a CAGR of 17.2%. We cannot assure you that the demand for our products will continue to grow at a similar rate in the future due to reasons including market saturation as well as competition from new market participants and alternative products.

Our net profit margin in 2017, 2018 and 2019 were 19.4%, 17.6% and 20.6%, respectively. Our ability to sustain high profitability depends on whether we can continue (i) generating a high level of sales revenue; (ii) managing effectively the production costs; and (iii) managing effectively the costs and expenses associated with operations, sales and marketing. If we fail to manage our growth or sustain our profitability effectively, our business, financial condition and results of operations could be adversely affected. Affected by the COVID-19 outbreak, our revenue and net profit for the five months ended May 31, 2020 decreased compared to the same period last year. See "Financial Information – Impact of the COVID-19 Outbreak."

During the Track Record Period, we have continuously made donations. In 2017, 2018, 2019 and the five months ended May 31, 2019 and 2020, our donations were RMB4 million, RMB366 million, RMB362 million, RMB1 million and RMB2 million, respectively. See "Financial Information – Results of Operations – Other Expenses." Such donations, as a part of other expenses under the consolidated statements of comprehensive income, adversely affected our profit for the year/period.

We may not be able to effectively maintain our business relationship with or manage our customers, and/or manage our distribution network, which could adversely affect our brand, results of operations and financial condition.

During the Track Record Period, we mainly operate a single-layer distribution system where we engage the distributors to sell a substantial majority of our products. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, sales to distributors were RMB16,610 million, RMB19,362 million, RMB22,623 million, RMB9,432 million and RMB8,112 million, respectively, which accounted for 95.0%, 94.6%, 94.2%, 95.1% and 93.6% of our total revenue, respectively. Our distributors may sell our products to sub-distributors. We typically do not have any contractual relationship with such sub-distributors. From 2020, in order to further enhance our market penetration, we have selectively entered into tripartite agreements among us, our distributors and a few sub-distributors who have market potentials in the rural market. We do not have any purchase, payment or other direct transactions with such sub-distributors. Such sub-distributors purchase from our distributors. We have limited control over the daily business activities of distributors and sub-distributors. In addition to selling through distributors, we also sold products directly to our direct sale customers. Our customers are crucial for our brand maintenance, operations and distribution network expansion, and future development, and may directly affect our sales volume and profitability. We may not be able to secure long-term attractive business terms with our customers. Any (i) reduction, delay or cancellation of orders from our customers, (ii) increased sales of our competitors' products by our customers, (iii) failure to maintain good relationships with existing customers, and (iv) inability to expand customer base or identify replacement customers upon the loss of customers, may cause material fluctuation or decline in our revenue, which in turn could have a material adverse effect on our market share, results of operations and financial condition. In 2017, 2018 and 2019 and the five months ended May 31, 2020, we terminated a total of 1,325, 995, 489 and 22 distributors, respectively. See "Business – Marketing, Sales and Customers – Sales and Customers – Our Customers – Distributors."

Although we required our distributors to comply with their distribution agreements with us, according to which our distributors are only permitted to sell our products in a predetermined geographic area through specified channels, we have limited control over their daily business activities. Non-compliance with the agreements or sales policies by any of our distributors could disrupt our sales and may even affect our results of operations. We may not be able to accurately track the sales and inventory levels of our distributors and their sub-distributors for our products, which may cause us to incorrectly predict sales trends and prevent us from quickly adjusting our marketing and product strategies. In addition, we could be liable for damages or fines due to the sales and marketing activities of our customers, which may have an adverse effect on our financial condition.

Fluctuations in prices and changes in the quality of raw materials and packaging materials could materially and adversely affect our profitability and results of operations.

Our ability to control our costs depends on our ability to secure key raw materials and packaging materials that meet our quality standards from our suppliers at reasonable prices. Our raw materials are primarily PET for producing bottles, bottle caps, labels, sugar and juice. The costs of raw materials accounted for 60.7%, 60.9%, 61.7%, 63.9% and 58.0% of our total cost of sales in 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, respectively. Our packaging materials primarily consist of cardboard boxes and shrink wraps. The costs of packaging materials accounted for 13.5%, 14.0%, 13.0%, 13.0% and 14.6% of our total cost of sales in 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, respectively. We expect our cost of raw materials and packaging materials to continue to account for a relatively large portion of our costs of sales.

The procurement price of our raw materials and packaging materials could be volatile due to a variety of factors beyond our control. The price of raw materials (particularly PET) and packaging materials may be affected by factors such as the global and PRC economic condition, relevant government regulations and policies, and changes in supply and demand. The supply of some of our raw materials (such as juice and tea leaves) may be negatively affected by factors such as adverse weather conditions and pest disasters, which could lead to an increase in the procurement price of such raw materials.

We rely on suppliers to supply raw materials and packaging materials that meet our quality standards. We may fail to ensure the comprehensiveness and effectiveness of their quality control systems. Although we inspect all our raw materials and packaging materials before they are delivered to us by suppliers, we cannot assure you that we will be able to detect quality defects in our raw materials and packaging materials in a timely manner.

Any increase in the prices of raw materials and packaging materials may cause us to adjust our product prices upward, which could in turn reduce the competitiveness of our products. In cases where raw materials and packaging materials prices increase, and we choose not to increase the price of our products to maintain competitiveness despite the increases in costs, it would render us unable to pass on such costs to our customers and adversely affect our profitability.

Any delivery delay, improper handling of goods or increase in transportation costs of our logistic service providers could adversely affect our business and results of operations.

We engage logistics service providers to store and transport products to our customers. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, our logistics and storage expenses were RMB2,336 million, RMB2,257 million, RMB2,526 million, RMB999 million and RMB905 million, respectively, which represented 13.4%, 11.0%, 10.5%, 10.1% and 10.4% of our total revenue, respectively. The vast majority of our products are delivered by trucks or trains. The services provided by our logistics service providers may be suspended or cancelled due to unforeseen events, which could cause interruption to the sales or delivery of our products. In addition, delivery delays may occur for various reasons beyond our control, including improper handling by our logistics service providers, labor disputes or strikes, acts of war or terrorism, outbreaks of epidemics, earthquakes and other natural disasters.

Any improper handling of our products by the logistics service providers could also result in product contamination or damage, which may in turn lead to product recalls, product liabilities, increased costs and damage to our reputation, which may in turn adversely affect our business, financial condition and results of operations.

The storage and transportation costs of our logistics service providers are subject to factors beyond our control, such as the fluctuation in the gasoline price, increases in road tolls and bridge tolls, and changes in transportation regulations. Any increase in the service costs of our logistics service providers may lead to an increase to our logistic expenses, which may in turn negatively affect our results of operations.

If we are unable to perform our contracts, our results of operations and financial condition may be adversely affected.

As of December 31, 2017, 2018 and 2019 and May 31, 2020, we had contract liabilities of RMB1,578 million, RMB1,996 million, RMB2,078 million and RMB1,386 million, respectively. Our contract liabilities are prepayments from customers. See "Financial Information – Liquidity and Capital Resources – Contracts Liabilities." If we fail to honor our obligations under our contracts with customers, we may not be able to convert such contract liabilities into revenue, and our customers may also require us to refund the prepayments they have made, which may in turn adversely affect our financial condition. In addition, if we fail to honor our obligations under our contracts with customers, it may also adversely affect our relationship with such customers, which may in turn affect our results of operations in the future.

Any natural disaster or other catastrophic event affecting our supply chain management, production process or the demand for our products may materially and adversely affect our business.

Our ability in supply chain management and efficient manufacturing is critical to our success. Any delay or disruption in our supply chain may adversely affect our ability to perform our contractual obligations to customers, particularly when a product, raw material or packaging material is sourced from a single facility or supplier.

Our products are manufactured through a series of sophisticated processes. In particular, certain production stages of some of our products must occur in sterile environments. Problems may arise during the production process for a variety of reasons, including quality defects in raw materials or packaging materials, lack of production conditions or suspension of production due to natural disasters (such as storms, earthquakes, fires and floods) or other catastrophic events (such as explosions, acts of terrorism, wars and outbreaks of epidemics), strikes, power outages, technical or mechanical problems, failure to follow production safety protocols, failure to promptly upgrade equipment and production and operational software systems, and the infection or hacking of such software systems. Any of the above could impair our business or the businesses of our suppliers, which would in turn impede our ability to manufacture and deliver our products to customers in a timely manner. In particular, the heavy rainfall in July 2020 resulted in floods across several provinces in China. Such rainfall and floods have adversely affected our results of operations in July 2020.

Since the end of December 2019, the outbreak of COVID-19 has materially and adversely affected the global economy. Demand for consumer goods was significantly affected. Affected by the COVID-19 outbreak and the government's relevant control measures, business operation of our production bases was once temporarily suspended after the Chinese New Year in 2020. If the overseas outbreak continues, it may affect our supply of juice raw materials from abroad in 2021. We cannot assure you that the outbreak will not persist, or that there will not be similar events in the future. If the outbreak of COVID-19 continues, our business, results of operations and financial condition will continue to be adversely affected. See "Financial Information – Impact of the COVID-19 Outbreak."

We may face the risk of inventory obsolescence.

As of December 31, 2017, 2018 and 2019 and May 31, 2020, we had inventories of RMB1,443 million, RMB1,906 million, RMB1,762 million and RMB1,741 million, respectively. Our inventory turnover days for 2017, 2018, 2019 were 60.5 days, 64.0 days and 62.5 days, respectively. Our inventory turnover days increased from 62.5 days in 2019 to 75.1 days for the five months ended May 31, 2020, primarily as a result of the impact of the COVID-19 outbreak. See "Financial Information – Liquidity and Capital Resources – Inventories." Our business relies on consumer demand for our products, which depends substantially on factors such as (i) consumer spending patterns, (ii) consumer preferences and tastes, (iii) consumer income, (iv) consumer perceptions of and confidence in our product quality and food safety, and (v) consumer awareness of healthy lifestyle. Any change in consumer demand for our products or the occurrences of catastrophic events may have an adverse impact on our product sales, which may in turn lead to inventory obsolescence, decline in inventory value or inventory write-off.

We may not be able to retain or promptly recruit senior management members or other key personnel required for our operations.

Our current business performance and future success depend substantially on the abilities and contributions of our senior management members, including Mr. Zhong Shanshan, our founder and Chairman, all executive Directors and other key personnel with industry expertise, know-how or experience in areas such as research and development, production, sales, marketing, financial management, human resources or risk management. Any loss of such personnel could materially and adversely affect our ability to sustain and develop our business. Moreover, we cannot assure you that our key personnel will not join a competitor or form a competing business or will follow the terms and conditions of their employment contracts. As competition for talents such as skilled technical personnel and experienced management is fierce in our industry, any loss of key personnel or failure to promptly recruit such personnel for our future business development may adversely affect our business.

Our performance depends on our ability to maintain good relationship with our employees, and any deterioration in relations with our employees, shortage of labor or material increase in wages may have an adverse effect on our results of operations.

The wages and employee benefits in China continue to increase. We may not be able to pass on such costs to our customers. We also cannot assure you that we will not experience any shortage in labor.

We strive to provide a safe and desirable working environment to our employees to prevent occupational hazards. However, we may be subject to liability claim, negative publicity and government investigation or intervention in relation to workplace safety or occupational hazards, in particular if our employees, third party service providers and the public suffer from personal injuries or casualties at our facilities or during the transportation of our products. Such incidents could worsen our relationship with our employees and damage our brand and reputation.

We cannot assure you that we will not have any labor disputes in the future. Any deterioration of our relationship with our employees could result in disputes, strikes, claims and relevant legal proceedings, which may disrupt our production and operations, and lead to loss of know-how and trade secrets. Any labor shortage could hinder our ability to maintain or expand our business operations, which may adversely affect our business operations and results of operations.

We may not be able to detect or prevent fraud, bribery, or other misconduct committed by our employees, customers or other third parties.

We may be exposed to fraud, bribery, or other misconduct committed by our employees, customers or third parties (such as construction service providers), which could subject us to financial losses and penalties from governmental authorities. Although our internal control procedures are designed to monitor our operations and ensure overall compliance, our internal control procedures may be unable to identify all non-compliances, suspicious transactions, fraud, corruption or bribery in a timely manner. If such misconduct occurs, we will suffer from negative publicity and reputation damages.

Our information technology and software systems may encounter malfunction, unexpected system failure, interruption, insufficiency or security breaches.

We rely on our information technology and software systems, particularly the NCP system and enterprise resource planning system, to effectively manage various sales and distribution data, marketing activities and expenses data, production and operation data and financial and human resources data. Any significant failure in our information technology and software systems could result in transaction errors, processing inefficiencies and loss of sales and customers, or lead to loss or leakage of confidential information. We collect and store sensitive personal information such as customer contact information and customer address for the purpose of our business needs. The security of such information is of paramount importance. Any security and privacy breaches on customer information may damage our customer relations and our reputation, and may expose us to legal liability.

Our information technology and software systems may be subject to damage or interruption, primarily due to unexpected emergency circumstances beyond our control, including power outages, fire, natural disasters, systems failures, security breaches, unauthorized access to our information systems, hackings intended to cause malfunctions, loss or corruption of data, software, hardware or other computer equipment, intentional or inadvertent transmission of computer viruses and other similar events. We may also encounter problems when upgrading our systems, which could disrupt our operations and adversely affect our results of operations.

Our investment, maintenance or upgrade regarding our production equipment and facilities, technologies and other equipment related to operations may not be carried out successfully, which may in turn adversely affect our business growth.

In order to ensure the continuous operation and expansion of our business, we continuously maintain the existing production equipment and facilities, expand the production capacity through upgrading our existing equipment and establishing new production facilities, purchase new production equipment, improve production techniques, and purchase logistics and sales-related equipment (such as refrigerators and vending machines). In addition, we allocate our human resources and other resources to manage these undertakings. We cannot assure you that such investments, maintenance and upgrades could be carried out successfully, or generate positive cash flows or profitable return within a short period of time. Such investments, maintenance and upgrades may become ineffective or obsolete as a result of updates in technology or industry standards, which could result in a material adverse effect on our business and financial condition.

Our ability to achieve business growth is also subject to a wide range of market, operational and financial risks, including those arising from the competition with existing operators, changing consumer spending patterns, as well as maintaining our high food safety standards and our existing relationships with distributors. Under the influence of these risks, our investments and upgrades may not be able to generate the expected business growth, which may materially and adversely affect our financial condition and results of operations.

If we fail to effectively implement our future expansion and acquisition plans, our business prospects may be adversely affected.

We may encounter risks when we develop new distribution channels and markets in China or overseas. New distribution channels and markets may have different regulatory requirements, competitive landscape, consumer preferences, spending patterns and operation environment from our existing channels and markets. We may need to increase our promotion efforts in these new distribution channels and markets, establish appropriate operation model, distribution system, talent reserve, strengthen the financial management capability, and develop or adjust the information technology and software systems. In addition, we may need to search for suppliers and construct new production facilities based on the conditions of the new distribution channels and markets. As a result, it may be relatively expensive and risky to expand new distribution channels and markets, and may take longer to reach targeted sales and profit levels. Furthermore, our plant construction plan in the new markets may not be as smooth as we expected. We may even encounter protests from local residents, resulting in the delay or termination of these plans. If such plans are delayed or terminated, we may not be able to recover our relevant investment in time of at all.

We may from time to time pursue acquisitions that we believe would benefit our business. We have limited experience in acquisitions. We may not be able to successful execute any proposed acquisitions. In addition, we may be exposed to challenges in integrating the acquired companies into our existing operations.

We recorded net current liabilities as of December 31, 2019 and May 31, 2020, which might expose us to certain liquidity risks and could constrain our operational flexibility.

We recorded net current liabilities of RMB3,069 million as of December 31, 2019, primarily due to (i) a decrease in our structured deposits, (ii) a decrease in our cash and bank balances, (iii) an increase in our other payables and accruals, and (iv) an increase in our contract liabilities. Our trade and bills receivables turnover days increased from 3.3 days in 2017 to 3.7 days in 2018, to 4.0 days in 2019, while our trade and bills payables turnover days decreased from 40.9 days in 2017 to 31.7 days in 2018 and 27.7 days in 2019. We recorded net current liabilities of RMB1,712 million as of May 31, 2020. Our trade and bills receivables turnover days increased from 4.0 days in 2019 to 6.4 days in the five months ended May 31, 2020. Our trade and bills payables turnover days increased from 27.7 days in 2019 to 39.2 days in the five months ended May 31, 2020. Such trends could have a negative impact on our liquidity. See "Financial Information – Liquidity and Capital Resources." In addition, we declared RMB7,800 million of dividends to our existing Shareholders on August 14, 2020 and we intend to pay all such dividends in cash before the completion of the Global Offering. The payments of such dividends will decrease our cash and bank balances, which will in turn increase our net current liabilities.

We cannot assure you that we will not have net current liabilities in the future. A net current liabilities position exposes us to liquidity risks. Our future liquidity, capital expenditures, the payment of trade and other payables and the repayment of debt financing will primarily depend on our ability to generate an adequate cash flow from our operating activities. If we have a shortage in the cash flow generated from operations, our liquidity position may be materially and adversely affected, which in turn may impact our ability to execute our business strategies and constrain our business operation. In such event, our business, financial condition and results of operations could be materially and adversely affected.

We may be exposed to credit risk due to customer defaults.

We generally grant direct sale customers a credit period of no more than three months. We have also provided temporary credit period to certain distributors in order to assist them in coping with the impact of the COVID-19 outbreak. As of December 31, 2017, 2018 and 2019 and May 31, 2020, our trade and bills receivables were RMB194 million, RMB223 million, RMB306 million and RMB422 million, respectively. In 2017, 2018, 2019 and the five months ended May 31, 2020, our trade and bills receivables turnover days were 3.3 days, 3.7 days, 4.0 days and 6.4 days, respectively. As of December 31, 2017, 2018 and 2019 and May 31, 2020, we recorded a provision for impairment of trade receivables of RMB13 million, RMB14 million, RMB20 million and RMB26 million, respectively. In 2017, 2018, 2019 and the five months ended May 31, 2020, our net impairment losses of trade receivables were RMB4.6 million, RMB1.6 million, RMB5.3 million and RMB6.6 million, respectively. Our senior management regularly reviews the recoverability of overdue balances of trade and bills receivables, and may make impairment provision when needed. We cannot assure you that all of our customers will not default on their obligations to us in the future, despite our efforts to conduct credit assessment on them.

We received government grants during the Track Record Period, and any significant reduction of government grants offered to us may adversely affect our financial condition and results of operations.

During the Track Record Period, we received government grants related to (i) our income and (ii) our investments in our production bases. Such government grants were received as rewards for our contribution to the local economic growth. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, we received government grants related to income of RMB194 million, RMB226 million, RMB354 million, RMB109 million and RMB110 million, respectively. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, we recorded government grants related to assets of RMB20 million, RMB24 million, RMB30 million, RMB7 million and RMB13 million, respectively. See Note 6 to "Appendix I – Accountants' Report." We cannot assure you that we will continue to receive such government grants or that the amount of such grants will not be reduced in the future. Any significant reduction of government grants received by us may adversely affect our financial condition and results of operations.

If our preferential tax treatment becomes unavailable or if the calculation of our tax liability is challenged by the PRC tax authorities, our results of operations may be adversely affected.

During the Track Record Period, we enjoyed preferential tax treatment under relevant preferential tax policies. We cannot assure you that we will continue to enjoy similar preferential tax treatment in the future. The PRC Enterprise Income Tax Law and its implementation rules have adopted a flat statutory enterprise income tax rate of 25% to all enterprises in China (if not entitled to any preferential tax treatment). During the Track Record Period, our PRC subsidiaries paid an enterprise income tax rate of 25%, except for certain subsidiaries which enjoyed preferential tax treatment. As of May 31, 2020, we had (i) one subsidiary which was qualified as a small and micro enterprise and entitled to a preferential income tax rate of 20%; (ii) three subsidiaries which were entitled to an income tax rate of 15% pursuant to the Western Development Strategy; and (iii) four subsidiaries which were exempt from income tax for engaging in agricultural business. In 2017, 2018, 2019 and the five months ended May 31, 2019 and 2020, the tax incentives we received as a result of the preferential tax treatment were RMB49 million, RMB40 million, RMB100 million, RMB54 million and RMB19 million, respectively. If we cease to be entitled to preferential tax treatment, our income tax expenses may increase, which would adversely affect our results of operations.

We are exposed to risks in connection with our investment in wealth management products.

During the Track Record Period, we invested from time to time in structured deposits, which are a type of wealth management products issued by banks. As of December 31, 2017, 2018 and 2019 and as of May 31, 2020, the balance of our structured deposits was RMB2,035 million, RMB3,600 million, RMB200 million and nil, respectively. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, our interest income from structured deposits was RMB62 million, RMB122 million, RMB91 million, RMB58 million and RMB2 million, respectively. We plan to continue to invest in these and other wealth management products when we believe that we have sufficient cash and the potential investment returns are reasonable. We have put in place certain internal control procedures for reducing risks in relation to these investments. However, we cannot assure you that these procedures will be effective and adequate. We cannot assure you that we will not experience losses with respect to these investments in the future or that such losses or other potentially negative impact will not have a material adverse effect on our business and financial condition.

Our results of operations and financial condition may be adversely affected by financial assets at fair value through profit or loss.

We make listed equity investments and other unlisted investments from time to time. As of December 31, 2017, 2018 and 2019 and May 31, 2020, our financial assets at fair value through profit or loss were RMB4.4 million, RMB177 million, nil and nil, respectively. The Group's financial assets are measured at fair value, and the changes in their fair values are recorded under other income and gains in the consolidated statements of profit or loss, which will directly affect our profit and results of operations. In 2017, 2018, 2019 and the five months ended May 31, 2019 and 2020, we recognized a fair value gain on financial assets at fair value through profit or loss of RMB2 million, nil, RMB36 million, RMB31 million and nil, respectively. We cannot assure you that we will continue to generate such fair value gain in the future. If our investments incur a fair value loss, our results of operations and financial condition may be adversely affected.

Our value added tax recoverable is subject to accounting uncertainties.

In the application of our accounting policies, we are required to make judgments, estimates and assumptions about the carrying amounts of certain assets and liabilities. The estimates and associated assumptions are based on historical experience and other relevant factors. As a result, actual results may differ from these accounting estimates. Value added tax recoverable primarily represents the value added input tax in excess of the value added output tax, which can be deductible or recoverable in the future. In 2017, 2018, 2019 and the five months ended May 31, 2020, we had a value added tax recoverable of

RMB273 million, RMB654 million, RMB684 million and RMB708 million, respectively. If the value added tax recoverable cannot be deducted or recovered, our results of operations and financial condition may be adversely affected.

Our deferred tax assets are subject to accounting uncertainties.

In the application of our accounting policies, we are required to make judgments, estimates and assumptions about the carrying amounts of certain assets and liabilities. The estimates and associated assumptions are based on historical experience and other relevant factors. As a result, actual results may differ from these accounting estimates. See Note 17 to "Appendix I – Accountants' Report." As of December 31, 2017, 2018 and 2019 and as of May 31, 2020, we recognized deferred tax assets of RMB213 million, RMB341 million, RMB373 million and RMB395 million, respectively. Based on our accounting policies, deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilized. In particular, in 2017, 2018, 2019 and the five months ended May 31, 2019 and 2020, our donations were RMB4 million, RMB366 million, RMB362 million, RMB1 million and RMB2 million, respectively. Among our donation expenditures, the portion within 12% of the profit of the subsidiary that makes the donation during the year/period is deducted in the calculation of taxable income, while the portion in excess of 12% of the profit of the subsidiary that makes the donation during the year/period is deducted in the calculation of taxable income within three years after the carryforward. The realization of a deferred tax asset mainly depends on our estimate as to whether sufficient future profits will be available in the future. If sufficient future taxable profits are not expected to be generated or are less than expected, a material reversal of deferred tax assets may arise.

Our insurance coverage is limited and may not be sufficient to cover all of our potential losses.

We believe that we have purchased and maintained various insurances in accordance with relevant laws and regulations and the standard industry practice. We do not carry any business interruption, product liability or litigation insurance. We cannot assure you that our insurances will provide adequate coverage for all the risks in connection with our business operations. If we were to incur substantial losses and liabilities that are not covered by our insurance policies, we may be required to bear our losses to the extent that our insurance coverage is insufficient. As a result, we could suffer significant costs and diversion of our resources, which could have a material adverse effect on our financial condition and results of operations.

Our Controlling Shareholders have substantial influence over us and their interests may not be aligned with the interests of our other Shareholders.

Our Controlling Shareholders have substantial influence over us, including matters relating to our management, policies and decisions regarding acquisitions, mergers, expansion plans, sales of all or substantially all of our assets, election of directors and other significant corporate actions. Immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), our Controlling Shareholders will directly or indirectly, individually or together with others control 84.4128% of the issued share capital of the Company. This concentration of ownership may discourage, delay or prevent a change in control of the Company, which could deprive other Shareholders of an opportunity to receive a premium for their Shares (as part of a sale of the Company) and might reduce the price of our Shares. These events may occur even if they are opposed by our other Shareholders. In addition, the interests of our Controlling Shareholders may differ from the interests of our other Shareholders. It is possible that our Controlling Shareholders may exercise their substantial influence over us and cause us to enter into transactions or take, or fail to take, actions or make decisions that conflict with the best interests of our other Shareholders.

RISKS RELATING TO OUR INDUSTRY

Any slowdowns or declines in the Chinese economy or the PRC soft beverage market could have an adverse impact on our business, results of operations and financial condition.

We derive our revenue from the sales of our products in China. The success of our business depends on the condition and growth of the Chinese market, which in turn depends on macro-economic conditions and individual income levels in China. We cannot assure you that projected growth rates of the Chinese economy and the Chinese consumer market will be realized under the current economic situation. Any future slowdowns, declines or instability in the Chinese economy or consumer spending could adversely affect our business, operating results and financial condition. We believe that consumer spending habits could be adversely affected during a period of recession in the economy and that uncertainties regarding future economic prospects could also affect consumer spending habits, any of which may have an adverse effect on certain enterprises operating within the PRC soft beverage market, including us. The PRC soft beverage market could be affected by the changing operating conditions in China. In particular, the reduction in tariffs on foreign products after further opening of the Chinese market and entry of more international brands may intensify the competition in the PRC soft beverage market. This could have an adverse impact on our business, financial condition and results of operations.

Since the end of December 2019, the outbreak of COVID-19 has materially and adversely affected the global economy. See “Financial Information – Impact of the COVID-19 Outbreak.”

Any quality related issues for the soft beverage industry could adversely affect our business and reputation.

Other enterprises in the soft beverage industry may experience problems related to product quality and safety due to the quality standards they implement, quality defect, and inadequate compliance with and enforcement of inspection procedures under the food safety regulations. While we may not be involved in any of these events, the relevant negative publicity may cause consumers to be doubtful or fearful, and may cause the government to enhance supervision of the industry, which may in turn influence consumer demand for our products. If the above events occur, our business and results of operations could be materially and adversely affected.

Seasonal consumption cycles, advertising and promotional activities and changes in weather may result in fluctuations in demand for our products.

The demand for and sales of beverage in the PRC are higher in the second and third quarters than other times of the year as consumers in the PRC tend to consume more beverage during the warmer months of the year. Sales can also fluctuate during the course of a financial year for other reasons, including the timing of new product launches and advertising and promotional activities. In addition, changes in weather or average temperature may result in fluctuations in demand for our products. Due to these fluctuations, comparisons of sales and operating results between different periods within a financial year, or between the same periods in different financial years, or between different financial years, are not necessarily meaningful and should not be relied on as indicators of our performance.

RISKS RELATING TO LEGAL, COMPLIANCE AND REGULATORY MATTERS

The interpretation and enforcement of PRC laws and regulations involve significant uncertainties and PRC laws differ from the laws of common law jurisdictions.

Our operations are principally governed by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as references. Since 1979, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as corporate organization and governance, commerce, taxation and trade. However, as many of these laws and regulations are relatively new, and due to the limited number of published cases and judicial interpretations and their lack of precedential value, enforcement of these laws and regulations involve significant uncertainties.

Furthermore, certain important aspects of the PRC Company Law are different from the corporate laws of common law jurisdictions such as Hong Kong and the United States, particularly with respect to investor protection (such as shareholder class action suits and measures protecting non-controlling shareholders), restrictions on directors, disclosure requirements, different rights of classes of shareholders, general meeting procedures and disbursement of dividends. Our Articles of Association include provisions in accordance with the Listing Rules. However, such provisions having been included, we cannot assure you that no discrepancy exists between the protections given to our investors and those given to investors in companies formed in common law jurisdictions.

Any failure to maintain the licenses and permits required to operate our business could materially and adversely affect our operations.

In accordance with PRC laws and regulations, we are required to maintain various licenses and permits in order to produce our products. We are also required to comply with applicable mining, hygiene or food safety standards in relation to our production and sale processes. The premises and transportation vehicles we used for production and sale are subject to inspections by the regulatory authorities for compliance with the relevant laws and regulations of the PRC. See "Regulatory Environment." Failure to pass these inspections, make full payment for relevant fees promptly, or maintain the validity of or to renew our licenses and permits, could subject us to fines and the temporary or permanent suspension of some or all of our production activities, and could disrupt our business operations.

We have to continuously take water from natural water sources. According to relevant requirements of the PRC laws, we are required to obtain water-taking permits before drawing water and regularly renew such water-taking permits, and we are also required to pay fees in relation to water-taking on a regular basis. As advised by our PRC Legal Advisor, as of the Latest Practicable Date, we or our cooperative third-party water supply companies have obtained all water-taking permits necessary for our business operations described under "Business – Water Sources." Nonetheless, should these rights be suspended or revoked for any reasons, or there be a substantial increase in the water resource fee, our operations and financial performance will be materially and adversely affected.

In accordance with the Mineral Resource Law of the PRC, we are required to obtain mining permits prior to undertaking any mining activities in connection with mineral water, and pay relevant mineral resource tax, and the mining permits are limited to a specific geographic area and time period, subject to renewal upon expiration. Whether we can continue to carry out mining activities depends on our ability to renew mining permits with the relevant PRC regulatory authorities. As advised by our PRC Legal Advisor, as of the Latest Practicable Date, we have obtained all mining permits necessary for our business operations described under "Business – Water Sources". Nonetheless, we cannot assure you that we will be able to renew these mining permits upon their expiration in the future. If we are unable to renew our existing mining permits upon their expiration, or if the relevant mineral resource tax increases significantly, our business and results of operations could be materially and adversely affected.

Some of our water is sourced from third-party state-owned water supply companies. We have entered into a water supply agreement with each of these third-party state-owned water supply companies for the purpose of ensuring a stable water supply for our related subsidiaries and plants. The agreements mainly specified the water supply costs and annual water supply volume agreed with the relevant water supply company. As advised by our PRC Legal Advisor, as of the Latest Practicable Date, the relevant water supply companies have obtained necessary water-taking permits. However, we cannot assure you that we will be able to renew such agreements or enter into new agreements with relevant license holders when current agreements expire and that there will be no material changes in the water supply costs and water supply volume. There is also the possibility that their licences or permits might be withdrawn in case that they are in breach of laws and regulations. Any of the circumstances above will lead to inability of our related subsidiaries and plants to take water from such sources, which could materially and adversely affect our business, financial condition and development prospects. See "Business – Water Sources."

In addition, based on our business development status, we may need to apply for new water-taking permits or mining permits from the relevant PRC regulatory authorities. If we are unable to obtain new water-taking permits or mining permits required for our business, we may not be able to carry on the water-taking, exploration or mining activities necessary for our business operations, our business and results of operations could be materially and adversely affected.

Any major changes in relation to food safety regulations and relevant policies may affect our business.

Manufacturers within the soft beverage industry in China must comply with PRC food safety laws and regulations. These food safety laws and regulations require all enterprises engaged in the production of food and beverages to obtain the food production permits. They also set out safety standards with respect to food and food additives, packaging and containers, information to be disclosed on packaging as well as requirements for food production and sites, facilities and equipment used for the transportation and sale of food. In recent years, the PRC government has been strengthening the supervision of food safety. The newly revised Food Safety Law of the People's Republic of China (中華人民共和國食品安全法) and the Regulation on the Implementation of the Food Safety Law of the People's Republic of China (中華人民共和國食品安全法實施條例) stipulate that businesses engaged in food production should conduct their production and operation activities according to the applicable laws and regulations and food safety standards, establish a comprehensive food safety management system, and take effective measures to prevent and control food safety related risks to ensure the safety of the food produced. This may increase the compliance costs of the PRC soft beverage companies, including us. Any failure to comply with PRC food safety related laws and regulations may result in order of rectification, fines, confiscation of illegal gains, order of suspension of operations, revocation of food production and operating permits and, in more extreme cases, prosecution for criminal liabilities. See "Regulatory Environment – Laws and Regulations relating to Drinking Water and Beverage Business." Although we are in compliance with current food safety laws and regulations, in the event that the PRC government further makes changes on food safety regulation, our production, sales and distribution costs may increase, and we may be unable to successfully pass on these additional costs, which could adversely affect our business, financial condition and development prospects.

Our environmental related costs may increase if the Chinese environmental protection laws become more onerous, and any non-compliance with relevant environmental protection laws could lead to imposition of fines and penalties and harm our business.

The industry in which we operate is subject to PRC environmental protection laws and regulations. These laws and regulations require companies engaged in manufacturing and construction that may cause environmental waste to adopt effective measures to control and properly discharge waste gases, waste water, industrial waste, dust and other environmental waste, and that the fees in relation to the discharge of wastes should be borne by the producer of the wastes. We are also required by the PRC laws and regulations to obtain pollutant discharge permits from government authorities for the treatment and disposal of the waste gases, waste water and solid waste produced during our manufacturing processes. See "Regulatory Environment." Any violation of these regulations may result in substantial fines, order of suspension of operations, order of rectification, revocation of operating permits, or even criminal sanctions.

In recent years, the PRC government has strengthened environmental protection through promulgating new laws and regulations and revising existing laws and regulations. Our business involves environmental-related issues, including water taking, discharging solid waste from plants, and construction works for water source mining. Although we have not received any notice or warning from the government on material environmental violations, the PRC government may enact new laws or revise existing laws and regulations to set higher environmental requirements and standards on the industry where we operate and the businesses which we are engaged in. For example, on January 16, 2020, the NDRC and the MEE jointly promulgated the Opinions on Further Enhancing the Control and Management of Plastic Pollution (關於進一步加強塑膠污染治理的意見) (Fa Gai Huan Zi [2020] No.80), which prohibited and restricted the production, sales and use of some disposable plastic products and required significant reduction in consumption of disposable plastic products. As disposable plastic products are widely used as containers in the soft beverage industry, the restriction on plastic products may cause participants in the soft beverage industry including us to incur higher environmental compliance costs, and we may not be able to successfully pass on the increased costs by setting higher product prices or otherwise. As a result, our financial condition and results of operations may be materially and adversely affected.

With the increasing awareness on environmental protection, there has been a growing trend in reducing the use of plastics and other non-recyclable packaging materials in various industries, including the soft beverage market, around the world. See "Industry Overview – Global Trend in Reducing Use of Plastics and Other Packaging Materials." We may need to promote the plastic waste recycling and disposal, and reduce the use of plastic per unit product. We may also need to promote the recycling and reuse of plastic packaging materials through consumer interaction. Although such trend does not directly have a material impact on the production and sales of our products because recycled plastics are not allowed to be used in production of food or beverage containers in China pursuant to the applicable PRC laws and regulations, we are conducting research and development activities in relation to the recycling of plastics for production of containers to address such global trend in the long run and be prepared for any potential changes in the relevant laws and regulations in the future. As a result, we may incur additional research and development fees for such research and development activities. In addition, we have been conducting research and development activities to improve our capability to produce beverage containers where less plastics are required per unit product. Our production facilities may need to be updated accordingly, which will incur additional costs. In addition, beverage containers made with a less amount of plastics may affect the strength of the containers and overall consumer experience with the containers, which may in turn affect the consumers' demand for our products.

In addition, due to the possibility of unanticipated regulatory or other changes, the amount and timing of future environmental expenditures may vary substantially from those currently anticipated. Our cost of complying with current and future environmental regulations, and liabilities which may potentially arise from pollutant discharge, may materially adversely affect our business, financial condition and results of operations.

We may not be able to adequately protect our intellectual property rights, which could harm the value of our brand and adversely affect our business.

We rely heavily on a combination of trademarks, patents, domain name registrations, copyrights and confidentiality agreements to protect our intellectual property rights. We also possess a significant number of know-how or trade secrets in relation to product formulations, technologies and production processes, which we believe are material to our operations and which are not covered by patents.

We rely on various protective measures to safeguard such unpatented proprietary information, including entering into confidentiality agreements with our relevant employees and third parties. However, we cannot assure you that our protective measures will be sufficient to protect our trade secrets, know-how or other proprietary information against any unauthorized use, misappropriation or disclosure. We also cannot assure you that we will be successful in enforcing confidentiality provisions or undertaking enforcement proceedings in the event that there is any unauthorized use of our intellectual property.

Furthermore, any litigation to protect our intellectual property would be time-consuming and costly, and may divert the attention of our senior management and key personnel from our business operations. If we fail to effectively protect our intellectual property from inappropriate or unauthorized use by third parties in ways that adversely affect our brand, our reputation could suffer, which in turn could materially and adversely affect our business, financial condition and results of operations.

We may be exposed to the risk of product infringement.

We may be exposed to the risk of product infringement. We cannot assure you that there will be no counterfeit or forgery of our products, trademarks or brands in the market. Counterfeiters may illegally manufacture and market packaged drinking products and beverage products under our brand. Such counterfeit or forged products are usually difficult to detect or ban in a timely manner. The occurrence of such incidents may have an impact on our reputation and brands. Our reputation and brands are crucial to our profitability and competitiveness, any damage to our reputation or brands resulting from product infringement may adversely affect our profitability and competitiveness.

Any failure to make adequate contributions to various employee benefit plans as required by PRC regulations may subject us to penalties.

Companies operating in the PRC are required to participate in various employee benefit plans, including pension insurance, unemployment insurance, medical insurance, work-related injury insurance, maternity insurance and housing provident fund and contribute to the amounts equal to certain percentage of salaries, including bonuses and allowances, of their employees up to a maximum amount specified by the local government from time to time at locations where they operate their business. The requirement of employee benefit plans has not been implemented consistently by the local governments in China given the different levels of economic development in different locations.

As advised by our PRC Legal Advisor, we were in compliance with applicable laws and regulations related to social insurance and housing provident funds in material aspects during the Track Record Period. However, we cannot assure you that any new laws and regulations will not require us to pay any contribution shortfall retroactively, thereby adversely affecting our financial condition and results of operations.

We could be involved in claims, disputes and legal proceedings in our ordinary course of business.

From time to time, we may be involved in claims, disputes and legal proceedings in our ordinary course of business. These may concern issues relating to, among others, breach of contract, employment or labor disputes, infringement of intellectual property rights and environmental matters. In particular, the manufacture and sales of our products subject us to potential product liability claims if our products are proven to have failed to meet relevant health and safety or other laws and regulations, or cause or are alleged to have caused illness or health issues.

If we are unsuccessful in any product liability claims, we may be subject to substantial damages to compensate the claimants. Any claims, disputes or legal proceedings initiated by us or brought against us, with or without merit, may result in substantial costs and diversion of resources and materially harm our reputation.

Claims, disputes or legal proceedings against us may be due to defective supplies sold to us by our suppliers, who may not be able to indemnify us in a timely manner, or at all, for any costs that we incur as a result of such claims, disputes and legal proceedings.

Our legal right to some owned and leased properties may be challenged.

As of the Latest Practicable Date, there were defects in some of our owned and leased properties. See "Business – Properties." If our right to use these properties is challenged, we may be required to seek alternative properties for use on short notice. However, we may not be able to find alternative properties that are suitable for our use in a timely manner and at reasonable costs, or at all.

In addition, as of the Latest Practicable Date, lease agreements for some of our leased buildings had not been registered with the relevant competent authority in accordance with the applicable PRC regulations. If we and the landlords fail to register these lease agreements as required by the relevant competent authority, we may be subject to a fine of RMB1,000 to RMB10,000 for each of the unregistered lease agreement. See "Business – Properties – Leased Properties."

The PRC government's control over foreign currency conversion may limit our foreign exchange transactions.

Currently, the Renminbi cannot be freely converted into any foreign currency, and the conversion rate and remittance of foreign currencies are subject to PRC foreign exchange regulations. We cannot assure you that we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from SAFE, but we are required to present documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the requisite licenses to conduct foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by SAFE.

Under the existing foreign exchange regulations, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, we cannot assure you that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to Shareholders or to satisfy other foreign exchange requirements. If we fail to obtain approval from SAFE to convert Renminbi into any foreign currency for any of the above purposes, our capital expenditure plans and our business, operating results and financial position may be materially and adversely affected.

Payment of dividends may be subject to restrictions under the PRC laws.

Under the PRC laws, dividends may be paid only out of distributable profits. Distributable profits are the net profit as determined under PRC GAAP or IFRS, whichever is the lower, less any recovery of accumulated losses and appropriations to statutory and other reserves required to be made. As a result, we may not have sufficient, or any, distributable profits to enable us to make dividend distributions to our Shareholders in the future, including periods for which our financial statements indicate that our operations have been profitable. Any distributable profits that are not distributed in a given year are retained and available for distribution in subsequent years.

Moreover, as the calculation of distributable profits under PRC GAAP is different from the calculation under IFRS in certain respects, our operating subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under IFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our operating subsidiaries to pay dividends to us could have a negative impact on our cash flows and our ability to make dividend distributions to our Shareholders in the future, including those periods in which our financial statements indicate that our operations have been profitable.

Holders of our Shares may be subject to PRC income tax obligations.

Under current PRC tax laws, regulations and rules, non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to the dividends paid to them by us and the gains realized upon the sale or other disposition of Shares.

Non-PRC resident individuals are required to pay PRC individual income tax at a 20% rate under Individual Income Tax Law of the People's Republic of China (中華人民共和國個人所得稅法) for the interests, dividends and bonus they obtain from the PRC. Accordingly, we are required to withhold such tax from dividend payments, unless applicable tax treaties between China and the jurisdiction in which the foreign individual resides reduce or provide an exemption for the relevant tax obligations. Generally, in accordance with the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 045 Issued by the SAT (國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知), domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends to overseas resident individuals in the jurisdiction of the tax treaty, withhold individual income tax at the rate of 10%. When a tax rate of 10% is not applicable, the withholding company shall: (a) return the excessive tax amount pursuant to due procedures if the applicable tax rate is lower than 10%; (b) withhold such foreign individual income tax at the effective tax rate agreed on if the applicable tax rate is between 10% and 20%; or (c) withhold such foreign individual income tax at a rate of 20% if no taxation treaty is applicable.

For non-PRC resident enterprises that were established under foreign laws with no real management body in China but have establishments or premises in China, or for those which have no establishments or premises in China but whose income is derived from China, under the Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法), dividends paid by us and gains realized by such foreign enterprises upon the sale or other disposition of H Shares are ordinarily subject to PRC enterprise income tax at a 20% rate. In accordance with the Circular on Issues Relating to the Withholding of Enterprise Income Tax by PRC Resident Enterprises on Dividends Paid to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) issued by the SAT, such tax rate has been reduced to 10%, subject to a further reduction under special arrangements or applicable treaties between China and the jurisdiction of the residence of the relevant non-PRC resident enterprise.

Despite the arrangements mentioned above, there are significant uncertainties as to the interpretation and application of applicable PRC tax laws and regulations due to several factors, including whether the relevant preferential tax treatment will be revoked in the future such that all non-PRC resident individual holders will be subject to PRC individual income tax at a flat rate of 20%.

In addition, there remain significant uncertainties as to the interpretation and application of applicable PRC tax laws and regulations by the PRC's tax authorities, including individual income tax on dividends paid to non-PRC resident Shareholders, and on gains realized on sale or other disposition of our Shares. The PRC's tax laws and regulations may also change. If there is any change to applicable tax laws and regulations or in the interpretation or application of such laws and regulations, the value of your investment in our Shares may be materially affected.

Investors may experience difficulties in effecting service of legal process and enforcing judgments against us, our Directors, Supervisors or senior management.

We are a company incorporated under the laws of the PRC and most of our assets and our subsidiaries are located within the PRC. Most of our Directors, Supervisors and senior management reside within the PRC. Most of the assets of these Directors, Supervisors and senior management may also be located within the PRC. As a result, it may not be possible to effect service of process outside of the PRC upon us or most of our Directors, Supervisors and senior management.

A judgment of a court of another jurisdiction may be reciprocally recognized or enforced in the PRC only if the jurisdiction has a treaty with the PRC or if the jurisdiction has been otherwise deemed by the PRC courts to satisfy the requirements for reciprocal recognition, subject to the satisfaction of other requirements. However, the PRC is not a party to treaties providing for the reciprocal enforcement of judgments of courts with foreign countries such as the United States and the United Kingdom and enforcement in the PRC of judgments of a court in these jurisdictions may consequently be difficult or impossible. On July 14, 2006, the Supreme People's Court of the PRC and the Government of the Hong Kong Special Administrative Region signed the Arrangement between the Mainland and the HKSAR on Reciprocal Recognition and Enforcement of the Decisions of Civil and Commercial Cases under Consensual Jurisdiction (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the "**2006 Arrangement**"). Under the 2006 Arrangement, where any designated PRC court or Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement, the party concerned may apply to the relevant PRC court or Hong Kong court for recognition and enforcement of the judgment. The 2006 Arrangement took effect on August 1, 2008, but the effectiveness of any action brought under the arrangement still remain uncertain. On January 18, 2019, the Supreme People's Court of the People's Republic of China and the Department of Justice under the Government of the Hong Kong Special Administrative Region signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排) (the "**2019 Arrangement**"). The 2019 Arrangement regulates, among others, the scope and particulars of judgments, the procedures and methods of the application for recognition or enforcement, the review of the jurisdiction of the court that issued the original judgment, the circumstances where the recognition and enforcement of a judgment shall be refused, and the approaches towards remedies for the reciprocal recognition and enforcement of judgments in civil and commercial matters between the courts in mainland China and those in the Hong Kong Special Administrative Region. As for now, the 2019 Arrangement has not come into force.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares, and their liquidity and market price may be volatile.

Prior to the Global Offering, there was no public market for our Shares. We cannot assure you that a public market for our Shares with adequate liquidity and trading volume will develop and be sustained following the completion of Global Offering. In addition, the Offer Price of our Shares is expected to be fixed by agreement between the Joint Global Coordinators and us, and may not be an indication of the market price of our Shares following the completion of the Global Offering. If an active public market for our Shares does not develop following the completion of Global Offering, the market price and liquidity of our Shares could be materially and adversely affected.

The price and trading volume of our Shares may be highly volatile. Several factors, some of which are beyond our control, such as variations in our results of operations, changes in our pricing policy, the emergence of new technologies, strategic alliances or acquisitions, the addition or departure of key personnel, changes in profit forecast or recommendations by financial analysts, changes in ratings by credit rating agencies, litigation or the removal of the restrictions on share transactions, could cause large and sudden changes to the volume and price at which our Shares will trade.

In addition, the Hong Kong Stock Exchange and other securities markets have, from time to time, experienced significant price and volume volatility that is not related to the operating performance of any particular company.

Holders of our Shares are subject to the risk that the price of our Shares could fall during the period before trading of our Shares begins.

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be several business days after the pricing date. As a result, investors may not be able to sell or deal in our Shares during that period. The price and trading volume of the Shares may be highly volatile. Factors such as variations in our revenue, net profit and cash flows and announcements of new investments, strategic alliances and acquisitions, fluctuations in market prices for our products or fluctuations in market prices for other soft beverage companies could cause the market price of our Shares to change substantially. Any such developments may result in significant and sudden changes in the volume and price at which our Shares will trade. We cannot assure you that these developments will not occur in the future. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before trading begins as a result of adverse market conditions or other adverse developments, which could occur between the time of sale and the time trading begins.

Substantial future sales or the expectation of substantial sales of our Shares in the public market could cause the price of our Shares to decline.

Although our Controlling Shareholders are subject to restrictions on their sales of Shares within 12 months from the Listing Date as described in "Underwriting" in this prospectus, future sales of a significant number of our Shares by our Controlling Shareholders or other existing shareholders in the public market after the Global Offering, or the perception that these sales could occur, could cause the market price of our Shares to decline and could materially impair our future ability to raise capital through offerings of our Shares. We cannot assure you that our Controlling Shareholders, or other existing shareholders will not dispose of Shares held by them or that we will not issue Shares pursuant to the general mandate to issue shares granted to our Directors as described in "Appendix IV – Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions", upon the expiration of restrictions set out above. We are currently applying for part of the Company's Domestic Shares to circulate on the Hong Kong Stock Exchange after the completion of the Global Offering. According to the Company Law, the Shares issued by the Company prior to the Global Offering (including a total of 4,588,200,000 H Shares to be converted from Domestic Shares held by 70 Shareholders of the Company, which include Yangshengtang and 69 individual Shareholders) are restricted from trading within one year from the Listing Date. Such restriction from trading will limit the number of H Shares to be circulated on the market, which will in turn adversely affect the liquidity of the H Shares during such restriction period. If our application for the circulation of our relevant Domestic Shares on the Hong Kong Stock Exchange after the completion of the Global Offering is successful, any future sales (after the expiration of the restrictions set out above) of Domestic Shares by relevant Shareholders in the public market may affect the market price of the Shares. Moreover, if we convert a substantial amount of domestic shares into H shares to be listed and traded in the future at the Stock Exchange of Hong Kong, it may further increase the supply of the H shares in the market, which may affect the market price of the H shares. We cannot predict the effect, if any, that any future sales of Shares by our Controlling Shareholders or other existing Shareholders, or the Shares available for sale by our Controlling Shareholders or other existing Shareholders, or the issuance of Shares by the Company may have on the market price of the Shares. Sale or issuance of a substantial amount of Shares by our Controlling Shareholders or us, or the market perception that such sale or issuance may occur, could materially and adversely affect the prevailing market price of the Shares.

We may need additional capital, and the sale or issue of additional Shares or other equity securities could result in additional dilution to our Shareholders.

Notwithstanding our current cash and cash equivalents and the net proceeds from the Global Offering, we may require additional cash resources to finance our continued growth or other future developments. We cannot assure you that financing will be available in the amounts or on terms acceptable to us, if at all. If we fail to raise additional funds, we may need to sell additional equity securities, which could result in additional dilution to our Shareholders.

As the Offer Price of our Shares is higher than our consolidated net tangible book value per Share, purchasers of our Shares in the Global Offering may experience immediate dilution upon such purchases.

As the Offer Price of our Shares is higher than the consolidated net tangible assets per Share immediately prior to the Global Offering, purchasers of our Shares in the Global Offering may experience an immediate dilution. Our existing Shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset value per Share of their Shares. In addition, holders of our Shares may experience further dilution of their interest if we issue additional Shares in the future to raise additional capital.

We cannot assure you whether and when we will declare and pay dividends in the future.

Our ability to pay dividends will depend on whether we are able to generate sufficient earnings. Distribution of dividends shall be decided by our Board of Directors at their discretion and will be subject to the approval of the general meeting. A decision to declare or to pay dividends and the amount thereof depend on various factors, including but not limited to our results of operations, cash flows and financial position, operating and capital expenditure requirements, distributable profits as determined under PRC GAAP or IFRS (whichever is lower), our Articles of Association and other constitutional documents, the PRC Company Law and any other applicable PRC laws and regulations, market conditions, our strategy and projection for our business, contractual restrictions and obligations, taxation, regulatory restrictions and any other factors from time to time deemed by our Board of Directors as relevant to the declaration or suspension of dividends. As a result, there can be no assurance whether, when and in what form we will pay dividends in the future. Subject to any of the above constraints, we may not be able to pay dividends in accordance with our dividend policy. See “Financial Information – Dividends.”

Certain statistics contained in this prospectus are derived from a third-party report and publicly available official sources and they may not be reliable.

Certain statistics contained in this prospectus relating to China, the PRC economy and the industry in which we operate have been derived from various official government publications or other third-party reports. We have taken reasonable care in the reproduction or extraction of the official government publications or other third-party reports for the purpose of disclosure in this prospectus, however, we cannot assure you that the quality or reliability of such source materials. They have not been prepared or independently verified by us, the Underwriters or any of their respective affiliates or advisors (excluding Frost & Sullivan) and, therefore, we make no representation as to the accuracy of such statistics, which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such statistics in this prospectus may be inaccurate or may not be comparable to statistics produced with respect to other economies. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts. In particular, the water reserve statistics disclosed in this prospectus are based on the latest information available to us, which were published or confirmed by the local governmental authorities. The actual water reserves may be affected by factors such as changes in weather, climate and geological conditions around such water sources. As a result, investors should not place undue reliance on the water reserves statistics disclosed in this prospectus.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties.

This prospectus contains certain statements and information that are forward-looking and uses forward-looking terminology such as “believe,” “expect,” “estimate,” “predict,” “aim,” “intend,” “will,” “may,” “plan,” “consider,” “anticipate,” “seek,” “should,” “could,” “would,” “continue,” and other similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

Investors should read the entire prospectus carefully and should not consider any particular statements in this prospectus or in published media reports without carefully considering the risks and other information contained in this prospectus.

Prior to the publication of this prospectus, there has been coverage in the media regarding us and the Global Offering, which contained among other things, certain financial information, projections, valuations and other forward-looking information about us and the Global Offering. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for the accuracy or completeness of such media coverage or forward-looking statements. We make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media. We disclaim any information in the media to the extent that such information is inconsistent or conflicts with the information contained in this prospectus. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules, the Companies (WUMP) Ordinance and the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) for the purpose of giving information to the public with regard to the Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

CSRC APPROVAL

We have obtained an approval letter from the CSRC for the Global Offering, the Conversion of Domestic Shares into H Shares and the making of the application to list the H Shares on the Hong Kong Stock Exchange dated 24 July 2020. In granting such approval, the CSRC accepts no responsibility for the financial soundness of us or for the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applications under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The Global Offering comprises the Hong Kong Public Offering of initially 27,176,400 Offer Shares and the International Offering of initially 361,055,400 Offer Shares (subject, in each, to reallocation on the basis as set out in "Structure of the Global Offering.")

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorized to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorized by the Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Lead Managers, the Joint Bookrunners, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees, advisers, agents or representatives, or any other persons or parties involved in the Global Offering. Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in this prospectus is correct as of any subsequent time.

For details of the structure of the Global Offering, including its conditions and the arrangements relating to the Over-allotment Option and stabilization, see "Structure of the Global Offering".

INFORMATION ON THE CONVERSION OF DOMESTIC SHARES INTO H SHARES

The Company has applied for the Conversion of Domestic Shares into H Shares, which involves 1,303,252,410 Shares held by Yangshengtang and 3,284,947,590 Shares held by 69 individual Shareholders. Please refer to "History and Corporate Structure" and "Share Capital" for details of the 69 individual Shareholders and their interests in the Company and relevant procedures for the Conversion of Domestic Shares into H Shares. Such H Shares to be converted from Domestic Shares are restricted from trading for a period of one year after the Listing.

The Conversion of Domestic Shares into H Shares has been approved by the CSRC on July 24, 2020 and is still subject to the approval by the Hong Kong Stock Exchange.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for the Hong Kong Offer Shares is set forth in "How to Apply for Hong Kong Offer Shares" in this prospectus and in the Application Forms.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Hong Kong Offer Shares to, confirm that he is aware of the restrictions on the offer and sale of the Hong Kong Offer Shares described in this prospectus and the Application Forms.

No action has been taken to permit a public offering of the Offer Shares outside Hong Kong or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation for subscription. The distribution of this prospectus and/or the Application Forms and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been offered and sold, and will not be offered and sold, directly or indirectly, in the PRC.

UNDERWRITING

The Listing is sponsored by the Joint Sponsors and the Global Offering is managed by the Joint Global Coordinators. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters subject to the terms and conditions of the Hong Kong Underwriting Agreement. The International Offering is expected to be fully underwritten by the International Underwriters, subject to the agreement on the Offer Price between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us. For further details on the Underwriters and the underwriting arrangements, see "Underwriting".

APPLICATION FOR LISTING OF THE H SHARES ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee for the granting of listing of, and permission to deal in, our H Shares to be issued pursuant to the Global Offering (including any H Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the H Shares to be converted from Domestic Shares. Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence on Tuesday, September 8, 2020. Except as otherwise disclosed in this prospectus, no part of our H Shares is listed on or dealt in on any other stock exchange, and no such listing or permission to list is being or proposed to be sought in the near future.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to the Company by or on behalf of the Hong Kong Stock Exchange.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange and our compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Hong Kong Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisers for the details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made for the H Shares to be admitted in to CCASS.

REGISTER OF MEMBERS AND STAMP DUTY

All of the H Shares issued pursuant to applications made in the Global Offering and converted from Domestic Shares will be registered on our H Share register to be maintained in Hong Kong by our H Share Registrar, Computershare Hong Kong Investor Services Limited. Our principal register of members will be maintained by us at our headquarters in the PRC.

Dealings in the H Shares registered in our H Share register will be subject to Hong Kong stamp duty.

DIVIDENDS PAYABLE TO HOLDERS OF H SHARES

Unless determined otherwise by the Company, dividends payable in Hong Kong dollars in respect of our H Shares will be paid to the Shareholders as recorded on the H Share register of the Company in Hong Kong and sent by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder.

According to the Guide to the Program for "Full Circulation" of H shares promulgated by China Securities Depository and Clearing Corporation Limited ("**CSDC**") on February 7, 2020, cash dividends to domestic investors of H-share "full circulation" shall be distributed through CSDC. An H-share listed company shall transfer RMB cash dividends to the designated bank account of the Shenzhen subsidiary of CSDC, who shall complete the clearing of cash dividends by distributing the cash dividends to investors through domestic securities companies.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed Computershare Hong Kong Investor Services Limited, our H Share Registrar, and it has agreed not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to our H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Special Regulations and our Articles of Association;
- agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each of our Shareholders, to refer all differences, disputes and claims concerning our affairs and arising from any rights or obligations conferred or imposed by our Articles of Association, the PRC Company Law or other relevant laws, rules and regulations to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorize the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;
- agrees with us and each of our Shareholders that the H Shares are freely transferable by the holders thereof; and
- authorizes us to enter into a contract on his behalf with each of our Directors, Supervisors, senior officers whereby such Directors, Supervisors, senior officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association. Persons applying for or purchasing H Shares under the Global Offering are deemed, by their making an application or purchase, to have represented that they are not close associates (as defined in the Hong Kong Listing Rules) of any of the Directors, Supervisors or an existing Shareholder of the Company or a nominee of any of the foregoing.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposal of, dealing in or the exercise of any rights in relation to our H Shares. None of the Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Lead Managers, the Joint Bookrunners, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees, advisers, agents or representatives, or any other persons or parties involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposal of, dealing in, or the exercise of any rights in relation to, our H Shares.

LANGUAGE

If there is any inconsistency between this prospectus and its Chinese translation, this prospectus shall prevail. For ease of reference, the names of the Chinese laws and regulations, government authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in this prospectus in both the Chinese and English languages. In the event of any inconsistency, the Chinese version shall prevail.

ROUNDING

Certain amounts and percentage figures, such as share ownership and operating data, included in this prospectus may have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

CURRENCY TRANSLATIONS

Solely for your convenience, this prospectus contains translations among certain amounts denominated in Renminbi, Hong Kong dollars and U.S. dollars.

Unless otherwise specified, this prospectus contains certain translations for the convenience purposes at the following rates: Renminbi into Hong Kong dollars at the rate of HK$1.00 to RMB0.8955, Renminbi into U.S. dollars at the rate of US$1.00 to RMB6.9405 and Hong Kong dollars into U.S. dollars at the rate of US$1.00 to HK$7.7504. The RMB to HK$ and US$ to RMB exchange rates are quoted by the PBOC for foreign exchange transactions prevailing on August 14, 2020.

No representation is made that any amounts in RMB or Hong Kong dollars can be or could have been at the relevant dates converted at the above rate or any other rates or at all.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Zhong Shanshan (鍾睒睒)	Room 5-4-101 Shuguang Apartment Waidongshan Lane Xihu District Hangzhou, PRC	Chinese
Mr. Guo Zhen (郭振)	Room 801, Unit 1 Building 10, East district No.1 Lvchengzhijiang Zhuantang, Xihu District Hangzhou, PRC	Chinese
Mr. Zhou Li (周力)	Room 4-3-201, Zhengxin Garden Xixi Chengyuan Xihu District Hangzhou, PRC	Chinese
Ms. Zhou Zhenhua (周震華)	Room 802, No. 58 Lane 668, Chengshan Road Pudong New District Shanghai, PRC	Chinese
Mr. Liao Yuan (廖原)	Room 602, Unit 1 Building 9, Xixi Yuecheng Wuchang Street Yuhang District Hangzhou, PRC	Chinese
Non-executive Director		
Mr. Zhong Shu Zi	Room 5-4-101 Shuguang Apartment Waidongshan Lane Xihu District Hangzhou, PRC	The United States

Name	Address	Nationality
Independent Non-executive Directors		
Mr. Stanley Yi Chang	Room 1902, Building 5 Lane 600, Golden City Road Changning District Shanghai, PRC	The United States
Mr. Yang, Lei Bob (楊磊)	Room 301, No. 22 Lane 505, Rushan Road Pudong New District Shanghai, PRC	Chinese
Mr. Lu Yuan (吕源)	Room D, 23/F, Block 6 Baycrest Block Ma On Shan Sha Tin New Territories Hong Kong	Chinese

SUPERVISORS

Name	Address	Nationality
Ms. Qiu Hongying (裘紅鶯)	Room 11-1-402 Mingli Garden Xixicheng Garden Xihu District Hangzhou, PRC	Chinese
Mr. Rao Minghong (饒明紅)	Room 302, Unit 2 Building 8, Zhifeng Road Qiandaohu Town, Chun'an Zhejiang, PRC	Chinese
Mr. Liu Xiyue (劉熹悦)	Room 1903 Dormitory courtyard No. 4 Dewai Street Xicheng District Beijing, PRC	Chinese

For further details, see "Directors, Supervisors and Senior Management".

Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers *(in alphabetical order)*	**China International Capital Corporation Hong Kong Securities Limited** 29/F, One International Finance Centre 1 Harbour View Street Central Hong Kong
	Morgan Stanley Asia Limited (as Joint Global Coordinator, and Joint Bookrunner and Joint Lead Manager in relation to the Hong Kong Public Offering only) 46/F, International Commerce Centre 1 Austin Road West Kowloon Hong Kong
	Morgan Stanley & Co. International plc (as Joint Bookrunner and Joint Lead Manager in relation to the International Offering only) 25 Cabot Square, Canary Wharf London E14 4QA United Kingdom
Other Joint Global Coordinator, Joint Bookrunner and Joint Lead Manager	**Citigroup Global Markets Asia Limited** (as Joint Global Coordinator, and Joint Bookrunner and Joint Lead Manager in relation to the Hong Kong Public Offering only) 50/F, Champion Tower 3 Garden Road Central Hong Kong
	Citigroup Global Markets Limited (as Joint Bookrunner and Joint Lead Manager in relation to the International Offering only) 33 Canada Square, Canary Wharf London E14 5LB United Kingdom
Other Joint Bookrunner and Joint Lead Manager	**CLSA Limited** 18/F, One Pacific Place 88 Queensway Hong Kong

Legal Advisors to the Company	*As to Hong Kong and U.S. laws:* **Freshfields Bruckhaus Deringer** 55th Floor, One Island East Taikoo Place, Quarry Bay Hong Kong *As to PRC laws:* **Jingtian & Gongcheng** 34/F, Tower 3, China Central Place 77 Jianguo Road Chaoyang District Beijing PRC
Legal Advisors to the Joint Sponsors and the Underwriters	*As to Hong Kong and U.S. laws:* **Clifford Chance** 27/F, Jardine House One Connaught Place Hong Kong *As to PRC laws:* **Tian Yuan Law Firm** 10/F, Tower B, China Pacific Insurance Plaza 28 Fengsheng Hutong Xicheng District Beijing PRC
Auditor and Reporting Accountants	**Ernst & Young** *Certified Public Accountants* 22/F, CITIC Tower 1 Tim Mei Avenue Central Hong Kong
Industry Consultant	**Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.** 1018, Tower B 500 Yunjin Road Shanghai, 200232 PRC
Receiving Bank	**Bank of China (Hong Kong) Limited** 1 Garden Road Hong Kong

CORPORATE INFORMATION

Registered Office and Head Office	No.181 Geyazhuang Xihu District Hangzhou, Zhejiang PRC
Place of Business in Hong Kong Registered under Part 16 of the Companies Ordinance	Room F, 6/F, CNT Tower 338 Hennessy Road Wanchai Hong Kong
Joint Company Secretaries	Ms. Han Linyou Room 7804, Wing On Lodge No.72-82 Blue Pool Road Happy Valley Hong Kong Ms. Mak Po Man Cherie 40/F, Sunlight Tower No. 248 Queen's Road East Wanchai, Hong Kong
Authorised Representatives	Ms. Han Linyou Room 7804, Wing On Lodge No.72-82 Blue Pool Road Happy Valley Hong Kong Ms. Zhou Zhenhua Room 802, No. 58 Lane 668, Chengshan Road Pudong New District Shanghai PRC
Audit Committee	Mr. Stanley Yi Chang *(Chairman)* Mr. Yang, Lei Bob Mr. Zhong Shu Zi
Remuneration Committee	Mr. Lu Yuan *(Chairman)* Mr. Zhong Shanshan Mr. Yang, Lei Bob
Nomination Committee	Mr. Zhong Shanshan *(Chairman)* Mr. Lu Yuan Mr. Stanley Yi Chang

Compliance Adviser	**Somerley Capital Limited** 20/F, China Building 29 Queen's Road Central Hong Kong
H Share Registrar	**Computershare Hong Kong Investor Services Limited** Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong
Principal Bankers	**Agricultural Bank of China Hangzhou Branch** 30 Qingchun Road Xiacheng District Hangzhou, Zhejiang, PRC **Bank of China Zhejiang Branch** 321 Fengqi Road Xiacheng District Hangzhou, Zhejiang, PRC **China Everbright Bank Hangzhou Branch** 1 Miduqiao Road Gongshu District Hangzhou, Zhejiang, PRC **Industrial and Commercial Bank of China Hangzhou Yangbatou Branch** 261 Zhongshan Middle Road Shangcheng District Hangzhou, Zhejiang, PRC **China Guangfa Bank Hangzhou Branch** 516 Yan'an Road Xiacheng District Hangzhou, Zhejiang, PRC
Company's Website	**www.nongfuspring.com** *(A copy of this prospectus is available on the Company's website. Except for the information contained in this prospectus, none of the other information contained on the Company's website forms part of this prospectus)*

OUR HISTORY

Overview

The history of the Group could date back to September 1996 when our founder, Mr. Zhong Shanshan, established the predecessor of the Company, i.e. Xin'an River Yangshengtang Drinking Water Company Limited (新安江養生堂飲用水有限公司, "**Xin'an River Yangshengtang Drinking Water**"), in Zhejiang province under the laws of the PRC with a registered capital of RMB20,000,000. In June 2001, the Company was converted from a limited liability company into Nongfu Spring Co., Ltd., a joint stock company with limited liabilities. As of the Latest Practicable Date, the Company has an issued share capital with 10,800,000,000 Shares in a nominal value of RMB0.1 each. Despite of the Shares held by Mr. Zhong Shanshan, a Controlling Shareholder, through Yangshengtang and his direct shareholding, the Company also has a number of minority individual Shareholders. After longer than two decades' development, the Group has become a leader in the packaged drinking water and beverage business in the PRC and our products primarily include packaged drinking water, tea beverage, functional beverage and juice beverage.

For details of the biography of our founder, Mr. Zhong Shanshan, see "Directors, Supervisors and Senior Management."

Milestones

The following sets out a summary of our key development milestones:

Year	Milestone(s)
1996	Our predecessor, Xin'an River Yangshengtang Drinking Water, was established.
1997	We launched our first packaged drinking water product "Nongfu Spring (農夫山泉)" with water sourced from Zhejiang Thousand-Island Lake.
2001	The Company was converted into a joint stock limited company with its name changed to "Nongfu Spring Co., Ltd. (農夫山泉股份有限公司)."
2003	We launched our first juice beverage product "Farmer's Orchard (農夫果園)."
2004	We launched our first functional beverage product "Scream (尖叫)."
2011	We launched our first tea beverage product "Oriental Leaf (東方樹葉)."
	We introduced our first aseptic production line.
2014	We launched our first fresh fruit product "17.5° fresh oranges."
2015	We launched our natural mineral water product "Nongfu Spring (農夫山泉)" with water sourced from Moya Spring in Changbai Mountain in Jilin.
2019	We launched our first coffee product "Tan Bing (炭仌)" and first plant-based yogurt product.

ESTABLISHMENT AND DEVELOPMENT OF THE COMPANY

1. Establishment and Development of the Company before 2001

On September 26, 1996, the predecessor of the Company, Xin'an River Yangshengtang Drinking Water, was established under the laws of the PRC with a registered capital of RMB20,000,000 by Hainan Yangshengtang Company Limited (海南養生堂有限公司, "**Hainan Yangshengtang**") and Hainan Damen Advertisement Company Limited (海南大門廣告有限公司, "**Hainan Damen**"), holding 99.5% and 0.5% of the Company's then registered capital, respectively.

Hainan Yangshengtang was the predecessor of Yangshengtang. Hainan Damen was a limited liability company incorporated under the laws of the PRC established by Ms. Zhong Xiaoxiao, Mr. Zhong Shanshan's younger sister, which has been deregistered.

On April 14, 1997, the Company was renamed to "Zhejiang Thousand-Island Lake Yangshengtang Drinking Water Company Limited (浙江千島湖養生堂飲用水有限公司)."

In October 2000, the registered capital of the Company was increased from RMB20,000,000 to RMB100,000,000, out of the increase of which, Yangshengtang and Hainan Baoyi Agricultural and Sideline Product Production Company Limited (海南寶益農副產品加工有限公司, "**Hainan Baoyi**") contributed RMB60,000,000 and RMB20,000,000, respectively. Hainan Baoyi was a limited liability company incorporated under the laws of the PRC established by Ms. Lu Xiaoping, Mr. Zhong Shanshan's wife, and Mr. Lu Cheng, Ms. Lu Xiaoping's elder brother, which has been deregistered.

In December 2000, the registered capital of the Company was increased from RMB100,000,000 to RMB140,000,000, out of the increase of which, Yangshengtang and Hainan Baoyi contributed RMB27,500,000 and RMB12,500,000, respectively.

2. Conversion into a Joint Stock Limited Company in 2001

Along with the development and expansion of the business of the Group, after a few shareholding changes among some of the then corporate Shareholders and registered capital changes of the Company, in June 2001, the Company was converted into a joint stock company with limited liabilities with 147,000,000 Shares in a nominal value of RMB1.0 each, with its name changed from "Zhejiang Thousand-Island Lake Yangshengtang Drinking Water Company Limited" to "Nongfu Spring Co., Ltd. (農夫山泉股份有限公司)." Yangshengtang, Hainan Baoyi, Hainan Yangpu Bochuang Investment Management Company Limited (海南洋浦博創投資管理有限公司, "**Hainan Bochuang**"), Shanghai Xinju Hi-Tech Service Company Limited (上海新炬高新技術服務有限公司, "**Shanghai Xinju**") and Hainan Damen were the then Shareholders, holding 61.43%, 23.21%, 10%, 5% and 0.36% of the Company's then registered capital, respectively.

Hainan Bochuang, a limited liability company incorporated under the laws of the PRC and has been deregistered. Hainan Bochuang had three shareholders at the time of the conversion of the Company in 2001 and one of them was Mr. Ding Jinglin. Mr. Ding Jinglin also indirectly held 25% interest in Nongfu Zhejiang Drinking Water through Power Field Enterprise Limited (宏力企業有限公司, "**Power Field Enterprise**") at that time and such equity interest was transferred to the Company in December 2019. For details of the transfer, see "– Establishment and Development of the Company – Business Reorganization and Share Incentive before the Listing."

3. Building up Overseas Operation Capability

To build up our overseas operation capability, we entered into two agreements in November 2016 and two supplemental agreements in October 2017 (the "**Acquisition Agreements**") to acquire the business, the farmland and associated assets of Otakiri Springs Limited from its then owners (all being independent third parties) with a total consideration of NZ$10,500,000, which was determined after the review of an auditor's report of Otakiri Springs Limited prepared by an independent auditor. The Company had paid a deposit of NZ$200,000 pursuant to the terms of the Acquisition Agreements as of the Latest Practicable Date and if the acquisitions do not go through, the Company does not need to pay the rest of the consideration according to the Acquisition Agreements, but the deposit of NZ$200,000 will be forfeited. Otakiri Springs Limited is a company incorporated in New Zealand and mainly engaged in production and sales of bottled water in New Zealand. We have established two wholly-owned subsidiaries in New Zealand to gradually build up overseas operation capability of the Company when the transaction completes.

Such acquisitions had not been completed as of the Latest Practicable Date and they are still subject to the local proceedings in New Zealand. Should the local proceedings be resolved, such acquisitions will not be subject to any governmental/regulatory approval. According to the Acquisition Agreements, the Company will need to pay Otakiri Springs Limited the outstanding consideration and both parties shall make certain registrations/filings to effect title transfers of relevant assets to complete such acquisitions. The Company does not expect any other potential impediments to such completion.

4. Business Reorganization and Share Incentive before the Listing

We have undergone several business reorganization steps since 2018, including: (i) the acquisition of the vending machine business from Yangshengtang to further focus on our principal business; (ii) buying out minority shareholders of all our non-wholly-owned subsidiaries, which resulted in all of our subsidiaries becoming wholly-owned by us; and (iii) the disposal of four businesses that were not closely associated with our principal business to Yangshengtang. We have also provided share incentive to certain individuals. Details of the business reorganization and share incentive are set out below:

- **acquisition of the vending machine business:** in July 2018, the Company acquired 100% equity interest in Anji Smart Life from Yangshengtang at a total consideration of approximately RMB95,000,000. Such consideration was determined after arm's length negotiation with reference to the net asset value of Anji Smart Life as of June 30, 2018 prepared by an independent valuer and was fully settled on December 11, 2018. Anji Smart Life became our wholly-owned subsidiary upon the completion of such acquisition.

- **buying out minority shareholders of our non-wholly-owned subsidiaries:** in December 2019, we acquired 25% interest in Nongfu Zhejiang Drinking Water from Power Field Enterprise at a consideration of approximately RMB20,705,000. Such consideration was determined after arm's length negotiation with reference to the valuation of Nongfu Zhejiang Drinking Water as of September 30, 2019 prepared by an independent valuer and was fully settled on December 31, 2019. The sole shareholder of Power Field Enterprise is Mr. Ding Jinglin, who also held approximately 0.0972% equity interest in the Company as of the Latest Practicable Date. Following such acquisition, Mr. Ding Jinglin ceased to be a director of Nongfu Zhejiang Drinking Water.

In December 2019, we acquired 35% interest in Nongfu Spring Hong Kong from Mr. Lee Kwong Sang, at a consideration of approximately HK$9,235,000. Such consideration was determined after arm's length negotiation with reference to the book value of net assets of Nongfu Spring Hong Kong and was fully settled on December 31, 2019. Save for his interest in Nongfu Spring Hong Kong, Mr. Lee Kwong Sang is an independent third party of the Company.

- **disposal of the fruit powder production and sales business:** in June 2019, Nongfu Industrial Development, a wholly-owned subsidiary of the Company, transferred all of its 100% interest in Zhejiang Anji Youguo Fruit Industry Company Limited (浙江安吉優果果業有限公司, "**Anji Fruit**") to Yangshengtang Pharmaceutical Company Limited (養生堂藥業有限公司), a subsidiary of Yangshengtang, at a total consideration of approximately RMB6,377,000. Such consideration was determined after arm's length negotiation with reference to the net asset value of Anji Fruit as of December 31, 2018 prepared by an independent valuer and was fully settled on August 22, 2019.

- **disposal of the canteen supply business:** in December 2019, Anji Smart Life transferred its 95% interest in Zhejiang Ruide Agriculture Technology Company Limited (浙江瑞德農業科技有限公司, "**Ruide Agriculture**") to Hangzhou Jiaozi Tea Industry Company Limited (杭州交子茶業有限公司), a wholly-owned subsidiary of Yangshengtang, at a total consideration of approximately RMB6,600,000. Such consideration was determined after arm's length negotiation with reference to the net asset value of Ruide Agriculture as of October 31, 2019 prepared by an independent valuer and was fully settled on December 24, 2019.

- **disposal of idle land parcels and properties:** in March 2020, Nongfu Industrial Development transferred its 100% interest in Xinjiang Yangshengtang Base Fruit Industry Company Limited (新疆養生堂基地果業有限公司, "**Yangshengtang Fruit**") to YST Natural Medicine Research at a total consideration of approximately RMB72,883,000. Such consideration was determined after arm's length negotiation with reference to the net asset value of Yangshengtang Fruit as of December 31, 2019 prepared by an independent valuer and was fully settled on March 13, 2020. Yangshengtang Fruit owns certain land parcels and properties but has not carried out any actual business.

- **disposal of the forest products purchase and initial processing business:** in March 2020, the Company transferred its 100% interest in Nongfu Spring Greater Khingan Range Forest Products Company Limited (農夫山泉大興安嶺林產品有限公司, "**Nongfu GKR Forest Products**") to Yangshengtang Cosmetic (Anji) Company Limited (養生堂(安吉)化妝品有限公司), a wholly-owned subsidiary of Yangshengtang, at a consideration of RMB1. Such consideration was determined after arm's length negotiation with reference to the audited net asset value of Nongfu GKR Forest Products as of December 31, 2019 (which was negative) and was fully settled on March 12, 2020.

Details of the changes of Company's shareholding percentages in these subsidiaries as a result of the business reorganization steps mentioned above are set out below.

Name of subsidiary	The Company's direct shareholding percentage before the reorganization steps	The Company's indirect shareholding percentage before the reorganization steps	The Company's direct shareholding percentage after the reorganization steps	The Company's indirect shareholding percentage after the reorganization steps
Anji Smart Life	0%	0%	100%	0%
Nongfu Zhejiang Drinking Water	75%	0%	100%	0%
Nongfu Spring Hong Kong	65%	0%	100%	0%
Anji Fruit	0%	100%	0%	0%
Ruide Agriculture	0%	95%	0%	0%
Yangshengtang Fruit	0%	100%	0%	0%
Nongfu GKR Forest Products	100%	0%	0%	0%

- **share incentive to employees:** to reward those who made contributions to Yangshengtang and the Group, in August 2019 and December 2019, Mr. Zhong Shanshan and Yangshengtang transferred 2,849,011 Shares in total, representing approximately 0.79% of the then share capital of the Company, to 33 individuals at a total consideration of approximately RMB42,478,000, among which, 1,119,604 Shares were transferred to two then Directors and other eligible employees of the Group, and the rest of 1,729,407 Shares were transferred to individuals who were employees of or had made contributions to Yangshengtang. The consideration was determined based on the net asset value after deducting profits of the Company as of the end of August 2019 and November 2019, respectively. The number of Shares granted to each individual did not exceed 0.13% of the number of the then issued shares of the Company.

5. Capital Increase and Share Split before the Listing

In March 2020, the registered capital of the Company was increased from RMB360,000,000 to RMB1,080,000,000 by way of conversion of undistributed profits of RMB720,000,000 into share capital. Upon completion of such capital increase, each Shareholder's shareholding percentage in the Company remained unchanged.

As approved by the CSRC on July 24, 2020 and our Shareholders' general meeting held on August 14, 2020, the ordinary Shares of the Company were split on a one-for-ten basis, and the nominal value of the Shares was changed from RMB1.0 each to RMB0.1 each. Immediately after such share split, the registered share capital of the Company became RMB1,080,000,000 with 10,800,000,000 Shares in a nominal value of RMB0.1 each, all of which were fully paid up.

The transactions, capital increase and share split mentioned above had obtained all the applicable regulatory approvals and been completed as of the Latest Practicable Date.

OUR SUBSIDIARIES

For details of all of our subsidiaries as of the Latest Practicable Date, see "Appendix VI – Statutory and General Information – Further Information about the Company – Subsidiaries." For scope of our principal subsidiaries as of the Latest Practicable Date, see Note 1 to "Appendix I – Accountants' Report."

GUIDANCE RECEIVED FOR POTENTIAL INITIAL PUBLIC OFFERING

To explore the opportunity of establishing a capital market platform in the A-share market, in May 2008, we entered into a guidance agreement for the initial public offering (the "**Guidance Agreement**") to receive guidance from a qualified sponsor of A-share listing. As our business continued going well and we had sufficient cashflow for our operation, we did not have a strong need for a financing platform anymore. Nevertheless we did not terminate the Guidance Agreement to improve our corporate governance towards the standard of listing companies.

Along with the development of our business, we decided to explore opportunities in overseas markets. During this process, we realized that by increasing the international popularity of our brands and increasing our transparency can potential partners of us better understand our business and development, further improve the governance structure of the Company, enable the Company to get familiar with and understand the operating rules of international companies, and make overseas partners more comfortable to cooperate with us. Pursuing a listing on the Stock Exchange is a part of such overseas development plan of us and an important step to participate in the global market competition and become an international enterprise.

We terminated the Guidance Agreement in December 2018. Since the execution of the Guidance Agreement and up to the Latest Practicable Date, the Company had not submitted any A-share listing application to the CSRC and had not received any comments or inquiries by the CSRC (including its local offices), and we were not aware of any material adverse finding about the Group by the sponsor providing the guidance.

To the best of our Directors' knowledge and belief, our Directors are not aware of any other matters relating to the guidance mentioned above that might potentially affect the suitability of the Group to be listed on the Hong Kong Stock Exchange.

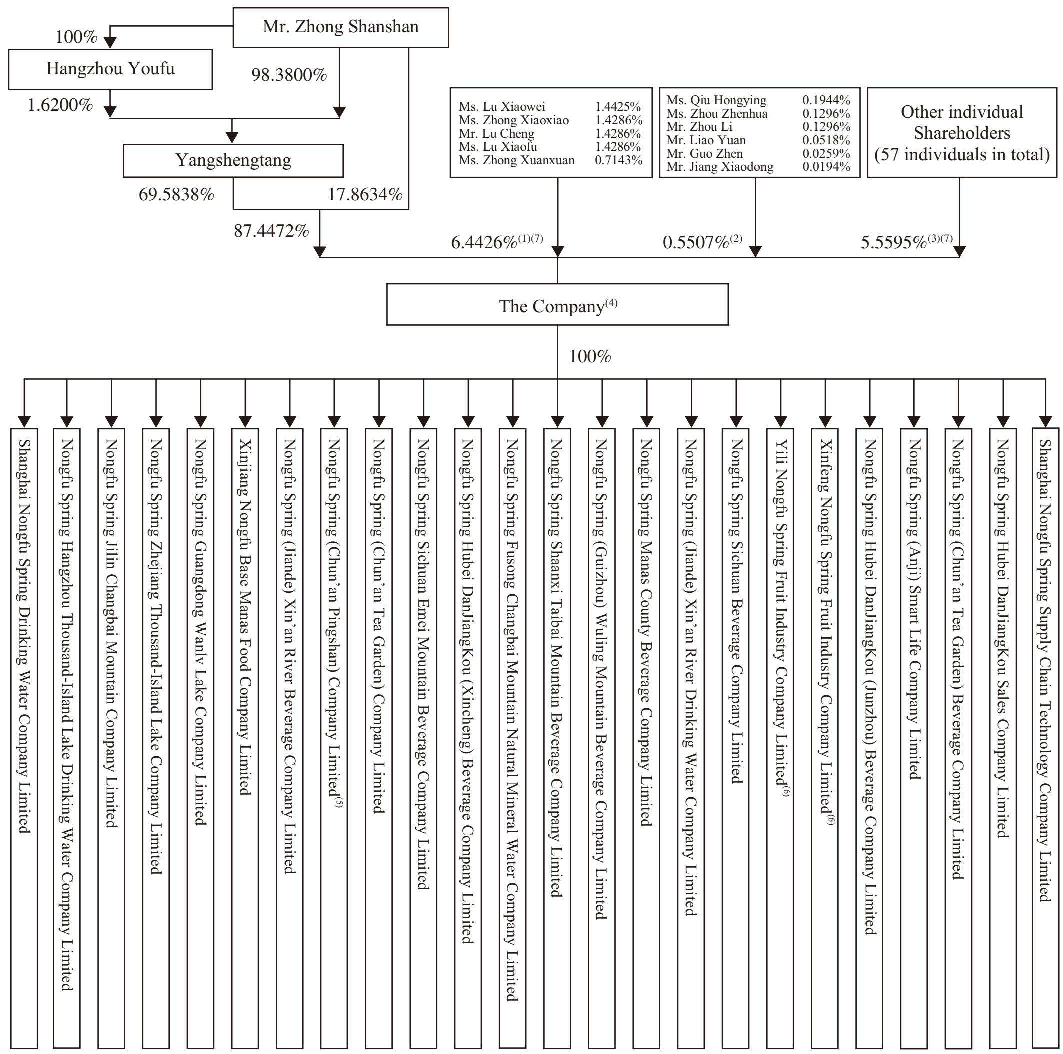
Based on the due diligence work conducted by the Joint Sponsors, nothing has come to the Joint Sponsors' attention that would reasonably cause the Joint Sponsors to disagree with the Directors' view above.

REASONS FOR THE LISTING

The Company is seeking listing on the Hong Kong Stock Exchange in order to optimize our shareholding structure, lay a foundation for the development of our international business, further improve our level of corporate governance and enhance our comprehensive competitive strengths. See "Business – Development Strategies" and "Future Plans and Use of Proceeds."

OUR STRUCTURE IMMEDIATELY PRIOR TO THE GLOBAL OFFERING

The following chart illustrates the shareholding structure and simplified corporate structure of the Group immediately prior to the completion of the Global Offering:



Notes:

(1) As of the Latest Practicable Date, each of Ms. Lu Xiaowei, Ms. Zhong Xiaoxiao, Mr. Lu Cheng, Ms. Lu Xiaofu and Ms. Zhong Xuanxuan was an associate of Mr. Zhong Shanshan, among whom, Ms. Lu Xiaowei was an elder sister of Ms. Lu Xiaoping (Mr. Zhong Shanshan's wife) and a director and the general manager of Yangshengtang, Ms. Zhong Xiaoxiao was the younger sister of Mr. Zhong Shanshan, Mr. Lu Cheng was an elder brother of Mr. Lu Xiaoping, Ms. Lu Xiaofu was an elder sister of Ms. Lu Xiaoping, and Ms. Zhong Xuanxuan was an elder sister of Mr. Zhong Shanshan. The sources of funding of acquisitions of Shares by Ms. Lu Xiaowei, Ms. Zhong Xiaoxiao, Mr. Lu Cheng, Ms. Lu Xiaofu and Ms. Zhong Xuanxuan were all their respective personal funding. These Shareholders will become public Shareholders upon the Listing, except Ms. Lu Xiaowei, who has entrusted the voting power of her shareholding in the Company (approximately 1.3925% upon the completion of the Global Offering assuming the Over-allotment Option is not exercised) to Mr. Zhong Shanshan and therefore, her shareholding will not be regarded as public under the Listing Rules.

(2) As of the Latest Practicable Date, each of Mr. Guo Zhen, Mr. Zhou Li, Ms. Zhou Zhenhua and Mr. Liao Yuan was a Director and also a core connected person of the Company, Ms. Qiu Hongying was a Supervisor and also a core connected person of the Company, and Mr. Jiang Xiaodong was the supervisor of certain subsidiaries and also a core connected person of the Company. H Shares to be held by these Shareholders will not be counted into our public float upon the Listing.

(3) As of the Latest Practicable Date, these individual Shareholders and their respective shareholding percentages in the Company were approximately: Hong Yi (0.7467%), Hong Weiya (0.7467%), Hong Weigang (0.7467%), Lu Geng (0.6350%), Lu Xiaozhen (0.6350%),Wang Pingyu (0.1944%), Lu Yinzhi (0.1587%), Hong Xiaoci (0.1409%), Xue Lian (0.1296%),Wei Tieli (0.0972%), Ding Jinglin (0.0972%), Xie Haihua (0.0972%), Ji Deping (0.0648%), Yu Shuhua (0.0648%), Gao Hong (0.0648%), Cao Limin (0.0648%), Jiang Junxiong (0.0648%), Xu Xiaoping (0.0648%), Ni Jiankang (0.0648%), Li Feng (0.0648%), Zhong Jigang (0.0518%), Jiang Minfan (0.0324%), Shi Guorong (0.0324%), Liu Weiqing (0.0324%), Yu Siyan (0.0324%), Ding Yubing (0.0324%), Yang Yunsong (0.0324%), Ren Yueping (0.0324%), Hong Yuling (0.0324%), Shen Yi (0.0259%), Song Peiqin (0.0259%), Xu Bin (0.0194%), Cheng Yongjun (0.0194%), Wu Chaochao (0.0194%), Huang Chuncheng (0.0194%), Wei Zhongming (0.0194%), Li Dehong (0.0130%), Huang Huicheng (0.0130%), Huang Huimin (0.0130%), Chen Weidong (0.0065%), Zheng Yueming (0.0065%), Wang Qinlang (0.0065%), Wu Ping (0.0065%), Feng Fang (0.0065%), Li Jun (0.0065%), Jin Zhigang (0.0065%), Li Qiang (0.0065%), Pan Xiaobing (0.0065%), Fang Qiang (0.0065%), He Baosui (0.0065%), Wang Zhetao (0.0065%), Chen Zhengguang (0.0065%), Ye Cuizhu (0.0065%), Chen Qiurong (0.0065%), Luo Shuhang (0.0065%), Cai Zi (0.0065%) and Luo Jiachun (0.0065%), respectively. Mr. Lu Geng is the son of Mr. Lu Shen (Ms. Lu Xiaoping's elder brother), Ms. Lu Xiaozhen is the wife of Mr. Lu Shen and Ms. Lu Yinzhi is the daughter of Mr. Lu Shen. The 57 individual shareholders include:

(1) 23 current and former employees of the Company;

(2) 20 current and former employees of Yangshengtang;

(3) seven consultants of the Company and/or Yangshengtang, among whom, four individuals were former employees of the Company and/or Yangshengtang, who still provide consultancy services such as analysis on the trend of economy, internal control, customer services and relationship, recommendation of candidates for positions relating to production, and equipment and engineering, and the other three individuals provide consultancy services such as water sources exploration, market research and media relations. These seven individuals firstly became our Shareholders in 2007, 2008, 2019 or 2020, as the case may be;

(4) four inheritors of Mr. Hong Mengxue, an individual who made outstanding contributions to the Group and passed away in July 2015, among whom, each of Ms. Hong Yi, Ms. Hong Weiya and Mr. Hong Weigang is a child of Mr. Hong Mengxue and became our Shareholder in 2007, and Ms. Hong Xiaoci is a daughter of Mr. Hong Weigang and became our Shareholder in 2016;

(5) two relatives of Mr. Zhong Shanshan's wife, who are current employees of the Company; and

(6) one relative of Mr. Zhong Shanshan's wife.

None of them was a core connected person of the Company or senior management of the Group and held more than 1% of the issued share capital of the Company as at the Latest Practicable Date. As of the Latest Practicable Date, each of such individual Shareholders was an independent third party of the Company and was not an associate of Mr. Zhong Shanshan. These Shareholders will become public Shareholders upon the Listing.

(4) The subsidiaries set out in the chart above are our principal subsidiaries as of the Latest Practicable Date. For scope of our principal subsidiaries as of the Latest Practicable Date, see Note 1 to "Appendix I – Accountants' Report." For details of all of our subsidiaries as of the Latest Practicable Date, see "Appendix VI – Statutory and General Information – Further Information about the Company – Subsidiaries."

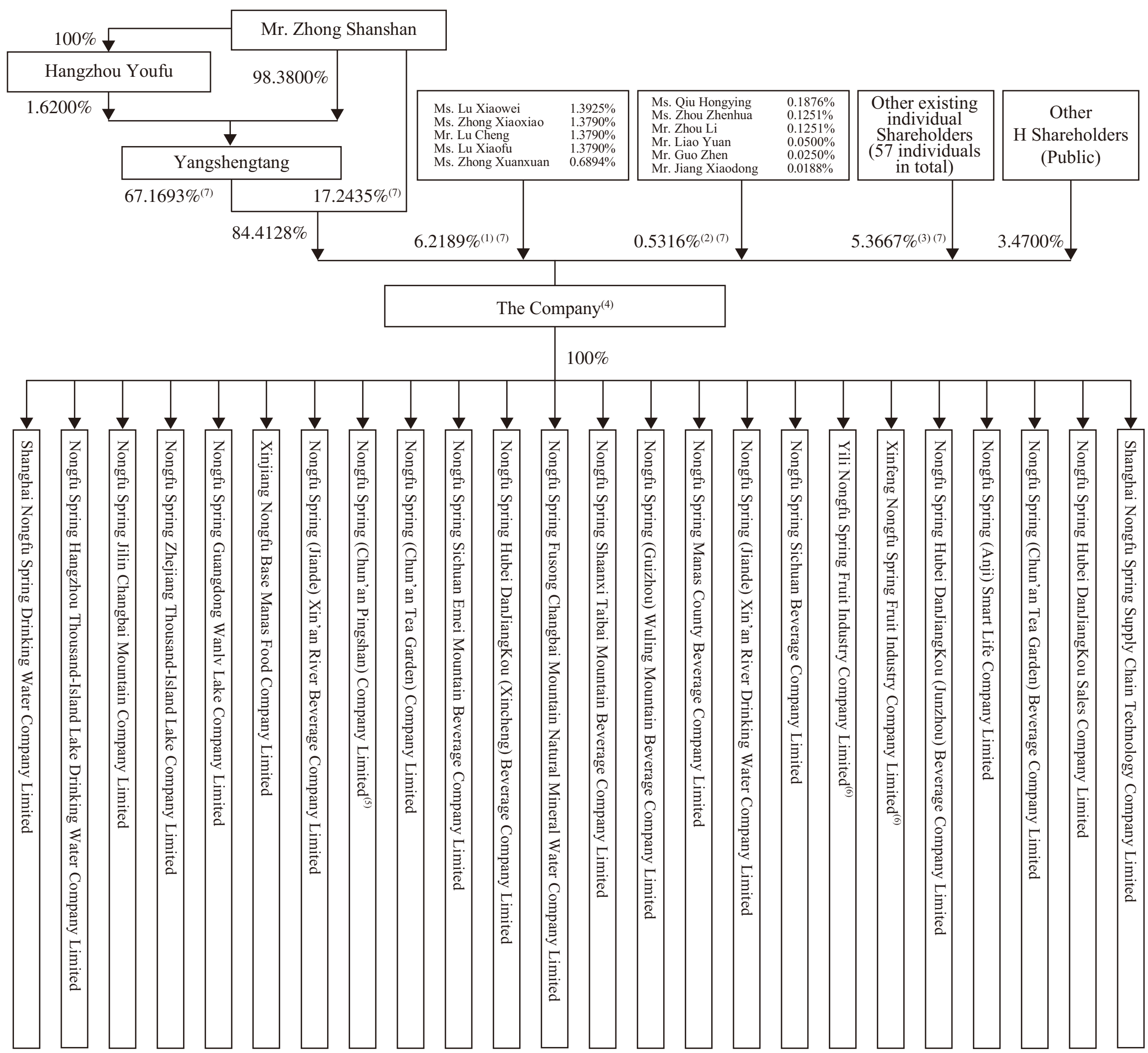
(5) As of the Latest Practicable Date, the Company held 100% equity interest in Nongfu Spring (Chun'an Pingshan) Company Limited (農夫山泉(淳安坪山)有限公司), including 95% direct interest and 5% indirect interest through our direct wholly-owned subsidiary, Nongfu Spring Zhejiang Thousand-Island Lake Company Limited (農夫山泉浙江千島湖有限公司).

(6) As of the Latest Practicable Date, the Company, through its direct wholly-owned subsidiary, Nongfu Industrial Development, held 100% equity interests in Yili Nongfu Spring Fruit Industry Company Limited (伊犁農夫山泉果業有限公司) and Xinfeng Nongfu Spring Fruit Industry Company Limited (信豐農夫山泉果業有限公司), respectively.

(7) Among Ms. Lu Xiaowei, Ms. Zhong Xiaoxiao, Mr. Lu Cheng, Ms. Lu Xiaofu, Ms. Zhong Xuanxuan and the other 57 individual Shareholders, 27 individuals (including Ms. Lu Xiaowei, Ms. Zhong Xiaoxiao, Mr. Lu Cheng, Ms. Lu Xiaofu and Ms. Zhong Xuanxuan) became our Shareholders in 2007 and 2008 by way of share transfer and/or subscription of new Shares issued during the increase of share capital of the Company (as the case may be), one individual became our Shareholder in 2016 by way of inheritance, and 34 individuals became our Shareholders in 2019 and 2020 by way of inheritance or share transfer (as the case may be).

OUR STRUCTURE IMMEDIATELY FOLLOWING THE GLOBAL OFFERING

The following chart illustrates the shareholding structure and simplified corporate structure of the Group immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised):



Notes:

(1) As of the Latest Practicable Date, each of Ms. Lu Xiaowei, Ms. Zhong Xiaoxiao, Mr. Lu Cheng, Ms. Lu Xiaofu and Ms. Zhong Xuanxuan was an associate of Mr. Zhong Shanshan, among whom, Ms. Lu Xiaowei was an elder sister of Ms. Lu Xiaoping (Mr. Zhong Shanshan's wife) and a director and the general manager of Yangshengtang, Ms. Zhong Xiaoxiao was the younger sister of Mr. Zhong Shanshan, Mr. Lu Cheng was an elder brother of Mr. Lu Xiaoping, Ms. Lu Xiaofu was an elder sister of Ms. Lu Xiaoping, and Ms. Zhong Xuanxuan was an elder sister of Mr. Zhong Shanshan. The sources of funding of acquisitions of Shares by Ms. Lu Xiaowei, Ms. Zhong Xiaoxiao, Mr. Lu Cheng, Ms. Lu Xiaofu and Ms. Zhong Xuanxuan were all their respective personal funding. These Shareholders will become public Shareholders upon the Listing, except Ms. Lu Xiaowei, who has entrusted the voting power of her shareholding in the Company (approximately 1.3925% upon the completion of the Global Offering assuming the Over-allotment Option is not exercised) to Mr. Zhong Shanshan and therefore, her shareholding will not be regarded as public under the Listing Rules.

(2) As of the Latest Practicable Date, each of Mr. Guo Zhen, Mr. Zhou Li, Ms. Zhou Zhenhua and Mr. Liao Yuan was a Director and also a core connected person of the Company, Ms. Qiu Hongying was a Supervisor and also a core connected person of the Company, and Mr. Jiang Xiaodong was the supervisor of certain subsidiaries and also a core connected person of the Company. H Shares to be held by these Shareholders will not be counted into our public float upon the Listing.

(3) Immediately upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised), these individual Shareholders and their respective shareholding percentages in the Company were approximately: Hong Yi (0.7208%), Hong Weiya (0.7208%), Hong Weigang (0.7208%), Lu Geng (0.6129%), Lu Xiaozhen (0.6128%), Wang Pingyu (0.1876%), Lu Yinzhi (0.1532%), Hong Xiaoci (0.1360%), Xue Lian (0.1251%), Wei Tieli (0.0938%), Ding Jinglin (0.0938%), Xie Haihua (0.0938%), Ji Deping (0.0625%), Yu Shuhua (0.0625%), Gao Hong (0.0625%), Cao Limin (0.0625%), Jiang Junxiong (0.0625%), Xu Xiaoping (0.0625%), Ni Jiankang (0.0625%), Li Feng (0.0625%), Zhong Jigang (0.0500%), Jiang Minfan (0.0313%), Shi Guorong (0.0313%), Liu Weiqing (0.0313%),Yu Siyan (0.0313%), DingYubing (0.0313%),YangYunsong (0.0313%), RenYueping (0.0313%), HongYuling (0.0313%), Shen Yi (0.0250%), Song Peiqin (0.0250%), Xu Bin (0.0188%), Cheng Yongjun (0.0188%), Wu Chaochao (0.0188%), Huang Chuncheng (0.0188%), Wei Zhongming (0.0188%), Li Dehong (0.0125%), Huang Huicheng (0.0125%), Huang Huimin (0.0125%), Chen Weidong (0.0063%), Zheng Yueming (0.0063%), Wang Qinlang (0.0063%), Wu Ping (0.0063%), Feng Fang (0.0063%), Li Jun (0.0063%), Jin Zhigang (0.0063%), Li Qiang (0.0063%), Pan Xiaobing (0.0063%), Fang Qiang (0.0063%), He Baosui (0.0063%), Wang Zhetao (0.0063%), Chen Zhengguang (0.0063%), Ye Cuizhu (0.0063%), Chen Qiurong (0.0063%), Luo Shuhang (0.0063%), Cai Zi (0.0063%) and Luo Jiachun (0.0063%), respectively. Mr. Lu Geng is the son of Mr. Lu Shen (Ms. Lu Xiaoping's elder brother), Ms. Lu Xiaozhen is the wife of Mr. Lu Shen and Ms. Lu Yinzhi is the daughter of Mr. Lu Shen. The 57 individual shareholders include:

(1) 23 current and former employees of the Company;

(2) 20 current and former employees of Yangshengtang;

(3) seven consultants of the Company and/or Yangshengtang, among whom, four individuals were former employees of the Company and/or Yangshengtang, who still provide consultancy services such as analysis on the trend of economy, internal control, customer services and relationship, recommendation of candidates for positions relating to production, and equipment and engineering, and the other three individuals provided consultancy services such as water sources exploration, market research and media relations. Such seven individuals firstly became our Shareholders in 2007, 2008, 2019 or 2020, as the case may be;

(4) four inheritors of Mr. Hong Mengxue, an individual who made outstanding contributions to the Group and passed away in July 2015, among whom, each of Ms. Hong Yi, Ms. Hong Weiya and Mr. Hong Weigang is a child of Mr. Hong Mengxue and became our Shareholder in 2007, and Ms. Hong Xiaoci is a daughter of Mr. Hong Weigang and became our Shareholder in 2016;

(5) two relatives of Mr. Zhong Shanshan's wife, who are current employees of the Company; and

(6) one relative of Mr. Zhong Shanshan's wife.

None of them was a core connected person of the Company or senior management of the Group and held more than 1% of the issued share capital of the Company as at the Latest Practicable Date. As of the Latest Practicable Date, each of such individual Shareholders was an independent third party of the Company and was not a close associate of Mr. Zhong Shanshan. These Shareholders will become public Shareholders upon the Listing.

(4) The subsidiaries set out in the chart above are our principal subsidiaries as of the Latest Practicable Date. For scope of our principal subsidiaries as of the Latest Practicable Date, see Note 1 to "Appendix I – Accountants' Report." For details of all of our subsidiaries as of the Latest Practicable Date, see "Appendix VI – Statutory and General Information – Further Information about the Company – Subsidiaries."

(5) As of the Latest Practicable Date, the Company held 100% equity interest in Nongfu Spring (Chun'an Pingshan) Company Limited (農夫山泉(淳安坪山)有限公司), including 95% direct interest and 5% indirect interest through our direct wholly-owned subsidiary, Nongfu Spring Zhejiang Thousand-Island Lake Company Limited (農夫山泉浙江千島湖有限公司).

(6) As of the Latest Practicable Date, the Company, through its direct wholly-owned subsidiary, Nongfu Industrial Development, held 100% equity interests in Yili Nongfu Spring Fruit Industry Company Limited (伊犁農夫山泉果業有限公司) and Xinfeng Nongfu Spring Fruit Industry Company Limited (信豐農夫山泉果業有限公司), respectively.

(7) Immediately upon the completion of the Global Offering, 1,303,252,410 Shares held by Yangshengtang (representing approximately 11.6484% of the share capital of the Company immediately upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised)) and 3,284,947,590 Shares (representing approximately 29.3607% of the share capital of the Company immediately upon the completion of the Global Offering (assuming the Over-allotment Option is not exercised)) held by these individual Shareholders will be converted into H Shares. Such Conversion of Domestic Shares into H Shares has been approved by the CSRC on July 24, 2020 and is still subject to the approval by the Hong Kong Stock Exchange.

Certain information and statistics set out in this section and elsewhere in this prospectus relating to the soft beverage market in China are derived from the market research report prepared by Frost & Sullivan, an independent industry consultant which was commissioned by us (the "F&S Report"). We have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false or misleading in any material respect.

No independent verification has been carried out on such information and statistics by us, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other parties involved in the Global Offering or their respective directors, officers, employees, advisers, or agents (excluding Frost & Sullivan), and no representation is given as to the accuracy or completeness of such information and statistics.

OVERVIEW OF SOFT BEVERAGE MARKET IN CHINA

Overview

China is one of the largest soft beverage markets in the world. According to the F&S Report, the market size of the soft beverage market in China was RMB991.4 billion in terms of retail sales value in 2019, representing a CAGR of 5.9% from 2014 to 2019. Driven by accelerating urbanization process, increasing disposable income and consumption upgrade, the soft beverage market in China will continue to grow and the CAGR is expected to remain at 5.9% from 2019 to 2024. The market size of the soft beverage market in China is expected to amount to RMB1,323.0 billion by 2024.

According to the F&S Report, soft beverage products are divided into ten major categories. Ranked in descending order in terms of the market size in 2019, they are (i) packaged drinking water, (ii) protein beverage, (iii) juice beverage, (iv) functional beverage, (v) solid beverage, (vi) carbonated beverage, (vii) tea beverage, (viii) botanical beverage, (ix) flavored beverage and (x) coffee beverage, according to the F&S Report. Among these categories, packaged drinking water, which had been the largest category in terms of retail sales value, reached a market size of RMB201.7 billion in 2019. Coffee beverage, functional beverage and packaged drinking water were the three categories with the highest CAGR in market size from 2014 to 2019, being 29.0%, 14.0% and 11.0%, respectively. This trend is expected to continue from 2019 to 2024. The CAGR of coffee beverage, functional beverage and packaged drinking water is expected to reach 20.8%, 9.4% and 10.8%, respectively, from 2019 to 2024.

The table below sets forth the breakdown of market size of the soft beverage market in China from 2014 to 2024 by category.

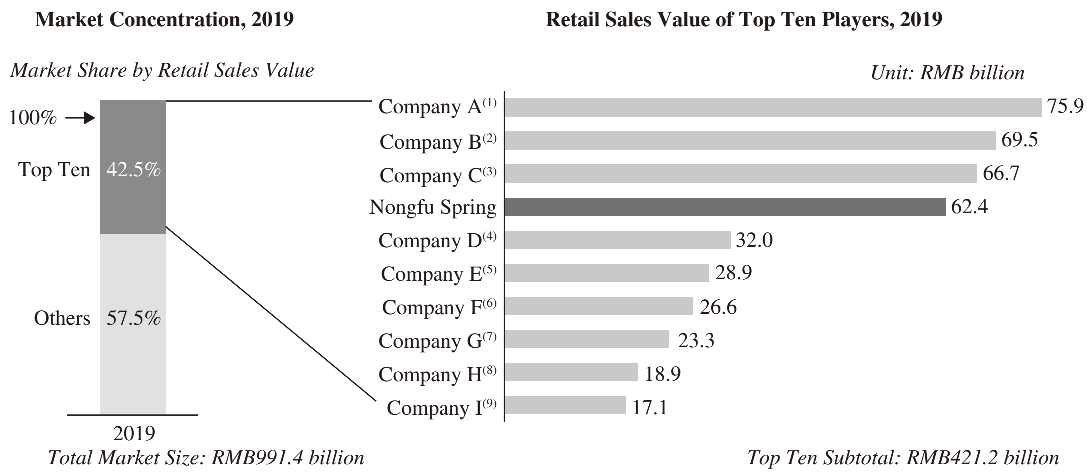
	Retail Sales Value			CAGR	
	2014	2019	2024E	2014-2019	2019-2024E
	(RMB billion)	(RMB billion)	(RMB billion)	%	%
Total for soft beverage	743.3	991.4	1,323.0	5.9%	5.9%
Packaged drinking water	119.6	201.7	337.1	11.0%	10.8%
Protein beverage	124.3	147.4	174.6	3.5%	3.4%
Juice beverage	127.5	143.5	160.3	2.4%	2.2%
Functional beverage	58.1	111.9	175.6	14.0%	9.4%
Solid beverage	82.1	91.3	95.6	2.1%	0.9%
Carbonated beverage	78.8	88.5	98.4	2.3%	2.1%
Tea beverage	65.3	78.7	93.6	3.8%	3.5%
Botanical beverage	51.0	69.1	93.2	6.3%	6.2%
Flavored beverage	31.8	44.4	58.5	6.9%	5.7%
Coffee beverage	3.7	13.2	34.0	29.0%	20.8%
Other beverage	1.1	1.7	2.1	9.1%	4.3%

Competitive Landscape

According to the F&S Report, the market concentration of the soft beverage market in China is relatively low. The top ten players only occupied an aggregate market share of 42.5% in terms of retail sales value in 2019, in which the top four players have significantly higher retail sales value than the others and they occupied an aggregate market share of 27.7%.

The chart below sets forth the details of market concentration, market shares and retail sales value of the top ten players of the soft beverage market in China in 2019.

Top Ten Players in China's Soft Beverage Market, 2019



Notes:

(1) Established in 1982 in the U.S., Company A is a listed beverage company.

(2) Established in 1987 in Hangzhou, Zhejiang Province, Company B is a non-listed company owning beverage companies in China.

(3) Established in 1958 in Taiwan, Company C is a listed food and beverage company.

(4) Established in 1984 in Beijing, Company D is a non-listed beverage company.

(5) Established in 1866 in Switzerland, Company E is a listed food and beverage company.

(6) Established in 1938 in Hong Kong, Company F is a non-listed beverage company.

(7) Established in 1967 in Taiwan, Company G is a listed food and beverage company.

(8) Established in 1999 in Hohhot, Inner Mongolia, Company H is a listed beverage company.

(9) Established in 1989 in Quanzhou, Fujian Province, Company I is a listed food and beverage company.

PACKAGED DRINKING WATER MARKET IN CHINA

Overview

According to the F&S Report, the market size of the packaged drinking water was RMB201.7 billion in terms of retail sales value in 2019. Packaged drinking water is divided into four subcategories, namely:

- Natural water, which primarily originates from wells, mountain springs, reservoirs, lakes, alpine glaciers or underground sources (springs).
- Natural mineral water, which contains a certain amount of minerals or trace elements and emerges automatically from deep beneath the ground or is harvested after drilling.
- Purified drinking water, which is derived from the ground, underground or public water supply system, and contains no minerals or trace elements.
- Other drinking water, which is the drinking water apart from natural water, natural mineral water or purified drinking water, and a certain amount of minerals could be artificially added.

No restriction is imposed on the source of purified drinking water, which is currently the largest category of packaged drinking water in terms of market size. The retail sales value of purified drinking water accounted for 60.4% of the aggregate retail sales value of packaged drinking water in 2019. According to the F&S Report, with a growing health awareness and consumption power of Chinese consumers, natural water and natural mineral water have become the fastest-growing categories of packaged drinking water in recent years. Such two categories had a CAGR of 29.1% and 19.0%, respectively, from 2014 to 2019 and a market size of RMB44.1 billion and RMB15.5 billion, respectively, in terms of retail sales value in 2019. It is expected that the trend will continue. The CAGR of natural water and natural mineral water is expected to be 15.2% and 14.1% from 2019 to 2024.

The table below sets forth the breakdown of market size of the packaged drinking water market in China from 2014 to 2024 by category.

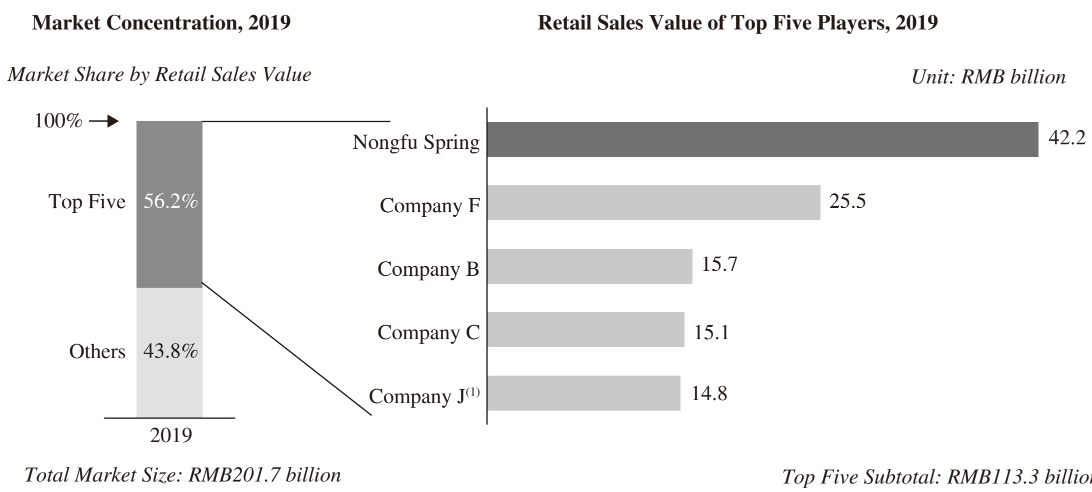
	Retail Sales Value			**CAGR**	
	2014	**2019**	**2024E**	**2014-2019**	**2019-2024E**
	(RMB billion)	**(RMB billion)**	**(RMB billion)**	**%**	**%**
Total for packaged drinking water	119.6	201.7	337.1	11.0%	10.8%
Natural water	12.3	44.1	89.3	29.1%	15.2%
Natural mineral water	6.5	15.5	30.0	19.0%	14.1%
Purified drinking water	65.5	119.1	207.3	12.7%	11.7%
Other drinking water	35.3	23.0	10.5	(8.2%)	(14.5%)

Competitive Landscape

According to the F&S Report, the packaged drinking water market in China is relatively concentrated. The top five players occupied an aggregate market share of 56.2% in terms of retail sales value in 2019. The largest player, Nongfu Spring, had a distinctive leading position. Its retail sales value was more than one and half times of the retail sales value of the second largest player in 2019.

The chart below sets forth the details of market concentration, market shares and retail sales value of the top five players of the packaged drinking water market in China in 2019.

Top Five Players in China's Packaged Drinking Water Market, 2019



Note:

(1) Established in 1992 in Shenzhen, Guangdong Province, Company J is a non-listed beverage company.

TEA BEVERAGE MARKET IN CHINA

Overview

According to the F&S Report, the market size of the tea beverage market in China was RMB78.7 billion in terms of retail sales value in 2019. Tea beverage is divided into sugar-free tea beverage and sugar-sweetened tea beverage. The market size of sugar-sweetened tea beverage is greater, with the retail sales value accounting for 94.8% of the aggregate retail sales value of tea beverage in 2019. Driven by the increasing awareness of the health of Chinese consumers, the retail sales value of sugar-free tea beverage has grown rapidly. Its market share is expected to increase to 12.3% in 2024.

The table below sets forth the breakdown of market size of the tea beverage market in China from 2014 to 2024 by category.

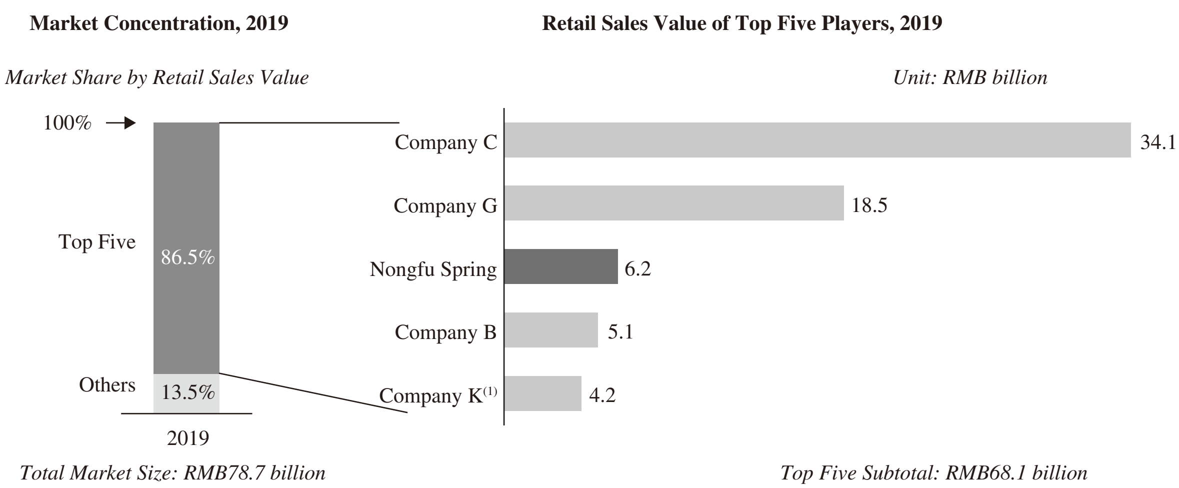
	Retail Sales Value			CAGR	
	2014	2019	2024E	2014-2019	2019-2024E
	(RMB billion)	(RMB billion)	(RMB billion)	%	%
Total for tea beverage	65.3	78.7	93.6	3.8%	3.5%
Sugar-sweetened tea beverage	64.3	74.6	82.1	3.0%	1.9%
Sugar-free tea beverage	1.0	4.1	11.5	32.6%	22.9%

Competitive Landscape

According to the F&S Report, the market concentration of the tea beverage market in China is relatively high. The top five players occupied an aggregate market share of 86.5% in terms of retail sales value in 2019.

The chart below sets forth the details of market concentration, market shares and retail sales value of the top five players of the tea beverage market in China in 2019.

Top Five Players in China's Tea Beverage Market, 2019



Note:

(1) Established in 1940 in Hong Kong, Company K is a listed beverage company.

JUICE BEVERAGE MARKET IN CHINA

Overview

According to the F&S Report, the market size of the juice beverage market in China was RMB143.5 billion in terms of retail sales value in 2019. Juice beverage has three levels of concentration: pure juice (with 100% juice concentration), medium concentration juice (with juice concentration from 30% to 99%) and low concentration juice (with juice concentrations from 5% to 29%). The market share of low concentration juice is the largest. The retail sales value of low concentration juice accounted for 75.3% of the aggregate retail sales value of juice beverage in 2019. According to the F&S Report, driven by the rising disposable income and increasing awareness of the health of consumers, the retail sales value of pure juice and medium concentration juice grew at a CAGR of 12.9% and 9.4%, respectively, from 2014 to 2019, which were far higher than the CAGR of 0.4% of low concentration juice during the same period. It is expected that the growth rate of retail sales value of pure juice and medium concentration juice will further increase. The market size of pure juice and medium concentration juice is expected to grow at a CAGR of 9.8% and 6.6%, respectively, in terms of retail sales value from 2019 to 2024.

The table below sets forth the breakdown of the market size of the juice beverage market in China from 2014 to 2024 by category.

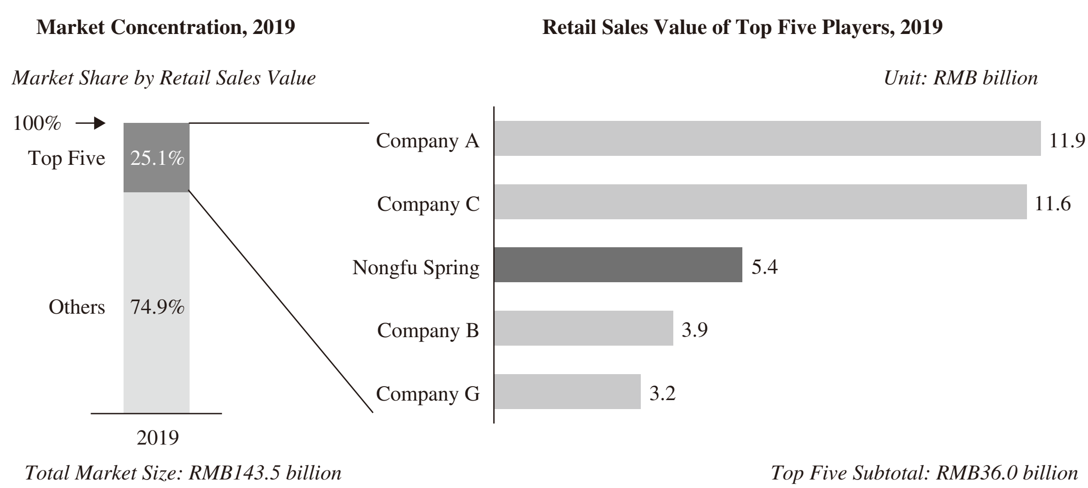
	Retail Sales Value			CAGR	
	2014	2019	2024E	2014-2019	2019-2024E
	(RMB Billion)	(RMB Billion)	(RMB Billion)	%	%
Total for juice beverage	127.5	143.5	160.3	2.4%	2.2%
Pure juice	5.4	9.9	15.8	12.9%	9.8%
Medium concentration juice	16.3	25.5	35.1	9.4%	6.6%
Low concentration juice	105.8	108.1	109.4	0.4%	0.2%

Competitive Landscape

According to the F&S Report, the market concentration of the juice beverage market in China is relatively low. The top five players only occupied an aggregate market share of 25.1% in terms of retail sales value in 2019.

The chart below sets forth the details of market concentration, market shares and retail sales value of the top five players of the juice beverage market in China in 2019.

Top Five Players in China's Juice Beverage Market, 2019



FUNCTIONAL BEVERAGE MARKET IN CHINA

Overview

According to the F&S Report, the market size of the functional beverage market in China was RMB111.9 billion in terms of retail sales value in 2019. Functional beverage mainly includes energy beverage, sports beverage and nutritional beverage. The market size of energy beverage is the largest. The retail sales value of energy beverage accounted for 70.2% of the aggregate retail sales value of functional beverage in 2019. According to the F&S Report, the retail sales value of energy beverage, sports beverage and nutritional beverage grew at a CAGR of 14.4%, 15.1% and 11.1%, respectively, from 2014 to 2019. The trend is expected to continue from 2019 to 2024, with the market size of energy beverage, sports beverage and nutritional beverage growing at a CAGR of 9.7%, 9.6% and 7.6%, respectively.

The table below sets forth the breakdown of the market size of the functional beverage market in China from 2014 to 2024 by category.

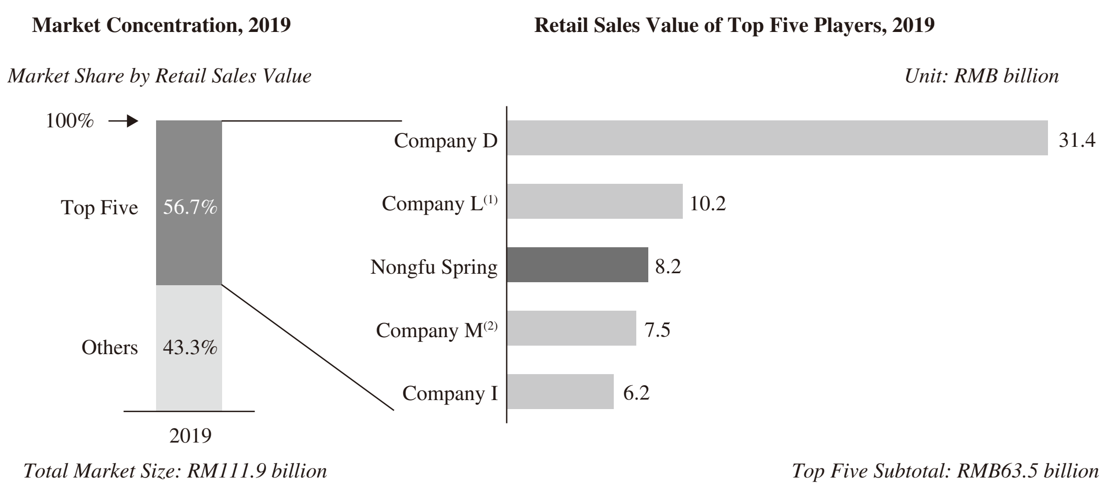
	Retail Sales Value			CAGR	
	2014	2019	2024E	2014-2019	2019-2024E
	(RMB billion)	(RMB billion)	(RMB billion)	%	%
Total for functional beverage	58.1	111.9	175.6	14.0%	9.4%
Sports beverage	6.2	12.5	19.8	15.1%	9.6%
Nutritional beverage	9.4	15.9	22.9	11.1%	7.6%
Energy beverage	40.1	78.6	124.6	14.4%	9.7%
Other functional beverage	2.4	4.9	8.3	15.3%	11.1%

Competitive Landscape

According to the F&S Report, the functional beverage market in China is relatively concentrated. The top five players occupied an aggregate market share of 56.7% in terms of retail sales value in 2019.

The chart below sets forth the details of market concentration, market shares and retail sales value of top five players of the functional beverage market in China in 2019.

Top Five Players in China's Functional Beverage Market, 2019



Notes:

(1) Established in 1966 in France, Company L is a listed food and beverage company.

(2) Established in 1987 in Shenzhen, Guangdong Province, Company M is a non-listed beverage company.

MARKET DRIVERS AND FUTURE TRENDS

- *Growing health awareness.* With the growing health awareness, consumers are inclining to select (i) packaged drinking water derived from high-quality natural water sources and containing natural minerals, and (ii) beverage products with low calories and less sugar.

- *Consumption upgrade*. With the increasing income level and purchasing power, when selecting products, consumers become less sensitive to price and pay more attention to product quality, taste and convenience. They are willing to purchase more high-quality products due to their increasingly diversified demands.

- *Accelerating urbanization*. The urbanization helps the increase in income level and aligns people's consumption habits with those of urban citizens, which effectively drives consumers' demand for high-quality products. The urbanization also provides consumers more channels to purchase products.

- *Increasingly diversified sales channels*. The increasingly diversified sales channels, such as convenience stores, e-commerce platforms and vending machines, make it more convenient for consumers to purchase products and therefore have raised the consumption frequency of products.

ENTRY BARRIERS

- *Scarcity of water resources*. High-quality natural water resources suitable for drinking water business are limited in China. Some of them have been discovered and utilized by packaged drinking water companies, which makes it less easy to have access to water resources.

- *Sufficient capital*. Soft beverage business requires significant capital for investment in production equipment and facilities, development of sales channels and brand building. Economies of scale may not be achieved if there is limited capital.

- *Brand awareness*. Consumers in China tend to choose products of well-known brands. With the increasing personalized consumption and more diversified brand promotion channels, it is more difficult for new soft beverage companies to establish brand awareness.

- *Sales and distribution network*. The distribution of products depends significantly on the coverage capability and execution efficiency of the sales and distribution network. New soft beverage companies may find themselves in a disadvantageous position when it comes to the establishment of an extensive distributor network and effective collaboration with distributors.

- *Production technology and product formulae*. Production technology is key to the production efficiency, cost management and product quality for soft beverage companies. New soft beverage companies may not have such research and development ability and production technology accumulated. Product formulae greatly affect the taste of products and, as a result, the consumer recognition of such products.

SALES CHANNELS

According to the F&S Report, soft beverage companies primarily rely on distributors to reach a broad base of customers. The sales channels of the soft beverage market in China are divided into five major categories, namely:

- Traditional channel, which primarily includes small grocery stores and non-chained convenience stores. These stores are commonly owned and operated by individual entrepreneurs or households.

- Modern channel, which primarily includes shopping malls, supermarkets and chained convenience stores.

- Catering channel, which primarily refers to the catering service providers.

- E-commerce channel, which primarily refers to the online sales platforms.

- Other channels, which primarily include specialty channels and new retail channels represented by vending machines. Specialty channels primarily include air transportation, train stations, gas stations and highway service areas.

According to the F&S Report, based on the scale in terms of retail sales value in 2019, the main channels are ranked in descending order as follows: (i) traditional channel, (ii) modern channel, (iii) catering channel, (iv) other channels and (v) e-commerce channel. The traditional channel and the modern channel accounted for 44.0% and 22.3% of the overall market, respectively. Evolving sales channels like e-commerce channel and other channels also contributed to the growth of the overall market in the past few years.

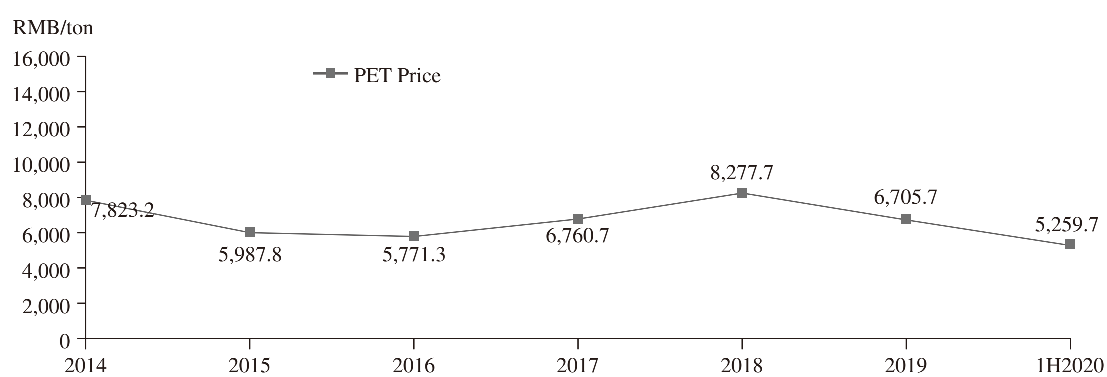
The table below sets forth the breakdown of market size of the overall soft beverage market in China from 2014 to 2024 by sales channel.

	Retail Sales Value			**CAGR**	
	2014	**2019**	**2024E**	**2014-2019**	**2019-2024E**
	(RMB billion)	**(RMB billion)**	**(RMB billion)**	**%**	**%**
Total for soft beverage	743.3	991.4	1,323.0	5.9%	5.9%
Traditional channel	367.2	436.7	498.5	3.5%	2.7%
Modern channel	151.5	221.4	325.9	7.9%	8.0%
Catering channel	101.7	141.9	197.6	6.9%	6.8%
E-commerce channel	33.2	60.9	109.7	12.9%	12.5%
Other channels	89.7	130.5	191.3	7.8%	7.9%

RAW MATERIALS

PET is the most important raw material for the packaging of soft beverage products. The chart below sets forth the yearly average price[(1)] of PET in China from 2014 to 1H2020.

Average Price of PET (China), 2014-1H2020



Note:

(1) Average price refers to the annual average ex-factory price, excluding VAT.

WATER UTILIZATION IN THE PRODUCTION

Water utilized in the production of packaged drinking water products and beverage products primarily includes process water, cleaning water and cooling water for production equipment.

The Norm of Water Intake for Beverage Manufacture (QB/T 2931-2008) was an industry standard drafted by the Technical Committee of China Beverage Industry Association and some beverage companies, proposed by China National Light Industry Council and promulgated by the NDRC. It uses the ratio of water utilized divided by final product output to reflect the water conservation level of a beverage company. It is a non-profit standard based on the data from 180 samples in an investigation of the water extraction conditions of carbonated beverage, packaged drinking water, concentrated apple juice, milk-containing beverage, tea beverage and juice beverages of around 60 beverage companies. A beverage company shall take water following the Norm of Water Intake for Beverage Manufacture which is a major indicator to evaluate the water conservation level of a beverage company. It may be also used as a supplementary indicator for managing daily water consumption by a beverage company. There are three levels under the Norm of Water Intake for Beverage Manufacture, namely Level I (international-leading level), Level II (domestic-leading level) and Level III (domestic-general level). The table below sets forth the details of water conservation level by product category.

	Water Conservation Level		
	Level I (international-leading level)	**Level II (domestic-leading level)**	**Level III (domestic-general level)**
Packaged drinking water (excluding natural mineral water)	2.0	2.5	3.4
Natural mineral water	1.6	1.8	2.0
Tea beverage	2.5	3.5	5.0
Functional beverage	2.5	3.0	5.0
Juice beverage	2.5	3.0	4.5

GLOBAL TREND IN REDUCING USE OF PLASTICS AND OTHER PACKAGING MATERIALS

With the increasing awareness on environmental protection, there has been a growing trend in reducing the use of plastics and other non-recyclable packaging materials in various industries, including the soft beverage market, around the world. Many countries have taken efforts to reduce the use of single-use plastics by promulgating regulations or carrying out relevant plans. As a result, leading soft beverage companies are making efforts to improve the raw material utilization ratio of plastics in product production. They are also using more recyclable packaging materials.

SOURCE OF INFORMATION

We commissioned Frost & Sullivan to conduct an analysis of the soft beverage market in China, and to prepare the F&S Report independently. Frost & Sullivan is a global consulting firm, which was founded in 1961 in New York. We paid Frost & Sullivan a total fee of RMB580,000 for the preparation and use of the F&S Report. Unless and except as otherwise specified, the market and industry information and data presented in this "Industry Overview" section are derived from the F&S Report.

During the preparation of the F&S Report, Frost & Sullivan conducted primary research that involved discussing the status of the industry with industry participants and industry experts, as well as secondary research that involved reviewing company reports, independent research reports and Frost & Sullivan's own database.

Frost & Sullivan prepared the F&S Report based on the following assumptions: (i) China's economy is likely to maintain steady growth in the next decade; (ii) China's social, economic, and political environment is likely to remain stable in the forecast period; (iii) market drivers like increasing awareness of health are likely to drive the growth of China's soft beverage market; and (iv) the potential impact of the COVID-19 outbreak.

LAWS AND REGULATIONS RELATING TO DRINKING WATER AND BEVERAGE BUSINESS

Food Safety

According to the Food Safety Law of the PRC (《中華人民共和國食品安全法》) (the "**Food Safety Law**"), as promulgated by the Standing Committee of the National People's Congress (the "**NPCSC**") on February 28, 2009, took effective on June 1, 2009 and amended on April 24, 2015, December 29, 2018, and Implementing Regulations of the Food Safety Law of the PRC (《中華人民共和國食品安全法實施條例》) ("**Implementing Regulations of the Food Safety Law**"), passed by the State Council on July 20, 2009 and amended on February 6, 2016 and December 1, 2019, food producers and business operators shall, in accordance with laws, regulations and food safety standards, engage in production and business operation activities, establish a sound food safety management system, and take effective measures to prevent and control food safety risks, thus ensuring food safety.

According to the Food Safety Law and the Implementing Regulations of the Food Safety Law, food safety standards are mandatory standards, other than food safety standards, no food mandatory standard shall be formulated. The health administrative department under the State Council shall, in concert with the food safety administration under the State Council, be responsible for the formulation and release of national food safety standards. The standardization administrative department under the State Council shall provide the reference codes for these national standards. The health administrative department of the State Council shall, in collaboration with the food safety supervision and management department and the agriculture administrative department, etc. of the State Council, develop a national standard plan on food safety and an annual plan for the implementation thereof. For local special foods without national food safety standards, the health administrative departments of the people's governments of provinces, autonomous regions and municipalities directly under the Central Government may formulate and publish local food safety standards and submit the same to the health administrative department under the State Council for filing. After the national food safety standards are formulated, such local standards shall be nullified immediately.

The State encourages food producers to formulate corporate standards that are stricter than the national or local food safety standards. Such corporate standards apply to such producers and shall be reported to the health administrative department of the people's governments of provinces, autonomous regions and municipalities directly under the Central Government for filing. The health administrative departments of the people's governments at the provincial level or above shall promulgate on their respective websites the national and local food safety standards and corporate standards formulated and filed for inquiry and downloading by the public free of charge.

The State has established a food recall system according to the Food Safety Law and the Implementing Regulations of the Food Safety Law. Upon discovery of food produced not conforming to food safety standards or if there is any evidence proving that the foods produced may harm human health, food producers and operators shall (i) immediately cease production, recall foods in the market, notify the relevant food producers, operators and consumers thereof, and keep records of the recall and notification status; (ii) immediately cease operation, notify the relevant food producers, operators and consumers thereof, and keep records of the cessation and notification status. If a food producer considers a recall as necessary, then foods in the market shall be recalled immediately.

Food Production and Trading License

According to the Food Safety Law and the Implementing Regulations of the Food Safety Law as amended, the State implements a licensing system for the food production and trading. However, no license is required for the sale of edible agricultural products. For packaging materials with direct contact with food and other food-related products with higher risks, the production licensing shall be implemented in accordance with the relevant administrative provisions of the State on production licenses for industrial products.

Pursuant to the Administrative Measures of Food Production Licensing (《食品生產許可管理辦法》) promulgated by the State Administration for Market Regulation on January 2, 2020 and took effect on March 1, 2020, the food production license is valid for five years and is subject to the "one entity, one license" principle. Pursuant to the Administrative Measures for Food Operation Licensing (《食品經營許可管理辦法》), which was promulgated by the China Food and Drug Administration (the "**CFDA**") on August 31, 2015, took effect on October 1, 2015 and was latest amended on November 17, 2017, entities engaging in food selling and catering services in the PRC shall obtain a food operation license. The principle of one license for one site shall apply to the food operation license. Food and drug administrative authorities shall implement classified licensing for food operation according to food operators' types and the degree of risk of their operation projects. The food operation license is valid for five years.

According to the Detailed Rules on Reviewing Beverage Production Licensing (2017 Version) (《飲料生產許可審查細則(2017版)》) passed by CFDA on December 26, 2017, the beverage products subject to food production license management refer to the quantitatively packaged products which can be directly drunk or washed with water and whose ethanol content does not exceed 0.5% by mass, including packaged drinking water, carbonated beverage (soda), tea (type) beverage, fruit and vegetable juice and drinks, protein beverage, solid beverage and other beverage.

The food safety supervision and management department under the State Council is responsible for the inspection and guiding the management of national food production and business operation licensing. The food safety supervision and management department of each local people's government at or above the county level is responsible for the inspection and guiding the management of food production and business operation licensing within the respective administrative area. They shall impose penalties for the violations of regulatory requirements.

Food Labelling Management

According to the Food Safety Law, packaged food shall be labeled. The labels shall include the following items: (1) name, specification, net weight, and production date; (2) content or ingredient table; (3) name, address, and contact information of the producer; (4) best before date; (5) the standards code of the product; (6) storage conditions; (7) generic names of food additives used under the national standards; (8) the production license number; and (9) other items that are required by laws, regulations and food safety standards. Major nutrition facts and contents shall be specified on the labels of staple foods and supplementary foods exclusively for infants and other designated groups. Where national food safety standards have otherwise provisions on label matters, those provisions shall prevail. Food operators shall sell food in accordance with warning marks, warning specifications or cautions stated on labels thereof. According to the provisions of the Food Safety Law, The health administrative department under the State Council issued on April 20, 2011, and implemented on April 20, 2012, the General Principles of Prepackaged Food Labeling of GB 7718-2011 National Food Safety Standard (GB 7718-2011《食品安全國家標準預包裝食品標籤通則》).

Water Drawing Management

Natural Water Drawing Management

According to the Water Law of the PRC (《中華人民共和國水法》) passed by the NPCSC on January 21, 1988 and amended on August 29, 2002, August 27, 2009, and July 2, 2016, the Regulation on the Administration of the License for Water Drawing and the Levy of Water Resource Fees (《取水許可和水資源費徵收管理條例》) passed by the State Council on February 21, 2006 and amended on March 1, 2017, the Administrative Measures for the License for Water Drawing (《取水許可管理辦法》) passed by the Ministry of Water Resources on April 9, 2008 and amended on December 16, 2015, the drawing of water directly from natural resources (i.e. rivers, lakes or underground water) shall comply with the license system of water drawing and, except for the circumstances prescribed in laws and regulations, shall apply for a license certificate for water drawing and pay for the water resource fees. Where the same applicant applies for the use of multiple sources of water, the examination and approval authority for water drawing shall, after unified examination and approval, distinguish different sources of water and issue separate licenses for water drawing. According to the Regulation on the Administration of the License for Water Drawing and the Levy of Water Resource Fees (《取水許可和水資源費徵收管理條例》) promulgated by the State Council on March 1, 2017, where water drawing was needed in a construction project, the applicant shall, in addition, submit the water resource argumentation report on the construction project and the argumentation report shall include the source of water drawing, the rationality of using water, and the impacts to the ecology and environment, etc. The water resource argumentation report shall be prepared in accordance with the Technical guidelines for water resources argumentation of construction project (《建設項目水資源論證導則》) issued by the Ministry of Water Resources. The approval authority shall, after acceptance of the application for water drawing, examine the application materials for water drawing in an all-round way, and comprehensively consider the possible impacts of water drawing to the conservation and protection of water resources as well as the economic and social development, so as to decide whether to approve the application for water drawing or not. If, at expiry of the valid term, the license certificate needs to be renewed, the water drawing entity or individual shall file an application to the original approval authority 45 days prior to the expiry of the valid term. The original approval authority shall, prior to the expiry of the valid term, make a decision on whether or not to approve the renewal. A water drawing entity shall draw water according to the approved annual water drawing plan. For the water drawing exceeding the plan or quota, water resource fees shall be charged progressively on the excessive part. The amount of water resource fees shall be determined according to the levy standard of water resource fee at the locality of the water intake and the actual amount of water drawing.

Mineral Water Mining Management

According to the Reply on Issues Concerning Applicable Laws for Administration of the Exploration and Mining of Mineral Water and Underground Hot Water by the Bureau of Legislation of the State Council (《國務院法制局關於勘查、開採礦泉水、地下熱水行政管理適用法律有關問題的覆函》) issued by the Legislation Affairs Office under the State Council on January 19, 1998, mineral water has the dual attributes of mineral resource and water resource, the exploration, development, utilization, protection and management of mineral water are subject to the Mineral Resources Law of the PRC (《中華人民共和國礦產資源法》) ("**Mineral Resources Law**"), the Detailed Rules for Implementation of the Law of the PRC on Mineral Resources (《中華人民共和國礦產資源法實施細則》), and the Resource Tax Law of the PRC (《中華人民共和國資源稅法》). It is provided for in the Mineral Resources Law, as promulgated by the NPCSC on March 19, 1986 and amended on August 29, 1996 and August 27, 2009, that the State has established a mining license system for the mining of mineral sources. Anyone who wishes to mine mineral resources shall make an application for registration and obtain mining license and mining right.

Online Retail Businesses

According to the Administrative Measures for Online Trading (《網絡交易管理辦法》) promulgated by the State Administration for Industry and Commerce on January 26, 2014, operators engaging in online commodity trading and related services shall go through industrial and commercial registration in accordance with the law. According to the E-commerce Law of the PRC (《中華人民共和國電子商務法》) passed by the NPCSC on August 31, 2018 and took effect on January 1, 2019, an "e-commerce operator" refers to a natural person, a legal person or an unincorporated association that carries out business activities through information networks such as the Internet to sell commodities or offer services, including operators of e-commerce platforms, business operators on e-commerce platforms, and other e-commerce operators that sell commodities or offer services on the website they develop themselves or through other network services. An e-commerce operator shall deliver commodities or services according to its promises or the ways and time limits as agreed upon with consumers, and bear the risks and responsibilities when commodities are in transit. However, there is an exception where consumers select separate express logistics service providers.

Import and Export of Goods

According to the Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》) passed by the NPCSC on May 12, 1994 and amended on April 6, 2004 and November 7, 2016, the department in charge of foreign trade under the State Council shall take charge of all foreign trade work in the whole country in accordance with this Law. The foreign trade operator engaged in export of goods shall make registration for record with the department in charge of foreign trade under the State Council or institutions entrusted by it, but those that are exempted from registration for record by laws, administrative rules and rules of the department in charge of foreign trade under the State Council shall be excluded. Furthermore, the foreign trade operator engaged in export of goods shall comply with the Measures for Archival-filling and Registration of Foreign Trade Operator (《對外貿易經營者備案登記辦法》) passed by the MOFCOM on June 25, 2004, took effect on July 1, 2004, and amended on August 18, 2016 and November 30, 2019. According to the Administrative Provisions of the Customs of the PRC on the Registration of Customs Declaration Entities (《中華人民共和國海關報關單位註冊登記管理規定》) adopted by the General Administration of Customs on March 13, 2014 and amended on December 20, 2017 and May 29, 2018, in completing customs formalities, customs declaration entities shall go through the applicable registration procedures with customs in accordance with the provisions unless otherwise required by the laws, administrative regulations or rules of the customs. The registration of customs declaration entities comprises the registration of the customs declaration enterprise and the registration of the consignor or consignee of imported and exported goods. Consignor or consignee of imported and exported goods may go through the applicable registration procedure with local customs.

According to the Administrative Provisions for the Record-filing of Export Food Manufacturers (《出口食品生產企業備案管理規定》) passed by the General Administration of Customs on November 23, 2018, Export food manufacturers shall apply to the customs for registration and obtain Record-filing Certificate. Where an export food manufacturer fails to perform statutory record-filing obligations in accordance with law, or its record-filing fails to satisfy requirements upon review, its products may not be exported. Export food manufacturers shall comply with the provisions concerning food safety and food hygiene under the Announcement on the Issuance of Safety and Health Requirements and Product Catalog of Export Food Production Enterprises (《關於發佈出口食品生產企業安全衛生要求和產品目錄的公告》) passed by the Certification and Accreditation Administration of the PRC on September 14, 2011 and implemented on October 1, 2011.

Product Quality and Product Liability

Product Quality

In accordance with the Product Quality Law of the PRC (《中華人民共和國產品質量法》) (the "**Product Quality Law**"), as promulgated by the NPCSC on February 22, 1993, took effective on September 1, 1993 and last amended on December 29, 2018, producers and sellers are liable for the quality of the products they produce or sell. Where anyone produces or sells products that do not comply with the relevant national or industrial standards and requirements safeguarding the health and safety of persons and property, they shall be ordered by the relevant authorities to stop production and/or sale of the products; the products illegally produced and/or sold shall be confiscated; a fine not less than the equivalent of, but not more than three times, the value of the products illegally produced or sold (including those already sold and those not yet sold, hereinafter the same)shall be imposed concurrently; if there are illegal proceeds, such proceeds shall be confiscated concurrently; if the circumstances are serious, the business license shall be revoked. If the case constitutes a crime, criminal liability shall be investigated in accordance with the law.

Protection of Consumer Rights and Interests

The Law of the PRC on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》), as passed by the NPCSC on October 31, 1993 and last amended on October 25, 2013 contains the code of conduct for business operators when dealing with consumers, including but not limited to: (i) the goods and services shall comply with the Product Quality Law and other relevant laws and regulations; (ii) accurate information about the goods and services and the quality and use of such goods and services; (iii) issue invoice shopping vouchers or service documents to consumers in accordance with relevant national regulations, business practices or at the request of consumers; (iv) ensure that the actual quality and function of the goods or services are consistent with the quality of the goods or services indicated by advertising data, product descriptions, samples or other means; (v) assume responsibility for repair, replacement, refund or other liability under national regulations or any agreement with consumers; and (vi) not to create terms that are unreasonable or unfair to consumers, or exempt themselves from civil liability when they damage consumers' legitimate rights and interests.

LAWS AND REGULATIONS RELATED TO INTELLECTUAL PROPERTY

Trademarks

The Trademark Law of the PRC (《中華人民共和國商標法》), as amended (the "**Trademark Law**"), and the Implementing Regulations of the Trademark Law of the PRC (《中華人民共和國商標法實施條例》), as amended, provide the basic legal framework for the regulation of trademarks in the PRC, covering registered trademarks, including commodity trademarks, service trademarks, collective marks and certificate marks. Registered trademarks are protected under the Trademark Law and related rules and regulations. Trademarks are registered with the Trademark Office of the National Intellectual Property Administration. Where registration is sought for a trademark that is identical or similar to another trademark that has already been registered or given preliminary examination and approved for use on the same or similar commodities or services, the application for registration of such trademark may be rejected. Trademark registrations are effective for a renewable ten-year period, unless otherwise revoked.

Patents

Patents in the PRC are mainly protected under the Patent Law of the PRC (《中華人民共和國專利法》), as amended (the "**Patent Law**"), passed by the NPCSC, and the Implementation Rules of the Patent Law of the PRC (《中華人民共和國專利法實施細則》), as amended. An inventor, a designer, or the employer of the inventor of a service invention-creation may apply for the grant of an invention patent, a utility patent or a design patent. According to the Patent Law, the right to apply for a patent and the right of registered patent can be assigned, in case of such assignment, the parties concerned shall enter into contract in writing and complete registration with the patent administration authority of the State Council for its publication. Assignment shall take effect as of the date of its registration. The patent right duration is 20 years for invention and 10 years for utility and design, starting from the date of patent application.

Copyright and Software Copyright

Copyright (including software copyright) is mainly protected by the Copyright Law of the PRC (《中華人民共和國著作權法》) as promulgated and amended by the Standing Committee of National People's Congress and the Implementing Regulations of the Copyright Law of the PRC (《中華人民共和國著作權法實施條例》) as promulgated and amended by the State Council. Such law and regulation prescribe that Chinese citizens, legal persons or other organizations enjoy copyright protection over their works, whether published or not, in the domain of literature, art, natural sciences, social sciences, engineering or technology, and computer software.

Domain Names

The Administrative Measures for Internet Domain Names (《互聯網域名管理辦法》) promulgated by the Ministry of Industry and Information Technology of the PRC stipulates that ".CN" and ".中国" are China's national top-level domain names.

According to the Implementation Rules for the Registration of National Top-level Domain Names (《國家頂級域名註冊實施細則》), unless otherwise specified in these rules, any natural person or entity that can bear civil liability independently may apply for the registration of domain names under the top-level domain names as provided in these rules.

LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

The principal law governing foreign currency exchange in the PRC is the Regulations of the PRC on Foreign Exchange Administration (《中華人民共和國外匯管理條例》), as amended (the "**Forex Regulations**"). According to the Forex Regulations currently in effect, international payments in foreign currencies and transfers of foreign currencies under current account, such as payments of dividends or interests, shall not be restricted. Foreign currency transactions under the capital account, such as direct investment and capital contributions, are still subject to restrictions and require approvals from, or registration with, the SAFE and other relevant PRC governmental authorities.

According to the Circular of the State Administration of Foreign Exchange on Issues concerning the Administration of Foreign Exchange Involved in Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》) announced by the State Administration of Foreign Exchange on December 26, 2014, the State Administration of Foreign Exchange and its branch offices and administrative offices shall oversee, regulate and inspect Domestic Companies regarding their business registration, opening and use of accounts, trans-border payments and receipts, exchange of funds and other conduct involved in overseas listing. Domestic Company shall, within 15 working days upon the end of its public offering overseas, handle registration formalities for overseas listing with the Foreign Exchange Authority at its place of registration with the required materials.

According to the Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (Hui Fa [2016] No.16) (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》(匯發[2016]16號)), the foreign exchange receipts under capital accounts of domestic institutions are subject to discretionary settlement policies. That the foreign exchange receipts under capital accounts (including foreign exchange capital, foreign debts, and repatriated funds raised through overseas listing) subject to discretionary settlement as expressly prescribed in the relevant policies may be settled with banks according to the actual need of domestic institutions for business operations has been clearly implemented in relevant policies. Domestic institutions may, at their discretion, settle up to 100% of foreign exchange receipts under capital accounts for the time being. The SAFE may adjust the above proportion in due time according to balance of payments. While being eligible for discretionary settlement of foreign exchange receipts under capital accounts, domestic institutions may also opt to use their foreign exchange receipts according to the payment-based settlement system. A bank shall, in handling each transaction of foreign exchange settlement for a domestic institution according to the principle of payment-based settlement, review the authenticity and compliance of the use of the fund settled in the previous transaction (including discretionary settlement and payment-based settlement) of such institution. The funds shall not, directly or indirectly, be used for expenditure beyond the enterprise's business scope or expenditure prohibited by laws and regulations of the State. Unless otherwise specified, the funds shall not, directly or indirectly, be used for investments in securities or other investments than banks' principal-secured products. The funds shall not be used for the granting of loans to non-affiliated enterprises, except where it is expressly permitted in the business license. The funds shall not be used for the construction or purchase of real estate for purposes other than self-use (except for real estate enterprises).

According to the Circular on Optimizing Administration of Foreign Exchange to Support the Development of Foreign-related Business (《關於優化外匯管理支持涉外業務發展的通知》) issued by the SAFE on April 10, 2020, eligible enterprises are allowed to make domestic payments by using their capital, foreign credits and the income under capital accounts of overseas listing, with no need to provide the evidentiary materials concerning authenticity of such capital for banks in advance, provided that their capital use shall be authentic and in line with provisions, and conform to the prevailing administrative regulations on the use of income under capital accounts. The concerned bank shall conduct spot checking in accordance with the relevant requirements.

LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION AND PRODUCTION SAFETY

Environmental Protection

The main Chinese environmental protection laws and regulations we are subject to include the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) (the "**Environmental Protection Law**"), the Law of the PRC on Environment Impact Assessment (《中華人民共和國環境影響評價法》), the Water Law of the PRC, the Administrative Regulations on Environmental Protection in Construction Projects (《建設項目環境保護管理條例》), the Administrative Measures for Acceptance of Environmental Protection upon Completion of Construction Projects (《建設項目竣工環境保護驗收管理辦法》), the Law of the PRC on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), the Law of the PRC on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the PRC on the Prevention and Control of Ambient Noise Pollution (《中華人民共和國環境噪聲污染防治法》), and the Law of the PRC on the Prevention and Control of Environmental Pollution Caused by Solid Waste (《中華人民共和國固體廢物污染環境防治法》) and other related laws and regulations.

The Law of the PRC on Environment Impact Assessment was announced by the NPCSC on October 28, 2002 and amended for a second time on December 29, 2018. The Administrative Regulations on Environmental Protection in Construction Projects was announced by the State Council on November 29, 1998 and amended on July 16, 2017 (the amendment took effect on October 1, 2017). The Administrative Measures for Acceptance of Environmental Protection upon Completion of Construction Projects was promulgated by the Ministry of Environmental Protection of the PRC on November 20, 2017. According to such laws and regulations, enterprises planning to construct projects shall provide environmental impact reports ("**EIR**"), environmental impact statements ("**EIS**") and environmental impact registration forms related to such projects. The EIRs and the EISs must be approved by the competent environmental protection department before any construction project is started, and the environmental impact registration form must be filed with the said department. Unless otherwise prescribed by laws and regulations, enterprises that are required to submit the EIRs and the EISs shall be responsible for the acceptance of environmental protection facilities when the construction project is completed. The construction project can only be put into production or use after the corresponding environmental protection facilities have passed the acceptance. The competent department may conduct spot check and supervision on the implementation of environmental protection facilities.

The enterprises and other producers and operators that discharge pollutants shall take measures to prevent and control environmental pollution and harm caused by waste gas, waste water, waste residue, dust, etc. generated in production and construction or other activities. The enterprises and other producers and operators that discharge pollutants shall establish an environmental protection responsibility system and specify the responsibilities of the persons-in-charge of the entities and the relevant personnel. Facilities for prevention and control of pollution in construction projects shall be designed, constructed and put into operation simultaneously with the main works. The facilities for prevention and control of pollution shall meet the requirements of the approved environmental impact assessment documents, and shall not be dismantled or placed without authorization.

The NDRC and the MEE jointly promulgated the Opinions on Further Enhancing the Control and Management of Plastic Pollution (《關於進一步加強塑膠污染治理的意見》) (Fa Gai Huan Zi [2020] No.80) (the "**Opinions**") on January 16, 2020, further strengthen the cleanup of plastic pollution. The Opinions prohibit the production and sale of ultra-thin plastic shopping bags with thickness of less than 0.025 mm and polyethylene agricultural mulching films with thickness of less than 0.01 mm; prohibit the use of medical waste as raw material to make plastic products. They impose a total prohibit on the import of waste plastics. By the end of 2020, they will prohibit the production and sale of disposable foam plastic tableware and disposable plastic cotton swabs, as well as the production of daily chemical products containing plastic microbeads. By the end of 2022, they will prohibit the sale of daily chemical products containing plastic microbeads. The Opinions also require to prohibit and restrict use of non-degradable plastic bags, disposable plastic tableware, disposable plastic items for hotels and restaurants, express plastic packaging.

Production Safety

The main Chinese production safety laws and regulations we are subject to include the Production Safety Law of the PRC (《中華人民共和國安全生產法》).

According to the Production Safety Law of the PRC (as amended) and the Plan of Deepening the Reform of the Party and State Institutions (《深化黨和國家機構改革方案》), the Ministry of Emergency Management of the PRC shall be responsible for overall management of production safety. The production and business operation entities must enforce the national standards and the industrial standards as lawfully formulated for guaranteeing production safety and provide the conditions for safe production in accordance with relevant laws, administrative regulations, national standards, and industrial standards. Production and business operation entities shall set up obvious warning signs on dangerous business places, facilities and equipment. The design, manufacturing, installation, use, inspection, maintenance, transformation and scrapping of safety equipment must conform to national or industrial standards.

LAWS AND REGULATIONS RELATING TO EMPLOYMENT, SOCIAL INSURANCE AND HOUSING PROVIDENT FUND

General Labor Contract Rules

Labor contracts must be concluded in writing if labor relationships are to be or have been established between enterprises or institutions and the employees under the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》). Labor contracts must be concluded in writing if labor relationships are to be or have been established between employers and the employees. Enterprises and institutions are forbidden to force employees to work overtime or to do so in a disguised manner and employers must pay employees overtime wages in accordance with national regulations. In addition, wages may not be lower than local standards on minimum wages and must be paid to the employees timely. According to the Labor Law of the PRC, as amended, enterprises and institutions must establish and perfect a system of work place safety and sanitation, strictly abide by national rules and standards on work place safety and sanitation and educate employees on work place safety and sanitation. Work place safety and sanitation facilities must comply with national standards. The enterprises and institutions must provide employees with a safe work place and sanitation conditions that are in compliance with national standards and relevant labor protection regulations.

Social Insurance and Housing Provident Fund

According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) passed by the NPCSC on October 28, 2010 and amended on December 29, 2018, each employer and individual in the PRC shall make social insurance contributions, including basic old-age insurance, basic medical insurance, unemployment insurance, maternity insurance and work injury insurance. The funds shall be collected by the local administrative institutions. Employer who fails to pay social insurance contributions shall be ordered to pay or supplement within a prescribed period, and an overdue payment fine at the rate of 5 per 10,000 shall be levied from the due date of payment. When the payment is not made at the expiry of the prescribed period, a fine above the overdue amount but less than its triple shall be imposed by the relevant administrative department.

According to the Administrative Regulations on the Housing Provident Fund (《住房公積金管理條例》) passed by the State Council on April 3, 1999 and amended on March 24, 2002 and March 24, 2019, each employer and individual in the PRC shall make housing provident fund contributions. The funds shall be collected by the local administrative institutions. Where an entity is overdue in the payment and deposit of, or underpays, the housing provident fund, the housing provident fund management center shall order it to make the payment and deposit within a prescribed time limit; where the payment and deposit has not been made after the expiration of the time limit, an application may be made to a people's court for compulsory enforcement.

LAWS AND REGULATIONS RELATING TO TAXATION

PRC Enterprise Income Tax Law

According to the Law of the PRC on Enterprise Income Tax (《中華人民共和國企業所得税法》), as promulgated on March 16, 2007 and amended on February 24, 2017 and December 29, 2018, and the Implementing Regulations of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得税法實施條例》), as announced on December 6, 2007 and amended on April 23, 2019 (collectively the "**Enterprise Income Tax Law**"), enterprise income tax payers shall be enterprises within the PRC and other organizations that obtain income within the PRC. The rate of enterprise income tax shall be 25%. Qualified small low-profit Enterprises are given the reduced enterprise income tax rate of 20%, under the Enterprise Income Tax Law. Income from engaging in projects of agriculture, forestry, animal husbandry and fisheries may be entitled to exemption or reduction of enterprise income tax.

According to the Circular of the Ministry of Finance and the State Administration of Taxation on Implementing the Policy on Inclusive Tax Reliefs for Small and Micro Enterprises (**Cai Shui [2019] No.13**) (《財政部税務總局關於實施小微企業普惠性税收減免政策的通知》(財税[2019]13號)), during January 1, 2019 to December 31, 2021, for small low-profit enterprises, the portion of not more than RMB1 million of the annual taxable income will be included in the actual taxable income at a reduced rate of 25%, based on which the enterprise income tax payable will be calculated at the tax rate of 20%; and the portion of more than RMB1 million but not more than RMB3 million of the annual taxable income will be included in the actual taxable income at a reduced rate of 50%, based on which the enterprise income tax payable will be calculated at the tax rate of 20%.

According to the Announcement No. 14 in 2015 of the State Administration of Taxation on Enterprise Income Tax Issues concerning the Implementation of the Catalog of Encouraged Industries in the Western Region (《國家税務總局公告2015年第14號－關於執行〈西部地區鼓勵類產業目錄〉有關企業所得税問題的公告》), from October 1, 2014, enterprises that are based in the western region with their primary business listed in the newly-added encouraged industry items provided in the Catalog of Encouraged Industries in the Western Region (《西部地區鼓勵類產業目錄》), and whose annual primary business revenue accounts for more than 70% of the total enterprise revenue, may pay enterprise income tax at the reduced tax rate of 15%. According to the Notice of the Ministry of Finance, the General Administration of Customs and the State Administration of Taxation on Issues concerning the Implementation of the Tax Policies for the Development of Western China by Ganzhou City (《關於贛州市執行西部大開發税收政策問題的通知》) promulgated on January 10,2013, for domestic enterprises and foreign-invested enterprises established in Ganzhou that are in an industry sector encouraged by the State, enterprise income tax shall be levied at a reduced tax rate of 15% from January 1, 2012 till December 31, 2020.

Interim Value-Added Tax Regulations of the PRC

According to the Interim Value-Added Tax Regulations of the PRC (《中華人民共和國增值稅暫行條例》), as announced by the State Council on December 13, 1993 and amended on November 5, 2008, February 6, 2016, and November 19, 2017, entities and individuals selling goods, providing labor services of processing, repairs or maintenance, selling services, intangible assets, real property in China, and importing goods to China, shall be identified as taxpayers of value-added tax.

Unless otherwise provided by laws, the VAT rate is: 17% for taxpayers selling goods, labor services, or tangible movable property leasing services or importing goods; 11% for taxpayers selling transportation, postal, basic telecommunications construction, or immovable leasing services, selling immovables, transferring the rights to use land, or selling or importing specific goods; 6% for taxpayers selling services or intangible assets; zero for domestic entities and individuals selling services or intangible assets within the scope prescribed by the State Council across national borders; zero for exported goods, except as otherwise specified by the State Council.

Pursuant to the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (《關於全面推開營業稅改徵增值稅試點的通知》) (promulgated by the MOF and the SAT on March 23, 2016, came into effect on May 1, 2016 and as amended on July 11, 2017, December 25, 2017 and March 20, 2019 respectively), the pilot program of the collection of value-added tax in lieu of business tax shall be promoted nationwide in a comprehensive manner, and all taxpayers of business tax engaged in the building industry, the real estate industry, the financial industry and the life service industry shall be included in the scope of the pilot program with regard to payment of value-added tax instead of business tax.

According to the Circular on Policies for Simplifying and Consolidating Value-added Tax Rates (Cai Shui [2017] No. 37 (《關於簡並增值稅稅率有關政策的通知》(財稅[2017]37號)), announced by the Ministry of Finance and the State Administration of Taxation on April 28, 2017, the structure of value-added tax (VAT) rates will be simplified from July 1, 2017, and the 13% VAT rate will be canceled. The scope of goods with 11% tax rate and the provisions for deducting input tax are specified.

According to the Circular of on Adjusting Value-added Tax Rates (Cai Shui [2018] No.32) (《關於調整增值稅稅率的通知》(財稅[2018]32號)) announced by the Ministry of Finance and the State Administration of Taxation on April 4, 2018, from May 1, 2018, where a taxpayer engages in a taxable sales activity for the value-added tax (VAT) purpose or imports goods, the previous applicable 17% and 11% tax rates are adjusted to be 16% and 10% respectively.

According to the Announcement on Relevant Policies for Deepening Value-Added Tax Reform (《關於深化增值稅改革有關政策的公告》) ("**Announcement of the Ministry of Finance, the State Taxation Administration and the General Administration of Customs [2019] No.39**") announced by the Ministry of Finance, the State Taxation Administration, and the General Administration of Customs on March 20, 2019, with respect to VAT taxable sales or imported goods of a VAT general taxpayer, the originally applicable VAT rate of 16% shall be adjusted to 13%; the originally applicable VAT rate of 10% shall be adjusted to 9%.

Regulations Related to the "Full Circulation" of H-share

"Full circulation" means listing and circulating on the Hong Kong Stock Exchange of the domestic unlisted shares of a domestic joint stock company ("**H-share listed company**"), including unlisted Domestic Shares held by domestic shareholders prior to overseas listing, unlisted Domestic Shares additionally issued after overseas listing, and unlisted shares held by foreign shareholders. On November 14, 2019, CSRC announced the Guidelines for the "Full Circulation" Program for Domestic Unlisted Shares of H-share Listed Companies (Announcement of the CSRC [2019] No.22) (《H股公司境內未上市股份申請「全流通」業務指引》(中國證監會公告[2019]22號)) ("**Guidelines for the 'Full Circulation'**").

According to the Guidelines for the "Full Circulation", shareholders of domestic unlisted shares may determine by themselves through consultation the amount and proportion of shares, for which an application will be filed for circulation, provided that the requirements laid down in the relevant laws and regulations and set out in the policies for state-owned asset administration, foreign investment and industry regulation are met, and the corresponding H-share listed company may be entrusted to file the said application for "full circulation". To file an application for "full circulation", an H-share listed company shall file the application with the CSRC according to the administrative licensing procedures necessary for the "examination and approval of public issuance and listing (including additional issuance) of shares overseas by a joint stock company". An H-share listed company may apply for "Full Circulation" separately or when applying for refinancing abroad. An unlisted domestic joint stock company may apply for "full circulation" when applying for an overseas initial public offering. After the application for "full circulation" has been approved by the CSRC, an H-share listed company shall submit a report on the relevant situation to the CSRC within 15 days after the registration with the CSDC of the shares related to the application has been completed. After domestic unlisted shares are listed and circulated on the Stock Exchange, they may not be transferred back to China.

On December 31, 2019, CSDC and SZSE jointly announced the Measures for Implementation of H-share "Full Circulation" Business (《H股「全流通」業務實施細則》) ("**Measures for Implementation**"). The businesses of cross-border transfer registration, maintenance of deposit and holding details, transaction entrustment and instruction transmission, settlement, management of settlement participants, services of nominal holders, etc. in relation to the H-share "full circulation business", are subject to the Measures for Implementation. Where there is no provision in the Measures for Implementation, it shall be handled with reference to other business rules of the CSDC and CSDC (Hong Kong) and SZSE.

According to the Measures for Implementation, after having completed relevant information disclosure, the H-share listed companies with the approval of the CSRC to engage in the H-share "Full Circulation" business shall apply to the CSDC for the deregistration of part or all of the non-foreign listed shares, and shall re-register the fully circulated H-shares which are not pledged, frozen, restricted to transfer to the share register institutions in Hong Kong. Such shares shall become eligible for listing and circulation on the Stock Exchange. Relevant securities are centrally deposited in CSDC for settlement. As the nominal holder of the above-mentioned securities, CSDC handles the depository and holding details maintenance, cross-border clearing and settlement and other businesses involved in the "full circulation" of H-shares, and provides nominal holder services for investors. The H-share listed company shall be authorized by "Full Circulation" shareholders to choose domestic securities companies that participate in the "full circulation" business of H-shares. "Full Circulation" shareholders submit trading instructions of H-shares "Full Circulation" shares through domestic securities companies. Domestic securities companies shall select a Hong Kong Securities Company to submit trading instructions of their "Full

Circulation" shareholders to Hong Kong Stock Exchange for trading. After the transaction is concluded, CSDC and CSDC (Hong Kong) shall handle the cross-border clearing and settlement of relevant shares and funds. The settlement currency of H-share "full circulation" transaction business is Hong Kong dollars. Where an H-share listed company entrusts CSDC to distribute cash dividends, it shall file an application with CSDC. An H-share listed company distributing cash dividends may apply to the CSDC for the holding details of relevant "fully-tradable" shareholders on the securities registration date. The non-H-share "fully circulated" securities listed on the Stock Exchange obtained due to the distribution and conversion of H-share "fully circulated" securities may be sold but shall not be purchased. Where the right to subscribe for the shares listed on Hong Kong Stock Exchange is obtained and the subscription right is listed on Hong Kong Stock Exchange, it may be sold, but shall not be exercised.

In order to fully promote the reform of H-shares "full circulation" and clarify the business arrangement and procedures for the relevant shares' registration, custody, settlement and delivery, CSDC has promulgated the Circular on Issuing the Guide to the Program for Full Circulation of H-shares (《關於發佈〈H股「全流通」業務指南〉的通知》) in February 2020, which specified the business preparation, account arrangement, cross-boarder share transfer registration and overseas centralized custody, etc. In February 2020, CSDC (Hong Kong) also promulgated the Guide to the Program for Full Circulation of H-shares (《中國證券登記結算(香港)有限公司H股「全流通」業務指南》) to specify the relevant escrow, custody, agent service of CSDC (Hong Kong), arrangement for settlement and delivery and other relevant matters.

OVERVIEW

We are a leader in the packaged drinking water and beverage business in the PRC with devotion to providing consumers with high-quality products. Our major products include packaged drinking water, tea beverage, functional beverage and juice beverage. According to the F&S Report, we ranked first in the packaged drinking water market in China in terms of market share for eight consecutive years from 2012 to 2019. We were among the top three players in tea beverage, functional beverage and juice beverage markets in China in terms of retail sales value in 2019. The business developments of our beverage products and packaged drinking water products are well-balanced. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, the revenue from our beverage products accounted for 41.1%, 40.5%, 38.8%, 42.4% and 36.6% of our total revenue, respectively. The table below sets forth the main categories of our products.

Product Category	Brand Logo	Product Image	Ranking of Market Share (1)	Market Share in 2019(1)	Revenue in 2019 (RMB million)	Estimated Market Size in 2024 (RMB billion)(2)	Projected Market Size CAGR (2019-2024)(2)
Packaged drinking water products	农夫山泉 NONGFU SPRING		1st	20.9%	14,346	337.1	10.8%
Tea beverage products	东方树叶		3rd	7.9%	3,138	93.6	3.5%
	茶π						
Functional beverage products	尖叫		3rd	7.3%	3,779	175.6	9.4%
	维他命水						
Juice beverage products	农夫果园		3rd	3.8%	2,311	160.3	2.2%
	水溶C100						
	NFC NOT FROM CONCENTRATE						
	17.5°						
Total					**23,574**	**766.6**	**7.4%**

Notes:

(1) According to the F&S Report, our market share in each relevant product category market is calculated based on the retail sales value in 2019.

(2) According to the F&S Report.

Our history could date back to 1996. Since our establishment, we have adhered to the principle that "every drop of Nongfu Spring has its source" (「每一滴農夫山泉都有它的源頭」). We have obtained access to ten quality natural water sources in different regions of China. We comply with the applicable PRC laws and regulations on the water extraction from the above natural water sources. We submit water-taking applications to relevant governmental entities and demonstrate the reasonableness of the extractable volume with reference to actual conditions of the water sources. We obtain water-taking permits and mining permits (which are only applicable to mineral water) after the approval by relevant government entities, or under a few circumstances enter into water supply agreements with third-party state-owned water supply companies that possess water-taking permits. The above natural water sources are located in excellent ecological environments and have outstanding water quality. We treat the quality natural water with the necessary process, including filtration and sterilization. As a result, our packaged drinking water products contain the natural minerals that are beneficial to human body, such as potassium, sodium, calcium, magnesium and metasilicate.

We implement a multi-brand strategy. We have long-term plans for our brands and strong brand communication capabilities. We convey the spirit and the proposition of our brands to consumers through diversified marketing methods. We have established a nationwide sales network with in-depth market penetration. As of May 31, 2020, we covered more than 2.43 million retail points of sale across China through 4,454 distributors. We achieved digitalization of distributors and frontline sales personnel management through the NCP system which is available on mobiles and personal computers. The table below sets forth the revenue from our products by category for the periods indicated.

	Year Ended December 31,						Five Months Ended May 31,			
	2017		2018		2019		2019		2020	
	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue
							(Unaudited)			
Packaged drinking water products	10,120	57.9%	11,780	57.5%	14,346	59.7%	5,602	56.5%	5,360	61.9%
Tea beverage products	2,597	14.8%	3,036	14.8%	3,138	13.1%	1,479	14.9%	1,166	13.5%
Functional beverage products	2,936	16.8%	3,322	16.2%	3,779	15.7%	1,837	18.5%	1,085	12.5%
Juice beverage products	1,468	8.4%	1,855	9.1%	2,311	9.6%	870	8.8%	752	8.7%
Other products[(1)]	370	2.1%	482	2.4%	447	1.9%	129	1.3%	301	3.4%
Total	**17,491**	**100.0%**	**20,475**	**100.0%**	**24,021**	**100.0%**	**9,917**	**100.0%**	**8,664**	**100.0%**

Note:

(1) Other products primarily include other beverage products such as coffee beverage, soda water beverage, sparkling flavored beverage and plant-based yogurt products, and agricultural products such as fresh fruits.

During the Track Record Period, our revenue increased significantly. From 2017 to 2019, our revenue increased at a CAGR of 17.2%. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, our net profit margin was 19.4%, 17.6%, 20.6%, 23.8% and 22.3%, respectively.

COMPETITIVE STRENGTHS

We are a leading PRC soft beverage company with scale, growth potentials and profitability

According to the F&S Report, we ranked first in the PRC packaged drinking water market in terms of market share for eight consecutive years from 2012 to 2019. We are the second largest packaged drinking water company in the world in terms of sales volume. We focus on the PRC market. In China, in terms of retail sales value in 2019: (i) our market share in the packaged drinking water market was 20.9%, and our retail sales value was more than one and half times of the retail sales value of the second largest company; (ii) our market share in the tea beverage market was 7.9%, and we ranked among the top three in terms of market share for three consecutive years; (iii) our market share in the functional beverage market was 7.3%, and we ranked among the top three in terms of market share for nine consecutive years; and (iv) our market share in the juice beverage market was 3.8%, and we ranked among the top three in terms of market share.

From 2017 to 2019, we ranked first in terms of revenue growth rate among the listed soft beverage companies in the world, which have an annual revenue of more than US$1 billion. From 2017 to 2018 and from 2018 to 2019, our revenue increased by 17.1% and 17.3%, respectively, which were much higher than the growth rates of 5.0% and 6.6% in the PRC soft beverage industry, and the growth rates of 2.7% and 3.4% in the global soft beverage industry in the same periods, according to the F&S Report.

We are one of the most profitable companies in both the PRC and global soft beverage industries. In 2017, 2018 and 2019, our net profit margin was 19.4%, 17.6% and 20.6%, respectively, which was much higher than the average net profit margin of 6.9%, 7.1% and 9.6% in the PRC soft beverage industry, and 3.9%, 7.6% and 8.5% in the global soft beverage industry during the same periods, according to the F&S Report. In 2017, 2018 and 2019, our adjusted profit for the year was RMB3,390 million, RMB3,977 million and RMB5,480 million, respectively, representing a CAGR of 27.1%. The adjusted profit for the year is a non-IFRS financial measure. See "Financial Information – Non-IFRS Financial Measure."

We have preemptively obtained access to ten quality water sources, which forms a long-term and stable competitive strength, reflecting our unique strategic vision

According to the F&S Report, we are the only one among the top five PRC packaged drinking water companies that sources all of packaged drinking water products from natural water sources. The chosen water sources are located in excellent ecological environments and have sufficient water reserves to ensure our long-term supply of packaged drinking water products. We have accumulated extensive experience in water source exploration and feasibility study. We conduct procedures including long-term water quality monitoring, water supply inspection and the assessments of plant establishment conditions and transportation capacity for each of the water sources.

Since our establishment in 1996, we have preemptively obtained the access to ten quality water sources across China (as set forth in the table below). The above ten water sources are located in different regions of China, which enable us to provide the supply to the markets across China and reduce the transportation radius. As a result, we are able to improve speed to market from production, control logistics expenses and maintain our profitability level.

No.	Water source	Region	Type	Features
1	Thousand-island Lake, Zhejiang Province (浙江千島湖)	East China	Deep lake water	The water is sourced from Thousand-island Lake, which has a watershed area of 573 sq. km.(3) and a water reserve of 17.84 billion tons(4). Thousand-island Lake is named as the "most elegant water in China" (天下第一秀水).
2	Mount Changbai, Jilin Province (吉林長白山)	Northeast China	Mineral water and artesian spring water	The water is sourced from Mount Changbai. The forest ecosystem of Mount Changbai is a classic one in East Asia. Mount Changbai has a total area of 1,964 sq. km. and a forest area ratio of 88%. The annual precipitation in Mount Changbai is between 700 and 1,400 millimeters(5). The annual water outflow of the artesian springs discovered in Jingyu County and Fusong County, where our production plants are located, is 39.6 million tons(6) and 47.4 million tons(6), respectively, and the average annual reserve of water resources in Linjiang City, where our production base is located, is 1.263 billion tons(6).
3	Danjiangkou, Hubei Province (湖北丹江口)	Central China	Deep reservoir water	The water is sourced from Danjiangkou Reservoir, which is the water source of the middle route of the South-North Water Transfer Project of China, and has a watershed area of 745 sq. km.(7) and a water reserve of 29.05 billion tons(7).
4	Wanlv Lake, Guangdong Province (廣東萬綠湖)	South China	Deep lake water	The water is sourced from Wanlv Lake, which is the largest lake in South China, and has a watershed area of 370 sq. km.(8) and a water reserve of 13.9 billion tons(8).
5	Manas of Mount Tianshan, Xinjiang Uygur Autonomous Region (新疆天山瑪納斯)	Northwest China	Deep underground water	The water is sourced from the snow meltwater in the middle part of the glacier in north Mount Tianshan. We take water from the river bed which is 170 meters beneath the ground in Manas, which has an annual runoff of 1.5 billion tons(9) and is one of the areas with the most abundant water resource in Xinjiang.
6	Mount Emei, Sichuan Province (四川峨眉山)	Southwest China	Mountain spring water	The water is sourced from Mount Emei, which is a recognized quality water source, and has a forest area ratio of 87% and an annual average precipitation of 1,922 millimeters(10). The average annual total availability of water resources in Mount Emei, where our production plants are located, is 1.448 billion tons(11).
7	Mount Taibai, Shaanxi Province (陝西太白山)	Northwest China	Mountain spring water	The water is sourced from Mount Taibai, which is the highest mountain in the east of the Tibetan Plateau and is snow-capped all year round. Mount Taibai has a forest area ratio of 94.3% and an annual accumulated precipitation of 247 million tons(12).

No.	Water source	Region	Type	Features
8	Mount Wuling, Guizhou Province (貴州武陵山)	Southwest China	Mountain spring water	The water is sourced from Mount Wuling, the highest peak of which is located in Tongren City, Guizhou Province. Mount Wuling is the core area of the subtropical forest system in China and an important water conservation area in the Yangtze River Basin. The average annual total surface water resources in Bijiang District and Jiangkou County, where our production plants are located, are 0.74 billion tons(13) and 1.7 billion tons(13), respectively.
9	Mount Wuling, Hebei Province (河北霧靈山)	North China	Mountain spring water	The water is sourced from Mount Wuling, which is the main peak of the Yan Mountains and has a forest area ratio of 93%. Mount Wuling reserves a large amount of high-quality water that makes it an important water source of the Beijing-Tianjin region. The average annual total surface water resources and groundwater resources in Xinglong County, where our production plants are located, are 0.74 billion tons(14) and 0.26 billion tons(14), respectively.
10	Greater Khingan, Heilongjiang Province (黑龍江大興安嶺)	Northeast China	Mineral water	The water is sourced from Mohe, Greater Khingan, which lies in the north of Greater Khingan mountain range, the northernmost area of China, and has a forest area ratio of 92% and an underground water reserve of 578 million tons(15).

Notes:

(1) One ton of water equals to one cubic meter of water.

(2) The relevant data and information on the water sources primarily derive from the websites of local governments or official reports, or have been confirmed by local competent authorities.

(3) According to the written confirmation issued in May 2020 by the local governmental authority.

(4) According to the statistics issued in June 2019 on the website of the local governmental authority.

(5) According to the statistics issued in December 2016 on the website of the local governmental authority.

(6) According to the written confirmation issued in July 2020 by the local governmental authorities.

(7) According to the statistics issued in March 2016 on the website of the local governmental authority.

(8) According to the written confirmation issued in August 2018 by the local governmental authority.

(9) According to the statistics issued in June 2019 on the website of the local governmental authority.

(10) According to the statistics issued in October 2017 on the website of the local governmental authority.

(11) According to the written confirmation issued in July 2020 by the local governmental authority.

(12) According to the statistics issued in September 2017 on the website of the local governmental authority.

(13) According to the written confirmation issued in July 2020 by the local governmental authorities.

(14) According to the report issued in September 2016 by the local governmental authority.

(15) According to the report issued in September 2017 by the local governmental authority.

(16) The water reserve statistics disclosed in the table above are based on the latest information available to us, which were published or confirmed by the local governmental authorities. The actual water reserves may be affected by factors such as changes in weather, climate and geological conditions around such water sources.

We have established dual growth engines, packaged drinking water and beverage, which enhance our competitive advantage and reduce the risks of fluctuating operating results

We have established dual growth engines, which are packaged drinking water and beverage. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, the revenue from our packaged drinking water products accounted for 57.9%, 57.5%, 59.7%, 56.5% and 61.9% of our total revenue, respectively; and the revenue from our beverage products accounted for 41.1%, 40.5%, 38.8%, 42.4% and 36.6% of our total revenue, respectively.

Our dual growth engines give us a unique competitive advantage. Our packaged drinking water products, as consumption necessities, satisfy consumers' basic drinking needs. Our beverage products satisfy their diverse and personal drinking needs. The distribution of both packaged drinking water and beverage products through the same distributors helps to increase their business scale and profitability, which in turn encourages them to focus more on promoting our products. The diversity of our products also enables us to flexibly form different product mixes based on the characteristics of different markets and channels, which helps us to develop differentiating advantages in the channel competition. A diverse product portfolio also enlarges our share of shelves in retail points of sale, increases single-store sales volume, and improves the efficiency of distribution channels.

With regard to our packaged drinking water business, we have continued to expand consumption scenarios of our packaged drinking water products by offering medium- to large-size drinking natural water products with the individual container volume ranging from 1.5L to 19L in addition to our small-size products. As a result, we could increase our penetration rate in the market such as that for household-consumption drinking water. The revenue from our medium- to large-size drinking natural water products increased by 34.8% from 2017 to 2018, by 30.5% from 2018 to 2019, and by 22.9% from the five months ended May 31, 2019 to the five months ended May 31, 2020. We have developed several packaged drinking water products for consumers in various market segments or specific drinking scenarios, including (i) the drinking natural water for infants and young children, (ii) the natural mineral water with functional sports bottle caps for sports scenarios, (iii) the natural mineral water in glass bottles for high-end conferences and banquets, all of which were launched in 2015, and (iv) the natural mineral water that is lithium-rich and for middle-aged and elderly people, given our awareness about the connection between lithium and the human nervous system, which was launched in 2019. Such products help us to explore a new customer base, increase customer stickiness, and create new growth points for our packaged drinking water.

With regard to our beverage business, we have covered various soft beverage categories including tea beverage, functional beverage, juice beverage, coffee, soda water, sparkling flavored beverage and plant-based yogurt products. We adopt a multi-brand strategy, under which each beverage brand has its unique positioning. We care for consumers' long-term health needs. When juice beverage containing 10% juice was trending in the industry, we launched Farmer's Orchard which contains 30% mixed fruit and vegetable juice in 2003. When from-concentrate juice was widely used by peers as raw materials, we overcame technical issues concerning raw materials, freshness preservation and aseptic filling, and launched 17.5° and Nongfu Spring (農夫山泉) not-from-concentrate juice products that have better taste and nutrition. We continue to keep abreast of the evolving trends of consumers' demands and proactively plan for our product portfolio to cultivate consumption habits. In 2011, we launched a sugar-free tea beverage product in the PRC market – Oriental Leaf (東方樹葉). According to the F&S Report, the brand Oriental Leaf (東方樹葉) had ranked first in terms of market share among sugar-free tea beverage products in 2019, after nearly a decade of continuous cultivation. Our beverage products include not only the products that satisfy the specific requirements of consumers, such as the low-concentrate juice product – Water Soluble C100 (水溶C100) that is served to "Meet the Daily Requirement of Vitamin C" (「滿足每日所需維生素C」), but also stylish beverage products under our iconic brands, such as Tea π (茶π), Scream (尖叫) and Victory Vitamin Water (力量帝維他命水). We have extensive experience in managing the life cycle of beverage products. We maintain the youth and vitality of our brands through formula optimization, packaging renewal, new SKU launch and brand promotion. Most of our beverage products can maintain a brand vitality for over ten years. Scream (尖叫), which had been launched in 2004, was marketed and promoted with the focus on new flavors in 2019, enabling it to generate a sales growth of 10.2% as compared to 2018, with a revenue of RMB2,668 million in 2019.

The dual growth engines ensure greater growth potentials of our business, and effectively reduce the risks of fluctuating operating results.

We have built a super brand in the PRC soft beverage market with our belief in natural and healthy products and perseverance of promoting brand spirit

We insist on using high-quality raw materials because we believe in natural and healthy products. All of our packaged drinking water products are sourced from quality water sources with natural mineral elements. Our tea beverages Oriental Leaf (東方樹葉) and Tea π (茶π) are manufactured through advanced extraction techniques directly with fresh tea leaves as raw materials. As we believe that "Good Fruit Juice is Grown" (「好果汁是種出來的」), we source quality raw materials from 15 countries and regions for our juice beverage products and adopt aseptic filling techniques to preserve the nutrition and taste of fruits to the extent that is possible. We use quality Arabica coffee beans, which are roasted and extracted with leading equipment and techniques to produce our Tan Bing (炭仌) coffee beverage. High-quality products are the cornerstone and the key of the success of our brands.

We have long-term plans for our brands and strong brand communication capabilities. We continue to convey our brand spirit to consumers, forming a rapport between our brands and consumers. Attributable to the promotional slogans of "Nongfu Spring tastes a bit sweet" (「農夫山泉有點甜」) in 1997, "We are not manufacturers of water. We are porters of nature" (「我們不生產水，我們只是大自然的搬運工」) in 2008, and "The quality of the water source defines the quality of life" (「什麼樣的水源，孕育什麼樣的生命」) in 2017, we have successfully earned consumers' trust in the quality of the water sources where we locate. In addition, we recount the real and ordinary daily work of our employees or business partners through the "Porters" micro-movie series to convince our customers that we do not take shortcuts, we work in a down-to-earth manner, and we achieve extraordinary brand pursuits in the ordinary. There were more than one million visits by consumers to our production bases located across China in 2019. We also promote water source protection and health benefits of drinking water to teenagers through campus visits.

We communicate with young consumers through a variety of ways including celebrity endorsement, product placement in variety shows, sports sponsorship and cooperative promotion. We engaged a well-known Asian band to endorse our tea beverage product Tea π (茶π) launched in 2016, to tell the stories about the efforts to pursue "Be My Own Style" (自成一派). The brand proposition quickly resonated with young consumers. In the year of its launch, Tea π (茶π) generated a revenue of over RMB1,600 million. According to the F&S Report, Tea π (茶π) was the new beverage product that recorded the highest retail sales value in its first 12 months of launch in China during the decade from 2010 to 2019. We have refreshed the brand Victory Vitamin Water (力量帝維他命水) through packaging upgrade and cooperation with variety shows like The Rap of China (中國有嘻哈) and Idol Producer (偶像練習生). The revenue of Victory Vitamin Water (力量帝維他命水) increased with a CAGR of over 47% from 2017 to 2019. The joint activities of "Music Bottle" (「樂瓶」) with NetEase Cloud Music and "Forbidden City Bottle" (「故宮瓶」) became a hot topic among the consumers given the selected music reviews, ancient paintings, and fun phrases presented on the bottle labels. From 2018 to 2019, such cooperation activities won the Brand Design Golden Award (品牌設計金獎) and IMC Business Innovation Award (整合傳播營銷類商業創意獎) in the ROI Festival (金投賞), and Content Marketing Award (內容營銷類金獎) in the IAI International Advertising Awards, respectively, becoming a quintessential marketing case.

With product quality as our foundation, what we promote to the market is more than just the brands. We promote the soul and the spirit of our brands, which makes us a super brand in the PRC soft beverage market.

We have established a nationwide sales network with in-depth market penetration supported by information systems to improve distribution efficiency and manage operational risks

The penetration of our sales network in China is both broad and deep. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, the revenue from sales to our distributors accounted for 95.0%, 94.6%, 94.2%, 95.1% and 93.6% of our total revenue, respectively. As of May 31, 2020, we were working with 4,454 distributors, covering all provinces, municipalities and prefecture-level administrative divisions across China. As of May 31, 2020, our products covered more than 2.43 million retail points of sale, among which approximately 1.88 million were located in the third-tier cities or below. According to the F&S Report, the retail points of sale we serve accounted for approximately 11% of the total retail points of sale in China. As of May 31, 2020, more than 480,000 retail points of sale were equipped with "Nongfu Spring" branded refrigerators. They have enhanced the brand display and the share of shelves of our products in retail points of sale, which was particularly important to promoting sales in summer.

We reach consumers through multiple channels that we have been actively exploring, including the new retail channel represented by vending machines, catering channels and e-commerce channels. As of May 31, 2020, we had deployed nearly 62,900 smart retail equipment represented by vending machines in nearly 300 cities across China. We have gradually developed teams, information systems and a delivery service model well-suited to such channel. Establishing the new retail channel will help us to increase the number of retail points of sale to meet consumers' need for spontaneous purchases of beverage products.

We continue to incorporate our best practice gained from sales management into our information management system. All of our distributors use our NCP system. We use big data to analyze the distributors' inventory levels. Our system will automatically generate inventory alerts based on a combination of the historical data and distribution performance, helping us to provide guidance with regard to distributors' distribution activities in a timely manner. Approximately 12,000 frontline sales personnel and sales management personnel employed by us or our distributors use our mobile app to conduct business activities every day. The mobile app has significantly improved our performance in product distribution, display and promotion in retail points of sale. Our sales management team can keep track of the routes of on-site inspection and service performance of frontline sales personnel on a real-time basis, and thereby selectively provide business guidance to frontline sales personnel and distributors, which in turn could improve the efficiency in sales team management.

We have specifically established an audit and inspection team consisting of more than 300 employees for channel monitoring as of May 31, 2020. On the basis of big data analysis, we regularly conduct on-site stock taking for distributors as well as sample checks on implementation of market activities, product selling in retail points of sale and stock age, in order to control business risks in all aspects.

We have industry-leading equipment and manufacturing capabilities with an efficient logistics and transportation network and stringent quality assurance system

Our production plants are highly standardized. We have implemented unified standards in raw material and packaging material procurement, product formula, manufacturing processes and quality control. We use world-leading production equipment and continuously enhance the automation level of our production lines. As of May 31, 2020, we have 113 automated drinking water production lines and 31 automated beverage production lines. 17 of our drinking water production lines can fill as fast as 81,000 bottles per hour. 14 of our beverage production lines can achieve the Log6 sterilization standard. Our production team and technical team have established a set of equipment maintenance and repair procedures and talent cultivation systems to ensure the efficiency and the operation of all production lines.

We deliver our products to the markets across China by utilizing several ways of transportation including highway, railway and water transport. Our three major production bases can be connected through specific railway routes for transportation, namely the production base in Thousand-island Lake, Zhejiang Province (浙江千島湖), the production base in Mount Changbai, Jilin Province (吉林長白山) and the production base in Danjiangkou, Hubei Province (湖北丹江口), which significantly improve our transportation capability.

We have established a closed-loop quality management system covering from raw materials to sales. We implement stringent policies to manage raw materials and packaging materials suppliers regarding their admission, regular assessment and elimination based on assessment results, in order to strictly control the quality of the materials supply. Our production system has passed the certification of the three main ISO management system standards, and is continuously enhanced based on our own production processes. We have also set up a dedicated channel and product quality assurance team and information tracing system to extend our quality control to storage, transportation and sales.

We have a forward-looking, perseverant and passionate founding management team

Mr. Zhong Shanshan, our founder and Chairman of the Board, is a well-respected entrepreneur with nearly 30 years of industry experience. He has done many quintessential marketing cases. Our management team has an average of over 20 years of experience in the food and soft beverage industry and has served the Company for more than ten years on average. Our management team fully observes our belief in natural and healthy, high-quality products and is willing to patiently develop products that will satisfy consumers' future demands and have long-term values. Under their leadership, we have outstanding business performance with scale, growth potentials and profitability.

We have been actively engaged in social welfare works for a long time. Under the guidance of Mr. Zhong Shanshan, our founder and Chairman of the Board, we continuously devoted ourselves in providing supports to disaster-stricken areas, alleviating poverty, and improving education and other social issues. Our frontline sales team has been granted the decision-making right to offer donations to the disaster-stricken areas when facing natural disasters such as floods, earthquake and droughts, in order to minimize delays in decision-making. We have initiated a number of public welfare campaigns, such as the "Sunshine Project" (「陽光工程」) to help schools in less-wealthy areas to improve sports facilities, and the "Grateful to the Water Source" (「飲水思源」) project to help children and give back to people living around the water sources. We consider giving back to the communities as our responsibilities.

DEVELOPMENT STRATEGIES

Continuous Brand Building

Brand building is a long-term process. Each of our product targets different consumer groups and has personalized brand styles. We formulate differentiated plans for our brands at different development stages of a brand and design for each of these stages a matching brand image, coupled with diversified promotional strategies. Upholding the principle of natural and healthy products, we have launched a number of market-leading drinking water and beverage brands, including Nongfu Spring (農夫山泉), Tea π (茶π), Oriental Leaf (東方樹葉) and Scream (尖叫). Meanwhile, some new categories and new brands launched recently, such as 17.5º and Tan Bing (炭仌), have gradually gained recognition by consumers. We will increase our efforts on the development of products based on natural ingredients such as fruits, tea leaves, natural plants, coffee and vegetable protein, as well as the research and development on functional beverage products that would bring health benefits. We believe that only through continuous brand building with our utmost patience can we obtain long-term and stable brand equity.

For our classic brands, we strive to visualize and enrich the brand images by extending the existing brand connotation while seeking a novel way to maintain the youth and vitality of our brands to enhance consumers' recognition and emotional connection. For newly launched brands, we will continue to create high-quality content based on the very own concepts and features of the products to obtain consumers' awareness and recognition of our brands and products. We will consolidate online and offline marketing channels and strategically combine and utilize various media tools and communication methods to further enhance our brand influence and reputation.

Steady Increase in the Breadth of Distribution and Unit Retail Sales Value

Enhancement of our distribution capacity is critical to the growth of our business performance. We will continue to improve the breadth of distribution through continuous investment. The increase in distribution breadth aims to enable our products to be seen in more retail points of sale. Meanwhile we will continuously strive to increase the unit retail sales value.

We will steadily push forward the development and optimization of our distributor network, and selectively work together with entrepreneurial distributors to jointly explore the market and expand the coverage of our retail points of sale. We will continuously support distributors in strengthening their operational capabilities and improve the lean management of the coverage of retail points of sale. In addition, we will proceed with the development of sales channels with high growth rate such as the new retail channel represented by vending machines and catering channel so that we could expand our distribution breadth through greater consumer reach in different consumption scenarios.

As for improving unit retail sales value, we will step up our investment in retail points of sale. We will enhance the impact of our product display in retail points of sale and increase the frequency of consumer purchase through installation of refrigerators and warm cabinets, shelf-space optimization, offline marketing activities and other methods, thereby driving sales growth at retail points of sale.

Further Expansion of Production Capacity

We plan to further expand our production capacity strategically in order to grasp the opportunities arising from market growth and consolidate our leading position in the PRC soft beverage industry.

As of the Latest Practicable Date, we primarily planned to increase the production capacity of the production bases in Thousand-island Lake, Zhejiang Province (浙江千島湖), Wanlv Lake, Guangdong Province (廣東萬綠湖) and Mount Changbai, Jilin Province (吉林長白山).

Greater Investment in Developing Fundamental Capabilities

We will step up the investment in developing our fundamental capabilities, including but not limited to information system development, R&D capability building, and establishment of talent echelon. Such development of fundamental capabilities helps us to comprehensively optimize the operational efficiency and enhance our core competitiveness for long-term development.

We plan to continue our investment in developing information systems. We have built a database and a big data platform. Based on our big data, mathematical modeling, data mining and other technical means, we developed PaaS and SaaS data services. We plan to use our database and big data platform in various areas including performing sales volume analysis, conducting assessment and implementing incentives for our sales personnel, and monitoring the efficiency of our sales channels. We will continuously develop a middle platform system which integrates the sales data from different dimensions to improve big data analysis and incorporate our best practice gained from sales management into our information management system so that we can respond to the changes in the market trends faster and improve our operational efficiency.

We plan to continue our investment in research and development capability building to continuously strengthen our abilities in basic research, applied research and product innovation. We will keep strengthening our project cooperation with domestic and overseas universities. Such research and development capability building is conducive to our continuous development of marketing-leading products that meet consumption needs.

We will continue our investment in building a team of talents and providing better training and empowerment for the employees at all levels. More resources will be put into specific talent cultivation plans targeting key positions at all levels. The management trainee programme targeting high-caliber graduates will be further optimized. We believe that outstanding talents are crucial to our long-term success.

Exploring Overseas Market Opportunities

We are attempting to apply our manufacturing capability, supply chain management capability and sales channel expansion capability to overseas markets. We also intend to build overseas production bases.

We have planned to seek acquisition opportunities for complementary businesses with strategic significance. As of the Latest Practicable Date, apart from the acquisitions of Otakiri Springs, a New Zealand bottled water brand, we had not identified any specific acquisition targets, nor had we negotiated with any specific acquisition targets. We hope to use our acquisitions of Otakiri Springs to try to apply our manufacturing capabilities, supply chain management capabilities and sales channel expansion capabilities in overseas markets.

OUR BRANDS AND PRODUCTS

Overview

We have the following product categories:

(i) packaged drinking water products, including natural drinking water and natural mineral water;

(ii) tea beverage products, primarily including tea beverage Tea π (茶π) and sugar-free tea beverage Oriental Leaf (東方樹葉);

(iii) functional beverage products, including Scream (尖叫) and Victory Vitamin Water (力量帝維他命水);

(iv) juice beverage products, including low concentration juice Water Soluble C100 (水溶C100), medium concentration juice Farmer's Orchard (農夫果園), and not-from-concentrate juice, including Nongfu Spring (農夫山泉) NFC juice series and 17.5° juice series; and

(v) other products, primarily including other beverage products such as coffee beverage, soda water beverage, sparkling flavored beverage and plant-based yogurt products, and agricultural products such as fresh fruits.

The table below sets forth a breakdown of revenue contribution from our five product categories for the periods indicated.

	Year ended December 31,						Five Months Ended May 31,			
	2017		2018		2019		2019		2020	
	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue
							(Unaudited)			
Packaged drinking water products	10,120	57.9%	11,780	57.5%	14,346	59.7%	5,602	56.5%	5,360	61.9%
Tea beverage products	2,597	14.8%	3,036	14.8%	3,138	13.1%	1,479	14.9%	1,166	13.5%
Functional beverage products	2,936	16.8%	3,322	16.2%	3,779	15.7%	1,837	18.5%	1,085	12.5%
Juice beverage products	1,468	8.4%	1,855	9.1%	2,311	9.6%	870	8.8%	752	8.7%
Other products(1)	370	2.1%	482	2.4%	447	1.9%	129	1.3%	301	3.4%
Total	**17,491**	**100.0%**	**20,475**	**100.0%**	**24,021**	**100.0%**	**9,917**	**100.0%**	**8,664**	**100.0%**

Note:

(1) Other products primarily include other beverage products such as coffee beverage, soda water beverage, sparkling flavored beverage and plant-based yogurt products, and agricultural products such as fresh fruits.

The table below sets forth the launch time, volume/weight and price at the retail points of sale of our main products.

Product Category	Product	Launch Time	Individual Container Volume/Weight	Suggested Retail Price
Packaged drinking water products	Drinking natural water	1997	380ml to 19L	RMB1.5 to RMB26.0
	Natural mineral water (with functional sports bottle cap)	2015	400ml and 535ml	RMB3.0
	Drinking natural water (suitable for infants and young children)	2015	1L	RMB9.0
	Natural mineral water (glass bottled)	2015	350ml and 750ml	RMB30.0 and RMB45.0
	Natural mineral water (containing lithium)	2019	535ml	RMB5.0 to RMB7.0

Product Category	Product	Launch Time	Individual Container Volume/Weight	Suggested Retail Price
Tea beverage products	Tea π (茶π)	2016	250ml to 900ml	RMB3.0 to RMB7.0
	Oriental Leaf (東方樹葉)	2011	335ml and 500ml	RMB4.0 and RMB5.0
Functional beverage products	Scream (尖叫)	2004	550ml	RMB4.0
	Victory Vitamin Water (力量帝維他命水)	2010	250ml and 500ml	RMB3.0 and RMB4.5
Juice beverage products	Farmer's Orchard (農夫果園) (30% juice)	2003	500ml to 1.8L	RMB4.0 to RMB10.0
	Farmer's Orchard (農夫果園) (50% juice)	2019	250ml to 1.25L	RMB3.0 to RMB10.0
	Water Soluble C100 (水溶C100)	2008	250ml and 445ml	RMB3.0 and RMB5.0
	Nongfu Spring (農夫山泉) NFC juice series	2016	300ml and 900ml	RMB8.0 and RMB21.5
	17.5° juice series	2016	330ml and 950ml	RMB13.9 and RMB29.9
Other products	Tan Bing (炭仌) coffee beverage	2019	270ml	RMB9.9
	Soda water beverage	2019	410ml	RMB4.0
	TOT sparkling flavored beverage	2020	380ml	RMB4.0
	Plant-based yogurt products	2019	135g	RMB9.9
	17.5° fresh oranges	2014	2.5kg/box to 15kg/box	RMB45 to RMB350
	17.5° fresh apples	2015	3.3kg/box to 10kg/box	RMB62 to RMB225
	Rice from northeast China	2018	12kg/box to 25kg/box	RMB186 to RMB290

Packaged Drinking Water Products

We produce and sell packaged drinking water products under the brand "Nongfu Spring" (「農夫山泉」), including drinking natural water and natural mineral water. During the Track Record Period, packaged drinking water products were our main product category. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, the revenue from the packaged drinking water products accounted for 57.9%, 57.5%, 59.7%, 56.5% and 61.9% of our total revenue, respectively.

We adhere to the principle that "every drop of Nongfu Spring has its source" (「每一滴農夫山泉都有它的源頭」). All of our production bases of packaged drinking water are built in close proximity to the water sources. See "– Water Sources." We treat the natural water with the necessary process, including filtration and sterilization. As a result, our packaged drinking water products contain the natural minerals that are beneficial to human body, such as potassium, sodium, calcium, magnesium and metasilicate.

In order to meet the various consumption demands, we produce and sell packaged drinking water products comprising a broad range of individual container volumes, including (i) small-size products with the individual container volume ranging from 380ml to 750ml, and (ii) medium- to large-size products with the individual container volume ranging from 1.5L to 19L.

Since 2015, we have launched targeted packaged drinking water products for consumers in various market segments and specific drinking scenarios, including:

- Natural mineral water (with functional sports bottle cap), which is designed to be uncapped with one hand and to avoid leakage. Its target consumers include people who like to exercise.

- Drinking natural water (suitable for infants and young children), which contains the amount of minerals suitable for infants and young children. The amount of its microbiological content meets the requirement of commercial sterilization.

- Natural mineral water (glass bottled), including sparkling water and still water, which is positioned as a high-end product for conference or banquet purpose. It was specified as the drinking water in the 2016 G20 Hangzhou Summit, the 2017 Belt and Road Forum for International Cooperation and the 2017 BRICS Summit. The design of such product lasted for three years and won five international design awards, including D&AD Awards (Wood Pencil), FAB Awards, The Design Week Awards, Dieline Awards and Pentawards.

- Natural mineral water (containing lithium), which contains lithium that is related to the human nervous system. Its target consumers include middle-aged and elderly people.

We set forth below the pictures of our packaged drinking water products.

Drinking natural water
(small-size)

Drinking natural water (medium- to large-size)

Natural mineral water
(with functional sports
bottle cap)

Natural mineral water
(containing lithium)

Drinking natural water (suitable
for infants and young children)

Natural mineral water
(glass bottled)

Tea Beverage Products

We have two tea beverage products, Tea π (茶π) and sugar-free Oriental Leaf (東方樹葉). Tea π (茶π) has five flavors, namely peach oolong tea, pomelo green tea, grapefruit jasmine tea, lemon black tea and rose lychee black tea. Oriental Leaf (東方樹葉) has four flavors, namely oolong tea, jasmine tea, black tea and green tea, which represent classic Chinese tea. We produce our Tea π (茶π) and Oriental Leaf (東方樹葉) with fresh tea leaves as raw materials through advanced extraction techniques and aseptic cold filling techniques to retain the tea's color, smell and taste as much as possible.

We set forth below the pictures of our tea beverage products.

Tea π (茶π)

Oriental Leaf (東方樹葉)

Functional Beverage Products

Our functional beverage products primarily comprise Scream (尖叫) and Victory Vitamin Water (力量帝維他命水), both targeting the consumers who pursue a healthy lifestyle.

Our Scream (尖叫) product series comprise three types, namely the fiber type, the polypeptide type and the plant type, each containing specific nutrients and tastes. The fiber type supplies electrolytes, Vitamin B Complex and soluble dietary fiber. The polypeptide type efficiently replenishes the lost mineral substance which are excreted in perspiration and is supplied by soybean peptides. The plant type provides energy and electrolytes as well as taurine and Vitamin B Complex. In 2019, we launched two new flavors of Scream (尖叫) products, namely white peach and green mango, with a new packaging style.

Our Victory Vitamin Water (力量帝維他命水) has six different nutrition formulae to satisfy different demands for the vitamin, with six flavors, namely blueberry and raspberry, pomegranate and blueberry, tropical fruits, lemon, lactic acid bacteria, and orange. The capsule-shaped bottle design conforms to its brand image of youth, modern and health.

We set forth below the pictures of our functional beverage products.

Scream (尖叫)

Victory Vitamin Water (力量帝維他命水)

Juice Beverage Products

Our juice beverage products include low concentration juice, medium concentration juice and not-from-concentrate juice products.

Water Soluble C100 (水溶C100) is our brand for low concentration juice, which contains 12% fruit juice and has three flavors, namely lemon, grapefruit and green orange. Each regular bottle of a Water Soluble C100 (水溶C100) product contains an amount of vitamin C which equals to that from five and a half fresh lemons, and has a unique sweet and sour taste.

Farmer's Orchard (農夫果園) is our brand for medium concentration juice. Farmer's Orchard (農夫果園) product series include the product containing 30% fruit juice, which has three flavors, namely carrot and orange, tomato and strawberry, and pineapple and mango, as well as the product containing 50% fruit juice, which was launched in 2019 and has two new flavors, namely grape and peach.

Our Nongfu Spring (農夫山泉) NFC juice series and 17.5° juice series are not-from-concentrate juice. The Nongfu Spring (農夫山泉) NFC juice series includes both the room-temperature products and refrigerated products, while 17.5° juice series includes only refrigerated products. We produce our not-from-concentrate juice products with not-from-concentrate juice without adding any water. As a result, such products retain the nutrition and taste of the fresh fruits. We have built an apple processing and juicing base in Xinjiang Uygur Autonomous Region and an orange processing and juicing base in Jiangxi Province. Such bases provide raw materials for our not-from-concentrate juice products.

We set forth below the pictures of our juice beverage products.

Water Soluble C100 (水溶C100)

Farmer's Orchard (農夫果園)

Not-from-concentrate juice products

Other Products

Other than the above mentioned products, we also launched in 2019 coffee products under the brand Tan Bing (炭仌), soda water beverage, sparkling flavored beverage and plant-based yogurt products. Such products help to increase our sales scale. In addition, we also sell agricultural products, including 17.5° fresh oranges, 17.5° fresh apples and rice. Such products help to strengthen our brand popularity and brand trust by consumers.

We set forth below the pictures of our coffee beverage, soda water beverage, sparkling flavored beverage, plant-based yogurt products and agricultural products.

Tan Bing (炭仌) coffee beverage

Soda water beverage

TOT sparkling flavored beverage

Plant-based yogurt products

Agricultural products

MARKETING, SALES AND CUSTOMERS

Marketing and Promotion

We implement a multi-brand strategy. We have long-term plans for our brands and strong brand communication capabilities. We develop differentiated brand planning, image designs and promotion strategies based on the development stages of each brand. Many of our slogans are well recognized by the consumers, including:

Main Brands	Main Slogans
Nongfu Spring (農夫山泉)	"Nongfu Spring tastes a bit sweet" (「農夫山泉有點甜」) "We are not manufactures of water. We are porters of nature" (「我們不生產水，我們只是大自然的搬運工」) "The quality of the water source defines the quality of life" (「什麼樣的水源，孕育什麼樣的生命」)
Tea π (茶π)	"Tea π, Be My Own Style" (「茶π，自成一派」)
Oriental Leaf (東方樹葉)	"Traditional Chinese tea, marvelous Oriental Leaf" (「傳統的中國茶，神奇的東方樹葉」)
Scream (尖叫)	"Scream rather than heartbeat" (「與其心跳，不如尖叫」)
Victory Vitamin Water (力量帝維他命水)	"Replenish Vitamin Anytime and Anywhere" (「隨時隨地補充維他命」)
Water Soluble C100 (水溶C100)	"Meet the Daily Requirement of Vitamin C " (「滿足每日所需維生素C」)
Farmer's Orchard (農夫果園)	"Farmer's Orchard, shake before drink" (「農夫果園，喝前搖一搖」)

We are committed to conveying the spirit and proposition of the brands to the consumers. We have launched a series of micro-movies, among which the "Porters" series showcases the real and ordinary daily work of our employees or cooperative partners to convince our customers that we do not take shortcuts, we work in a down-to-earth manner, and we achieve extraordinary brand pursuits in the ordinary. This series of micro-movies include:

- "A Story You Never Knew", which records the process of Fang Qiang, our senior water source explorer, travelling to the hinterland of Mount Changbai, Jilin Province for the 78th time in a walk of over hundred kilometers to search for the Moya Spring, a premium underground artesian spring, in the cold winter with a temperature of minus 30° C.

- "One Hundred and Twenty Miles", which shows the process of Xiao Shuai, a water source inspector of the production base in Mount Wuling, Guizhou Province, taking source water samples from the seven-stream water spring in Mount Wuling and monitoring the water quality there twice every week after walking through a mountain road which is 35 to 40 km each way.

- "One Man's Island", which tells a story of Xu Zhongwen, a water source monitor of Thousand-island Lake, Zhejiang Province, who is stationed on an island with the width of less than 30 meters, to safeguard the water source conservation area.

- "A One-Day Holiday", which tells the story of Rao Minghong, the director of the production plant in Fusong, Mount Changbai, Jilin Province, who was transferred from Thousand-island Lake, Zhejiang Province, and reunited with his families for only one day during the Spring Festival and rushed back to the plant the next day in order to speed up the launch of the new plant.

- "Lifeline of Mount Taibai", which tells the story of Sun Wenlin, a porter in Mount Taibai, Shaanxi Province, who carried 82.5kg of water, walked for 6 hours, and travelled to the ridge of 3,700 meters above sea level, in order to deliver our products to the canteen on top of the mountain every day so that tourists there could have water to drink.

The "Nature" series of our micro-movies showcases the vibrant ecological environment of spring, summer, autumn, and winter in the water source in Mount Changbai, Jilin Province, vividly illustrating that "the quality of the water source defines the quality of the life creature". We believe that these micro-movies have been widely recognized by consumers, and have enhanced the brand reputation and consumer loyalty.

We focus on the pre-planning, promotion rhythm and integration of the online and offline marketing methods in brand promotion. Taking the launch of Tea π (茶π) as an example, after we announced that a well-known Asian pop group became the brand ambassador of Tea π (茶π), we immediately launched the free trial activity in JD.com and the "Opening gifts" (「揭蓋好禮」) offline campaign. The advertisements showing the hard work behind the brand ambassador's "Be My Own Style" (自成一派) resulted in active discussion and praise from the fans. We communicated with the consumers in various touch points through launching the brand ambassador's 10th anniversary edition packaging, sponsoring the brand ambassador's tour, brand ambassador's recommendation on WeChat, carrying out large-scale offline theme display activities in retail points of sale and campuses. Such integrated marketing contributed to the revenue of more than RMB1,600 million from Tea π (茶π) in the year of its launch, which was 2016. According to the F&S Report, Tea π (茶π) was the new beverage product that recorded the highest retail sales value in its first 12 months of launch in China during the decade from 2010 to 2019.

We put great emphasis on communication with young people. We enter the campuses to disseminate water knowledge among the teenagers, and host teenagers' study tours in our production plants. We reach out to young people through various channels and touch points, including advertising, campaigns using bottle labels, variety show title sponsorship, product placement in films or television programmes, celebrity endorsements, sports event sponsorship, social media marketing, and cross-industry cooperation. In 2017, we cooperated with NetEase Cloud Music to launch a joint activity called "Music Bottle" (「樂瓶」). We selected 52 music reviews and printed them on the bottles of "Music Bottle". Approximately 400 million bottles of "water with story" (「有故事的水」) that we launched during this activity evoked strong emotional resonance among consumers. We have anniversary edition of Nongfu Spring Chinese zodiac version of natural mineral water (glass bottled) during each Spring Festival since 2016, to express our gratitude to the consumers through the "Not for sell" (「只送不賣」) campaign.

We have a professional and experienced brand operation team, which has created many classic cases in the field of marketing. During the Track Record Period, we won many awards, including Gold Award in Content Marketing Category of IAI International Advertising Awards (「IAI國際廣告獎內容營銷類金獎」), Gold Award for Entertainment Marketing IP of Golden Pupil Awards (「金瞳獎娛樂營銷IP類金獎」), Gold Award of Topdigital Awards (「Topdigital Awards金獎」), and Gold Award in Creative Communication Category of Golden Mouse Best Media Strategy Awards (「Golden Mouse 最佳媒介策略獎與創意傳播類金獎」).

Sales and Customers

We have a nationwide sales network, covering all provinces, municipalities and prefecture-level administrative divisions across China. We sell our products through traditional channel, modern channel, catering channel, e-commerce channel and other channels (such as the new retail channel represented by vending machines). For definitions of such channels, see "Industry Overview – Sales Channels."

We mainly operate a single-layer distribution system where we engage the distributors to distribute our products. Typically, our distributors directly sell our products to supermarkets, chained convenience stores, grocery stores, e-commerce platforms and restaurants. We sold products to over 3,800 distributors in each year during the Track Record Period. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, the revenue from the distribution to our distributors was RMB16,610 million, RMB19,362 million, RMB22,623 million, RMB9,432 million and RMB8,112 million, accounting for 95.0%, 94.6%, 94.2%, 95.1% and 93.6% of our total revenue, respectively. Our distributors pay us in advance before they can receive our products. We typically do not accept return or exchange of products from our distributors. Our distributors sell our products in a predetermined geographic area through specific channels. Within their authorized areas, we require our distributors to maintain the market order of our products in the aspects including (i) maintaining the stability of supply and retail prices of our products, (ii) maintaining the brand image of our products, and (iii) providing after-sales services.

When our distributors cannot directly cover the rural markets in their authorized areas, they may sell our products to sub-distributors. Our sales management personnel may visit the sub-distributors and their retail points of sale from time to time, to learn more about the market conditions, sales conditions, inventory and their recommendations regarding our business operation. We typically do not have any contractual relationship with such sub-distributors. According to the F&S Report, this is an industry norm in the soft beverage industry.

From 2020, in order to further enhance our market penetration, we have selectively entered into tripartite agreements among our distributors, us and a few sub-distributors who have market potentials in the rural market. We plan to strengthen our communication with such sub-distributors to obtain market intelligence regarding the rural markets. We do not have any purchase, payment or other direct transactions with such sub-distributors. Such sub-distributors purchase from our distributors. We obtain information regarding the sales of such sub-distributors through the sales data reported by our distributors in the NCP system. As of the Latest Practicable Date, we selectively entered into tripartite agreements with 45 sub-distributors. Material terms of such tripartite agreements include:

- *Duration.* The duration of the tripartite agreements is typically no longer than one year.

- *Predetermined distribution area.* The parties set a predetermined distribution area of the sub-distributor. The sub-distributor shall sell our products within such predetermined distribution area.

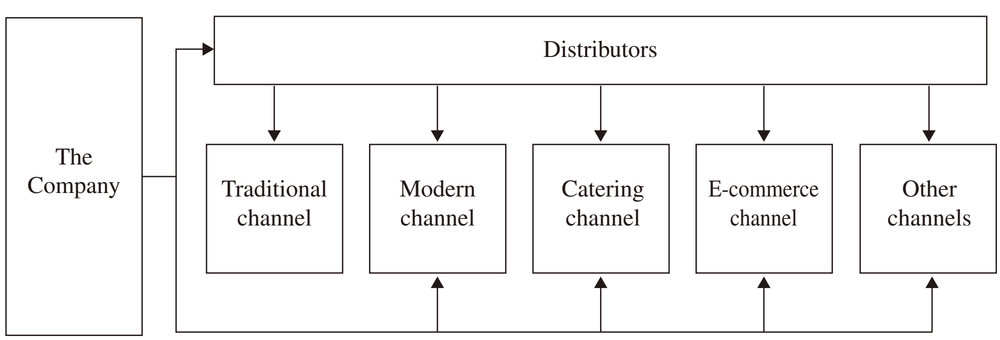
- *Distribution arrangements.* Distribution arrangements shall be separately agreed by our distributors and such sub-distributors. We typically do not take responsibility of any costs or fees arising from the sub-distributors' distribution activities.

- *Operation support.* Our distributors shall provide support to such sub-distributors regarding their marketing, training and equipment.

- *Operation requirements.* Sub-distributors shall comply with our management policy on preventing good-fleeing.

In addition, we also adopt a direct sale model to certain customers. We identify direct sale customers by taking into considerations their reputation, industry experience, synergies with our business and purchase amount. Our direct sale customers mainly include national or regional supermarkets, chained convenience stores, e-commerce platforms, restaurants, airlines and large corporate customers. As of May 31, 2020, we had 247 direct sale customers. In the five months ended May 31, 2020, three of our five largest customers were direct sale customers.

The chart below illustrates the structure of our sales channels.



The table below sets forth a breakdown of revenue contribution from our customers for the periods indicated.

	Year ended December 31,						Five Months Ended May 31,			
	2017		2018		2019		2019		2020	
	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue
Sales to distributors	16,610	95.0%	19,362	94.6%	22,623	94.2%	9,432	95.1%	8,112	93.6%
Sales to direct sale customers	881	5.0%	1,113	5.4%	1,398	5.8%	485	4.9%	552	6.4%
Total	**17,491**	**100.0%**	**20,475**	**100.0%**	**24,021**	**100.0%**	**9,917**	**100.0%**	**8,664**	**100.0%**

During the Track Record Period, our revenue was mainly derived from the traditional channel and modern channel. In 2017, 2018 and 2019 and the five months ended May 31, 2020, our revenue from the traditional channel amounted to RMB13,881 million, RMB15,496 million, RMB17,596 million and RMB6,401 million, accounting for 79.4%, 75.7%, 73.3% and 73.9% of our total revenue, respectively. During the same periods, our revenue from the modern channel amounted to RMB1,943 million, RMB2,431 million, RMB2,932 million and RMB1,012 million, accounting for 11.1%, 11.9%, 12.2% and 11.7% of our total revenue, respectively.

In 2017, 2018 and 2019 and the five months ended May 31, 2020, our revenue from the five largest customers in total amounted to RMB643 million, RMB890 million, RMB1,139 million and RMB439 million, accounting for 3.7%, 4.2%, 4.8% and 5.1% of our total revenue, respectively. In 2017, 2018 and 2019 and the five months ended May 31, 2020, our revenue from the single largest customer amounted to RMB267 million, RMB358 million, RMB438 million and RMB196 million, accounting for 1.5%, 1.7%, 1.8% and 2.4% of our total revenue, respectively. All of our five largest customers during the Track Record Period were independent third parties.

Our Customers – Distributors

Our distributors are generally local distributors who are experienced in the distribution of packaged drinking water and beverage products. They have reasonable capital, professional service team, vehicles and warehousing facilities to cover extensive local retail points of sale. Our distributors are required to sell only in a predetermined geographic area through specific channels. Our distributors are not required to exclusively distribute our products. Based on our approval, some distributors may operate online stores on e-commerce platforms and sell our products online. We assess and select our distributors per annum. They need to go through certain bidding process to win the distributorship of our products. The relationship we have with distributors is a buyer and seller relationship.

We do not rely on any single distributor or a few distributors. We worked with over 3,800 distributors in each year during the Track Record Period. Our revenue from any single distributor accounted for no more than 1.0% of our total revenue during the Track Record Period. In each of 2017, 2018 and 2019 and the five months ended May 31, 2020, only two of our five largest customers were distributors and the other three were direct sale customers.

We strictly forbid existing employees to work for or have equity in our distributors. During the Track Record Period, the legal representatives, principals in charge or professional managers of our certain distributors were our former employees. During the Track Record Period, the total revenue from such distributors accounted for no more than 4% of our total revenue. When any former employee of ours becomes an employee of our distributor or has equity in our distributors, we require our distributor to notify us. In addition, our internal control policy ensures us to treat in an equal manner those distributors that our former employees work for or have equity in as the way we treat other distributors. To the best of our knowledge after reasonable inquiry, all of our distributors were independent third parties as of the Latest Practicable Date.

The table below sets forth the total number of the distributors and their movements (including addition and termination) for the periods indicated.

	Year Ended December 31,			Five Months Ended May 31,
	2017	**2018**	**2019**	**2020**
Number of distributors at the beginning of the period	4,317	3,876	3,841	4,280
Number of new distributors	884	960	928	196
Number of terminated distributors	1,325	995	489	22
Number of distributors at the end of the period	3,876	3,841	4,280	4,454

We stringently review our business relationship with distributors through the annual assessment and selection of distributors. Due to the continuous growth of our business scale, we require distributors to have a corresponding improvement in their business capability. In 2017, 2018 and 2019 and the five months ended May 31, 2020, we terminated business relationship with 1,325, 995, 489 and 22 distributors, respectively. The termination of our business relationship with these distributors was primarily due to the following reasons: (i) breach of the distribution agreement by the distributors, (ii) poor business performance of the distributors, and (iii) change of key business of the distributors or any other personal reasons. During the Track Record Period and up to the Latest Practicable Date, there were no material unsettled disputes or litigations with such terminated distributors. As the quality and business capability of our distributors in general have gradually become more stable and sophisticated, the number of distributors whom we terminated was decreasing year by year during the Track Record Period. Taking into account a combination of our business development needs and the number of distributors with whom we terminated cooperation, we engaged 884, 960, 928 and 196 new distributors in 2017, 2018 and 2019 and the five months ended May 31, 2020, respectively. We generally assess and select our distributors in the fourth quarter per annum. The revenue contribution of the new distributors in the year of their engagement was relatively low due to the short operating period in the year. The table below sets forth the revenue contribution from the new distributors and terminated distributors for the periods indicated.

	Year Ended December 31,		
	2017	2018	2019
	RMB (million)		
Revenue from new distributors in the year(1)	778	1,026	847
Revenue from new distributors in the following year(2)	N/A	2,726	3,365
Revenue from terminated distributors in the year(3)	2,444	2,500	1,417

Notes:

(1) Refers to the revenue from the new distributors generated in the year of their engagement, which was generally low.

(2) Refers to the revenue from the new distributors generated in the following year of their engagement.

(3) Refers to the revenue from the terminated distributors in the year of their termination.

We value our distributors' business operation capabilities and their cooperative relationships with us. As of May 31, 2020, the average duration of the business relationships with our distributors was approximately four years. We also had more than 300 distributors with whom the duration of the business relationships was over ten years.

During the Track Record Period, we had an overseas distributor who sold Tea π (茶π) in South Korea. In 2017, 2018 and 2019 and the five months ended May 31, 2020, the revenue from such distributor was RMB0.02 million, RMB0.84 million, RMB1.57 million and RMB1.12 million, respectively.

As of the Latest Practicable Date, we did not have any specific plans to engage more overseas distributors or to increase the overseas sales. In addition, the local proceedings in New Zealand were still in progress and subject to uncertainty. As a result, we did not have any specific plans to develop our business overseas.

Major Terms of Distribution Agreements

We typically enter into standard distribution agreements with our distributors per annum. Major terms of our standard distribution agreements include:

- *Duration*. The duration of distribution agreements is typically one year.

- *Type of distributor*. We categorize our distributors based on their assigned sales channels.

- *Predetermined distribution area*. We do not allow our distributors to distribute our products outside their predetermined distribution areas.

- *Sales target*. We set monthly and annual sales targets for our distributors, including brands and channels. We conduct evaluation and inspection of their performance, based on which we determined the incentive scheme. We will not terminate the business relationship with our distributors solely because a distributor fails to achieve their monthly sales target in a given month.

- *Market target*. We set market performance targets for our distributors, including increasing the number of retail points of sale, expanding product display, stabilizing product prices and managing stock age of our products.

- *Specification requirements*. We require our distributors to have the ability to distribute our products and satisfy our requirements on working capital, staff, vehicles, warehouse and others (including office facilities, business-related auxiliary facilities and equipment).

- *Order placement*. We require our distributors to place their orders through our NCP system.

- *Payment*. We require our distributors to make payment into our designated account through bank transfer before the delivery of products.

- *Logistics*. If we are responsible for delivering our products to the distributor's designated warehouses, we shall bear the delivery charges.

- *Warehouses*. We require our distributors to store our products in accordance with our guidelines.

- *Product ownership*. The product ownership shall be transferred to our distributors once they take delivery from the railway department or the deadline for taking delivery expires if the products are transported by railway; the product ownership shall be transferred to our distributors once they sign on the waybill if the products are transported by truck; the product ownership shall be transferred to our distributors once the products are loaded onto trucks if our distributors pick up the products themselves. We typically do not accept return or exchange of products from our distributors.

- *Anti-commercial bribery and confidentiality*. We prevent our distributors from bribery or leakage of our commercial secrets to any third parties.

- *Termination*. We list several conditions that may result in the breach of contract in the distribution agreements. We are entitled to terminate the distribution agreements if our distributors breach the distribution agreements.

In addition, we have a series of management policies to manage our distributors, including:

- *Management on prices*. We provide our distributors with suggested retail prices of our products. Our distributors shall not take any actions that may materially disrupt the retail prices of our products.

- *Management on good-fleeing*. Any sales by our distributors outside the predetermined geographic area or non-store sales by the distributors without our prior approval will be deemed as good-fleeing. We are entitled to terminate the distribution agreements with any distributors that engage in serious good-fleeing on one or more occasions or minor good-fleeing on three or more occasions.

- *Management on marketing expenses*. We require our distributors to make annual marketing budgets. We may give our distributors certain price discounts if they achieve relevant sales targets or market targets.

We have an audit and inspection team, who will assist in managing our distributors and reviewing the performance of the distribution agreements. See "– Audit and Inspection Team."

Information System of Managing Distributors – NCP System

Our NCP system is designed to help us to efficiently manage the collaborative relationships with our distributors. The NCP system comprises two parts, namely the management system of distributors, and the management system of retail points of sale. The functions of the management system of distributors include discretionary order placement by distributors, management on purchase-sale-stock, and statement of account. All of our distributors use such system and share with us the information about purchase-sale-stock. The management system of retail points of sale is mainly used by the frontline sales personnel of distributors and our sales management personnel. Such system includes mobile app version and computer version. The frontline sales personnel use the mobile app version to manage displayed activities and expenses in retail points of sale, take and upload photos of the displayed status in retail points of sale, and manage sales equipment such as refrigerators in their responsible sales region. Our sales management personnel also use such system to find out about the daily work and marketing performances of the frontline sales personnel. They can make a plan of on-site visit route to the retail points of sale through the computer version of the NCP system.

Inventory Management on Distributors

We require distributors to use our NCP system, based on which we keep track of and analyze the inventory level of distributors. Our NCP system generates inventory alerts based on a combination of the historical data and distribution performance, helping us to provide guidance with regard to distributors' distribution activities in a timely manner. Such alerts and guidance aim to prevent stock accumulation by distributors. We have sales management personnel at provincial and municipal levels covering the regions where our products are sold. We require such personnel to coach our distributors, inspect the retail points of sale, and review the inventory balances and sales performance of distributors on a regular basis. Distributors' inventory is one of the factors we consider in renewing contract with them. We may not renew contract with a distributor who is discovered to have an unreasonable inventory level through the information system or during our on-site inspection.

We have specifically established an audit and inspection team consisting of more than 300 employees. We regularly perform on-site stock-taking on distributors as well as sample checks on their implementation of market activities, product selling in retail points of sale, and stock age, in order to control business risks in all material aspects. See " – Audit and Inspection Team."

Our Direct Sale Customers

Our direct sale customers mainly include national or regional supermarkets, chained convenience stores, e-commerce platforms, restaurants, airlines and large corporate customers. As of May 31, 2020, we had 247 direct sale customers. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, the revenue from such customers accounted for 5.0%, 5.4%, 5.8%, 4.9% and 6.4% of our total revenue, respectively. During the same period, three of our five largest customers were direct sale customers, respectively.

We believe that the business partnerships with direct sale customers are beneficial to strengthening our market leadership and enable us to better serve large-scale customers. For example, we can make sales plans and marketing plans for national or regional leading supermarkets and chained convenience stores. As a result, our products may be displayed and sold in the retail points of sale of such customers more efficiently. We can also directly receive consumers' feedbacks on our products from such retail points of sale, which help us to adjust our marketing strategies in a timely manner and control the direction of research and development of our products. Furthermore, with the business relationship with our e-commerce platform customers, we can promote our brands and display our products in a better way, and enhance our brand image.

We generally enter into annual sales agreements with our direct sale customers. Material terms of the annual sales agreements with our direct sale customers include:

- *Duration.* The duration of the annual sales agreements is typically one year.

- *Order placement.* Our direct sale customers may place orders in various forms including contracts, electronic orders and emails. Some direct sale customers may also place orders through our order-placement system.

- *Logistics.* We engage third-party logistics service providers to deliver the products purchased by our direct sale customers to their designated places.

- *Product ownership.*

  - If the products are transported by railway, the product ownership shall be transferred to our direct sale customers once they take the products from the railway department or the deadline for taking the products expires;

  - If the products are transported by truck, the product ownership shall be transferred to our direct sale customers once they sign on the waybill; and

  - If our direct sale customers pick up the products themselves, the product ownership shall be transferred to them once the products are loaded onto trucks.

- *Return or exchange of products.* We may, conditionally or unconditionally, accept return or exchange of the products from our direct sale customers, depending on the agreements. Such situations primarily include damages occurred in the sales process, seasonal products exceeding their marketable time, and returns for no reasons within seven days from the date of receipt of the products by direct sale customers, which is a common practice in the food and beverage industry according to the F&S Report.

- *Minimum purchase.* We may impose minimum purchase requirements on our direct sale customers in consideration of logistic expenses.

- *Credit period.* We generally grant our direct sale customers a credit period not exceeding three months.

- *Termination.* Parties are entitled to terminate the annual sales agreements if the other party materially breaches such agreements.

We generally only grant credit periods to direct sale customers who make relatively large purchases and have good credit records. All customers who wish to trade on credit terms are subject to our credit verification procedures. In addition, our receivable balances are monitored on an ongoing basis. See "Financial Information – Disclosure about Financial Risk – Credit Risk." In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, the value of returned products represented 0.08%, 0.08%, 0.06%, 0.08% and 0.07% of our total revenue, respectively.

Pricing

We price our products based on various factors, primarily including product positioning, competition, sales channels and production costs. We provide our distributors with suggested retail prices of our products. Our distributors shall not take any actions that may materially disrupt the retail prices of our products. Our sales management team periodically review our distributors' resale prices and the retail prices in retail points of sale. For details of the suggested retail prices of our products, see "– Our Brands and Products – Overview."

Seasonality

The soft beverage consumption is subject to seasonal variations. We typically experience higher sales revenue in the second and third quarters of the year when the weather is warmer and drier in China than the first and fourth quarters of each year. We typically experience the minimum sales revenue in the fourth quarter of each year. Sales revenue can also fluctuate throughout the year for other reasons, including the timing of new product launches, and the timing of advertising and promotional campaigns.

WATER SOURCES

We believe that stable and sustainable natural quality water sources are key to our business operations. Each of the water sources has gone through procedures including long-term water quality monitoring, water supply inspection, feasibility evaluation of water-taking and the assessments of plant establishment conditions. As of May 31, 2020, we had obtained water-taking permits or under a few circumstances entered into water supply agreements with third party state-owned water supply companies that possess water-taking permits in ten natural quality water sources across China, and we have constructed production bases in proximity to such areas. The map below sets forth the geographic location of such ten natural water sources.

For details of such water sources, see "— Details of the Natural Water Sources and Water Extraction."

Water is a public resource subject to government regulations in China. During the Track Record Period, we primarily gathered water directly from water sources as we possessed the water-taking permits or mining permits (which are only applicable to mineral water). Under a few circumstances, we entered into water supply agreements with third-party state-owned water supply companies that possessed the water-taking permits and purchased water from them. We pay water resource fee (or water resource tax as required by local governments) and mineral resource tax (which are only applicable to mineral water) regularly in accordance with relevant laws and regulations. During the Track Record Period, our production had not been affected by any shortage of water or failure to renew the water-taking permits. We expect that any shortage of water or failure to renew the water-taking permits is unlike to happen in the future.

Identifying Water Sources

Before becoming the water source where we take water from, a water source must pass our preliminary screening and a series of review and approval processes of the governmental authorities. Our preliminary screening of water sources includes long-term water quality monitoring, water supply inspection, feasibility evaluation of water-taking and the assessments of plant establishment conditions in respect of the potential water sources. We collect geographical features and hydrological information of a potential water source and inspect the surrounding environment to see whether there are any pollution sources, and whether the water source has self-purification ability. We may continuously track and monitor the potential water source based on at least 143 water quality indicators for as long as several years, and cooperate with various third-party professional institutions to draft plans or reports in order to have comprehensive assessment and analysis of the water source during the period. We draft a preliminary water-taking plan based on the terrain conditions, water quality features and other factors of the water source and identify land parcels qualified for plant establishment in proximity to the water source.

We formulate a project plan for the potential water source based on our preliminary screening. We typically engage a third-party professional institution with the qualification of an engineering consulting entity to prepare a feasibility study report, which is submitted to the relevant local governmental authorities for filing. The feasibility study report mainly includes construction conditions and site selection, environmental protection, safety and fire prevention, energy conservation, estimated investment and financial evaluation.

In addition, we engage a third-party professional institution with the qualification of water resource evaluation of construction project to conduct the water resource evaluation in accordance with the Regulation on the Administration of the License for Water Drawing and the Levy of Water Resource Fees. The evaluation includes analysis of water resources and development status of the place where the project is located, and evaluation of water usage reasonableness, water-taking sources (including surface water and underground water), water-taking impacts and water retraction impacts of the project. A comprehensive assessment and evaluation will be conducted with regard to the influences on water resources from the perspectives of water-taking points, water-taking methods, impacts on water resources, impacts on water function zones, impacts on other water users in the area and water resource protection measures of the project. A specific water resource evaluation report will be issued. In order to prepare the water resource evaluation report, the third-party professional institutions will comprehensively consider, among others, multi-year average water volume from upstream, estimated water-taking volume of the project, downstream ecological flow and extraction volume of other users, to evaluate the reasonableness of the extraction volume to be applied for. In some cases, we also engage a third-party professional institution to prepare a water well completion report. A comprehensive assessment will be conducted in respect of the well construction work overview, water pumping test, permitted exploration volume and water quality assessment of motor-pumped wells, and underground water exploration and utilization plans. Drilled wells, installed pumps and laid pipelines are part of the water-taking plan. The local governmental authorities responsible for the approval of water-taking permits will arrange experts to conduct an expert review on the water-taking plan of the project, including the reasonableness of the water extraction volume. The water-taking permit will be issued by relevant local governmental authorities only after the potential water source passes the expert review.

If the potential water source is composed of mineral water, we also need to engage a third-party professional institution to prepare a mineral water resource survey implementation plan in accordance with the Notice of the Ministry of Land and Resources on Further Regulating the Mining Right Application Materials, in order to conduct a study on the regional geological background, survey methods and technological requirements, and to standardize the survey criteria. The competent provincial department of land and resources will organize a review on the above plan. A mining exploration right will be granted to us only after the above plan passes the review and the mining right transfer fee is paid. For a potential water source where we have already obtained a mining exploration right, we engage a third-party professional institution to prepare a mineral water resource survey report. A comprehensive analysis and evaluation will be conducted in respect of the natural geographical conditions, hydrogeological conditions, water resource dynamic indicators, water quality, approved extraction volume, and establishment of a water resource reservation area, for the mineral water source. The report will be registered and filed with the provincial department of natural resources after passing the expert review. We also need to engage a third-party professional institution to prepare a mineral resource exploration and utilization plan, a mine geological environmental protection and land reclamation plan as well as an environmental impact assessment report, which set forth detailed plans on how to utilize mineral water resources, how to protect the surrounding environment of mineral water and land use. We will obtain a mining permit only after passing the expert review and upon the approval of relevant governmental authorities.

The potential water sources may become the water sources where we take water from, only after all governmental approvals have been completed for such potential water sources and the water-taking permits and mining permits (which are only applicable to mineral water) have been obtained. Save for the professional service fees paid by us to the third-party professional institutions for their engagement, the mining right transfer fee paid for obtaining the mining exploration right (which are only applicable to mineral water) and the costs of the permits, we are not required to pay any other fees for obtaining the water-taking permits and mining permits. In 2017, 2018 and 2019 and the five months ended May 31, 2020, the relevant fees paid by us in relation to the engagement of third-party professional institutions for accessing the water sources were RMB1.3 million, RMB0.4 million, RMB0.7 million and RMB0.5 million, respectively. Such fees were directly recorded as administrative expenses during the Track Record Period.

Water-taking Permits and Mining Permits

As of the Latest Practicable Date, certain production plants in the production bases in Mount Changbai, Jilin Province and Greater Khingan, Heilongjiang Province had obtained mining permits for the production of natural mineral water products. Once we have obtained water-taking permits or mining permits, we typically do not need to enter into agreements with the governmental entities in relation to the arrangements of water-taking from relevant water sources. Material terms of the water-taking permits and mining permits include:

- *Entity obtaining the permit.* The water-taking permits and mining permits are issued to specific production plants in our production bases.

- *Tenure.* The tenure of our water-taking permits typically ranges from two to five years, and the tenure of our mining permits typically ranges from five to 30 years.

- *Annual maximum water-taking volume*. Each water-taking permit and mining permit specifies the annual maximum water-taking volume.

- *Payment of water fees*. We confirm the per unit water fee based on the type of water source specified in water-taking permits or mining permits and with reference to the water-taking approval and management measures and standards for collection of water resource fees or standards for collection of mineral resource tax formulated by the provincial governments, and we calculate the water fees according to the actual water-taking volume. During the Track Record Period, the standard water fees paid by us across the country ranged from RMB0.11 per ton to RMB1.40 per ton for natural water, and ranged from 1.5% to 4% of the sales revenue of the water-taking entity for mineral water. We paid water fees on a monthly basis or quarterly basis according to the requirements of local governments.

We closely monitor the extraction volumes from the water sources. We extracted water within the scope of the annual maximum water-taking volume specified on the water-taking permits or mining permits possessed by us. During the Track Record Period, the actual annual water extraction volume in each of our production base was below the relevant approved maximum extractable volume.

In accordance with the requirements under relevant regulations, we submit a water conservation report or water-taking extension evaluation report to the relevant authorities 45 days prior to the expiry of a water-taking permit. After the abovementioned report is reviewed and passed, the relevant governmental authorities will issue a new water-taking permit to us. Save for the cost of the permit, we are not required to pay any other fees for extending the water-taking permit. When renewing a mining permit, we need to engage a third-party professional institution to prepare relevant materials including a mineral water reserve verification report, and a mineral resource exploration and utilization plan. We may proceed with the renewal of the mining permit only after the new plan passes the expert review and is approved. We have to pay the mining right transfer fee again for renewal of the mining permit.

For details of the laws and regulations in relation to the management of water-taking, see "Regulatory Environment — Laws and Regulations Relating to Drinking Water and Beverage Business."

As advised by our PRC Legal Advisor, as of the Latest Practicable Date, we or our third-party water supply companies had obtained all necessary water-taking permits and mining permits for our business operations. As advised by our PRC Legal Advisor, we do not expect any substantial legal impediment to renew our water-taking permits or mining permits as long as we comply with the relevant legal requirements and submit the relevant documents to the competent authorities in accordance with the applicable laws. During the Track Record Period, all of our water-taking permits and mining permits were successfully renewed.

As of the Latest Practicable Date, we had obtained 21 water-taking permits and three mining permits and our third-party water supply companies had obtained 13 water-taking permits. Among the 34 water-taking permits obtained by us and our third-party water supply companies, five of them will expire within one year after the Listing, 12 of them will expire within three years after the Listing, seven of them will expire within five years after the Listing, and the remainder will not expire within five years after the Listing. Among the three mining permits obtained by us, one of them will expire within three years after the Listing, one of them will expire within five years after the Listing, and the remainder will not expire within five years after the Listing. As of the Latest Practicable Date, we were in the progress of renewing a water-taking permit of our production base in Thousand-island Lake, Zhejiang Province, which will expire in October 2020. See "Appendix VI — Statutory and General Information — Further Information about the Business — Water-taking Permits and Mining Permits."

Water Supply Agreement

For four of our production plants in three production bases in (i) Danjiangkou, Hubei Province, (ii) Mount Changbai, Jilin Province, and (iii) Manas of Mount Tianshan, Xinjiang Uygur Autonomous Region, we had entered into non-exclusive water supply agreements with third-party state-owned water supply companies with the water supply price agreed upon. As of the Latest Practicable Date, the relevant water suppliers had obtained all necessary water-taking permits. Material terms of the water supply agreements include:

- *Tenure*. The water supply agreements typically have a tenure from one to five years, and may be renewed upon expiry automatically by mutual consent.

- *Supply volume*. We acquire water from the water suppliers depending on our actual production requirements, within the maximum extraction volumes stated on the water-taking permits.

- *Fees*. We typically settle the water supply fees, which is calculated based on the unit price and the actual supply volume, on a monthly basis.

- *Water suppliers' obligations*. The water suppliers are responsible for ensuring that the water quality meets our standards.

Our water supply agreements with third-party water supply companies typically do not set a minimum water supply volume and do not include an early termination clause.

Water Gathering and Transmission

With an aim to minimize the impacts to the environment and water sources, we use different methods to gather water from the water sources, depending on the type of such water sources:

- With regard to deep lake water and deep reservoir water, we extract water from the lakes and reservoir using pumps, in the places and depths to minimize impacts to the water sources based on the assessment and inspection;

- With regard to mountain spring water and artesian spring water, we determine the water-taking points in the water sources according to the plans proposed by professional institutions and approved by governmental entities to minimize impacts to the environment. The spring water naturally converges in the water storage facilities built at the water-taking points; and

- With regard to deep underground water, we drill wells and use pumps to extract water from beneath the ground, in the appropriate places based on the assessment on the impacts to the environment.

The water is transmitted to our production facilities via pipelines. According to the Regulation on the Administration of the License for Water Extraction and the Levy of Water Resource Fees, laid pipelines are also part of water extraction projects or facilities. Our laid pipelines are not permanent structures. According to the relevant PRC rules and regulations of land management, we do not need to apply for and obtain a state-owned land use right certificate for laying pipelines. If the laid pipelines temporarily occupy the land, we need to submit the temporary land use application. As advised by our PRC Legal Advisor, we have obtained approvals (if required) from relevant governmental authorities for the water extraction projects or facilities under construction to lay pipelines for water transmission.

As advised by our PRC Legal Advisor, we and our third-party water supply companies have obtained water-taking permits and mining permits (which are only applicable to mineral water) for relevant water sources, and as a result the water extraction projects or facilities in relation to our current operations, including drilled wells and installed pumps, have passed the inspection and acceptance and been approved by relevant governmental authorities.

Details of the Natural Water Sources and Water Extraction

The table below sets forth the details of the ten regions of the natural water sources and the data on water extraction and production for our production base in the corresponding natural water source.

No.	Natural water source	Geographical location	Water-taking point	Commencement of production	Type	Features	Approved Maximum extractable volume (1)(3) (000' tons)	Actual water extraction volume (000' tons)				Production capacity (2) (000' tons)				Production volume (2)(4) (000' tons)			
								2017	2018	2019	First five months of 2020	2017	2018	2019	First five months of 2020	2017	2018	2019	First five months of 2020
1	Thousand-island Lake, Zhejiang Province (浙江千島湖)	East China	Lake area of Thousand-island Lake	1997	Deep lake water	The water is sourced from Thousand-island Lake, which has a watershed area of 573 sq. km.(7) and a water reserve of 17.84 billion tons(8). Thousand-island Lake is named as the "most elegant water in China" (天下第一秀水).	21,660	11,470	11,527	12,427	4,850	7,257	8,003	8,807	4,049	4,126	4,604	5,365	2,057
2	Mount Changbai, Jilin Province(6) (吉林長白山)	Northeast China	Moya Spring, Jiulong Spring, Shenlong Spring, Puti Peak, Jiulong No.2 Spring	2001	Mineral water and artesian spring water	The water is sourced from Mount Changbai. The forest ecosystem of Mount Changbai is a classic one in East Asia. Mount Changbai has a total area of 1,964 sq. km. and a forest area ratio of 88%. The annual precipitation in Mount Changbai is between 700 and 1,400 millimeters(9). The annual water outflow of the artesian springs discovered in Jingyu County and Fusong County, where our production plants are located, is 39.6 million tons(10) and 47.4 million tons(10), respectively, and the average annual reserve of water resources in Linjiang City, where our production base is located, is 1.263 billion tons(10).	19,823	3,193	4,496	4,450	1,502	3,812	4,293	4,899	2,001	1,536	1,838	2,207	823
3	Danjiangkou, Hubei Province (湖北丹江口)	Central China	Danjiangkou Reservoir	2004	Deep reservoir water	The water is sourced from Danjiangkou Reservoir, which is the water source of the middle route of the South-North Water Transfer Project of China, and has a watershed area of 745 sq. km.(11) and a water reserve of 29.05 billion tons(11).	9,869	4,398	6,478	5,342	1,479	2,299	3,149	4,398	1,966	1,181	1,640	2,061	676

No.	Natural water source	Geographical location	Water-taking point	Commencement of production	Type	Features	Approved Maximum extractable volume [1][3] (000' tons)	Actual water extraction volume (000' tons)				Production capacity [2] (000' tons)				Production volume [2][4] (000' tons)			
								2017	2018	2019	First five months of 2020	2017	2018	2019	First five months of 2020	2017	2018	2019	First five months of 2020
4	Wanlv Lake, Guangdong Province[6] (廣東萬綠湖)	South China	Lake area of Wanlv Lake	2005	Deep lake water	The water is sourced from Wanlv Lake, which is the largest lake in South China, and has a watershed area of 370 sq. km.[12] and a water reserve of 13.9 billion tons[12].	9,260	3,214	4,316	4,304	1,823	2,877	3,152	3,793	1,697	1,399	1,806	2,281	894
5	Manas of Mount Tianshan, Xinjiang Uygur Autonomous Region[6] (新疆天山瑪納斯)	Northwest China	Groundwater in Hankazi Beach	2006	Deep underground water	The water is sourced from the snow meltwater in the middle part of the glacier in north Mount Tianshan. We take water from the river bed which is 170 meters beneath the ground in Manas, which has an annual runoff of 1.5 billion tons[13] and is one of the areas with the most abundant water resource in Xinjiang.	10,560	580	761	713	250	857	988	994	411	214	284	348	139
6	Mount Emei, Sichuan Province (四川峨眉山)	Southwest China	Dagou and Lingou	2009	Mountain spring water	The water is sourced from Mount Emei, which is a recognized quality water source, and has a forest area ratio of 87% and an annual average precipitation of 1,922 millimeters[14]. The average annual total availability of water resources in Mount Emei, where our production plants are located, is 1.448 billion tons[15].	4,392	2,307	2,061	1,979	1,091	2,344	2,384	2,535	1,116	1,089	1,245	1,420	636
7	Mount Taibai, Shaanxi Province (陝西太白山)	Northwest China	Tangyu River and Bawang River	2013	Mountain spring water	The water is sourced from Mount Taibai, which is the highest mountain in the east of the Tibetan Plateau and is snow-capped all year round. Mount Taibai has a forest area ratio of 94.3% and an annual accumulated precipitation of 247 million tons[16].	6,613	2,612	2,455	1,932	973	2,227	2,404	2,676	1,121	741	807	949	392
8	Mount Wuling, Guizhou Province (貴州武陵山)	Southwest China	Seven-stream water spring, Huangladong and Wupoling	2014	Mountain spring water	The water is sourced from Mount Wuling, the highest peak of which is located in Tongren City, Guizhou Province. Mount Wuling is the core area of the subtropical forest system in China and an important water conservation area in the Yangtze River Basin. The average annual total surface water resources in Bijiang District and Jiangkou County, where our production plants are located, are 0.74 billion tons[17] and 1.7 billion tons[17], respectively.	2,794	1,161	1,313	1,800	508	761	1,027	1,649	910	371	533	706	330

No.	Natural water source	Geographical location	Water-taking point	Commencement of production	Type	Features	Approved Maximum extractable volume [1][3] (000' tons)	Actual water extraction volume (000' tons)				Production capacity [2] (000' tons)				Production volume [2][4] (000' tons)			
								2017	2018	2019	First five months of 2020	2017	2018	2019	First five months of 2020	2017	2018	2019	First five months of 2020
9	Mount Wuling, Hebei Province (河北霧靈山)	North China	Groundwater in Taxigou	2017	Mountain spring water	The water is sourced from Mount Wuling, which is the main peak of the Yan Mountains and has a forest area ratio of 93%. Mount Wuling reserves a large amount of high-quality water that makes it an important water source of the Beijing-Tianjin region. The average annual total surface water resources and groundwater resources in Xinglong County, where our production plants are located, are 0.74 billion tons(18) and 0.26 billion tons(18), respectively.	1,320	254	226	302	165	271	457	583	242	45	104	181	101
10	Greater Khingan, Heilongjiang Province (黑龍江大興安嶺)	Northeast China	Fissure water in Xilinji Town	2019	Mineral water	The water is sourced from Mohe, Greater Khingan, which lies in the north of Greater Khingan mountain range, the northernmost area of China, and has a forest area ratio of 92% and an underground water reserve of 578 million tons(19).	504	–	–	2	–	–	–	74	64	–	–	1	–

Notes:

(1) The approved maximum extractable volume for a specific production base is calculated by aggregating the approved maximum extractable volume stated on the permit obtained by each of the production plants in such production base.

(2) For both packaged drinking water and beverage products.

(3) One ton of water equals to one cubic meter of water. The approved maximum extractable volume stated on the permit is typically presented in cubic meter.

(4) During the Track Record Period, the total annual production volume in each of our production bases generally accounted for approximately 30% to 50% of the relevant actual annual water extraction volume, primarily because the annual water extraction volume includes all production water used by such production base, such as process water, reasonable production loss, cleaning water and cooling water for production equipment. In 2019, among the 26 production plants in proximity to our ten water sources, 12 reached the international-leading water conservation level, ten reached the domestic-leading water conservation level, and three reached the domestic-general water conservation level. One of the 26 production plants is still in the commissioning stage and as a result no such data is available. See "Industry Overview – Water Utilization in the Production" and "– Environmental Protection."

(5) The relevant data and information on the water sources primarily derive from the websites of local governments or official reports, or have been confirmed by local competent authorities.

(6) Certain production plants in three production bases in (i) Danjiangkou, Hubei Province, (ii) Mount Changbai, Jilin Province, and (iii) Manas of Mount Tianshan, Xinjiang Uygur Autonomous Region have access to the water sources though third-party state-owned water supply companies.

(7) According to the written confirmation issued in May 2020 by the local governmental authority.

(8) According to the statistics issued in June 2019 on the website of the local governmental authority.

(9) According to the statistics issued in December 2016 on the website of the local governmental authority.

(10) According to the written confirmation issued in July 2020 by the local governmental authorities.

(11) According to the statistics issued in March 2016 on the website of the local governmental authority.

(12) According to the written confirmation issued in August 2018 by the local governmental authority.

(13) According to the statistics issued in June 2019 on the website of the local governmental authority.

(14) According to the statistics issued in October 2017 on the website of the local governmental authority.

(15) According to the written confirmation issued in July 2020 by the local governmental authority.

(16) According to the statistics issued in September 2017 on the website of the local governmental authority.

(17) According to the written confirmation issued in July 2020 by the local governmental authorities.

(18) According to the report issued in September 2016 by the local governmental authority.

(19) According to the report issued in September 2017 by the local governmental authority.

(20) The water reserve statistics disclosed in the table above are based on the latest information available to us, which were published or confirmed by the local governmental authorities. The actual water reserves may be affected by factors such as changes in weather, climate and geological conditions around such water sources.

Water Source Contamination Risk

The risk of the water source contamination is low, primarily because:

- the water from (i) Thousand-island Lake, Zhejiang Province, (ii) Danjiangkou, Hubei Province, and (iii) Wanlv Lake, Guangdong Province is deep lake water or deep reservoir water, and such water sources have relatively huge water reserves and strong self-purification capacity. These three water sources are also drinking water conservation areas, which have been strictly protected by local governments;

- (i) Mount Changbai, Jilin Province, (ii) Mount Emei, Sichuan Province, (iii) Mount Taibai, Shaanxi Province, (iv) Mount Wuling, Guizhou Province, and (v) Mount Wuling, Hebei Province are located in the mountain forests. There are rare human activities and no industries upstream of these water sources; and

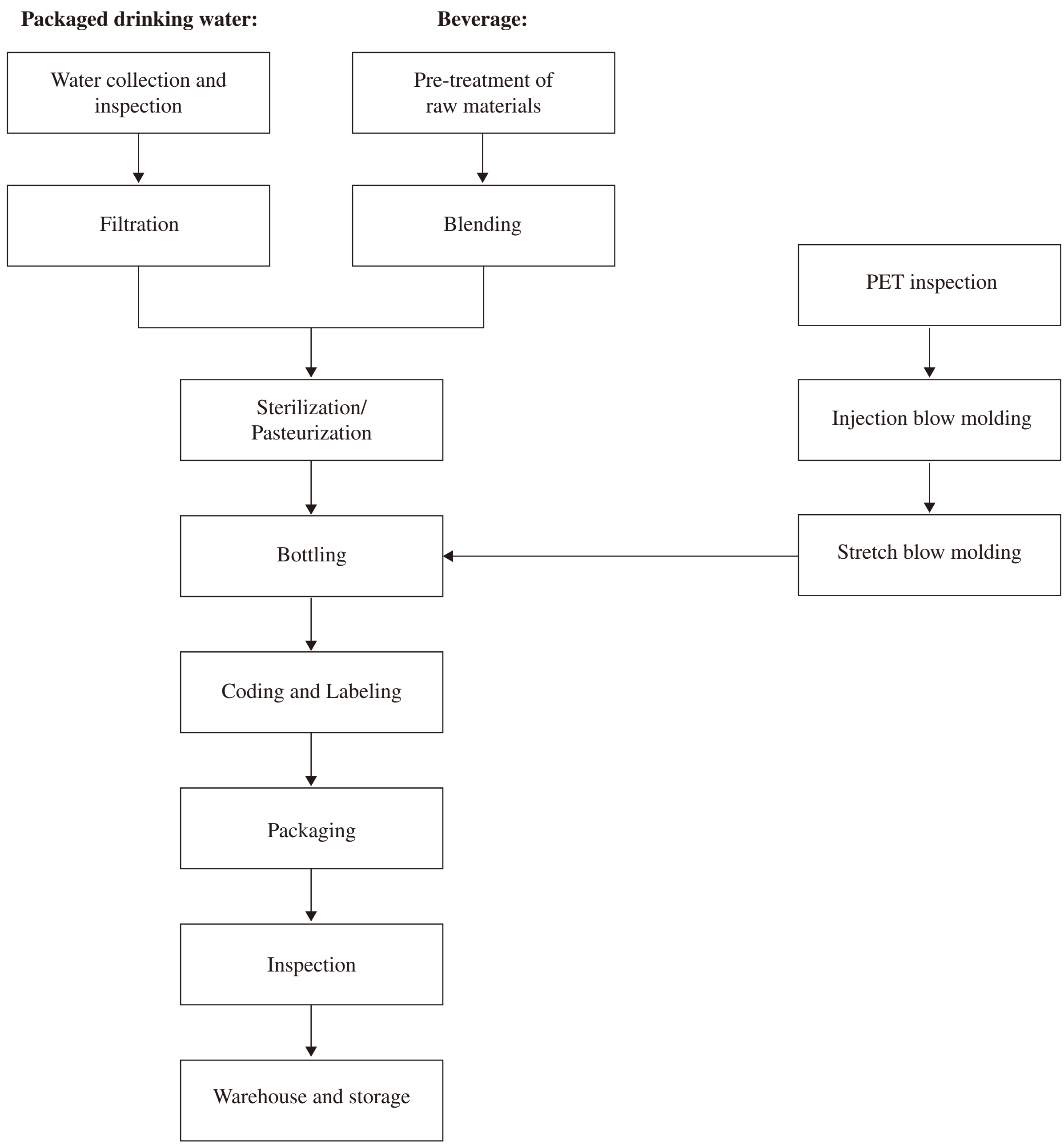
- the water from (i) Manas of Mount Tianshan, Xinjiang Uygur Autonomous Region, and (ii) Greater Khingan, Heilongjiang Province is deep underground water and such water sources are far from populated areas.

In most of the above water sources, we have built gathering facilities in more than one water-taking points. We would be able to gather water from other water-taking points, or to build additional gathering facilities in new water-taking points, in the event that any of the water-taking points is contaminated or our access to which is disrupted. In addition, during the Track Record Period, the actual annual water extraction volumes in all of the water sources were smaller than the approved maximum extractable volumes, and we did not reach full production capacity in our production bases. As a result, we would be able to adjust our production plans for our production bases to maintain our product supply, if necessary.

PRODUCTION

Production Process

The diagram below summarizes the key steps of our production process for packaged drinking water products and beverage products.



Note:

We use different production lines to produce packaged drinking water products and beverage products.

We treat the water only with the necessary process, including filtration and sterilization. Filtration includes (i) coarse filtration, (ii) refined filtration and (iii) membrane filtration. Smell and impurities are removed during coarse filtration and refined filtration. Certain microbes are removed during membrane filtration. Microbes are further sterilized in the process of sterilization with ultraviolet light, ozone or high temperature.

We produce beverage products through procedures including pre-treatment of raw materials, blending, sterilization or pasteurization, bottling and packaging.

- During the procedure of pre-treatment of raw materials, we inspect, clean and defrost raw materials depending on different raw materials. We use advanced techniques to retain the taste of raw materials as much as possible. We produce our tea beverage, including Tea π (茶π) and Oriental Leaf (東方樹葉), with fresh tea leaves as raw materials, and use the extraction techniques to extract tea;

- During the procedure of blending, we blend different raw materials according to the specified formulae, aiming to satisfy consumers' requirements on functions or tastes. Our juice beverage Farmer's Orchard (農夫果園) mixes raw materials such as a variety of concentrated fruit juices and vegetable juices with specific proportions, to make such product both nutritious and flavorful. Our functional beverage, including Scream (尖叫) and Victory Vitamin Water (力量帝維他命水), contains specific nutrition such as mineral substance, vitamins, taurine and soluble dietary fiber, depending on different product type, in order to satisfy consumers' diversified requirements on nutrition;

- During the procedure of sterilization or pasteurization, we use UHT instantaneous sterilization or sterilization with high temperature to ensure food safety. UHT instantaneous sterilization retains the nutrition in the products as much as possible, and make the products more flavorful;

- During the procedure of bottling, we fill the blended products into PET bottles by way of aseptic cold filling, which makes the products more flavorful, or hot filling; and

- During the procedure of packaging, we label the products and pack them into boxes. All products will be inspected through multiple processes, to better ensure the quality of our products.

We also use the fresh apples and fresh oranges produced in our fresh fruit production bases as the raw materials to produce Nongfu Spring (農夫山泉) NFC juice series and 17.5° juice series, after the procedures of cleaning, selecting and juicing.

Existing Production Bases

As of May 31, 2020, we had 12 production bases with 144 production lines of packaged drinking water and beverage, seven production lines of fresh fruit juicing and three production lines of fresh fruit processing in aggregate. During the Track Record Period, utilization rates of production lines in each of our production bases fluctuated, primarily because: (i) the utilization rates of certain production lines increase along with the expanded sales volumes; (ii) the increased production capacity requires overall arrangement in advance, and the utilization rates may decrease if the expanded sales volumes fail to cover the production capacity from the newly-added production lines; and (iii) considering logistic expenses and other factors, we regularly make adjustments to production capacity allocation among each production bases by allocating the production needs of one base to another, which may lead to a decrease in the utilization rates of the production lines of the original production base. The table below sets forth the details of our production lines of packaged drinking water and beverage for the periods indicated.

Production base	Number of production plants as of May 31, 2020	Type of production lines	Number of production lines as of May 31, 2020	Production capacity ('000 tons)				Production volume ('000 tons)				Utilization rate (%) (1)(8)			
				2017	2018	2019	First five months of 2020	2017	2018	2019	First five months of 2020	2017	2018	2019	First five months of 2020
Thousand-island Lake, Zhejiang Province (浙江千島湖) (2)	8	Packaged drinking water products	29	5,632	6,117	6,828	3,174	3,086	3,483	4,168	1,655	55	57	61	52
		Beverage products	14	1,625	1,886	1,979	875	1,040	1,121	1,197	402	64	59	60	46
Mount Changbai, Jilin Province (吉林長白山)	4	Packaged drinking water products	21	3,659	4,140	4,746	1,939	1,438	1,740	2,104	798	39	42	44	41
		Beverage products	1	153	153	153	63	98	98	103	25	64	64	67	40
Danjiangkou, Hubei Province (湖北丹江口) (3)	3	Packaged drinking water products	15	1,894	2,561	3,670	1,628	988	1,375	1,653	547	52	54	45	34
		Beverage products	5	405	588	728	338	193	265	408	129	48	45	56	38
Wanlv Lake, Guangdong Province (廣東萬綠湖)	2	Packaged drinking water products	16	2,327	2,455	3,096	1,410	1,219	1,533	2,018	810	52	62	65	57
		Beverage products	4	550	697	697	287	180	273	263	84	33	39	38	29
Manas of Mount Tianshan, Xinjiang Uygur Autonomous Region (新疆天山瑪納斯)	1	Packaged drinking water products	4	782	913	919	380	191	257	320	131	24	28	35	34
		Beverage products	1	75	75	75	31	23	27	28	8	30	36	37	25
Mount Emei, Sichuan Province (四川峨眉山) (4)	2	Packaged drinking water products	7	1,926	1,966	2,092	880	826	1,009	1,152	510	43	51	55	58
		Beverage products	3	418	418	443	236	263	236	268	126	63	56	60	53

Production base	Number of production plants as of May 31, 2020	Type of production lines	Number of production lines as of May 31, 2020	Production capacity ('000 tons)				Production volume ('000 tons)				Utilization rate (%) [(1)(8)]			
				2017	2018	2019	First five months of 2020	2017	2018	2019	First five months of 2020	2017	2018	2019	First five months of 2020
Mount Taibai, Shaanxi Province (陝西太白山) [(5)]	2	Packaged drinking water products	10	2,058	2,235	2,507	1,051	676	731	894	372	33	33	36	35
		Beverage products	1	169	169	169	70	65	76	55	20	39	45	32	29
Mount Wuling, Guizhou Province (貴州武陵山) [(6)]	2	Packaged drinking water products	8	635	901	1,523	857	343	501	685	323	54	56	45	38
		Beverage products	1	126	126	126	53	28	32	21	7	22	26	17	13
Mount Wuling, Hebei Province (河北霧靈山)	1	Packaged drinking water products	2	271	457	583	242	45	104	181	101	17	23	31	42
		Beverage products	–	–	–	–	–	–	–	–	–	–	–	–	–
Greater Khingan, Heilongjiang Province (黑龍江大興安嶺)	1	Packaged drinking water products	1	–	–	74	64	–	–	1	–	–	–	1	–
		Beverage products	–	–	–	–	–	–	–	–	–	–	–	–	–
Jiangxi Province (江西)	1	Packaged drinking water products	–	–	–	–	–	–	–	–	–	–	–	–	–
		Beverage products	1	–	–	159	83	–	–	32	8	–	–	20	10
Total	27	Packaged drinking water products	113	19,184	21,745	26,038	11,624	8,813	10,733	13,176	5,248	46	49	51	45
		Beverage products	31	3,521	4,112	4,528	2,036	1,890	2,128	2,374	809	54	52	52	40

The table below sets forth the details of our production lines of fresh fruit juicing and processing for the periods indicated.

Production base	Type of production lines	Number of production lines as of May 31, 2020	Production capacity ('000 tons)				Production volume ('000 tons)				Utilization rate (%) [1]			
			2017	2018	2019	First five months of 2020	2017	2018	2019	First five months of 2020	2017	2018	2019	First five months of 2020
Jiangxi Province (江西) [7]	Fresh fruit juicing	3	295	295	295	123	34	25	9	1	12	9	3	–
	Fresh fruit processing	2	1,158	1,158	1,158	483	84	83	51	–	7	7	4	–
Xinjiang Uygur Autonomous Region (新疆) [7]	Fresh fruit juicing	4	463	463	463	193	17	12	11	–	4	3	2	–
	Fresh fruit processing	1	–	81	81	34	3	2	5	1	–	3	6	3
Total	Fresh fruit juicing	7	757	757	757	316	51	37	20	1	7	5	3	–
	Fresh fruit processing	3	1,158	1,239	1,239	516	87	85	56	1	7	7	4	–

Notes:

(1) The utilization rate equals to the production volume divided by the production capacity during the same period.

(2) In 2018, the utilization rate of the production lines of beverage products in Thousand-island Lake, Zhejiang Province decreased due to an increase in the production capacity.

(3) In 2018, the utilization rate of the production lines of beverage products in Danjiangkou, Hubei Province decreased due to an increase in the production capacity. In 2019, the utilization rate of the production lines of packaged drinking water products in Danjiangkou, Hubei Province decreased due to an increase in the production capacity.

(4) In 2018, the utilization rate of the production lines of beverage products in Mount Emei, Sichuan Province decreased due to an adjustment of the production capacity allocation.

(5) In 2019, the utilization rate of the production lines of beverage products in Mount Taibai, Shaanxi Province decreased due to an adjustment of the production capacity allocation.

(6) In 2019, the utilization rate of the production lines of packaged drinking water products in Mount Wuling, Guizhou Province decreased due to an increase in the production capacity, and the utilization rate of the production lines of beverage products decreased due to an adjustment of the production capacity allocation.

(7) The utilization rate of the production lines of fresh fruit juicing and processing was low, due to the seasonality of maturity of fresh fruits. We only use such production lines when fresh fruits are in harvest season.

(8) The utilization rate of the production lines of packaged drinking water products and beverage products was relatively low in the first five months of 2020, because (i) the production volume in the first five months of 2020 decreased compared with the same period of last year, as affected by the COVID-19 outbreak; and (ii) the first five months per annum are not peak season of production.

Planned Key Production Plants

The table below sets forth the details of our planned key production plants.

Production base	Total estimated investment	Designed annual production capacity	Estimated date of completion	Status as of the Latest Practicable Date
	(RMB million)	('000 tons)		
Thousand-island Lake, Zhejiang Province	1,800	2,086	2022	Construction of the plant was completed with some production lines already put into operation, and some production lines are pending procurement, installation and commissioning.
Wanlv Lake, Guangdong Province	1,002	2,263	2022	Construction of the plant was completed with some production lines already put into operation, and some production lines are pending procurement, installation and commissioning.
Mount Changbai, Jilin Province	728	2,027	2023	Construction of the plant was partly completed with some production lines already put into operation and some production lines pending procurement, installation and commissioning.

During the Track Record Period, we built new production plants and expanded our production lines depending on the actual market demands. In the future, we plan to expand our production facilities by taking into consideration the following factors: (i) utilization rates of our production lines, (ii) transportation radius of our products, and (iii) production capacities and process requirements for new products.

Equipment and Machinery

We purchase most of the production lines from internationally renowned companies from Germany and Japan. We regularly inspect and maintain the production equipment, and replace worn consumable parts and components. To ensure production safety and efficiency, we have installed online detectors in key production equipment and machinery. Our major production equipment and machinery have an estimated average useful life of five to ten years. We use straight-line basis to make provision and depreciation, with an annual rate of 9.7% to 19.4%. The remaining useful life of such equipment and machinery is approximately 7.4 years on average.

QUALITY CONTROL

We have established a closed-loop enterprise quality management system that complies with relevant international standards, covering the raw material and packaging material supply chain, product manufacture, storage, logistics and sales. We implement stringent policies to manage raw materials and packaging materials suppliers regarding their admission, regular assessment and elimination based on assessment results, in order to strictly control the quality of the materials supply. We strictly implement product safety and quality control standards and take corresponding control measures throughout our entire product process, in order to ensure that all of our products meet the relevant national safety standards, and our stricter internal quality standards. We have also set up a dedicated channel and product quality assurance team and established an information traceability system to extend quality control to storage, logistics and sales. As of May 31, 2020, we had 741 employees responsible for the quality assurance. During the Track Record Period and up to the Latest Practicable Date, we (i) did not receive any fines, product recall orders or other penalties from the relevant competent authorities regarding material product quality issues, (ii) did not receive any material product returns from our customers, or (iii) receive any material complaints from the consumers.

Our Quality Accreditations

We have set up a stringent quality assurance system to ensure the quality of our products. Since 2004, we have successively passed the certification of ISO9001 Quality Management System, ISO22000 Food Safety Management System and ISO14001 Environmental Management System. We have also established and continued to improve the Nongfu Spring Quality Management System which suits us and conforms to the international standards since 2014. We use the PDCA cycle method to enhance the quality management system and apply statistical process control and other quality tools to real work. We ensure the continuous supply of quality products from different production bases across China through the effective implementation and continuous improvement of Nongfu Spring Management System.

Our Quality Assurance Program

Raw Material Quality Control

We have implemented the supplier admission and assessment system and created a qualified supplier catalogue in which the suppliers' names, method of contact, qualification, products and services provided, evaluation results, product delivery records and other key information are specified. Through regular performance evaluation on the suppliers in various aspects such as their prices offered, delivery cycle, after-sale service, product quality and on-site audit results, the suppliers which fail to pass the evaluation will be downgraded or be removed from the supplier catalogue. For critical raw materials and packaging materials, we collaborate with at least two qualified suppliers in order to reduce the risks associated with product supply. In order to prevent unqualified raw materials and packaging materials from being used in production, we have established a procurement acceptance system to inspect each batch of raw materials that arrive at the manufactory plants, and only the raw materials and packaging materials that meet the standards can be accepted.

Production Process Quality Control

We follow all relevant standards for the production of our products, including the national mandatory standards and our stricter internal standards. We have established comprehensive operating procedures to conduct quality control throughout the entire production process in order to ensure that the quality of our products meets the requirements.

We require our personnel involved in production activities to follow strict hygiene standards. Our production personnel are required to change clean work clothes, including hats and shoes, and thoroughly clean themselves before entering into the production area. Equipment and machinery for the production process are subject to their respective detailed cleaning and sterilization requirements depending on functions and usages, in order to ensure product safety.

We conduct comprehensive supervision and inspections on the entire production process to ensure that all of our production equipment, machinery and personnel operation satisfy the national mandatory standards and our stricter internal standards.

Finished Products Quality Control

We have a dedicated quality team to extend the quality management to the storage, delivery and sales process of our products. This team is responsible for regulating and monitoring the quality of products in the storage, delivery and sales stage so as to ensure that our products are stored, delivered and sold in good conditions and to avoid any quality issues of our products occurring during transportation, such as loss of labels and even incurrence of food safety risks arising from overheating and sudden rough movements during the delivery of products or any other adverse circumstances.

By leveraging on the sales personnel located in different parts of China, we conduct the random sample checks on our products sold in the market on a monthly basis, and submit products to test centers to conduct unified test in order to fully keep track of the quality status of our products during their life cycles, to identify potential quality exposures and to ensure the stable quality of our products. The results of the random sample checks are aligned with the performance assessments of the corresponding staff in production department in order to urge our employees to pay attention to the quality of our products and facilitate the stability and continuous improvement of our product quality.

We have also set up procedures to handle consumer complaints, including consumer service hotlines and other feedback mechanism. In addressing the consumers' complaints, we undertake to communicate and liaise with the consumers in a timely manner and to commence the quality investigation procedures if necessary. Furthermore, a product recall procedure has been developed for each of our production plants, which conduct at least once a year a drill of product recall, aiming to minimizing the exposure to food safety issues to the fullest extent as possible.

RAW MATERIALS, PACKAGING MATERIALS AND SUPPLIERS

Raw Materials and Packaging Materials

The principal raw material we use in the production of our products is PET, which is used in manufacturing bottles. In 2017, 2018 and 2019 and the five months ended May 31, 2020, the costs arising from PET amounted to RMB2,228 million, RMB3,044 million, RMB3,382 million and RMB998 million, accounting for 29.0%, 31.9%, 31.6% and 28.2% of our total cost of sales, respectively. Other major raw materials include bottle caps, labels, sugar and fruit juice. Our raw material prices fluctuate due to a variety of factors, including supply and demand, our ability to negotiate prices with suppliers, logistics and others. Apart from raw materials, we also need packaging materials such as cardboard boxes and shrink wraps to produce our products. See "Financial Information – Disclosure about Financial Risk – Raw Materials Price Risk" for an analysis of the effect of fluctuations in PET price on our net profit during the Track Record Period. We normally use centralized raw material and packaging material procurement to obtain more competitive procurement prices.

Based on our estimate on the procurement price of PET, we would strategically reserve more inventories of PET when it is available at a relatively low price in order to ensure a stable supply of our raw materials. In 2017, 2018 and 2019, our average procurement price of PET was RMB6,426 per ton, RMB8,097 per ton and RMB7,074 per ton, respectively. During the same periods, the yearly average ex-factory price of PET in China was RMB6,761 per ton, RMB8,228 per ton and RMB6,706 per ton, respectively, according to the F&S Report.

For key raw materials and packaging materials, we work with at least two qualified suppliers to reduce risks associated with product supply. We enter into the procurement framework agreement when we think the price is low to lock down the price of raw materials and packaging materials and reduce the impact of raw material and packaging material price fluctuations on us. During the Track Record Period, we did not experience any significant shortage of raw material and packaging material supplies, and the raw materials and packaging materials provided by our suppliers did not have any significant quality issues.

Our Suppliers

We have maintained stable and long-term relationships with our major suppliers. We only procure raw materials and packaging materials from the suppliers listed on the supplier catalogue. We consider several factors in the evaluation and selection of suppliers, including but not limited to the supplier's background, reputation, and industry experience, and most importantly the quality and price of their supplies. All new suppliers must go through our internal supplier admission process before entering into supply agreements with us. Some of them are subject to an onsite inspection conducted by us on their production plants on an as-needed basis to evaluate the production processes and quality management and test the raw material and packaging material samples.

We generally enter into one-year fixed price contracts with suppliers and place orders with them according to our needs throughout the year. We generally do not enter into long-term supply agreements with suppliers. Depending on the actual production plan, our raw material and packaging material purchases are made on a purchase order basis, and we specify the product type, unit price, quantity, delivery timeline and other items in each purchase order we send to our suppliers. Our suppliers generally provide us with credit terms of no more than 90 days. We typically settle our trade payables by bank transfers. We may from time to time enter into strategic cooperative agreements with key suppliers, in order to strengthen the business relationships and further secure stable supplies of our raw materials and packaging materials.

Our suppliers are generally responsible for arranging the delivery of raw materials and packaging materials to our designated location at their own expense. During the Track Record Period, we did not experience delays in the delivery of raw materials and packaging materials that had a significant impact on our production. After receiving the raw materials and packaging materials, we conduct quality inspection and have the right to return the raw materials and packaging materials that do not meet the relevant standards to the supplier.

In 2017, 2018 and 2019 and the five months ended May 31, 2020, the aggregate purchases from our five largest suppliers amounted to RMB1,945 million, RMB3,175 million, RMB2,917 million and RMB907 million, accounting for 39.9%, 43.0%, 39.3% and 31.8% of our total purchases, respectively. In 2017, 2018 and 2019 and the five months ended May 31, 2020, four of our five largest suppliers were suppliers of PET. In 2017, 2018 and 2019 and the five months ended May 31, 2020, the purchase from the single largest supplier amounted to RMB510 million, RMB987 million, RMB1,008 million and RMB319 million, accounting for 10.5%, 13.4%, 13.6% and 11.2% of our total purchases, respectively. All of our five largest suppliers during the Track Record Period were independent third parties.

To the best of our knowledge after due inquiry, none of our Directors, their respective close associates, and any Shareholders holding more than 5% of our issued share capital held any interest in any of our five largest suppliers during the Track Record Period.

RESEARCH AND DEVELOPMENT

We launch new products and explore new product categories through continuous product research and development. As of May 31, 2020, we had 106 technical staff involved in product research and development, and 62 of them hold a master's degree or above. Our research and development team is primarily responsible for the applied research, such as developing new contents formulae, flavors, tastes, packaging designs and process development for our new products. During the Track Record Period, we entered into commissioned development agreements on basic research with Yangshengtang and YST Natural Medicine Research, pursuant to which YST Natural Medicine Research provides us with beverage-related basic research. See "Connected Transaction – Non-fully Exempt Continuing Connected Transactions – Basic R&D and Test Service Framework Agreement."

In 2017, 2018 and 2019 and the five months ended May 31, 2020, our research and development expenses, which primarily include staff cost for our research and development personnel, expenditures on raw materials, equipment and product testing, were RMB47 million, RMB107 million, RMB115 million and RMB60 million, respectively. Our research and development expenditures are recognized as expenses in the period such expenses were incurred.

We value investment in scientific research and standard research and have participated in the formulation and revision of multiple standards of food, beverage and packaged drinking water, including four national standards, three industry standards, one local standard and four group standards.

Each of our product development projects primarily consists of the following key steps:

- *Project pre-research*. At the initiation stage of our product development process, we collect market information, including consumer preferences, to determine the main direction of product development.

- *Project approval*. Based on the information evaluation at the pre-research step, we conduct a feasibility analysis to determine whether the project is approved for development.

- *Research and development*. Research and development mainly includes content research and development, packaging research and development and process study.

- *Product testing*. Product testing is divided into small-scale testing, taste testing, market testing, and medium-scale testing.

- *Mass production*. After the new product passes the product testing, we start mass production of the product.

We have strengthened our research and development capabilities by collaborating with several universities and research institutions. We have entered into technology research and development agreements with these third-party institutions, under which they undertake to provide technical support according to our technical requirements. Under our agreements with these third-party institutions, we retain the proprietary right to any jointly developed patents.

AUDIT AND INSPECTION TEAM

We have an audit and inspection team comprising more than 300 employees. Its primary purpose is to ensure our business departments follow our internal policies for each step of our operations, covering quality assurance, supply chain management, marketing, partnership, organization and treasury operations and other business aspects. Our audit and inspection team (i) identifies various risks and defects in internal control, and promotes standard operation procedures through the monitoring and inspection of business processes; (ii) establishes an anti-fraud system through complaint reporting mechanisms, credit management and fraud investigation; (iii) collects product turnover and market performance data through independent visits and inspections of retail points of sales and distributors, reports market status, monitors and early warns market risks, supervises business improvements, and provides basis for the performance evaluation of business departments.

OUR PEOPLE

We believe that our long-term growth depends on the expertise, experience and development of our employees. Our human resources center is responsible for recruiting, managing and training our employees. We have a labor union that is able to protect our employees' rights, assist us in attaining our economic objectives and encourages employees to participate in management decisions.

We recruit employees primarily through headhunters, recruitment websites and on-campus recruitment. We provide induction training to every new employee. Our headquarters, sales regions and production plants formulate and implement the recruitment and training plan of management trainees every year, which aims to select high-quality college students and supplement the source of high-potential talents. We have formulated career development and promotion path plans for key positions in the sales system, covering all levels from high-potential sales staff to regional general managers. We have also formulated corresponding plans for key positions in the production system, covering all levels from technical backbones to general managers of our production plants. We have formulated a talent training plan based on business development needs, with the aim of improving talent readiness and leadership of cadre at key positions at all levels.

As of May 31, 2020, we had 18,865 full-time employees. Generally, we enter into labor contracts with our employees. As of the Latest Practicable Date, substantially all of our employees were in China. The table below sets forth the number of our employees by function as of May 31, 2020.

	Number of employees
Sales and marketing	11,294
Production and operation	5,353
Human resources, administrative and management	1,084
R&D and quality control	847
Finance	287
Total	**18,865**

We are required by PRC social insurance and housing provident fund laws and regulations to make contributions for mandatory social insurance and housing provident funds for our employees. As advised by our PRC Legal Advisor, we were in compliance with applicable laws and regulations related to social insurance and housing provident funds in material aspects during the Track Record Period. We have maintained a good relationship and expect to maintain an amicable relationship in the future with our employees. During the Track Record Period and up to the Latest Practicable Date, there were no material strikes which had an adverse impact on our operation and no material disputes between the Group and our employees.

INTELLECTUAL PROPERTY

Our intellectual property portfolio consists of trademarks, patents, copyrights and domain names. Our intellectual property is important to our business. See "Appendix VI – Statutory and General Information – Further Information about the Business – Intellectual Property."

We protect our intellectual property rights, including trademarks, patents, copyrights and domain names, strictly in accordance with the relevant laws and regulations and contractual agreements. We have established an intellectual property management system, and regularly improve and update our intellectual property management system in line with the business development. We have passed the intellectual property management system certification and reached the national standard for corporate intellectual property rights management (GB/T29490-2013), and have passed the certification of the National Intellectual Property Model Enterprise by the State Intellectual Property Office.

When dealing with the infringement of the Company's intellectual property rights, we found incidents about counterfeit products and other infringements against our products through internal and external channels, including: (i) our sales companies and sales personnel across the country; (ii) our staff from legal department when they visit the markets; (iii) our commissioned intellectual property experts or legal consultants when they actively conduct investigation; and (iv) complaints and reports by consumers through customer service hotline. After discovering incidents of infringements, we will collect supporting information, make an assessment on whether an infringement actually takes place, and analyze the feasibility of to defend our rights and the approaches we may take. Based on different product infringements and specific circumstances, with the support of intellectual property experts or legal consultants, we defend our rights through targeted approaches, including but not limited to filing industrial and commercial complaints, litigations and reporting to police department.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any threatened or pending disputes relating to infringement of intellectual property rights which would have a material adverse effect on our business.

ENVIRONMENTAL PROTECTION

We are subject to various PRC environmental laws and regulations, the implementation of which involves regular inspections by local environmental protection authorities. See "Regulatory Environment." Although we are not in a highly polluted industry, our manufacturing processes generate a certain amount of solid waste, exhaust gas and waste water. We have adopted professional environmental protection measures to make our operations more energy efficient and environmentally friendly and to ensure effective compliance with applicable PRC environmental laws and regulations.

We have established a set of policies on identifying, assessing and mitigating environment-related risks, which cover areas including pollutant discharge and waste treatment. Each of our production plants reports discharged pollutants to competent authorities in accordance with relevant national standards. According to such reports, our production plants only discharge an amount of pollutants within the scope approved in environmental impact assessment reports. Our production plants also conduct harmless treatments on solid waste, and pre-treatments on exhaust gas and waste water, in order to ensure that our discharge of such pollutants meets relevant environmental standards. We engage third-party institutions with eligible qualifications to dispose of hazardous waste and monitor our discharged pollutants. In addition, we have set up wastewater treatment stations for treating waste water to meet the national environmental protection standards in each of our production bases.

Subject to the product safety and consumer experience, we have been trying to reduce the packaging materials, as part of our efforts in environmental protection. Compared with ten years ago, we have achieved a 10% reduction of PET in the production of bottles of our drinking natural water products (550 ml). We are exploring to cooperate with third-parties regarding the recycle of 19L containers in the manufacture of car parts and electronic components.

The NDRC and the MEE jointly promulgated the Opinions on Further Enhancing the Control and Management of Plastic Pollution (關於進一步加強塑膠污染治理的意見) (Fa Gai Huan Zi [2020] No.80) (the "**Opinions**") on January 16, 2020, requiring to prohibit and restrict the production, sales and use of certain disposable plastic products, and significantly reduce the consumption of disposable plastic products. The plastic packaging that we mainly use currently is not within the scope of plastic products that are prohibited or restricted from production, sales and use in the Opinions. However, due to the extensive use of disposable plastic products as containers in the soft beverage industry, future regulatory restrictions on plastic products may lead to an overall increase in environmental compliance costs for market players in the soft beverage industry, including us. We may not be able to successfully transfer the increasing costs by methods such as raising product prices. As a result, our financial condition and results of operations may be materially and adversely affected. See "Risk Factors - Risks Relating to Legal, Compliance and Regulatory Matters - Our environmental related costs may increase if the Chinese environmental protection laws become more onerous, and any non-compliance with relevant environmental protection laws could lead to imposition of fines and penalties and harm our business."

In addition, the Opinions also require the regulation on recycling and disposal of plastic wastes. We closely monitor the specific laws and regulations and implementation rules regarding the recycling and disposal of plastic wastes in the places where we operate, in order to respond in a timely manner. We actively carry out recycling projects for plastic packaging, and have recycled and reused certain types of plastic packaging materials for the production of other non-food plastic products.

With the increasing awareness on environmental protection, there has been a growing trend in reducing the use of plastics and other non-recyclable packaging materials in various industries, including the soft beverage market, around the world. See "Industry Overview – Global Trend in Reducing Use of Plastics and Other Packaging Materials." In the future, we will continue to improve the policies on plastic packaging materials. We may need to promote the plastic waste recycling and disposal, and reduce the use of plastic per unit product. We may also need to promote the recycling and reuse of plastic packaging materials through consumer interaction. In accordance with the applicable PRC laws and regulations, recycled plastics are not allowed to be used in production of food or beverage containers. As a result, such global trend has not, and in the near future, will not have a material impact on the production and sales of our products. However, to address such global trend in the long run, we are conducting research and development activities in relation to the recycling of plastics for production of containers, to increase our recycling capabilities for any potential changes in the relevant laws and regulations in the future. In addition, we are also conducting research and development activities in relation to degradable plastics which may minimize pollutants caused by non-degradable plastics.

We adhere to the principles of waste and pollutant emission reduction, energy saving and an overall environmentally friendly approach in the way we operate. During the Track Record Period, all of our production plants met the national compulsory standards for waste water and exhaust gas emission. We plan to improve our treatment facilities, in order to meet stricter emission standards. In 2019, among the 26 production plants in proximity to our ten water sources, 12 reached the international-leading water conservation level, ten reached the domestic-leading water conservation level, and three reached the domestic-general water conservation level. One of the 26 production plants is still in the commissioning stage and as a result no such data is available. We have been striving to achieve a higher level by optimizing the use of water resources. See "Industry Overview – Water Utilization in the Production." We also make efforts to decrease our energy consumption per unit product in accordance with the Norm of Comprehensive Energy Consumption for Beverage Manufacture (QB/T4069-2010).

In 2017, 2018 and 2019 and the five months ended May 31, 2020, the cost of our compliance with relevant environmental laws and regulations, including but not limited to (i) depreciation of equipment related to environmental protection, (ii) pollutant discharge fees, (iii) waste disposal fees, (iv) maintenance fees related to environmental protection, and (v) fees paid to third-parties for the purpose of environmental impact assessment and monitoring, was approximately RMB19 million, RMB23 million, RMB30 million and RMB13 million, respectively. Going forward, we may need to increase the environmental related costs if stricter standards for waste and pollutant emission and wastewater treatment are introduced. See "Risk Factors – Our environmental related costs may increase if the Chinese environmental protection laws become more onerous, and any non-compliance with relevant environmental protection laws could lead to imposition of fines and penalties and harm our business."

As advised by our PRC Legal Advisor, during the Track Record Period and up to the Latest Practicable Date, we were in compliance with applicable PRC environmental laws and regulations in all material aspects, and not subject to any material administrative penalties for violations of applicable PRC environmental laws or regulations which would have a material adverse effect on our business.

OCCUPATIONAL HEALTH AND SAFETY

We are subject to the PRC laws and regulations in respect of employee health and safety. We have in place safety guidelines with which our employees are required to strictly comply and equip our production personnel with adequate safety equipment. We regularly evaluate our equipment and production facility to ensure their safety for our operations. We also conduct periodic and annual training for employees to strengthen their awareness and knowledge on safety procedures and accident prevention from time to time. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material accidents involving personal injury or property damage, and we were not subject to any material claims, lawsuits, penalties or disciplinary actions as a result of any material accidents.

LICENSES, PERMITS AND APPROVALS

We are required to maintain various licenses, permits and approvals in order to operate our business. We continually monitor our compliance with the requirements related to licenses, permits and approvals in order to ensure that we have all such licenses, permits and approvals as are necessary to operate our business. As advised by our PRC Legal Advisor, as of the Latest Practicable Date, we had obtained all requisite licenses, approvals and permits from relevant authorities that are material to the operation of our existing business.

INSURANCE

We maintain insurance policies with respect to property, equipment, and inventory covering losses due to fire, explosion, earthquake, typhoon, flood and certain other risks. Consistent with the customary practice in China, we currently do not maintain product liability insurance for our products, and we do not carry any business interruption or litigation insurance. Our Directors consider that our existing insurance coverage is consistent with industry practice in the PRC and sufficient for our present operations.

RISK MANAGEMENT AND INTERNAL CONTROL

We are exposed to various risks during our operations. We have established risk management systems with relevant policies and procedures that we believe are appropriate for our business operations. Our policies and procedures relate to managing our procurement, production, as well as monitoring our sales performance and product quality.

To monitor the ongoing implementation of our risk management policies and corporate governance measures after the Listing, we have adopted or will continue to adopt, among other things, the following risk management measures:

- establish an Audit Committee to review and supervise our financial reporting process and internal control system. For the qualifications and experience of the committee members, see "Directors, Supervisors and Senior Management;"

- adopt various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to risk management, connected transactions and information disclosure;

- provide anti-corruption and anti-bribery compliance training periodically to our senior management and employees to enhance their knowledge and compliance with applicable laws and regulations, and include relevant policies against non-compliance in employee handbooks;

- organize training session for our Directors and senior management in respect of the relevant requirements of the Listing Rules and duties of directors of companies listed in Hong Kong;

- enhance our reporting and records system for production facilities, including centralizing their quality control and safety management systems and conducting regular inspections of the facilities;

- establish a set of emergency procedures in the event of major quality-related issues; and

- provide enhanced training programs on quality assurance and product safety procedures.

Sales and delivery of products through e-commerce platforms involve certain customer privacy information, such as personal information, contact information and user address. We sell our products on e-commerce platforms primarily through distributors, under which circumstance distributors shall be responsible for the operation of online stores and delivery of products, and we do not have access to customer private information. We also sell our products through self-owned online stores on e-commerce platforms and self-owned App such as "Water to Home" (送水到府), under which circumstances we have access to customers' network identity information, address and contact information, which will be used for account registration and product delivery. We also have access to their trading records. See "Risk Factors - Risks Relating to Our Business - Our information technology and software systems may encounter malfunction, unexpected system failure, interruption, insufficiency or security breaches." When providing the relevant services, we ask the customers to acknowledge the provisions under Nongfu Spring Privacy Policy. We highly value the protection of the privacy and personal information of our customers, and also treat and process customers' personal information with high prudence. We have technical support for data protection and various safeguards to ensure information security. We comply with the international information security management system standard (ISO27001) and the national standard (GB/T22080-2016), and accordingly deploy behavior control, firewall, anti-virus software. In addition, with database audits, high-strength firewalls and security reinforcement provided by established security vendors, we regularly organize tests and perform security scans on our systems. We have also formulated the Information Security Behavior Management Measures for Employees, which requires our employees to abide by information security regulations, in order to ensure safety of the relevant information involved in the business operations.

PROPERTIES

Our corporate headquarters are located in Hangzhou, Zhejiang Province, the PRC. As of the Latest Practicable Date, all of our production plants were located in the PRC.

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which require a valuation report with respect to all the Group's interests in land or buildings, for the reason that, as of May 31, 2020, we had no single property with a carrying amount of 15% or more of our total assets.

As of the Latest Practicable Date, there were defects in some of our owned properties and leased properties. See "Risk Factors – Risks Relating to Legal, Compliance and Regulatory Matters – Our legal right to some owned and leased properties may be challenged."

Owned Properties

As of the Latest Practicable Date, we owned 70 parcels of land with an aggregate gross floor area of approximately 4,466,580.58 sq.m. in the PRC. We have obtained land use right certificates for 69 parcels of land with an aggregate gross floor area of approximately 4,464,373.58 sq.m. (accounting for 99.95% of the aggregate gross floor area of our owned land).

We had not obtained the land use right certificate for a parcel of land with a gross floor area of approximately 2,207 sq.m. (accounting for less than 0.1% of the aggregate gross floor area of our owned land). The land is at our production base in Thousand-island Lake, Zhejiang Province, on which we have constructed a boiler room, an air compressor room and a main entrance. Our Directors are of the view that the defects of such land would not materially and adversely affect our business operations, primarily because (i) we have obtained a confirmation letter from the relevant competent authority indicating that we may continue to use such land and the buildings thereon in the current condition, and we would not be subject to any request of demolition of or relocation from or cessation to use such buildings and would not be imposed with any administrative penalties, and (ii) we are preparing for applying for the land use right certificate. As advised by our PRC Legal Advisor, the risk that the relevant competent government authority may require us to demolish or relocate from or cease to use such buildings due to our use of such parcel of land or may impose any administrative penalties on us is relatively low.

As of the Latest Practicable Date, we owned 113 buildings with an aggregate gross floor area of approximately 2,029,080.54 sq.m. in the PRC. We have obtained building ownership certificates for 110 buildings with an aggregate gross floor area of approximately 1,891,405.54 sq.m. (accounting for 93.21% of the aggregate gross floor area of our owned buildings).

We had not filed a record of construction permission and approval for our two owned buildings with an aggregate gross floor area of approximately 4,311 sq.m. (accounting for 0.21% of the aggregate gross floor area of our owned buildings), including (i) an owned building at our production base in Thousand-island Lake, Zhejiang Province with a gross floor area of approximately 1,124 sq.m., which is currently used as a materials warehouse; and (ii) an owned building at our production base in Jiangxi Province with a gross floor area of approximately 3,187 sq.m., which is currently used as rooms for agricultural trainings and agricultural materials. Our Directors are of the view that the defects of such buildings would not materially and adversely affect our business operations, primarily because (i) we have obtained confirmation letters from the relevant competent authorities indicating that we may continue to use such buildings, or these buildings would not be demolished, or the relevant competent authorities would not penalize us, and (ii) we are in the process of applying for filing a record of construction permission and approval. As advised by our PRC Legal Advisor, the risk that the relevant competent authorities may impose any administrative penalties on us is relatively low, and the defects of such owned buildings would not materially and adversely affect our business.

We had not filed a record of completion and acceptance for our one owned building with an aggregate gross floor area of approximately 133,364 sq.m. (accounting for 6.6% of the aggregate gross floor area of our owned buildings), which belongs to our subsidiary Anji Smart Life and is currently used as production plants for rent. Our Directors are of the view that the defects of such building would not materially and adversely affect our business operations, primarily because (i) we have obtained a confirmation letter from the relevant competent authority indicating that we may continue to use the building, or the building would not be demolished, or the relevant competent authority would not penalize us, and (ii) we are in the process of applying for filing a record of completion and acceptance. As advised by our PRC Legal Advisor, the risk that the relevant competent authority may impose any administrative penalties on us is relatively low, and the defects of such owned buildings would not materially and adversely affect our business.

As of the Latest Practicable Date, we had two properties under construction, located in Nanping, Fujian Province and Huzhou, Zhejiang Province. As advised by our PRC Legal Advisor, we had obtained the construction approvals and permits necessary for the construction stage of such properties as of the Latest Practicable Date.

As of the Latest Practicable Date, we owned office premises located in Unit F, 6th Floor, CNT Tower, No. 338 Hennessy Road, Wan Chai, Hong Kong, which are used as an office.

Leased Properties

As of the Latest Practicable Date, we leased two parcels of land with an aggregate gross floor area of approximately 4,243,800 sq.m., which have been used for plantation of fruits. The relevant local governments have issued a written confirmation to us indicating that we have the legal right to use such two parcels of land.

As of the Latest Practicable Date, we leased 401 buildings in total with an aggregate gross floor area of approximately 151,056 sq.m., which have been mainly used for warehouse facilities, offices and staff dormitories. We had obtained valid title certificates from relevant landlords of 334 leased buildings with an aggregate gross floor area of approximately 118,722 sq.m. (accounting for 78.6% of the aggregate gross floor area of our leased buildings). Among the other 67 of our leased buildings:

- in respect of 26 of our leased buildings with an aggregate gross floor area of approximately 26,214 sq.m. (accounting for 17.3% of the aggregate gross floor area of our leased buildings), we had obtained confirmations for approval of use from the relevant government authorities, neighborhood committees, construction corps and subsidiaries of China State Railway Group Co., Ltd. Such leased buildings are used for storage, office and residential purposes. As advised by our PRC Legal Advisor, the risk that we may be requested to relocate from such buildings due to our failure to obtain the valid title certificates is relatively low, and the defects of such leased buildings would not materially and adversely affect our business.

- in respect of 41 of our leased buildings with an aggregate gross floor area of 6,120 sq.m. (accounting for 4.1% of the aggregate gross floor area of our leased buildings), the landlords of such buildings had not provided us with the relevant title certificates. Such leased buildings are used for storage, office or residential purposes. We believe that the reasons that the landlords failed to provide us with the relevant title certificates are beyond our control. To the best of our knowledge, as of the Latest Practicable Date, some of the landlords were applying for the relevant title certificates. In order to minimize the potential negative impacts of the above title defects on our operations, we have maintained regular communications with such landlords regarding the progress of their rectification of the title defects. In addition, we have established internal guidelines and enhanced our internal control procedures to improve our evaluation of the new leased buildings from a compliance perspective. We will also consult our external legal advisor for reviewing the title certificates and other documents of our new leased buildings in order to ensure compliance with applicable PRC laws and regulations. As advised by our PRC Legal Advisor, the defects of such leased buildings would not materially and adversely affect our business.

In addition, as of the Latest Practicable Date, we had not registered the lease agreements for 390 of our leased buildings with the relevant competent authorities in accordance with applicable PRC regulations. As advised by our PRC Legal Advisor, failure to register the lease agreements would not affect the validity and enforceability of such lease agreements. However, if we and the landlords fail to register such lease agreements as required by the relevant competent authorities, we may be subject to a fine of RMB1,000 to RMB10,000 for each of the unregistered lease agreement. As of the Latest Practicable Date, we had not been subject to any administrative penalties by the relevant competent authorities.

Our Directors are of the view that the defects of such leased buildings would not materially and adversely affect our business operations, because (i) such leased buildings are not directly used for production plants or factories; (ii) none of our leased buildings is material to our operation; and (iii) we believe we are able to find suitable alternative if we must stop occupying any of these leased buildings, without any delay, significant costs and interruption to our business. As advised by our PRC Legal Advisor, the defects of such leased buildings would not materially and adversely affect our business.

COMPLIANCE AND LEGAL PROCEEDINGS

We may from time to time become a party to various legal, arbitration or administrative proceedings arising in the ordinary course of our business. As of the Latest Practicable Date, there were no litigation, arbitration or administrative proceedings pending or threatened against the Company or any of the Directors which could have a material and adverse effect on our financial condition or results of operations. In particular, during the Track Record Period and up to the Latest Practicable Date, our water fetching projects in the PRC were not the subject of any actual or potential material claims or litigation proceedings relating to the breach of the environmental laws or regulations in the PRC.

To build up our overseas operation capability, we entered into two agreements in November 2016 and two supplemental agreements in October 2017 (the "**Acquisition Agreements**") to acquire the business, the farmland and associated assets of Otakiri Springs Limited. See "History – Establishment and Development of the Company – 3. Building up Overseas Operation Capability."

In August 2017, we submitted an application for the consents to maintain and increase the water take of the bottled water business operated by Otakiri Springs Limited to the Bay of Plenty Regional Council (the "**Regional Council**"), and an application for the consents to expand the water bottling plant to Whakatane District Council (the "**District Council**") (together with the Regional Council, the "**Local Councils**"). In June 2018 following an independent hearing, the consents were respectively granted by the Local Councils.

In July 2018, some locals and some local indigenous groups filed appeals against the Local Councils' decisions in relation to their grant of consents to the Environment Court of New Zealand (the "**Environment Court**"). We were named as the applicant for consents, instead of the respondent of the appeals. In December 2019, the Environment Court made the interim decision. The appeals were dismissed.

In January 2020, the groups that appealed the consents to the Environment Court lodged High Court appeals against the decision of the Environment Court (together with the lawsuit in front of the Environmental Court, the "**Legal Proceedings**"). The High Court hearing was held from July 27, 2020 to July 30, 2020. As of the Latest Practicable Date, the decision from the High Court was still pending.

Even in the worst case scenario, if we would lose the Legal Proceedings, we do not expect to suffer any material losses. We believe the Legal Proceedings could not have a material and adverse effect on our financial condition or results of operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and notes included in "Appendix I – Accountants' Report." The financial information as set out in the Accountants' Report incorporates the financial statements of the Company during the Track Record Period. You should read the whole Accountants' Report as set out in Appendix I to this prospectus and not rely merely on the information in this section. For the purpose of this section, unless the context otherwise requires, references to 2017, 2018 and 2019 refer to our financial years ended December 31 of such years.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. You should not place undue reliance on any such statements. Our actual future results and timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors," "Forward-Looking Statements" and elsewhere in this prospectus.

OVERVIEW

We are a leader in the packaged drinking water and beverage business in the PRC with devotion to providing consumers with high-quality products. Our major products include packaged drinking water, tea beverage, functional beverage and juice beverage. According to the F&S Report, we ranked first in the packaged drinking water market in China in terms of market share for eight consecutive years from 2012 to 2019. We were among the top three players in tea beverage, functional beverage and juice beverage markets in China in terms of retail sales value in 2019. The business developments of our beverage products and packaged drinking water products are well-balanced. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, the revenue from the sales of our beverage products accounted for 41.1%, 40.5%, 38.8%, 42.4% and 36.6% of our total revenue, respectively.

We implement a multi-brand strategy. We have long-term plans for our brands and strong brand communication capabilities. We convey the spirit and the proposition of our brands to consumers through diversified marketing methods. We have established a nationwide sales network with in-depth market penetration. As of May 31, 2020, we covered more than 2.43 million retail points of sale across China through 4,454 distributors. We achieved digitalization of distributors and frontline sales personnel management through the NCP system which is available on mobiles and personal computers.

From 2017 to 2019, there was a solid growth in our total revenue, which increased from RMB17,491 million in 2017 to RMB20,475 million in 2018 and further to RMB24,021 million in 2019, representing a CAGR of 17.2%. Since the end of December 2019, the outbreak of COVID-19 has materially and adversely affected the global economy. From January to April 2020, local governments in the PRC implemented strict measures of varying degrees to control the outbreak in China. In particular, school and business closures, transport bans and workplace shutdowns helped to limit transmission of COVID-19. Demand for consumer goods and operations of the retail industry were significantly affected during such period. According to the National Bureau of Statistics, China's total retail sales of consumer goods decreased by 16.2% in the first four months of 2020, compared with the same period in 2019. As the outbreak has become under control in China, resumption of work and classes in various places has gradually taken place since April 2020 and people's lives have gradually returned to normal. As affected by the COVID-19 outbreak, our total revenue decreased by 12.6% from RMB9,917 million in the five months ended May 31, 2019 to RMB8,664 million in the five months ended May 31, 2020. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, our net profit margin was 19.4%, 17.6%, 20.6%, 23.8% and 22.3%, respectively.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Consumer Demand for Our Products

Our results of operations are affected by consumer demand for our products. Driven by accelerated urbanization process, increasing disposable income and consumption upgrade, the demand for packaged drinking water products and beverage products has been growing continuously. Benefiting from China's economic growth and urbanization, China's per capita disposable income of urban households increased at a CAGR of 8.0% from 2014 to 2019, according to the F&S Report. During the same period, the packaged drinking water market and the beverage market in China grew at a CAGR of 11.0% and 4.8%, respectively. We believe that such growth trend will continue in the long run. For more details regarding the future trends of the packaged drinking water market and the beverage market in China, see "Industry Overview – Overview of Soft Beverage Market in China."

According to the F&S Report, with the increasing health awareness of consumers, products that are natural, healthy and nutritional will better satisfy the demands of consumers. From 2014 to 2019, the natural water market and the natural mineral water market in which we operate grew at a CAGR of 29.1% and 19.0%, respectively, which were much higher than the CAGR of 11.0% for the entire packaged drinking water market. Such trend is expected to continue. From 2019 to 2024, the sugar-free tea, pure juice and functional beverage markets in which we operate are expected to grow at a CAGR of 22.9%, 9.8% and 9.4%, respectively, which are also higher than the expected CAGR of 5.9% for the soft beverage market.

Since the end of December 2019, the outbreak of COVID-19 has materially and adversely affected the global economy. From January to April 2020, local governments in the PRC implemented strict measures of varying degrees to control the outbreak in China. In particular, school and business closures, transport bans and workplace shutdowns helped to limit transmission of COVID-19. Demand for consumer goods and operations of the retail industry were significantly affected during such period. According to the National Bureau of Statistics, China's total retail sales of consumer goods decreased by 16.2% in the first four months of 2020, compared with the same period in 2019. As the outbreak has become under control in China, resumption of work and classes in various places has gradually taken place since April 2020 and people's lives have gradually returned to normal. As affected by the COVID-19 outbreak, our revenue in the five months ended May 31, 2020 decreased by 12.6% as compared with that in the five months ended May 31, 2019. See "– Impact of the COVID-19 Outbreak."

Although the COVID-19 outbreak had a negative impact to our operations, it strengthened the health awareness of consumers. We have been providing high-quality products to consumers as we uphold the principle of natural and healthy products. We believe that consumers' confidence in our product quality and recognition of our brand will continue to contribute to consumer demands for our products.

Product Mix

We have a diversified product mix which primarily includes packaged drinking water, tea beverage, functional beverage and juice beverage. We adopt a multi-brand strategy, pursuant to which we have one or more brands under each product category. Under each brand, we sell products of different flavors and/or different package sizes to satisfy various consumption demands. See "Business – Our Brands and Products." Typically, different products vary in product pricing, revenue growth rate and gross profit margin. Each of our brands has its own unique positioning with different marketing strategies and promotional costs. As a result, our revenue and profitability are largely affected by our product mix.

From 2017 to 2019, the revenue from our packaged drinking water, tea beverage, functional beverage and juice beverage grew at a CAGR of 19.1%, 9.9%, 13.5% and 25.5%, respectively. The revenue from juice beverage products and packaged drinking water products grew at a faster rate than that of functional beverage products and tea beverage products. The revenue from our packaged drinking water, tea beverage, functional beverage and juice beverage decreased by 4.3%, 21.2%, 40.9% and 13.6%, respectively, in the five months ended May 31, 2020, compared with that in the five months ended May 31, 2019. Our packaged drinking water products, tea beverage products and functional beverage products have higher gross profit margins than juice beverage products. The table below sets forth our gross profit margin of our key products during the Track Record Period.

	Year Ended December 31,			Five Months Ended May 31,	
	2017	**2018**	**2019**	**2019**	**2020**
Packaged drinking water products	60.5%	56.5%	60.2%	60.9%	62.8%
Tea beverage products	58.0%	58.1%	59.7%	60.9%	61.6%
Functional beverage products	52.0%	49.8%	50.9%	50.6%	53.3%
Juice beverage products	38.2%	41.1%	34.7%	36.7%	40.8%

Effectiveness of Sales and Marketing Activities

The effectiveness of our sales and marketing activities is critical to our revenue growth. We communicate with consumers through various channels and touch points, including advertising, campaigns using bottle labels, variety show title sponsorship, product placement in film and television programmes, celebrity endorsements, sports event sponsorships, social media marketing, and cross-industry cooperation. The effectiveness of sales and marketing activities is relatively hard to predict and evaluate. Their effects may be delayed, resulting in a delayed revenue growth which may not be fully reflected during the period in which the sales and marketing activities took place.

Our sales and marketing activities incur advertising and promotion expenses. Whether we can effectively utilize these spendings to generate revenues could materially affects our results of operations. Our advertising and promotion expenses in 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020 were RMB982 million, RMB1,234 million, RMB1,219 million, RMB428 million and RMB399 million, respectively. With the support of a wide range of sales and marketing activities, our revenue increased from RMB17,491 million in 2017 to RMB20,475 million in 2018, and further to RMB24,021 million in 2019. During the COVID-19 outbreak, we reduced our sales and marketing activities. The advertising and promotion expenses in the five months ended May 31, 2020 were RMB399 million, representing a decrease of 6.8% from RMB428 million in the five months ended May 31, 2019.

Sales and Distribution Network

We mainly operate a single-layer distribution system where we engage the distributors to distribute our products. As of December 31, 2017, 2018 and 2019 and as of May 31, 2020, we had 3,876, 3,841, 4,280 and 4,454 distributors, respectively. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, the revenue from our distributors accounted for 95.0%, 94.6%, 94.2%, 95.1% and 93.6% of our total revenue, respectively. We also sell our products through direct sales to customers who make relatively large purchases and have good credit records. Our direct sale customers primarily include national or regional supermarkets, chained convenience stores, e-commerce platforms, restaurants, airlines and large corporate customers. By providing tailor-made sales plans and marketing schemes to our direct sale customers, our products may have better display at the retail points of sale of these direct sale customers. As of May 31, 2020, we had 247 direct sale customers.

We usually deliver products to distributors after they have made the payment. We typically grant credit terms of no more than 90 days to direct sale customers. An increase in our sales to direct sale customers would result in an increase in our trade and bills receivables. Our trade and bills receivables would increase prior to the peak sales period such as the Chinese New Year, the summer or annual sales on e-commerce platforms because our direct sale customers usually make the procurement in advance. Our revenue from sales to direct sale customers increased from RMB881 million in 2017 to RMB1,113 million in 2018 and further to RMB1,398 million in 2019, representing a CAGR of 26.0% during such period. Our revenue from sales to direct sale customers increased by 13.8% from RMB485 million in the five months ended May 31, 2019 to RMB552 million in the five months ended May 31, 2020. Our trade and bills receivables increased from RMB194 million as of December 31, 2017 to RMB223 million as of December 31, 2018 and further to RMB306 million as of December 31, 2019, representing a CAGR of 25.6% during such period. As of May 31, 2020, our trade and bills receivables was RMB422 million.

We generally do not accept return or exchange of products from distributors. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, the value of returned products represented 0.08%, 0.08%, 0.06%, 0.08% and 0.07% of our total revenue, respectively.

Costs of Raw Materials and Packaging Materials

Raw materials and packaging materials used in the production of our products are two major components of our cost of sales. Raw materials primarily consist of PET for producing bottles, bottle caps, labels, sugar and juice. The costs of raw materials accounted for 60.7%, 60.9%, 61.7%, 63.9% and 58.0% of our total cost of sales in 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, respectively. Packaging materials primarily consist of cardboard boxes and shrink wraps. The costs of packaging materials accounted for 13.5%, 14.0%, 13.0%, 13.0% and 14.6% of our total cost of sales in 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, respectively.

The cost of PET is the largest component of our cost of raw materials. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, the cost of PET accounted for 29.0%, 31.9%, 31.6%, 32.8% and 28.2% of the cost of sales, respectively, and represented 12.7%, 14.9%, 14.1%, 14.3% and 11.5% of our total revenue, respectively. Fluctuations in the price of PET significantly affect our profit. Our average procurement price of PET increased by 26.0% from RMB6,426 per ton in 2017 to RMB8,097 per ton in 2018, and then decreased by 12.6% to RMB7,074 per ton in 2019. Our average procurement price of PET decreased by 18.0% from RMB7,283 per ton in the five months ended May 31, 2019 to RMB5,975 per ton in the five months ended May 31, 2020. See "– Disclosure about Financial Risk – Raw Materials Price Risk."

The price of most of our raw materials and packaging materials generally fluctuates according to the market conditions. We have not entered into any hedging activities in relation to their prices. However, we monitor the supply and cost trends of these raw materials and packaging materials and have sought to mitigate the impact of price fluctuations. For example, we will enter into a framework agreement with suppliers to secure a fixed price for raw materials or packaging materials when the price is considered reasonable.

Logistics and Storage Expenses

Logistics and storage expenses comprise the largest component of our selling and distribution expenses. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, logistics and storage expenses represented 13.4%, 11.0%, 10.5%, 10.1% and 10.4% of our total revenue, respectively. We deliver our products to markets across China through several means of transportation, including highway, railway and shipping. The increase in our logistics and storage efficiency during the Track Record Period was primarily because:

- we increased the percentage of direct delivery from factories to customers to reduce transportations between factories and warehouses;
- we improved our selection process of logistics services providers, which enabled us to select more efficient logistics service providers; and
- as distributors grew in the scale of sales, we can deliver more products to them in a single trip, reducing the transportation cost per product unit.

Weather and Seasonality

The packaged drinking water market and the beverage market are subject to seasonal variations. We typically experience higher sales of our packaged drinking water and beverage products in the second and third quarters of the year when the weather is warmer or drier in China than the first and fourth quarters of each year. Sales in each season of a year can also fluctuate for other reasons, including the timing of new product launches, and the timing of advertising and promotional activities.

BASIS OF PRESENTATION

In July 2018, the Company acquired 100% equity interest in Anji Smart Life from Yangshengtang. Since we and Anji Smart Life are under common control of Yangshengtang, our acquisition of Anji Smart Life has been accounted for as a combination of entities under common control with the pooling of interest method applied as if such acquisition had been completed at the date when we and Anji Smart Life came under the common control of the ultimate holding company. See Note 2.1 to "Appendix I – Accountants' Report."

Our financial statements have been prepared in accordance with IFRSs. We have adopted IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases, together with the transitional provisions related to the above standards, in the preparation of our financial statements during the Track Record Period. Our financial statements have been prepared based on historical cost, except for financial assets at fair value through profit or loss which have been measured at fair value.

The adoption of IFRS 9 and IFRS 15 has not had any significant impact on our financial position and performance when compared to that of IAS 39 and IAS 18. The adoption of IFRS 16 has not had a significant impact on our financial position and performance (in particular, our current ratio, quick ratio, gearing ratio, net assets and profit for the year/period) when compared to IAS 17.

NON-IFRS FINANCIAL MEASURE

To supplement our financial information, which is presented in accordance with IFRSs, we also use our adjusted profit for the year/period as an additional financial measure, which is not required by, or presented in accordance with IFRSs. The adjusted profit for the year/period reflects our net profit for the year/period before equity-settled share award expenses, donations and listing expenses. The adjusted profit for the year/period is not a standard financial measure under IFRS. We believe that our adjusted profit for the year/period help illustrate the underlying trends in our business as it eliminates the impacts of non-recurring items or items that our management considers not directly indicative of our daily operations. Equity-settled share award expenses and listing expenses were non-recurring items and are not directly indicative of the operations of our packaged drinking water and beverage business. Donations are also not directly indicative of the operation of our packaged drinking water and beverage business. However, such non-IFRS financial measure we presented may not be directly comparable to similar measures presented by other companies. The use of this non-IFRS financial measure has limitations as an analytical tool. You should not consider it in isolation from, or as substitute for analysis of, our results of operations or financial condition as reported under IFRSs.

The adjusted profit for the year/period for the periods indicated set forth in the table below is calculated upon adjustments to the most directly comparable financial data in accordance with IFRS (i.e., profit for the year/period):

	Year Ended December 31,						Five Months Ended May 31,			
	2017		2018		2019		2019		2020	
	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue
Profit for the year/period	3,386	19.4%	3,612	17.6%	4,954	20.6%	2,360	23.8%	1,931	22.3%
Equity-settled share award expenses[(1)]	–	–	–	–	157	0.7%	–	–	–	–
Donations[(2)]	4	0.0%	365	1.8%	362	1.5%	1	0.0%	2	0.0%
Listing expenses[(3)]	–	–	–	–	7	0.0%	–	–	22	0.3%
Non-IFRS financial measure – Adjusted profit for the year/period[(4)]	**3,390**	**19.4%**	**3,977**	**19.4%**	**5,480**	**22.8%**	**2,361**	**23.8%**	**1,955**	**22.6%**

Notes:

(1) For further details of equity-settled share award expenses, see Note 31 to “Appendix I — Accountants’ Report.”

(2) For further details of donations, see “– Results of Operations – Other Expenses.”

(3) For further details of listing expenses, see “– Listing Expenses.”

(4) As our adjusted profit for the year/period is not calculated in accordance with IFRSs, it is considered a non-IFRS financial measure. We believe that adjusted profit for the year/period can better illustrate the underlying trends in our business because it eliminates the impacts of non-recurring items or items that our management considers not directly indicative of our daily operations. The use of this non-IFRS measure should not be considered as substitute for analysis of, our results of operations or financial condition as reported under IFRSs. See "– Non-IFRS Financial Measure."

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Note 2.4 to "Appendix I – Accountants' Report" to this prospectus sets forth certain significant accounting policies, which are important for understanding our financial condition and results of operations. Some of our accounting policies involve subjective assumptions, estimates and judgments that are discussed in Note 3 to "Appendix I – Accountants' Report." In the application of our accounting policies, our management is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Our estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Our estimates and underlying assumptions are reviewed by our management on an ongoing basis. See Note 2.4 and Note 3 to "Appendix I – Accountants' Report."

We believe the following key accounting policies involve the most significant judgements in the preparation of consolidated financial statements.

Revenue Recognition

Revenue from our sale of goods is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. See Note 2.4 to "Appendix I – Accountants' Report."

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount is estimated in respect of our trading contract. We make the best estimation for the amount of variable consideration based on the trading volume threshold specified in the contract and recognize liability accordingly.

Property, Plant and Equipment and Depreciation

Our property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Typically, expenditure incurred after our property, plant and equipment have been put into operation, such as repairs and maintenance, is directly charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection will be included in the carrying amount of the asset. Where significant parts of property, plant and equipment are required to be replaced from time to time, we recognize such parts as individual assets with specific useful lives and depreciate them accordingly.

Depreciation is recognized on the straight-line basis to write off the cost of each item of property, plant and equipment (excluding construction in progress) to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Category	Estimated useful life	Estimated residual value
Buildings	ten to twenty years	3%
Plant and machinery	five to ten years	3%
Motor vehicles	five to ten years	3%
Furniture, fixtures and equipment	three to five years	3%
Leasehold improvements	Over the shorter of the lease terms or three to five years	0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts. Each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, by us at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and machinery, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Inventories

Our inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average cost basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Intangible Assets

Our intangible assets include software, mineral water mining licenses and other intangible assets.

Software is amortized on a straight-line basis over an estimated useful life of two to ten years. The useful life of the software is estimated based on the expected usage of the software and its authorized periods for use.

Mineral water mining licenses have licensed periods ranging from five years to 30 years and are amortized on a straight-line basis over their respective licensed periods.

Other intangible assets include patents and emission rights. The emission rights have authorized periods ranging from five years to ten years, and patents have protection periods of five years. The patent and emission rights are amortized on a straight-line basis over their respective protection periods or authorized periods.

Income Tax

Our income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

Our current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each of the reporting periods, taking into consideration interpretations and practices prevailing in the countries in which we operate.

Our deferred tax is provided, using the liability method, on all temporary differences at the end of each of the year/period during the Track Record Period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Our income tax expense primarily comprises our current and deferred income tax expenses under the relevant PRC income tax rules and regulations. See Note 2.4 to "Appendix I – Accountants' Report."

During the Track Record Period, our PRC subsidiaries were subject to an income tax rate of 25%, except for certain subsidiaries which enjoyed preferential tax treatments. As of May 31, 2020, we had (i) one subsidiary which was qualified as a small and micro enterprise and entitled to a preferential income tax rate of 20%; (ii) three subsidiaries which were entitled to an income tax rate of 15% pursuant to the Western Development Strategy; and (iii) four subsidiaries which were exempt from income tax for engaging in agricultural business. See Note 11 to "Appendix I – Accountants' Report."

PRINCIPAL COMPONENTS OF CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Revenue

Our revenue is primarily derived from the sales of our (i) packaged drinking water products, (ii) tea beverage products, (iii) functional beverage products and (iv) juice beverage products. Our revenue is stated net of discounts and taxes. Such taxes include mineral resources tax and water resources tax in relation to our access to the mineral or natural water sources.

Cost of Sales

Our cost of sales primarily comprises (i) raw material costs, which primarily include the costs of PET for producing bottles, bottle caps, labels, sugar and juice, (ii) packaging material costs, which primarily include the costs of cardboard boxes and shrink wraps, (iii) manufacturing overheads, (iv) salaries, and (v) water gathering and treatment costs, which include the costs for water access and gathering, transmission and treatment.

Gross Profit and Gross Profit Margin

Our gross profit represents our revenue less our cost of sales. Our gross profit margin represents our gross profit divided by our revenue, expressed as a percentage.

Other Income and Gains

Our other incomes and gains primarily comprise (i) government grants related to our income and our assets, which were primarily from the government as rewards to our contribution to the local economic growth and our investments in our production bases, respectively, (ii) interest income, (iii) sales of scraps, (iv) fair value gain on financial assets at fair value through profit or loss, which primarily are gains on investment in shares, and (v) gains on disposal of items of property, plant and equipment.

Selling and Distribution Expenses

Our selling and distribution expenses primarily comprise (i) logistics and storage expenses, which primarily include the costs in connection with the transportation and storage of our products, (ii) advertising and promotion expenses, (iii) staff costs, which primarily include the salaries, bonus and welfare paid to our sales and marketing staff, and (iv) depreciation and amortization of leased office buildings and equipment related to selling and distribution activities.

Administrative Expenses

Our administrative expenses primarily comprise (i) staff costs, which primarily include the salaries, bonus and welfare paid to our management staff, (ii) depreciation and amortization, which primarily include the depreciation of equipment related to temporary suspension of production, and depreciation and amortization of equipment and office buildings, (iii) research and development costs, (iv) office and travel expenses, (v) system and equipment repair and maintenance expenses, which primarily include IT service fee paid to Rainbow Fish Technology for the development of our operational, financial and management information systems, and the repair and maintenance fee on production equipment, (vi) equity-settled share award expenses, and (vii) listing expenses.

Other Expenses

Our other expenses comprise (i) donations, (ii) foreign exchange loss, net, (iii) loss on disposal of property, plant and equipment, (iv) fair value change loss on financial assets at fair value through profit or loss, and (v) others, which primarily include inventory loss.

Finance Costs

Our finance costs comprise (i) interest expenses on interest-bearing borrowings, and (ii) interest expenses on lease liabilities.

Income Tax Expense

Our income tax expense primarily comprises our current and deferred income tax expenses under the relevant PRC income tax rules and regulations.

Profit for the Year/Period and Net Profit Margin

Our profit for the year/period represents our profit for the year/period attributable to equity holders of the Company. Our net profit margin represents profit for the year/period divided by revenue, expressed as a percentage.

RESULTS OF OPERATIONS

The table below summarizes our results of operations and as percentages of our total revenue for the periods indicated.

	Year Ended December 31,						Five Months Ended May 31,			
	2017		2018		2019		2019		2020	
	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue
Revenue	**17,491**	**100.0%**	**20,475**	**100.0%**	**24,021**	**100.0%**	**9,917**	**100.0%**	**8,664**	**100.0%**
Cost of sales	(7,682)	(43.9%)	(9,554)	(46.7%)	(10,710)	(44.6%)	(4,341)	(43.8%)	(3,545)	(40.9%)
Gross profit	**9,809**	**56.1%**	**10,921**	**53.3%**	**13,311**	**55.4%**	**5,576**	**56.2%**	**5,119**	**59.1%**
Other income and gains	402	2.3%	534	2.6%	774	3.2%	277	2.8%	188	2.2%
Selling and distribution expenses	(4,890)	(28.0%)	(5,218)	(25.5%)	(5,816)	(24.2%)	(2,252)	(22.7%)	(2,127)	(24.6%)
Administrative expenses	(859)	(4.9%)	(1,065)	(5.2%)	(1,383)	(5.8%)	(523)	(5.3%)	(595)	(6.9%)
Other expenses	(19)	(0.1%)	(405)	(2.0%)	(371)	(1.5%)	(7)	(0.0%)	(3)	(0.0%)
Finance costs	(8)	(0.0%)	(4)	(0.0%)	(16)	(0.1%)	(1)	(0.0%)	(23)	(0.3%)
Profit before tax	**4,435**	**25.4%**	**4,763**	**23.2%**	**6,499**	**27.0%**	**3,070**	**31.0%**	**2,559**	**29.5%**
Income tax expense	(1,049)	(6.0%)	(1,151)	(5.6%)	(1,545)	(6.4%)	(710)	(7.2%)	(628)	(7.2%)
Profit for the year/period	**3,386**	**19.4%**	**3,612**	**17.6%**	**4,954**	**20.6%**	**2,360**	**23.8%**	**1,931**	**22.3%**
Other comprehensive income										
Exchange differences on translation of foreign operation	(2)	(0.0%)	0	0.0%	3	0.0%	1	0.0%	1	0.0%
Total comprehensive income for the year/period	**3,384**	**19.4%**	**3,612**	**17.6%**	**4,957**	**20.6%**	**2,361**	**23.8%**	**1,932**	**22.3%**
Attributable to:										
Owners of the parent	3,379	19.4%	3,606	17.6%	4,950	20.6%	2,357	23.8%	1,931	22.3%
Non-controlling interests	5	0.0%	6	0.0%	7	0.0%	4	0.0%	–	0.0%
Non-IFRS financial measure – Adjusted profit for the year/period										
Profit for the year/period	3,386	19.4%	3,612	17.6%	4,954	20.6%	2,360	23.8%	1,931	22.3%
Equity-settled share award expenses	–	–	–	–	157	0.7%	–	–	–	–
Donations	4	0.0%	365	1.8%	362	1.5%	1	0.0%	2	0.0%
Listing expenses	–	–	–	–	7	0.0%	–	–	22	0.3%
Non-IFRS financial measure – Adjusted profit for the year/period[(1)]	**3,390**	**19.4%**	**3,977**	**19.4%**	**5,480**	**22.8%**	**2,361**	**23.8%**	**1,955**	**22.6%**

Note:

(1) As our adjusted profit for the year/period is not calculated in accordance with IFRSs, it is considered a non-IFRS financial measure. We believe that adjusted profit for the year/period can better illustrate the underlying trends in our business because it eliminates the impacts of non-recurring items or items that our management considers not directly indicative of our daily operations. The use of this non-IFRS measure should not be considered as substitute for analysis of, our results of operations or financial condition as reported under IFRSs. See "– Non-IFRS Financial Measure."

Revenue

During the Track Record Period, our revenue was primarily derived from the sales of packaged drinking water products, tea beverage products, functional beverage products and juice beverage products.

The table below sets forth a breakdown of our revenue by product category for the periods indicated.

	Year Ended December 31,						Five Months Ended May 31,			
	2017		2018		2019		2019		2020	
	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue
							(Unaudited)			
Packaged drinking water products	10,120	57.9%	11,780	57.5%	14,346	59.7%	5,602	56.5%	5,360	61.9%
Tea beverage products	2,597	14.8%	3,036	14.8%	3,138	13.1%	1,479	14.9%	1,166	13.5%
Functional beverage products	2,936	16.8%	3,322	16.2%	3,779	15.7%	1,837	18.5%	1,085	12.5%
Juice beverage products	1,468	8.4%	1,855	9.1%	2,311	9.6%	870	8.8%	752	8.7%
Other products[1]	370	2.1%	482	2.4%	447	1.9%	129	1.3%	301	3.4%
Total	**17,491**	**100.0%**	**20,475**	**100.0%**	**24,021**	**100.0%**	**9,917**	**100.0%**	**8,664**	**100.0%**

Note:

(1) Other products primarily include other beverage products such as coffee beverage, soda water beverage, sparkling flavored beverage and plant-based yogurt products, and agricultural products such as fresh fruits.

The business developments of our packaged drinking water products and beverage products are well-balanced. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, revenue from our packaged drinking water products accounted for 57.9%, 57.5%, 59.7%, 56.5% and 61.9% of our total revenue, respectively. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, revenue from our beverage products accounted for 41.1%, 40.5%, 38.8%, 42.4% and 36.6% of our total revenue, respectively, while revenue from other beverage products were RMB188 million, RMB81 million, RMB86 million, RMB16 million and RMB168 million, respectively, accounting for 1.1%, 0.4%, 0.4%, 0.2% and 1.9% of our total revenue, respectively.

Comparison between the five months ended May 31, 2020 and 2019: Due to the impacts of the COVID-19 outbreak, our revenue decreased by 12.6% from RMB9,917 million in the five months ended May 31, 2019 to RMB8,664 million in the five months ended May 31, 2020. Packaged drinking water, as a consumption necessity, addresses consumers' basic drinking needs, and such needs were less affected by COVID-19 outbreak. As a result, revenue from our packaged drinking water products in the five months ended May 31, 2020 only decreased slightly by 4.3% as compared with that in the five months ended 31 May, 2019. Revenue from tea beverage products, functional beverage products and juice beverage products decreased by 21.2%, 40.9% and 13.6%, respectively. Revenue from other products increased by 133.3%, primarily due to the launch of new beverage products in 2019.

Comparison between 2019 and 2018: Revenue increased by 17.3% from RMB20,475 million in 2018 to RMB24,021 million in 2019. The growth of revenue from packaged drinking water products accounted for 72.4% of our total revenue growth. Revenue from packaged drinking water products, tea beverage products, functional beverage products and juice beverage products increased by 21.8% , 3.4%, 13.8% and 24.6% from 2018 to 2019, respectively.

Comparison between 2018 and 2017: Revenue increased by 17.1% from RMB17,491 million in 2017 to RMB20,475 million in 2018. The growth of revenue from packaged drinking water products accounted for 55.6% of our total revenue growth. Revenue from packaged drinking water products, tea beverage products, functional beverage products and juice beverage products increased by 16.4%, 16.9%, 13.1% and 26.4% from 2017 to 2018, respectively.

The table below sets forth a breakdown of our sales volume and average selling price per ton by product category for the periods indicated.

		Year Ended December 31,			Five Months Ended May 31,	
		2017	**2018**	**2019**	**2019**	**2020**
Packaged drinking water products	Thousand tons	9,020	10,827	13,382	5,111	5,014
	RMB/Ton	1,122	1,088	1,072	1,096	1,069
Tea beverage products	Thousand tons	670	750	754	348	274
	RMB/Ton	3,876	4,048	4,162	4,251	4,257
Functional beverage products	Thousand tons	849	944	1,082	522	301
	RMB/Ton	3,458	3,519	3,493	3,520	3,604
Juice beverage products	Thousand tons	336	421	512	184	150
	RMB/Ton	4,369	4,406	4,514	4,727	5,010
Other products	Thousand tons	82	70	78	16	55
	RMB/Ton	4,512	6,886	5,731	8,032	5,481

Packaged Drinking Water Products

The table below sets forth a breakdown of our revenue from packaged drinking water products by product category for the periods indicated.

	Year Ended December 31,						Five Months Ended May 31,			
	2017		2018		2019		2019		2020	
	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue
Small-sized	7,441	42.5%	8,270	40.4%	9,840	41.0%	3,889	39.2%	3,380	39.0%
Medium- to large-sized	2,206	12.6%	2,974	14.5%	3,880	16.2%	1,460	14.7%	1,790	20.7%
Others	473	2.8%	536	2.6%	626	2.5%	253	2.6%	190	2.2%
Total revenue from packaged drinking water products	**10,120**	**57.9%**	**11,780**	**57.5%**	**14,346**	**59.7%**	**5,602**	**56.5%**	**5,360**	**61.9%**

The table below sets forth a breakdown of the sales volume of our packaged drinking water products by product category for the periods indicated.

	Year Ended December 31,			Five Months Ended May 31,	
	2017	2018	2019	2019	2020
	(Thousand tons)				
Small-sized	6,141	6,931	8,257	3,179	2,688
Medium- to large-sized	2,697	3,691	4,888	1,835	2,264
Others	182	205	237	97	62
Total sales volume of packaged drinking water products	**9,020**	**10,827**	**13,382**	**5,111**	**5,014**

In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, revenue from such products accounted for 57.9%, 57.5%, 59.7%, 56.5% and 61.9% of our total revenue, respectively. From 2017 to 2019, revenue from packaged drinking water products increased at a CAGR of 19.1%. The increase in revenue from packaged drinking water products was primarily due to an increase in sales volume, attributable to (i) an increase in demand for natural water and mineral water, driven by the increasing health awareness of consumers; (ii) an expansion of consumption scenarios for packaged drinking water products resulting from the increasing health awareness of consumers and an increase in their disposable income per capita, (for example, the increase in demand for household-consumption drinking water resulted in an increase in the demand for medium- to large-sized packaged drinking water products); (iii) our rapid penetration into lower-tier cities following the increasing consumption level in these lower-tier cities; and (iv) an increase in the market shares of our products attributable to the enhanced recognition of our brands by consumers. Due to the impacts of the COVID-19 outbreak, our revenue from packaged drinking water products in the five months ended May 31, 2020 decreased by 4.3% as compared with that in the five months ended May 31, 2019.

Comparison between the five months ended May 31, 2020 and 2019: Revenue from packaged drinking water products decreased by 4.3% from RMB5,602 million in the five months ended May 31, 2019 to RMB5,360 million in the five months ended May 31, 2020. The sales volume slightly decreased by 1.9% from 5,111 thousand tons in the five months ended May 31, 2019 to 5,014 thousand tons in the five months ended May 31, 2020. Such decrease was primarily due to the travel restrictions implemented during the COVID-19 outbreak. Revenue from medium- to large-sized packaged drinking water products suitable for household consumption in the five months ended May 31, 2020 increased by more than 20% as compared with that in the five months ended May 31, 2019. The average selling price per ton of packaged drinking water products in the five months ended May 31, 2020 slightly decreased by 2.5% as compared with that in the five months ended May 31, 2019, primarily due to an increase in the proportion of medium- to large-sized packaged drinking water products in the total revenue from packaged drinking water products, as medium- to large-sized packaged drinking water products had relatively low average selling prices per ton among packaged drinking water products.

Comparison between 2019 and 2018: Revenue from packaged drinking water products increased by 21.8% from RMB11,780 million in 2018 to RMB14,346 million in 2019. The sales volume increased by 23.6% from 10,827 thousand tons in 2018 to 13,382 thousand tons in 2019. The average selling price per ton decreased slightly by 1.5% from 2018 to 2019, primarily due to an increase in the proportion of revenue from medium- to large-sized packaged drinking water products in total revenue from packaged drinking water products, as medium- to large-sized packaged drinking water products had relatively low average selling prices per ton among packaged drinking water products.

Comparison between 2018 and 2017: Revenue from packaged drinking water products increased by 16.4% from RMB10,120 million in 2017 to RMB11,780 million in 2018. The sales volume increased by 20.0% from 9,020 thousand tons in 2017 to 10,827 thousand tons in 2018. The average selling price per ton decreased slightly by 3.0% from 2017 to 2018, primarily due to an increase in the proportion of revenue from medium- to large-sized packaged drinking water products in total revenue from packaged drinking water products, as medium- to large-sized packaged drinking water products had relatively low average selling prices per ton among packaged drinking water products.

Tea Beverage Products

In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, revenue from such products accounted for 14.8%, 14.8%, 13.1%, 14.9% and 13.5% of our total revenue, respectively. From 2017 to 2019, revenue from tea beverage products increased at a CAGR of 9.9%. The increase in revenue from tea beverage products was primarily due to an increase in sales volume, attributable to (i) a continuous increase in the sales volume of our Oriental Leaf (東方樹葉) products resulted from an increase in the sales volume of sugar-free tea beverage products as driven by the increasing health awareness of consumers; (ii) an increase in the market share of the Tea π (茶π) and Oriental Leaf (東方樹葉) products due to the enhanced recognition of these two brands; and (iii) our rapid penetration into lower-tier cities following the increasing consumption in these lower-tier cities. During the COVID-19 outbreak, schools, scenic spots, sports facilities and other places for consumption were closed, which had a material impact on the demand for tea beverage products. Revenue from tea beverage products in the five months ended May 31, 2020 decreased by 21.2% as compared with that in the five months ended May 31, 2019.

Comparison between the five months ended May 31, 2020 and 2019: Due to the impact of the COVID-19 outbreak, revenue from tea beverage products decreased by 21.2% from RMB1,479 million in the five months ended May 31, 2019 to RMB1,166 million in the five months ended May 31, 2020. The sales volume decreased by 21.3% from 348 thousand tons in the five months ended May 31, 2019 to 274 thousand tons in the five months ended May 31, 2020. The average selling price per ton of tea beverage products remained relatively stable in the five months ended May 31, 2020 and the five months ended May 31,2019.

Comparison between 2019 and 2018: Revenue from tea beverage products increased by 3.4% from RMB3,036 million in 2018 to RMB3,138 million in 2019. The sales volume remained relatively stable in 2018 and 2019, primarily because the new package design in 2019 was different from the original package design of our Tea π (茶π) products, and customers needed time to get used to the new package design. The average selling price per ton increased slightly by 2.8% from 2018 to 2019, primarily due to the slight increase in the selling price of our Tea π (茶π) products upon such change of package design.

Comparison between 2018 and 2017: Revenue from tea beverage products increased by 16.9% from RMB2,597 million in 2017 to RMB3,036 million in 2018. The sales volume increased by 11.9% from 670 thousand tons in 2017 to 750 thousand tons in 2018. The average selling price per ton increased by 4.4% from 2017 to 2018, primarily because we slightly raised the selling price of the Oriental Leaf (東方樹葉) products.

Functional Beverage Products

In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, revenue from such products accounted for 16.8%, 16.2%, 15.7%, 18.5% and 12.5% of our total revenue, respectively. From 2017 to 2019, revenue from functional beverage products increased at a CAGR of 13.5%. The increase in revenue from functional beverage products was primarily due to an increase in sales volume, attributable to (i) a continuous increase in the sales volume of our Victory Vitamin Water (力量帝維他命水) products attributable to our enhanced brand recognition; and (ii) the successful launch of peach and green mango flavors of our Scream (尖叫) products in 2019. During the COVID-19 outbreak, schools, sports facilities and other places for consumption were closed, which had a material impact on the demand for functional beverage products. Revenue from functional beverage products in the five months ended May 31, 2020 decreased by 40.9% as compared with that in the five months ended May 31, 2019.

Comparison between the five months ended May 31, 2020 and 2019: During the COVID-19 outbreak, revenue from functional beverage products decreased by 40.9% from RMB1,837 million in the five months ended May 31, 2019 to RMB1,085 million in the five months ended May 31, 2020. The sales volume decreased by 42.3% from 522 thousand tons in the five months ended May 31, 2019 to 301 thousand tons in the five months ended May 31, 2020. The average selling price per ton in the five months ended May 31, 2020 increased by 2.4% as compared with that in the five months ended May 31,2019, primarily due to an increase in the proportion of revenue from Victory Vitamin Water (力量帝維他命水) products in revenue from functional beverage products, as Victory Vitamin Water (力量帝維他命水) products had relatively high average selling prices per ton among functional beverage products.

Comparison between 2019 and 2018: Revenue from functional beverage products increased by 13.8% from RMB3,322 million in 2018 to RMB3,779 million in 2019. The sales volume increased by 14.6% from 944 thousand tons in 2018 to 1,082 thousand tons in 2019, primarily due to the successful launch of peach and green mango flavors of our Scream (尖叫) products in 2019. The average selling prices per ton in 2018 and 2019 remained relatively stable.

Comparison between 2018 and 2017: Revenue from functional beverage products increased by 13.1% from RMB2,936 million in 2017 to RMB3,322 million in 2018. The sales volume increased by 11.2% from 849 thousand tons in 2017 to 944 thousand tons in 2018, primarily due to an increase in the sales volume of our Victory Vitamin Water (力量帝維他命水) products because we put significant efforts in promoting such products in 2018 through frequent product placements in variety shows. The average selling price per ton increased by 1.8% from 2017 to 2018, primarily due to an increase in the proportion of revenue from our Victory Vitamin Water (力量帝維他命水) products.

Juice Beverage Products

In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, revenue from such products accounted for 8.4%, 9.1%, 9.6%, 8.8% and 8.7% of our total revenue, respectively. From 2017 to 2019, revenue from juice beverage products increased at a CAGR of 25.5%. The increase in revenue from juice beverage products was primarily due to the increase in sales volume, attributable to (i) an increase in the market demand for not-from-concentrate juice driven by the increasing health awareness of consumers; (ii) further penetration of our juice sales channels; and (iii) the successful launch of several new flavours for our not-from-concentrate juice products between 2017 and 2019 and the successful launch of our Farmer's Orchard (農夫果園) products containing 50% fruit juice in 2019. Revenue from juice beverage products in the five months ended May 31, 2020 decreased by 13.6% as compared with that in the five months ended May 31, 2019, primarily due to (i) the impact of the COVID-19 outbreak and (ii) the 2020 Chinese New Year holiday arrived earlier as compared with 2019 and distributors made procurement in advance at the end of 2019.

Comparison between the five months ended May 31, 2020 and 2019: Revenue from juice beverage products decreased by 13.6% from RMB870 million in the five months ended May 31, 2019 to RMB752 million in the five months ended May 31, 2020. The sales volume decreased by 18.5% from 184 thousand tons in the five months ended May 31, 2019 to 150 thousand tons in the five months ended May 31, 2020. The average selling price per ton in the five months ended May 31, 2020 increased by 6.0% as compared with that in the five months ended May 31, 2019, primarily due to an increase in the proportion of revenue from medium and high concentration juice in revenue from juice products, as medium and high concentration juice had relatively high average selling prices per ton among juice beverage products.

Comparison between 2019 and 2018: Revenue from juice beverage products increased by 24.6% from RMB1,855 million in 2018 to RMB2,311 million in 2019. The sales volume increased by 21.6% from 421 thousand tons in 2018 to 512 thousand tons in 2019, primarily due to the successful launch of our Farmer's Orchard (農夫果園) products containing 50% fruit juice and of new flavours for our not-from-concentrate juice products in 2019. The average selling price per ton increased by 2.5% from 2018 to 2019, primarily due to an increase in the proportion of revenue from medium and high concentration juice in revenue from juice products, as medium and high concentration juice had relatively high average selling prices per ton among juice beverage products. Such increase was partially offset by the increase in discounts offered to customers for the promotion of our juice beverage products in 2019.

Comparison between 2018 and 2017: Revenue from juice beverage products increased by 26.4% from RMB1,468 million in 2017 to RMB1,855 million in 2018. The sales volume increased by 25.3% from 336 thousand tons in 2017 to 421 thousand tons in 2018, primarily due to an increase in the sales volume of not-from-concentrate juice products. The average selling prices per ton remained relatively stable in 2017 and 2018.

Other Products

Other products primarily include other beverage products such as coffee beverage, soda water beverage, sparkling flavored beverage and plant-based yogurt products, and agricultural products such as fresh fruits. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, revenue from other products accounted for 2.1%, 2.4%, 1.9%, 1.3% and 3.4% of our total revenue, respectively. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, revenue from other beverage products were RMB188 million, RMB81 million, RMB86 million, RMB16 million and RMB168 million, respectively, accounting for 1.1%, 0.4%, 0.4%, 0.2% and 1.9% of our total revenue, respectively.

Comparison between the five months ended May 31, 2020 and 2019: Revenue from other products increased by 133.3% from RMB129 million in the five months ended May 31, 2019 to RMB301 million in the five months ended May 31, 2020, primarily due to the launch of new beverage products in 2019.

Comparison between 2019 and 2018: Revenue from other products decreased by 7.3% from RMB482 million in 2018 to RMB447 million in 2019, primarily due to a reduction in the sales volume of our 17.5° fresh oranges as the output of fresh oranges in Jiangxi, which met our product standards, decreased in 2019.

Comparison between 2018 and 2017: Revenue from other products increased by 30.3% from RMB370 million in 2017 to RMB482 million in 2018, primarily due to an increase in the sales volume of our 17.5° fresh oranges produced in Jiangxi.

Cost of Sales

The table below sets forth a breakdown of the components of our cost of sales and as percentages of our total revenue for the periods indicated.

	Year Ended December 31,						Five Months Ended May 31,			
	2017		2018		2019		2019		2020	
	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue
Raw materials	4,660	26.7%	5,819	28.4%	6,613	27.6%	2,774	28.0%	2,055	23.7%
Including: PET	2,228	12.7%	3,044	14.9%	3,382	14.1%	1,423	14.3%	998	11.5%
Packaging materials	1,037	5.9%	1,341	6.5%	1,390	5.8%	564	5.7%	519	6.0%
Manufacturing overheads	1,505	8.5%	1,845	9.2%	2,045	8.5%	792	8.0%	770	8.9%
Salaries	364	2.1%	418	2.0%	527	2.1%	162	1.6%	147	1.7%
Water gathering and treatment costs(1)	116	0.7%	131	0.6%	135	0.6%	49	0.5%	54	0.6%
Total	**7,682**	**43.9%**	**9,554**	**46.7%**	**10,710**	**44.6%**	**4,341**	**43.8%**	**3,545**	**40.9%**

Note:

(1) Water gathering and treatment costs include the costs for water access and gathering, transmission and treatment. For four of our production plants in three production bases in (i) Danjiangkou, Hubei Province, (ii) Mount Changbai, Jilin Province, and (iii) Manas of Mount Tianshan, Xinjiang Uygur Autonomous Region, we had entered into non-exclusive water supply agreements with third-party state-owned water supply companies with the water supply cost agreed upon. See "Business – Water Sources – Water Supply Agreement."

Raw materials and packaging materials used in the production of our products are the largest component of our cost of sales. The costs of raw materials and packaging materials in aggregate were 74.2%, 74.9%, 74.7%, 76.9% and 72.6% of the cost of sales in 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, respectively. Raw materials were primarily PET for producing bottles, bottle caps, labels, sugar and juice. The costs of raw materials were 60.7%, 60.9%, 61.7%, 63.9% and 58.0% of our cost of sales in 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, respectively. Packaging materials were primarily cardboard boxes and shrink wraps. The costs of packaging materials accounted for 13.5%, 14.0%, 13.0%, 13.0% and 14.6% of our cost of sales in 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, respectively.

The cost of PET is the largest component of our cost of raw materials. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, the cost of PET was 29.0%, 31.9%, 31.6%, 32.8% and 28.2% of the cost of sales, respectively, and represented 12.7%, 14.9%, 14.1%, 14.3% and 11.5% of our total revenue, respectively. See "– Significant Factors Affecting Our Results of Operations – Cost of Raw Materials and Packaging Materials."

Comparison between the five months ended May 31, 2020 and 2019: Cost of sales decreased by 18.3% from RMB4,341 million in the five months ended May 31, 2019 to RMB3,545 million in the five months ended May 31, 2020, primarily due to:

- a decrease in cost of raw materials by 25.9% from RMB2,774 million in the five months ended May 31, 2019 to RMB2,055 million in the five months ended May 31, 2020, primarily due to a decrease in the sales volume of our products. The percentage of costs of raw materials to total revenue decreased from 28.0% in the five months ended May 31, 2019 to 23.7% in the five months ended May 31, 2020, primarily due to a decrease in average procurement price of PET in the five months ended May 31, 2020 as compared with that in the five months ended May 31, 2019. The average procurement price of PET decreased by 18.0% from RMB7,283 per ton in the five months ended May 31, 2019 to RMB5,975 per ton in the five months ended May 31, 2020; and

- a decrease in cost of packaging materials by 8.0% from RMB564 million in the five months ended May 31, 2019 to RMB519 million in the five months ended May 31, 2020, primarily due to a decrease in the sales volume of our products. The percentage of costs of packaging materials to total revenue remained relatively stable.

Comparison between 2019 and 2018: Cost of sales increased by 12.1% from RMB9,554 million in 2018 to RMB10,710 million in 2019, primarily due to:

- an increase in cost of raw materials by 13.6% from RMB5,819 million in 2018 to RMB6,613 million in 2019, primarily due to an increase in the sales volume of our products. The percentage of costs of raw materials to total revenue decreased from 28.4% in 2018 to 27.6% in 2019, primarily due to the decreased average procurement price of PET in 2019. The average procurement price of PET decreased by 12.6% from RMB8,097 per ton in 2018 to RMB7,074 per ton in 2019;

- an increase in cost of packaging materials by 3.7% from RMB1,341 million in 2018 to RMB1,390 million in 2019, primarily due to an increase in the sales volume of our products. The percentage of costs of packaging materials to total revenue decreased from 6.5% in 2018 to 5.8% in 2019, primarily due to the decreased average procurement price of cardboard in 2019; and

- a decrease in the percentage of manufacturing overheads to total revenue from 9.2% in 2018 to 8.5% in 2019, primarily due to the improved operation and management efficiency over our production equipment and the increased capacity utilization rate.

Comparison between 2018 and 2017: Cost of sales increased by 24.4% from RMB7,682 million in 2017 to RMB9,554 million in 2018, primarily due to:

- an increase in cost of raw materials by 24.9% from RMB4,660 million in 2017 to RMB5,819 million in 2018, primarily due to an increase in the sales volume of our products. The percentage of costs of raw materials to total revenue increased from 26.7% in 2017 to 28.4% in 2018, primarily due to the increased average procurement price of PET in 2018. The average procurement price of PET increased by 26.0% from RMB6,426 per ton in 2017 to RMB8,097 per ton in 2018; and

- an increase in cost of packaging materials by 29.3% from RMB1,037 million in 2017 to RMB1,341 million in 2018, primarily due to an increase in the sales volume of our products. The percentage of costs of packaging materials to total revenue increased from 5.9% in 2017 to 6.5% in 2018, primarily due to the increased average procurement price of cardboard boxes and labels in 2018.

Gross Profit and Gross Profit Margin

The table below sets forth a breakdown of our gross profit and gross profit margin by product category for the periods indicated.

	Year Ended December 31,						Five Months Ended May 31,			
	2017		2018		2019		2019		2020	
	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin	Gross Profit	Gross Profit Margin
	RMB (million)	%	RMB (million)	%	RMB (million)	%	RMB (million)	%	RMB (million)	%
Packaged drinking water products	6,123	60.5%	6,656	56.5%	8,633	60.2%	3,413	60.9%	3,366	62.8%
Tea beverage products	1,505	58.0%	1,764	58.1%	1,873	59.7%	901	60.9%	718	61.6%
Functional beverage products	1,528	52.0%	1,655	49.8%	1,922	50.9%	929	50.6%	578	53.3%
Juice beverage products	561	38.2%	762	41.1%	802	34.7%	319	36.7%	307	40.8%
Other products(1)	92	24.9%	84	17.4%	81	18.1%	14	10.9%	150	49.8%
Total	**9,809**	**56.1%**	**10,921**	**53.3%**	**13,311**	**55.4%**	**5,576**	**56.2%**	**5,119**	**59.1%**

Note:

(1) Other products primarily include other beverage products such as coffee beverage, soda water beverage, sparkling flavored beverage and plant-based yogurt products, and agricultural products such as fresh fruits.

Our gross profit generally increased from 2017 to 2019. Our gross profit increased by 11.3% from RMB9,809 million in 2017 to RMB10,921 million in 2018, and further increased by 21.9% to RMB13,311 million in 2019. Packaged drinking water products had the largest contribution to our total gross profit among all our product categories. The gross profit growth of packaged drinking water products accounted for 47.9% and 82.7% of our total gross profit growth in 2018 and 2019, respectively. Due to the impact of the COVID-19 outbreak on our sales revenue, our gross profit decreased by 8.2% from RMB5,576 million in the five months ended May 31, 2019 to RMB5,119 million in the five months ended May 31, 2020.

Gross profit margin slightly fluctuated during the Track Record Period. Gross profit margin decreased from 56.1% in 2017 to 53.3% in 2018, then increased by 2.1% to 55.4% in 2019, and further increased to 59.1% in the five months ended May 31, 2020. Fluctuations in the procurement price of PET and changes in the product mix were the main factors that affected our gross profit margin.

Packaged Drinking Water Products

Comparison between the five months ended May 31, 2020 and 2019: Gross profit margin of packaged drinking water products increased from 60.9% in the five months ended May 31, 2019 to 62.8% in the five months ended May 31, 2020, primarily due to a decrease in the average procurement price of PET by 18.0% from RMB7,283 per ton in the five months ended May 31, 2019 to RMB5,975 per ton in the five months ended May 31, 2020. Such increase in the gross profit margin was partially offset by an increase in the proportion of revenue from medium- to large-sized packaged drinking water products in revenue from packaged drinking water products, as medium- to large-sized packaged drinking water products had relatively low gross profit margins.

Comparison between 2019 and 2018: Gross profit margin of packaged drinking water products increased from 56.5% in 2018 to 60.2% in 2019, primarily due to (i) a decrease in the average procurement price of PET of 12.6% from RMB8,097 per ton in 2018 to RMB7,074 per ton in 2019; and (ii) a more rapid increase in the sales volume of packaged drinking water products packed in shrink wraps, which had relatively low packaging costs, compared with that of packaged drinking water products packed in cardboard boxes. Such increase in the gross profit margin was partially offset by an increase in the proportion of revenue from medium- to large-sized packaged drinking water products in revenue from packaged drinking water products, as medium- to large-sized packaged drinking water products had relatively low gross profit margins.

Comparison between 2018 and 2017: Gross profit margin of packaged drinking water products decreased from 60.5% in 2017 to 56.5% in 2018, primarily due to (i) an increase in the average procurement price of PET of 26.0% from RMB6,426 per ton in 2017 to RMB8,097 per ton in 2018; and (ii) an increase in the proportion of revenue from medium- to large-sized packaged drinking water products in revenue from packaged drinking water products, as medium- to large-sized packaged drinking water had relatively low gross profit margins.

Tea Beverage Products

Comparison between the five months ended May 31, 2020 and 2019: Gross profit margin of tea beverage products increased from 60.9% in the five months ended May 31, 2019 to 61.6% in the five months ended May 31, 2020, primarily due to a decrease in the average procurement price of PET.

Comparison between 2019 and 2018: Gross profit margin of tea beverage products increased from 58.1% in 2018 to 59.7% in 2019, primarily due to (i) a decrease in the average procurement price of PET in 2019; and (ii) a slight increase in the selling price of Tea π (茶π) products following the launch of a new package design.

Comparison between 2018 and 2017: Gross profit margin of tea beverage products in 2018 remained relatively stable as compared to that in 2017, primarily due to a decrease in the overall gross profit margin of tea beverage products attributable to an increase in the average procurement price of PET, offset by an increase in the gross profit margin of our Oriental Leaf (東方樹葉) products, which was primarily due to the increase of its price in mid-2018.

Functional Beverage Products

Comparison between the five months ended May 31, 2020 and 2019: Gross profit margin of functional beverage products increased from 50.6% in the five months ended May 31, 2019 to 53.3% in the five months ended May 31, 2020, primarily due to (i) a decrease in the average procurement price of PET; and (ii) an increase in the proportion of revenue from Victory Vitamin Water (力量帝維他命水) products in revenue from functional beverage products, as Victory Vitamin Water (力量帝維他命水) products had relatively high gross profit margins.

Comparison between 2019 and 2018: Gross profit margin of functional beverage products increased from 49.8% in 2018 to 50.9% in 2019, primarily due to a decrease in the average procurement price of PET in 2019. Such increase was partially offset by the slight decrease in the selling price of our Scream (尖叫) products in 2019.

Comparison between 2018 and 2017: Gross profit margin of functional beverage products decreased from 52.0% in 2017 to 49.8% in 2018, primarily due to (i) an increase in the average procurement price of PET in 2018; and (ii) the adoption of an upgraded formula for Victory Vitamin Water (力量帝維他命水) products since October 2017, which resulted in a slight increase in the costs of its ingredients.

Juice Beverage Products

Comparison between the five months ended May 31, 2020 and 2019: Gross profit margin of juice beverage products increased from 36.7% in the five months ended May 31, 2019 to 40.8% in the five months ended May 31, 2020, primarily due to a decrease in the average procurement price of PET.

Comparison between 2019 and 2018: Gross profit margin of juice beverage products decreased from 41.1% in 2018 to 34.7% in 2019, primarily due to (i) an increase in depreciation costs of our production lines after new production lines were in operation; (ii) an increase in the costs of our orange juice products as more self-squeezed not-from-concentrate orange juice with higher costs was used in such products in 2019 to improve the taste; and (iii) an increase in the percentage of sales of our juice products and the launch of Farmer's Orchard (農夫果園) products containing 50% fruit juice in 2019 which had relatively low gross profit margins. Such decrease in the gross profit margin was partially offset by a decrease in the average procurement price of PET in 2019.

Comparison between 2018 and 2017: Gross profit margin of juice beverage products in 2018 increased from 38.2% in 2017 to 41.1% in 2018, primarily due to (i) a decrease in the per unit packaging costs of juice beverage products because some of their packages were changed from 15 bottles per box to 24 bottles per box in 2018; (ii) more imported orange juice was used in the formula for orange juice in 2018; (iii) an increase in the gross profit margin of orange juice products attributable to a slight decrease in the costs of self-squeezed not-from-concentrate orange juice in 2018; and (iv) a slight increase in the selling price of juice beverage products from in 2018 as compared with that of 2017. Such increase in gross profit margin was partially offset by an increase in the average procurement price of PET in 2018.

Other Products

Gross profit margin of other products decreased from 24.9% in 2017 to 17.4% in 2018, then increased to 18.1% in 2019, and further increased to 49.8% in the five months ended May 31, 2020, primarily due to an increase in the proportion of revenue from other beverage products with relatively high gross profit margins.

Other Income and Gains

Other income and gains were RMB402 million, RMB534 million, RMB774 million, RMB277 million and RMB188 million in 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, respectively, which accounted for 2.3%, 2.6%, 3.2%, 2.8% and 2.2% of our total revenue, respectively.

The table below sets forth a breakdown of our other income and gains and as percentages of our total revenue for the periods indicated.

	Year Ended December 31,						Five Months Ended May 31,			
	2017		2018		2019		2019		2020	
	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue
							(Unaudited)			
Other income										
Government grants										
Related to income[(1)]	194	1.1%	226	1.1%	354	1.5%	109	1.1%	110	1.3%
Related to assets[(2)]	20	0.1%	24	0.1%	30	0.1%	7	0.1%	13	0.2%
Interest income	137	0.8%	206	1.0%	217	0.9%	84	0.8%	23	0.3%
Income from compensation	10	0.1%	16	0.1%	16	0.1%	7	0.1%	7	0.1%
Sales of scraps	35	0.2%	55	0.3%	66	0.3%	28	0.3%	29	0.2%
Sub-total	**396**	**2.3%**	**527**	**2.6%**	**683**	**2.9%**	**235**	**2.4%**	**182**	**2.1%**

	Year Ended December 31,						Five Months Ended May 31,			
	2017		2018		2019		2019		2020	
	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue
							(Unaudited)			
Other gains										
Gains from disposal of right-of-use assets	–	–	2	0.0%	–	–	–	–	–	–
Fair value gain on financial assets at fair value through profit or loss	2	0.0%	–	–	36	0.1%	31	0.3%	–	–
Gains on disposal of subsidiaries	–	–	–	–	2	0.0%	–	–	2	0.0%
Gains on disposal of property, plant and equipment	–	–	–	–	36	0.1%	–	–	–	–
Foreign exchange gains	–	–	–	–	–	–	3	0.0%	1	0.0%
Others	4	0.0%	5	0.0%	17	0.1%	8	0.1%	3	0.1%
Sub-total	**6**	**0.0%**	**7**	**0.0%**	**91**	**0.3%**	**42**	**0.4%**	**6**	**0.1%**
Total	**402**	**2.3%**	**534**	**2.6%**	**774**	**3.2%**	**277**	**2.8%**	**188**	**2.2%**

Notes:

(1) Government grants related to income were received as rewards for our contributions to the local economic growth. See Note 6 to "Appendix I – Accountants' Report."

(2) Government grants related to assets were received in relation to our investments in our production bases, as rewards for our contributions to the local economic growth. See Note 6 to "Appendix I – Accountants' Report."

Comparison between the five months ended May 31, 2020 and 2019: Other income and gains decreased by 32.1% from RMB277 million in the five months ended May 31, 2019 to RMB188 million in the five months ended May 31, 2020, primarily due to (i) a decrease in interest income of RMB61 million attributable to a decrease in our structured deposits; and (ii) fair value gain on financial assets at fair value through profit or loss of RMB31 million obtained from sale of securities in which we invested in the five months ended May 31, 2019, while in the five months ended May 31, 2020 we did not generated such gain.

Comparison between 2019 and 2018: Other income and gains increased by 44.9% from RMB534 million in 2018 to RMB774 million in 2019, primarily due to (i) government grants from the government as rewards for our contributions to the local economic growth; and (ii) fair value gain on financial assets at fair value through profit or loss of RMB36 million obtained from sale of securities in which we invested.

Comparison between 2018 and 2017: Other income and gains increased by 32.8% from RMB402 million in 2017 to RMB534 million in 2018, primarily due to (i) an increase in interest income of RMB69 million, attributable to an increase in bank balance; (ii) government grants from the government as rewards for our contributions to the local economic growth; and (iii) an increase in sales of scraps of RMB20 million, attributable to the increased amount of scrap as a result of our increased production volume.

Selling and Distribution Expenses

During the Track Record Period, our selling and distribution expenses primarily included logistics and storage expenses, advertising and promotion expenses and staff costs. In 2017, 2018 and 2019, our selling and distribution expenses were RMB4,890 million, RMB5,218 million, RMB5,816 million, respectively, which accounted for 28.0%, 25.5%, 24.2% of our total revenue, respectively. The continuous decrease in the percentage of selling and distribution expenses to total revenue from 2017 to 2019 was primarily due to the continuous improvement in the efficiency of our logistics and storage management and sales personnel. For the five months ended May 31, 2020, due to the impact of COVID-19 outbreak, our selling and distribution expenses were RMB2,127 million, which accounted for 24.5% of our total revenue. Our selling and distribution expenses in the five months ended May 31, 2020 decreased as compared with the RMB2,252 million in the five months ended May 31, 2019.

The table below sets forth a breakdown of our selling and distribution expenses and as percentages of our total revenue for the periods indicated.

	Year Ended December 31,						Five Months Ended May 31,			
	2017		2018		2019		2019		2020	
	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue
							(Unaudited)			
Logistics and storage expenses	2,336	13.4%	2,257	11.0%	2,526	10.5%	999	10.1%	905	10.4%
Advertising and promotion expenses	982	5.6%	1,234	6.0%	1,219	5.1%	428	4.3%	399	4.6%
Staff costs	1,086	6.2%	1,097	5.4%	1,177	4.9%	497	5.0%	433	5.0%
Depreciation and amortization	183	1.0%	251	1.2%	396	1.6%	154	1.6%	181	2.1%
Others[1]	303	1.8%	379	1.9%	498	2.1%	174	1.7%	209	2.4%
Total	**4,890**	**28.0%**	**5,218**	**25.5%**	**5,816**	**24.2%**	**2,252**	**22.7%**	**2,127**	**24.5%**

Note:

(1) Others primarily include travel expenses and costs of pallets used for loading products.

Comparison between the five months ended May 31, 2020 and 2019: Selling and distribution expenses decreased by 5.6% from RMB2,252 million in the five months ended May 31, 2019 to RMB2,127 million in the five months ended May 31, 2020, primarily due to decreases in our logistics and storage expenses, advertising and promotion expenses and staff costs attributable to the impact of the COVID-19 outbreak. Such decreases were partially offset by the increase in depreciation and amortization, as well as low-value consumables. The proportion of selling and distribution expenses in total revenue increased from 22.7% in the five months ended May 31, 2019 to 24.5% in the five months ended May 31, 2020, primarily due to a decrease in our total revenue and increases in the proportion of depreciation and amortization, logistics and storage expenses in total revenue in the five months ended May 31, 2020 attributable to the impact of the COVID-19 outbreak.

Comparison between 2019 and 2018: Selling and distribution expenses increased by 11.5% from RMB5,218 million in 2018 to RMB5,816 million in 2019, primarily due to an increase in logistics and storage expenses, staff costs and depreciation and amortization. Such increase was partially offset by a decrease in advertising and promotion expenses. The percentage of selling and distribution expenses to total revenue decreased from 25.5% in 2018 to 24.2% in 2019, primarily due to (i) a decrease in the percentage of advertising and promotion expenses to total revenue from 6.0% in 2018 to 5.1% in 2019, primarily because we put significant efforts in promoting the brand of our Victory Vitamin Water (力量帝維他命水) in 2018 through frequent product placements in variety shows while we had fewer advertisements in 2019; (ii) a decrease in the percentage of logistics and storage expenses to total revenue from 11.0% in 2018 to 10.5% in 2019, primarily due to an increase in operational efficiency upon optimization of logistics and storage management; and (iii) a decrease in the percentage of staff costs to total revenue from 5.4% in 2018 to 4.9% in 2019, primarily due to the improvement in efficiency of our sales personnel. Such decrease was partially offset by an increase in the percentage of depreciation and amortization to total revenue. The percentage of depreciation and amortization to total revenue increased from 1.2% in 2018 to 1.6% in 2019, primarily because we increased investment in retail points of sale by deploying more sales equipment such as refrigerators and vending machines.

Comparison between 2018 and 2017: Selling and distribution expenses increased by 6.7% from RMB4,890 million in 2017 to RMB5,218 million in 2018, primarily due to the increase in advertising and promotion expenses and depreciation and amortization in connection with equipment for sales and distribution attributable to our enhancement of brand promotion. Such increase was partially offset by a decrease in storage and logistics expenses. The percentage of selling and distribution expenses to total revenue decreased from 28.0% in 2017 to 25.5% in 2018, primarily due to (i) a decrease in the percentage of our logistics and storage expenses to total revenue from 13.4% in 2017 to 11.0% in 2018, primarily attributable to the enhancement of our logistics and storage management; and (ii) the decrease in the percentage of staff costs to total revenue from 6.2% in 2018 to 5.4% in 2019, primarily attributable to the improved efficiency of our sales personnel. Such decrease was partially offset by an increase in advertising and promotion expenses, primarily because we placed more advertisements for the brand of our Victory Vitamin Water (力量帝維他命水), particularly through frequent product placement in variety shows. The percentage of our advertising and promotion expenses to total revenue increased from 5.6% in 2017 to 6.0% in 2018.

Administrative Expenses

In 2017, 2018 and 2019, our administrative expenses were RMB859 million, RMB1,065 million, RMB1,383 million, respectively, which accounted for 4.9%, 5.2%, 5.8% of our total revenue, respectively. During the Track Record Period, our administrative expenses primarily included management staff costs and depreciation and amortization of equipment and office buildings. The percentage of management staff costs to total revenue remained relatively stable, while the increase in depreciation and amortization and the one-off equity-settled share award expenses made in 2019 were the main reasons for the increase in the percentage of administrative expenses to total revenue. In the five months ended May 31, 2020, our administrative expenses were RMB595 million, which accounted for 6.9% of total revenue. Our administrative expenses in the five months ended May 31, 2020 increased as compared with the RMB523 million in the five months ended May 31, 2019.

The table below sets forth a breakdown of our administrative expenses and as percentages of our total revenue for the periods indicated.

	Year Ended December 31,						Five Months Ended May 31,			
	2017		2018		2019		2019		2020	
	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue
							(Unaudited)			
Staff costs	339	1.9%	361	1.8%	428	1.8%	188	1.9%	180	2.1%
Depreciation and amortization	154	0.9%	216	1.1%	279	1.2%	132	1.3%	148	1.7%
Research and development costs	47	0.3%	107	0.5%	115	0.5%	45	0.5%	60	0.7%
Office and travel expenses	116	0.7%	164	0.8%	142	0.6%	61	0.6%	48	0.6%
System and equipment repair and maintenance expenses	100	0.6%	80	0.4%	147	0.6%	45	0.5%	74	0.9%
Equity-settled share award expenses	–	–	–	–	157	0.7%	–	–	–	–
Listing expenses	–	–	–	–	7	0.0%	–	–	22	0.3%
Others	103	0.5%	137	0.6%	108	0.4%	52	0.5%	63	0.6%
Total	**859**	**4.9%**	**1,065**	**5.2%**	**1,383**	**5.8%**	**523**	**5.3%**	**595**	**6.9%**

Comparison between the five months ended May 31, 2020 and 2019: Administrative expenses increased by 13.8% from RMB523 million in the five months ended May 31, 2019 to RMB595 million in the five months ended May 31, 2020, primarily due to (i) an increase in expenses incurred by the development of our information system; (ii) the listing expenses of RMB22 million; (iii) an increase in depreciation and amortization included in administrative expenses during the shutdown during the COVID-19 outbreak; and (iv) an increase in research and development expenses of new products.

Comparison between 2019 and 2018: Administrative expenses increased by 29.9% from RMB1,065 million in 2018 to RMB1,383 million in 2019, primarily due to (i) our equity-settled share award expenses of RMB157 million incurred in 2019, which was a one-off payment and represented the share incentives given to employees in 2019; (ii) an increase in the system and equipment repair and maintenance expenses, primarily attributable to IT service fee paid to Rainbow Fish Technology for the development of our operational, financial and management information systems; (iii) an increase in staff costs, primarily attributable to the Company's employment of certain employees with profound management experience or enormous growth potential as well as the provision of more bonus to employees in 2019; and (iv) an increase in depreciation of equipment.

Comparison between 2018 and 2017: Administrative expenses increased by 24.0% from RMB859 million in 2017 to RMB1,065 million in 2018, primarily due to (i) an increase in depreciation of equipment; (ii) an increase in research and development costs attributable to our investment in research and development of new products and design of new packages; and (iii) an increase in office and travel expenses, resulting from more frequent visits to frontline business locations.

Other Expenses

In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, other expenses were RMB19 million, RMB405 million, RMB371 million, RMB7 million and RMB3 million, respectively, which accounted for 0.1%, 2.0%, 1.5%, 0.1% and 0.0% of our revenue, respectively. Our other expenses in 2018 and 2019 were primarily the donations of RMB360 million and RMB360 million, respectively, which were made to Zhongziyi Education Fund. Zhongziyi Education Fund was initiated and founded by Mr. Zhong Shanshan to support educational development and was controlled by Mr. Zhong Shanshan, one of our Controlling Shareholders. Zhongziyi Education Fund, as an associate of Mr. Zhong Shanshan, will become our connected person within the meaning of the Listing Rules upon the Listing. For all connected transactions (including connected transactions in relation to the Zhongziyi Education Fund), the Company will strictly comply with applicable regulations in relation to connected transactions under the Listing Rules upon Listing. During the Track Record Period, Mr. Zhong Shanshan or his associates did not receive any benefits, whether monetary or non-monetary, from Zhongziyi Education Fund. Zhongziyi Education Fund upholds the objectives of "funding private education initiatives, improving basic education, cultivating talents specialized in engineering and scientific technologies, and creating the environment and conditions for talent cultivation." It funds the establishment of private universities, secondary schools, primary schools and kindergartens, cultivation of outstanding talents, educational and scientific research activities as well as other educational initiatives in line with the objectives of the fund. We have been paying attention to and supporting poor regions, natural disaster-stricken or epidemic-stricken areas, educational and scientific researches, and sports. Zhongziyi Education Fund echoes the philosophy of our Company to support educational initiatives. Therefore, we made two donations to it during the Track Record Period, and looked into the specific details of projects that the fund intended to support when deciding the donation amount. It is expected that such donations will not be made on a recurring basis in the future.

Zhongziyi Education Fund is a non-for-profit legal entity established under the Regulations for the Management of Foundations (《基金會管理條例》) promulgated by the State Council and holds the "Certificate of Registration as a Legal Entity for Foundation (Charitable Organization)" (《基金會法人登記證書(慈善組織)》) issued by the Xihu Civil Affairs Bureau of Hangzhou City, and is subject to the governance of the relevant competent business authority, Xihu District Education Bureau of Hangzhou City. In accordance with the Regulations for the Management of Foundations and the constitution of Zhongziyi Education Fund, the council is the decision-making body of the fund. There are five council members, with Mr. Zhong Shanshan, a Controlling Shareholder and a director of Yangshengtang, serving as the vice president of the fund, who may, through attending council meetings, make decisions and determine major business plans of the fund, together with the other four council members, including plans on raising fund, the management and use of fund, reviewing annual estimates of income and expenditure and final accounts of the fund. According to the constitution of Zhongziyi Education Fund, ordinary resolutions shall be approved by more than half of the council members present at the meeting, while special resolutions, including but not limited to the fundraising and investment, shall be approved by more than two-thirds of the council members present at the meeting. Except for Mr. Zhong Shanshan, no other person from the Controlling Shareholders or their associates were members of the council. In addition, each council member has the rights and obligations to monitor the operations of the fund. In accordance with the Regulations for the Management of Foundations, Xihu District Education Bureau of Hangzhou City, the competent business authority of the fund, is responsible for guiding and monitoring the public welfare activities of the fund and conducting annual preliminary reviews on the fund; Xihu Civil Affairs Bureau of Hangzhou City, which is the registration management authority of the fund, conducts regular supervision and annual inspections of the fund. Every year, upon passing the annual inspection of the registration management authority, the fund shall publish its annual report reviewed and approved by the competent business authority on the designated media channel and shall be subject to the monitoring of the public. The annual report shall include: a financial and accounting report, an audit report by certified public accountant, details about the fundraising activities, acceptance of donations and provision of subsidies, as well as staff movements and organizational changes. The Company mainly monitors the use of donations by Zhongziyi Education Fund through the annual reports published by the fund. In addition, in accordance with the Regulations for the Management of Foundations and the constitution of Zhongziyi Education fund, upon donations to the fund, the Company, as a donor, has the right to make enquiries to the fund regarding the use and management of the donations and provide suggestions and advice, and the fund shall reply in a timely and candid manner.

The table below sets forth a breakdown of our other expenses and as percentages of our total revenue for the periods indicated.

	Year Ended December 31,						Five Months Ended May 31,			
	2017		2018		2019		2019		2020	
	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue
							(Unaudited)			
Donations	4	0.0%	366	1.8%	362	1.5%	1	0.0%	2	0.0%
Foreign exchange loss, net	2	0.0%	11	0.1%	6	0.0%	–	–	–	–
Loss on disposal of property, plant and equipment	7	0.0%	7	0.0%	–	–	6	0.1%	1	0.0%
Fair value change loss on financial assets at fair value through profit or loss	–	–	14	0.1%	–	–	–	–	–	–
Others	6	0.0%	7	0.0%	3	0.0%	–	–	–	–
Total	**19**	**0.1%**	**405**	**2.0%**	**371**	**1.5%**	**7**	**0.1%**	**3**	**0.0%**

Finance Costs

Finance costs amounted to RMB8 million, RMB4 million, RMB16 million, RMB1 million and RMB23 million in 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, respectively. Our finance costs included interest expenses on interest-bearing borrowings and interest expenses on lease liabilities.

The table below sets forth a breakdown of our finance costs and as percentages of our total revenue for the periods indicated.

	Year Ended December 31,						Five Months Ended May 31,			
	2017		2018		2019		2019		2020	
	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue
							(Unaudited)			
Interest expenses on interest-bearing borrowings	5	0.0%	1	0.0%	13	0.1%	–	–	22	0.3%
Interests expenses on lease liabilities	3	0.0%	3	0.0%	3	0.0%	1	0.0%	1	0.0%
Total	**8**	**0.0%**	**4**	**0.0%**	**16**	**0.1%**	**1**	**0.0%**	**23**	**0.3%**

Comparison between the five months ended May 31, 2020 and 2019: Finance costs increased significantly from RMB1 million in the five months ended May 31, 2019 to RMB23 million in the five months ended May 31, 2020, primarily due to an increase in interest expenses on interest-bearing borrowings as we increased interest-bearing borrowings in the five months ended May 31, 2020. See "– Indebtedness."

Comparison between 2019 and 2018: Finance costs increased significantly from RMB4 million in 2018 to RMB16 million in 2019, primarily due to an increase in interest expenses on interest-bearing borrowings as we took out interest-bearing borrowings of RMB1,000 million in 2019. See "– Indebtedness."

Comparison between 2018 and 2017: Finance costs decreased by 50.0% from RMB8 million in 2017 to RMB4 million in 2018, primarily due to a decrease in interest expenses on interest-bearing borrowings as we paid off all our interest-bearing borrowings in 2018.

Income Tax Expense

The table below sets forth a breakdown of our income tax expense for the periods indicated.

	Year Ended December 31,			Five Months Ended May 31,	
	2017	2018	2019	2019	2020
	RMB (million)	RMB (million)	RMB (million)	RMB (million) *(Unaudited)*	RMB (million)
Current – PRC					
Charge for the year	1,098	1,134	1,529	731	653
(Over)/under provision in prior year	(5)	(0)	(1)	(1)	4
Current – other jurisdiction	0	0	(0)	(0)	0
Deferred	(44)	17	17	(20)	(29)
Income tax expense	**1,049**	**1,151**	**1,545**	**710**	**628**
Effective tax rate	**23.7%**	**24.2%**	**23.8%**	**23.1%**	**24.5%**

In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, our effective tax rates were 23.7%, 24.2%, 23.8%, 23.1% and 24.5%, respectively, which were lower than the 25% statutory rate primarily because we had certain subsidiaries which enjoyed preferential tax treatments. As of May 31, 2020 we had (i) three subsidiaries which were entitled to an income tax rate of 15% under the Western Development Strategy; and (ii) four subsidiaries engaged in agricultural projects that were exempt from income tax. Our effective tax rates during the Track Record Period fluctuated primarily due to the unrecognised tax losses arising from two entities established by us in New Zealand. See Note 11 to "Appendix I – Accountants' Report."

The above-mentioned unrecognised tax losses were primarily professional fees, such as construction consulting fees, public relationship fees and legal fees related to the acquisitions of Otakiri Springs Limited in New Zealand during the Track Record Period. Such acquisitions have not been completed as of the Latest Practicable Date and they are still subject to the local proceedings in New Zealand. We believe there are uncertainties surrounding our business in New Zealand. As a result, there may not be sufficient taxable profits available in the near future against which the tax losses can be utilized.

Comparison between the five months ended May 31, 2020 and 2019: Income tax expense decreased by 11.5% from RMB710 million in the five months ended May 31, 2019 to RMB628 million in the five months ended May 31, 2020, primarily due to a decrease in our profit before tax. Our effective tax rate increased from 23.1% in the five months ended May 31, 2019 to 24.5% in the five months ended May 31, 2020, primarily due to a decrease in tax-free profits of the companies under the Group which engaged in preliminary processing of agricultural products.

Comparison between 2019 and 2018: Income tax expense increased by 34.2% from RMB1,151 million in 2018 to RMB1,545 million in 2019, primarily due to an increase in our profit before tax. Our effective tax rate decreased from 24.2% in 2018 to 23.8% in 2019, primarily due to (i) an increase in tax-free profits of the companies under the Group which engaged in preliminary processing of agricultural products in 2019; and (ii) an increase in tax-free revenue derived from the disposal gain on financial assets at fair value through profit or loss during the year.

Comparison between 2018 and 2017: Income tax expense increased by 9.7% from RMB1,049 million in 2017 to RMB1,151 million in 2018 primarily due to the increases in our profit before tax and deferred tax. The increase in our deferred income tax was primarily due to the introduction of a new tax regulation which allowed us to front load the tax of the depreciation for certain production machines and equipment.

Profit for the Year/Period

As a result of the foregoing, our profit for the year increased by 6.7% from RMB3,386 million in 2017 to RMB3,612 million in 2018, and further increased by 37.2% to RMB4,954 million in 2019. Our profit for the period decreased by 18.2% from RMB2,360 million in the five months ended May 31, 2019 to RMB1,931 million in the five months ended May 31, 2020.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we financed our operations primarily through cash generated from operating activities. As of May 31, 2020, we had RMB3,960 million of available cash and cash equivalents. Our available cash and cash equivalents comprise cash and bank balances net of time deposits. For breakdown of cash and cash equivalents, see Note 24 to "Appendix I – Accountants' Report."

Going forward, we believe our liquidity requirements will be satisfied by using cash flows from operations, interest-bearing borrowings and net proceeds from the Global Offering.

Taking into account the net proceeds from the Global Offering, net cash flows from operations and bank facilities available to us, our Directors believe that we have sufficient working capital to meet our present and future cash requirements for at least the next 12 months from the date of this prospectus. After making reasonable enquiries with the Company about the Company's working capital requirements, there is nothing that has caused the Joint Sponsors to disagree with the Directors' view above.

Net Current Assets/Liabilities

The table below sets forth our current assets and liabilities as of the dates indicated.

	As of December 31,			As of May 31, 2020	As of June 30, 2020
	2017	2018	2019		
	RMB (million)	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Current assets:					
Inventories	1,443	1,906	1,762	1,741	1,683
Trade and bills receivables	194	223	306	422	483
Prepayments, other receivables and other assets	569	1,165	1,021	912	896
Financial assets at fair value through profit or loss	4	177	–	–	–
Structured deposits	2,035	3,600	200	–	–
Pledged deposits	49	6	–	–	–
Cash and bank balances	2,563	1,764	1,083	4,060	5,662
Total current assets	**6,857**	**8,841**	**4,372**	**7,135**	**8,724**
Current liabilities:					
Trade and bills payables	821	837	791	1,039	1,174
Other payables and accruals	1,992	2,604	2,855	3,585	3,950
Contract liabilities	1,578	1,996	2,078	1,386	1,243
Interest-bearing borrowings	50	–	1,000	2,113	2,253
Lease liabilities	21	29	6	15	14
Tax payables	735	697	711	709	1,054
Dividend payable	–	–	–	–	–
Total current liabilities	**5,197**	**6,163**	**7,441**	**8,847**	**9,688**
Net Current Assets/Liabilities	**1,660**	**2,678**	**(3,069)**	**(1,712)**	**(964)**

Comparison between June 30, 2020 and May 31, 2020

Our net current liabilities decreased from RMB1,712 million as of May 31, 2020 to RMB964 million as of June 30, 2020, primarily due to an increase of RMB1,602 million in our cash and bank balances primarily attributable to cash generated from operations during the peak sales season. Such increase was partially offset by (i) an increase of RMB365 million in other payables and accruals, and (ii) an increase of RMB345 million in tax payables.

As of June 30, 2020, being the latest practicable date for determining our indebtedness, we had RMB11,165 million overdraft facilities, of which RMB8,479 million were unutilized and unrestricted.

Comparison between May 31, 2020 and December 31, 2019

Our net current liabilities decreased from RMB3,069 million as of December 31, 2019 to RMB1,712 million as of May 31, 2020, primarily due to an increase in our net cash and bank balances of RMB2,977 million primarily attributable to the cash from our operation. Such increase in current assets was partially offset by an increase in our interest-bearing borrowings of RMB1,113 million and other payables and accruals of RMB730 million in the five months ended May 31, 2020.

As a result of the foregoing, our current ratio increased from 0.59 as of December 31, 2019 to 0.81 as of May 31, 2020, and our quick ratio increased from 0.35 as of December 31, 2019 to 0.61 as of May 31, 2020.

Comparison between December 31, 2019 and December 31, 2018

We recorded net current liabilities of RMB3,069 million as of December 31, 2019, as compared to net current assets of RMB2,678 million as of December 31, 2018. Such changes were primarily due to:

- a decrease in our structured deposits of RMB3,400 million and a decrease in our cash and bank balances of RMB681 million, primarily because we withdrew funds to pay dividends of RMB9,598 million to the Shareholders of the Company in 2019;

- an increase in our other payables and accruals of RMB251 million, primarily due to an increase in deposits, staff payroll and welfare payables and logistic costs accrued but not yet settled in 2019; and

- an increase of RMB82 million in contract liabilities, primarily due to an increase in advance payments from distributors made at the end of the year in anticipation of higher demands for our products.

As a result of the foregoing, our current ratio decreased from 1.43 as of December 31, 2018 to 0.59 as of December 31, 2019, and our quick ratio decreased from 1.13 as of December 31, 2018 to 0.35 as of December 31, 2019.

Comparison between December 31, 2018 and December 31, 2017

Our net current assets increased from RMB1,660 million as of December 31, 2017 to RMB2,678 million as of December 31, 2018, primarily due to a net increase of RMB939 million in our structured deposits, financial assets at fair value through profit or loss and cash and bank balances, primarily due to cash generated from operations. Such increase was partially offset by an increase of RMB167 million in payables for purchase of plants and equipment in 2018, due to the new plants and equipment that we invested in for our production bases in Danjiangkou, Hubei Province (湖北丹江口) and Thousand-island Lake, Zhejiang Province (浙江千島湖).

Inventories

Our inventories include raw materials, finished goods and work in progress, with raw materials being the major component. As of December 31, 2017, 2018 and 2019 and as of May 31, 2020, the percentage of raw materials to inventories was 60.6%, 69.7%, 69.2% and 67.0%, respectively.

The table below sets forth a breakdown of our inventory balances as of the dates indicated.

	As of December 31,			As of May 31,
	2017	**2018**	**2019**	**2020**
	RMB (million)	**RMB (million)**	**RMB (million)**	**RMB (million)**
Raw materials	874	1,328	1,220	1,166
Finished goods	235	232	231	351
Work in progress	334	346	311	224
Total	**1,443**	**1,906**	**1,762**	**1,741**

Inventories of raw materials primarily include not-from-concentrate juice, packaging materials and PET:

- Not-from-concentrate juice was the largest component of our inventories of raw materials and accounted for 44.1%, 55.4%, 51.2% and 52.1% of the inventories of raw materials as of December 31, 2017, 2018 and 2019 and as of May 31, 2020, respectively. Not-from-concentrate juice in the inventories were primarily used for producing juice products and were either sourced from external parties or self-squeezed by the Company. The inventory balance primarily comprises self-squeezed not-from-concentrate juice of the Company. We purchase fresh fruits from farmers every year partly for juicing. As the growth of fruit trees and the juicing rate for fruits substantially fluctuate subject to the influence of weather, we would normally take into account the sales plan for next year and reserve levels and determine our juicing amount accordingly.

- Inventories of packaging materials accounted for 15.8%, 10.7%, 9.8% and 10.6% of our inventories of raw materials as of December 31, 2017, 2018 and 2019 and as of May 31, 2020, respectively. In order to reduce the risk of deteriorating quality of packaging materials during storage, we procured packaging materials more frequently, as a result, the inventories of packaging materials decreased.

- Inventories of PET accounted for 5.2%, 7.8%, 9.3% and 11.2% of our inventories of raw materials as of December 31, 2017, 2018 and 2019 and as of May 31, 2020, respectively. Based on our estimate on the procurement price of PET, we would strategically reserve more inventories of PET when available at a lower price in order to ensure a stable supply of our raw materials.

Comparison between May 31, 2020 and December 31, 2019: Inventories as of December 31, 2019 and May 31, 2020 were RMB1,762 million and RMB1,741 million, respectively, which remained relatively stable.

Comparison between 2019 and 2018: Inventories decreased by 7.6% from RMB1,906 million as of December 31, 2018 to RMB1,762 million as of December 31, 2019, primarily due to a decrease in our inventories of not-from-concentrate juice. In 2019, we used more self-squeezed juice in the production process of not-from-concentrate juice products to improve the taste of such products, resulting in a decrease in the closing balance of inventories.

Comparison between 2018 and 2017: Inventories increased by 32.1% from RMB1,443 million as of December 31, 2017 to RMB1,906 million as of December 31, 2018, primarily due to an increase in our strategic reserve of self-squeezed not-from-concentrate juice raw materials at the end of the year based on the sales plan for next year.

The table below sets forth our inventory turnover days during the periods indicated.

	Year Ended December 31,			Five Months Ended May 31,
	2017	**2018**	**2019**	**2020**
Inventory turnover days[(1)]	60.5	64.0	62.5	75.1

Note:

(1) Inventory turnover days for each period equals the average of the beginning and ending balances of inventory for that period divided by cost of sales for that period and multiplied by the number of days in that period.

Comparison between five months ended May 31, 2020 and year ended December 31, 2019: Our inventory turnover days increased from 62.5 days in the year ended December 31, 2019 to 75.1 days in the five months ended May 31, 2020, primarily because our production volume was relatively low during the COVID-19 outbreak.

Comparison between 2019 and 2018: Our inventory turnover days decreased from 64.0 days in 2018 to 62.5 days in 2019, primarily due to (i) the enhanced control by the plants over inventory turnover; and (ii) the decreased inventories of not-from-concentrate juice products.

Comparison between 2018 and 2017: Our inventory turnover days increased from 60.5 days in 2017 to 64.0 days in 2018, primarily due to an increase in the balance of our inventories attributable to an increase in not-from-concentrate juice in our raw materials. Taking into account the sales growth and production seasonality of not-from-concentrate juice products, we reserved a high level of inventories of not-from-concentrate juice in our raw materials.

As of June 30, 2020, 47.8% of our total inventories as of May 31, 2020, or RMB832 million, were utilized or sold.

Trade and Bills Receivables

Our trade and bills receivables primarily arise from credit sales of our products. We usually deliver products to distributors after they have made the payment. We grant credit terms of no more than 90 days to direct sale customers. Our direct sale customers primarily include national or regional supermarkets, chained convenience stores, e-commerce platforms, restaurants, airlines and large corporate customers. An increase in our sales to direct sale customers would result in an increase in our trade and bills receivables. Trade and bills receivables would increase prior to the peak sales period such as the Chinese New Year and summer season as our direct sale customers usually make procurement in advance.

The table below sets forth our trade and bills receivables as of the dates indicated.

	As of December 31,			As of May 31,
	2017	2018	2019	2020
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Trade receivables[1]	207	237	326	447
Bills receivables	–	–	–	1
Impairment	(13)	(14)	(20)	(26)
Total	**194**	**223**	**306**	**422**

Note:

[1] As of December 31, 2017, 2018 and 2019 and as of May 31, 2020, our trade receivables included trade receivables from related parties of RMB2 million, RMB8 million, RMB4 million and RMB3 million, respectively. See Note 20 to "Appendix I – Accountants' Report."

Comparison between May 31, 2020 and December 31, 2019: Trade and bills receivables increased by 37.9% from RMB306 million as of December 31, 2019 to RMB422 million as of May 31, 2020, primarily due to (i) an increase in direct e-commerce sales on e-commerce platforms; and (ii) the provision of temporary credit period to certain distributors for their cash flow in order to assist them in coping with the impact of the COVID-19 outbreak. The amount of credit facilities provided by us to a distributor shall not exceed the security deposit placed by such distributor with us.

Comparison between 2019 and 2018: Trade and bills receivables increased by 37.4% from RMB223 million as of December 31, 2018 to RMB306 million as of December 31, 2019, primarily due to an increase in our revenue from direct sale customers. Our revenue from direct sale customers increased by 25.6% from RMB1,113 million in 2018 to RMB1,398 million in 2019.

Comparison between 2018 and 2017: Trade and bills receivables increased by 14.7% from RMB194 million as of December 31, 2017 to RMB223 million as of December 31, 2018, primarily due to an increase in our revenue from direct sale customers. Our revenue from direct sale customers increased by 26.3% from RMB881 million in 2017 to RMB1,113 million in 2018. In addition, there was an increase in trade and bills receivables from direct sale customers as of December 31, 2018 in anticipation of higher demands for our products near the Chinese New Year which was in January 2019.

Our senior management regularly reviews the recoverability of our overdue balances and when appropriate, provides for impairment of these trade receivables. Impairment in respect of trade receivables is recorded using an allowance account unless we are satisfied that the possibility of recovery of the amount is remote, in which case the impairment is written off against trade receivables directly. We believe that our exposure to the risks of being unable to collect payments is small.

The table below sets forth an aging analysis of our trade and bills receivables as of the dates indicated.

	As of December 31,			As of May 31,
	2017	2018	2019	2020
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Within 90 days	182	215	296	390
91-180 days	5	2	2	25
181-365 days	7	6	8	7
Total	**194**	**223**	**306**	**422**

The table below sets forth our trade and bills receivables turnover days during the periods indicated.

	Year Ended December 31,			Five Months Ended May 31,
	2017	2018	2019	2020
Trade and bills receivables turnover days[1]	3.3	3.7	4.0	6.4

Note:

(1) Trade and bills receivables turnover days for each period equals the average of the beginning and ending balances of trade and bills receivables for that period divided by revenue for that period and multiplied by the number of days in that period.

In 2017, 2018 and 2019 and in the five months ended May 31, 2020, our trade and bills receivables turnover days were 3.3 days, 3.7 days, 4.0 days and 6.4 days, respectively, primarily because our sales to direct sale customers grew faster than our total revenue. In 2018 and 2019 and in the five months ended May 31, 2020, revenue from our sales to direct sale customers increased by 26.3%, 25.6% and 13.8%, respectively, as compared to that in the previous year/in the same period of the previous year, while the changes in our revenue for such periods included an increase of 17.1%, an increase of 17.3% and a decrease of 12.6%, respectively. We provided temporary credit period to certain distributors for their cash flow in order to assist them in coping with the impact of the COVID-19 outbreak. The provision of such credit period resulted in an increase of our trade and bills receivables turnover days in the five months ended May 31, 2020 by 0.5 days.

As of June 30, 2020, 59.8% of our trade and bills receivables as of May 31, 2020, or RMB268 million, were settled.

Prepayments, Other Receivables and Other Assets

Our prepayments, other receivables and other assets primarily include prepayments to suppliers, deposits and other receivables, prepaid expenses, amounts due from related parties, value added tax recoverable and corporate income tax recoverable. Prepayments to suppliers are primarily for purchasing raw materials such as PET. Value added tax recoverable primarily represents the value added input tax in excess of the value added output tax, which can be deductible or recoverable in the future. Corporate income tax recoverable primarily represents the prepaid income tax before the annual tax filing.

The table below sets forth the components of our prepayments, deposits and other receivables as of the dates indicated.

	As of December 31,			As of May 31,
	2017	2018	2019	2020
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Prepayments to suppliers	137	188	166	63
Deposits and other receivables	92	133	82	62
Prepaid expenses	51	61	84	82
Amounts due from related parties[1]	26	140	8	0
Value added tax recoverable	273	654	684	708
Corporate income tax recoverable	1	5	3	–
Impairment losses	(11)	(16)	(6)	(3)
Total	**569**	**1,165**	**1,021**	**912**

Note:

(1) As of December 31, 2017, 2018 and 2019 and as of May 31, 2020, our amounts due from related parties represented (i) procurement costs paid on behalf of related parties; and (ii) prepayments made to Rainbow Fish Technology for its IT services.

Comparison between May 31, 2020 and December 31, 2019: Prepayments, other receivables and other assets decreased by 10.7% from RMB1,021 million as of December 31, 2019 to RMB912 million as of May 31, 2020, primarily due to a decrease in the amount of prepayments to our suppliers as we obtained better terms for trade payment.

Comparison between 2019 and 2018: Prepayments, other receivables and other assets decreased by 12.4% from RMB1,165 million as of December 31, 2018 to RMB1,021 million as of December 31, 2019, primarily due to (i) a significant decrease in the amounts due from related parties because most of the relevant receivables as of December 31, 2018 were recovered and the relevant services regarding the advances had been received by December 31, 2019; and (ii) a decrease in deposits and other receivables, primarily attributable to a decrease in interest receivable as a result of a reduction in the amount of structured deposits at the end of 2019.

Comparison between 2018 and 2017: Prepayments, other receivables and other assets increased significantly from RMB569 million as of December 31, 2017 to RMB1,165 million as of December 31, 2018, primarily due to (i) an increase of RMB381 million in value added tax recoverable, attributable to the equipment that we purchased for our new plants in the production bases in Danjiangkou, Hubei Province (湖北丹江口), Mount Changbai, Jilin Province (吉林長白山) and Thousand-island Lake, Zhejiang Province (浙江千島湖); and (ii) an increase of RMB114 million in the balance of amounts due from related parties attributable to the payments of procurement costs on behalf of a related party and the prepayments made to Rainbow Fish Technology for its IT services.

Trade and Bills Payables

Our trade and bills payables primarily comprise payables for raw materials and packaging materials, production equipment and infrastructures, logistics services and advertising and promotion fees. Our trade and bills payables are non-interest-bearing and are generally settled within three months.

The table below sets forth our trade and bills payables by category as of the dates indicated.

	As of December 31,			As of May 31,
	2017	2018	2019	2020
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Trade payables[(1)]	764	802	762	1,018
Bills payables	57	35	29	21
Total	**821**	**837**	**791**	**1,039**

Note:

(1) As of December 31, 2017, 2018 and 2019 and as of May 31, 2020, our trade and bills payables included trade and bills payables to related parties of RMB14 million, RMB15 million, RMB102,000 and RMB27 million, respectively. See Note 26 to "Appendix I – Accountants' Report."

Comparison between May 31, 2020 and December 31, 2019: Trade and bills payables increased by 31.4% from RMB791 million as of December 31, 2019 to RMB1,039 million as of May 31, 2020, primarily because we reserved raw materials for production as the peak sales and production season was approaching, which led to an increase in trade and bills payables.

Comparison between 2019 and 2018: Trade and bills payables decreased by 5.5% from RMB837 million as of December 31, 2018 to RMB791 million as of December 31, 2019, primarily because we accelerated the settlement with suppliers in order to obtain more favourable procurement price in the future.

Comparison between 2018 and 2017: Trade and bills payables increased by 1.9% from RMB821 million as of December 31, 2017 to RMB837 million as of December 31, 2018, primarily due to an increase in our trade payables, partially offset by a decrease in our bills payables.

The table below sets forth an aging analysis of our trade and bills payables as of the dates indicated.

	As of December 31,			As of May 31, 2020
	2017	2018	2019	
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Within 90 days	774	757	674	897
91 to 180 days	5	32	39	49
181 to 365 days	4	14	29	44
Over one year	38	34	49	49
Total	**821**	**837**	**791**	**1,039**

The table below sets forth our trade and bills payables turnover days during the periods indicated.

	Year Ended December 31,			Five Months Ended May 31, 2020
	2017	2018	2019	
Trade and bills payables turnover days[(1)]	40.9	31.7	27.7	39.2

Note:

(1) Trade and bills payables turnover days for each period equals the average of the beginning and ending balances of trade and bills payables for that period divided by cost of sales for that period and multiplied by the number of days in that period.

Our trade and bills payables turnover days decreased from 40.9 days in 2017 to 31.7 days in 2018, and further decreased to 27.7 days in 2019, primarily because we purchase raw materials and packaging materials more frequently in order to ensure the freshness of raw materials for our beverage products and the quality of cardboard boxes. Our trade and bills payables turnover days increased from 27.7 days in 2019 to 39.2 days in the five months ended May 31, 2020, primarily because our production volume was relatively low during the COVID-19 outbreak, while there was an increase in procurement as we approached peak sales and production season at the end of such period.

As of June 30, 2020, 61.8% of our trade and bills payables as of May 31, 2020, or RMB642 million, were settled.

Other Payables and Accruals

Our other payables and accruals primarily comprise deposits, payables for purchase of plant and equipment, staff payroll and welfare payables, accrued expenses, accrued sales discounts and rebates, tax payables other than income tax and amounts due to related parties. Deposits are deposits for refrigerators paid to us by distributors and downstream points of sale as well as the deposits for the 19L bottled drinking water products. We would collect and sterilize the empty bottles of the 19L bottled drinking water products for refilling. As a result, we charge deposits for these bottles.

The table below sets forth our other payables and accruals as of the dates indicated.

	As of December 31,			As of May 31,
	2017	2018	2019	2020
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Deposits	246	574	789	993
Payables for purchase of plant and equipment	362	529	518	604
Staff payroll and welfare payables	377	369	424	264
Accrued expenses	490	362	444	701
Sales discount and rebate payables(1)	319	427	448	423
Tax payables other than income tax	107	239	76	386
Amounts due to related parties(2)	15	26	70	80
Others	76	78	86	134
Total	**1,992**	**2,604**	**2,855**	**3,585**

Notes:

(1) Sales discount and rebate payables represented a certain percentage of price discounts or rebates offered to distributors based on the amount or quantity of goods procured from them.

(2) As of December 31, 2017, 2018 and 2019, our amounts due to related parties included IT service fees payable to Rainbow Fish Technology, e-commerce operation fees payable to Yangshengtang and research and development fee payable to YST Natural Medicine Research, respectively. We stopped purchasing the e-commerce operation service from Yangshengtang from 2020 onwards.

Comparison between May 31, 2020 and December 31, 2019: Other payables and accruals increased by 25.6% from RMB2,855 million as of December 31, 2019 to RMB3,585 million as of May 31, 2020, primarily due to (i) an increase in VAT payables attributable to the delay of collection of corporate VAT by multiple local government to support enterprises in response to the impact of the COVID-19 outbreak; (ii) an increase in deposits paid by distributors and their downstream points of sale for using refrigerators as we placed more refrigerators at our retail points of sale; and (iii) an increase in accrued expenses attributable to an increase in logistics costs incurred but not yet settled as of May 31, 2020 as we approach the peak sales season.

Comparison between 2019 and 2018: Other payables and accruals increased by 9.6% from RMB2,604 million as of December 31, 2018 to RMB2,855 million as of December 31, 2019, primarily due to (i) an increase in deposits, primarily attributable to an increase in deposits from distributors and its downstream points of sale for using the refrigerators we deployed in the points of sale; (ii) an increase in accrued expenses, primarily attributable to an increase in logistic costs accrued, but not yet settled, at the end of 2019; and (iii) an increase in staff payroll and welfare payables, primarily attributable to the increase in bonuses granted to employees for their improved performance. Such increase was partially offset by a decrease in tax payables due to the reduction of value-added tax rate from 16% to 13% in April 2019.

Comparison between 2018 and 2017: Other payables and accruals increased by 30.7% from RMB1,992 million as of December 31, 2017 to RMB2,604 million as of December 31, 2018, primarily due to (i) an increase in deposits, primarily attributable to an increase in deposits from distributors and downstream points of sale for using the refrigerators we deployed in the points of sale; (ii) an increase in payables for investing in the plant and equipment for our new plants built in the production bases in Danjiangkou, Hubei Province (湖北丹江口), Mount Changbai, Jilin Province (吉林長白山) and Thousand-island Lake, Zhejiang Province (浙江千島湖); and (iii) an increase in value add tax payables, primarily attributable to an increase in our total revenue in 2018.

Contract Liabilities

Our contract liabilities comprise advance payments from our customers. The table below sets forth our contract liabilities as of the dates indicated.

	As of December 31,			As of May 31,
	2017	2018	2019	2020
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Advance payments from customers	1,578	1,996	2,078	1,386

We mainly operate a single-layer distribution system where we engage the distributors to distribute our products. As of December 31, 2017, 2018 and 2019 and as of May 31, 2020, the revenue from distributor customers accounted for 95.0%, 94.6%, 94.2% and 93.6% of our total revenue, respectively. We typically require distributors to pay for their purchases from us upon or prior to the delivery of the products.

Contract liabilities increased by 26.5% from RMB1,578 million as of December 31, 2017 to RMB1,996 million as of December 31, 2018, and further increased by 4.1% to RMB2,078 million as of December 31, 2019, primarily due to an increase in advance payments from distributors which were made at the end of the year in anticipation of higher demands for our products. As of December 31, 2017, 2018 and 2019, advance payments from customers accounted for 9.5%, 10.3% and 9.2% of the revenue from distributor customers for such years, respectively. Contract liabilities decreased by 33.3% from RMB2,078 million as of December 31, 2019 to RMB1,386 million as of May 31, 2020, primarily because we increased the frequency of product delivery to improve operational efficiency as we approached the peak sales season.

As of June 30, 2020, 92.4% of our contract liabilities as of May 31, 2020, or RMB1,280 million, were recognised as revenue.

Structured Deposits and Time Deposits

During the Track Record Period, we had structured deposits and time deposits as a supplemental means to improve our utilization of cash on a short-term basis. Our structured deposits represent wealth management products issued by commercial banks. We have established internal policies for the approval and monitoring of our investment activities. Such policies provide that:

- in order to optimize our cash management, we may only make investments in wealth management products and time deposits when we have surplus cash;
- in principal, only principal-guaranteed products issued by large Chinese commercial banks are allowed;
- criteria for selecting wealth management products and time deposits investment include our risk exposure, expected return and liquidity;
- wealth management products shall be of low risk with reasonable returns and liquidity. We typically purchase wealth management products with a maturity up to one year;
- investments in wealth management products and time deposits are subject to a multi-layered approval process involving our finance and accounting departments and senior management;
- our internal accounting managers are responsible for monitoring the performance of the wealth management products that we bought and would report to our finance officer in a timely manner in the event of any significant or adverse fluctuation in the wealth management products that we bought; and
- upon the maturity dates of each investment, designated personnel at our finance department would be responsible for the redemption and disposition of the investments according to the relevant contracts.

We invested in structured deposits and time deposits with expected rates of return per annum ranging from 2.5% to 4.9%, 3.5% to 5.5%, 4.0% to 5.3% and 4.1% to 4.3% in 2017, 2018 and 2019 and the five months ended May 31, 2020, respectively. As of December 31, 2017, 2018 and 2019 and as of May 31, 2020, the balance of our structured deposits and time deposits were RMB4,135 million RMB4,800 million, RMB500 million and RMB100 million, respectively.

Cash Flows

The table below sets forth our cash flows for the periods indicated.

	Year Ended December 31,			Five Months Ended May 31,	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB (million)	**RMB (million)**	**RMB (million)**	**RMB (million)** *(Unaudited)*	**RMB (million)**
Operating profit before working capital changes	5,456	5,959	8,080	3,638	3,327
Changes in working capital					
Inventories	(340)	(463)	137	28	(13)
Trade and bills receivables	(76)	(30)	(92)	(123)	(187)
Prepayments, deposits and other receivables	(207)	(574)	98	(191)	97
Financial assets at fair value through profit or loss	17	(187)	213	(1)	–
Trade payables	(81)	16	(43)	206	320
Other payables and accruals	531	443	246	617	651
Pledged bank deposits	39	43	6	(1)	–
Contract liabilities	141	418	82	(878)	(691)
Cash generated in operations	**5,480**	**5,625**	**8,727**	**3,295**	**3,504**
Income tax paid	(869)	(1,176)	(1,511)	(754)	(656)
Interest received	95	185	272	105	25
Interest paid	(9)	(4)	(16)	(2)	(23)
Net cash generated from operating activities	4,697	4,630	7,472	2,644	2,850
Net cash (used in)/generated from investing activities	(4,646)	(3,674)	643	(1,791)	(603)
Net cash (used in)/generated from financing activities	(444)	(457)	(8,697)	(33)	929
Net (decrease)/increase in cash and cash equivalents	**(393)**	**499**	**(582)**	**820**	**3,176**
Cash and cash equivalents at beginning of the year/period	1,257	863	1,364	1,364	783
Effect of foreign exchange rate changes	(1)	2	1	2	1
Cash and cash equivalents at end of the year/period	**863**	**1,364**	**783**	**2,186**	**3,960**

Operating Activities

In the five months ended May 31, 2020, we had net cash generated from operating activities of RMB2,850 million, consisting of RMB3,327 million in net cash inflows generated from operating activities before changes in working capital, net cash inflows of RMB177 million relating to changes in working capital, income tax paid of RMB656 million, interest received of RMB25 million and interest paid of RMB23 million. Our net cash inflows from operating activities relating to changes in working capital of RMB177 million were primarily attributable to (i) an increase in other payables and accruals of RMB651 million; and (ii) an increase in trade payables of RMB320 million. Such cash inflows were partially offset by (i) a decrease in contract liabilities of RMB691 million; and (ii) an increase in trade and bills receivables of RMB187 million.

In 2019, we had net cash generated from operating activities of RMB7,472 million, consisting of RMB8,080 million in net cash inflows generated from operating activities before changes in working capital, net cash inflow of RMB647 million relating to changes in working capital, income tax paid of RMB1,511 million, interest received of RMB272 million and interest paid of RMB16 million. Our net cash inflows from operating activities relating to changes in working capital of RMB647 million were primarily attributable to (i) an increase in other payables and accruals of RMB246 million, (ii) a decrease in financial assets at fair value through profit or loss of RMB213 million, (iii) a decrease in inventories of RMB137 million, (iv) a decrease in prepayments, deposits and other receivables of RMB98 million, and (v) an increase in contract liabilities of RMB82 million. Such cash inflows were partially offset by (i) an increase in trade and bills receivables of RMB92 million, and (ii) a decrease in trade payables of RMB43 million.

In 2018, we had net cash generated from operating activities of RMB4,630 million, consisting of RMB5,959 million in net cash inflows generated from operating activities before changes in working capital, net cash outflows of RMB334 million relating to changes in working capital, tax paid of RMB1,176 million, interest received of RMB185 million and interest paid of RMB4 million. Our net cash outflows relating to changes in working capital of RMB334 million were primarily attributable to (i) an increase in other payables and accruals of RMB443 million, and (ii) an increase in contract liabilities of RMB418 million. Such cash outflows were offset by (i) an increase in prepayments, deposits and other receivables of RMB574 million, (ii) an increase in inventories of RMB463 million, and (iii) an increase in financial assets at fair value through profit or loss of RMB187 million.

In 2017, we had net cash generated from operating activities of RMB4,697 million, consisting of RMB5,456 million in net cash inflows generated from operating activities before changes in working capital, net cash inflows of RMB24 million relating to changes in working capital, tax paid of RMB869 million, interest received of RMB95 million and interest paid of RMB9 million. Our net cash inflows relating to changes in working capital of RMB24 million were primarily attributable to (i) an increase in other payables and accruals of RMB531 million, and (ii) an increase in contract liabilities of RMB141 million. Such cash inflows were partially offset by (i) an increase in inventories of RMB340 million, (ii) an increase in prepayments, deposits and other receivables of RMB207 million, (iii) a decrease in trade payables of RMB81 million, and (iv) an increase in trade and bills receivables of RMB76 million.

Investing Activities

In the five months ended May 31, 2020, we had net cash used in investing activities of RMB603 million, primarily due to (i) purchases of items of property, plant and equipment of RMB1,073 million; (ii) withdrawal of time deposits with an original maturity of more than three months when acquired of RMB200 million; and (iii) a net decrease in structured deposits of RMB200 million.

In 2019, we had net cash generated from investing activities of RMB643 million, primarily due to (i) a net decrease in structured deposits of RMB3,400 million; (ii) withdrawal of time deposits with an original maturity of more than three months when acquired of RMB3,300 million; (iii) purchases of items of property, plant and equipment of RMB3,231 million; and (iv) an increase in time deposits with original maturity of more than three months when acquired of RMB3,200 million.

In 2018, we had net cash used in investing activities of RMB3,674 million, primarily due to (i) purchases of items of property, plant and equipment of RMB3,337 million; (ii) withdrawal of time deposits with original maturity of more than three months when acquired of RMB2,300 million; (iii) increase of structured deposits of RMB1,565 million; and (iv) an increase in time deposits with original maturity of more than three months when acquired of RMB1,000 million.

In 2017, we had net cash used in investing activities of RMB4,646 million, primarily due to (i) purchases of items of property, plant and equipment of RMB2,273 million; and (ii) an increase in time deposits with original maturity of more than three months when acquired of RMB2,200 million.

Financing Activities

In the five months ended May 31, 2020, we had net cash generated from financing activities of RMB929 million, primarily due to a net increase in new loans of RMB1,113 million. Such cash inflows were partially offset by the payment of dividends of RMB180 million.

In 2019, we had net cash used in financing activities of RMB8,697 million, primarily due to dividends paid to the Shareholders of the Company of RMB9,598 million. Such cash outflows were partially offset by the RMB1,000 million loans we newly obtained in 2019. For our dividend policy, see "– Dividends."

In 2018, we had net cash used in financing activities of RMB457 million, primarily due to (i) dividends paid of RMB367 million, and (ii) the deemed distribution to a shareholder of RMB95 million attributable to our acquisition of Anji Smart Life from Yangshengtang.

In 2017, we had net cash used in financing activities of RMB444 million, primarily due to dividends paid of RMB367 million.

INDEBTEDNESS

The table below sets forth our indebtedness as of the dates indicated.

	As of December 31,			As of May 31,	As of June 30,
	2017	2018	2019	2020	2020
	RMB (million)				
Current					
Interest-bearing borrowings	50	–	1,000	2,113	2,253
Lease Liabilities	21	29	6	15	14
	71	29	1,006	2,128	2,267
Non-current					
Lease Liabilities	31	17	30	24	24

As of December 31, 2017, we had interest-bearing borrowings of RMB50 million with an effective interest rate of 4.35% per annum. Such interest-bearing borrowings were entrusted loans from Yangshengtang Pharmaceutical Limited to the Company. The entrusted loans were fully repaid in June 2018.

As of December 31, 2018, we did not have any interest-bearing borrowings.

As of December 31, 2019, we had interest-bearing borrowings of RMB1,000 million. In particular, RMB200 million were secured borrowings with effective interest rate of 2.77% per annum; RMB540 million were borrowings guaranteed by Yangshengtang with effective interest rates ranging from 2.6% to 2.75% per annum, which were fully repaid in May 2020; and RMB260 million were unguaranteed and unsecured borrowings with effective interest rates ranging from 2.6% per annum to 2.65% per annum. Such interest-bearing borrowings were taken out for working capital purposes.

As of May 31, 2020, we had interest-bearing borrowings of RMB2,113 million, all of which were unguaranteed and unsecured borrowings with effective interest rates ranging from 2.05% to 3.95% per annum. RMB310 million will become due in 2020 and RMB1,803 million will become due in 2021. Such interest-bearing borrowings were taken out for working capital purposes.

As of June 30, 2020, being the latest practicable date for determining our indebtedness, our total interest-bearing borrowings amounted to RMB2,253 million, which were unguaranteed and unsecured borrowings with effective interest rates ranging from 2.05% to 3.95% per annum. Among such interest-bearing borrowings, RMB450 million will become due in 2020 and RMB1,803 million will become due in 2021. As of the same date, all interest-bearing borrowings were denominated in Renminbi. Such interest-bearing borrowings were taken out for working capital purposes.

As of June 30, 2020, being the latest practicable date for determining our indebtedness, we had RMB11,165 million overdraft facilities, of which RMB8,479 million were unutilized and unrestricted. As a measure to manage our cash and liquidity position, the bank facilities allow us to maintain adequate sources to fund our working capital requirements or other financing needs and provide the flexibility for us to borrow additional funds on an as-needed basis.

Lease Liabilities

Lease Liabilities are recognized at the commencement date of the lease at the present value of lease payments to be made over the term of the lease. As of December 31, 2017, 2018 and 2019, May 31, 2020, and June 30, 2020, we recognized lease liabilities of RMB52 million, RMB46 million, RMB36 million, RMB39 million and RMB38 million, respectively.

Our Directors confirmed that there has not been any material adverse change in our indebtedness since June 30, 2020 to the date of this prospectus. As of the Latest Practicable Date, there was no material restrictive covenant in our indebtedness which could significantly limit our ability to obtain future financing, nor was there any material default on our indebtedness or breach of covenant during the Track Record Period and up to the Latest Practicable Date. As of the Latest Practicable Date, except for bank loans, we did not have plans for other material external debt financing.

CONTINGENT LIABILITIES

As of December 31, 2017, 2018 and 2019 and as of May 31, 2020, we did not have any contingent liabilities.

CAPITAL EXPENDITURE AND COMMITMENTS

Capital Expenditure

Our principal capital expenditures during the Track Record Period primarily related to purchases of property, plant and equipment, purchases of right-of-use assets and purchases of intangible assets. The table below sets forth our capital expenditure for the periods indicated.

	Year Ended December 31,			Five Months Ended May 31,
	2017	2018	2019	2020
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Purchases of property, plant and equipment	2,273	3,337	3,231	1,073
Purchases of right-of-use assets	88	71	74	31
Purchases of intangible assets	11	44	9	3
Total capital expenditure	**2,372**	**3,452**	**3,314**	**1,107**

Capital expenditure was RMB1,107 million in the five months ended May 31, 2020, primarily including purchases of property, plant and equipment.

Capital expenditure decreased from RMB3,452 million in 2018 to RMB3,314 million in 2019, primarily due to the decrease in purchases for new property, plant and equipment, primarily because the construction of some of the new plants was completed.

Capital expenditure increased from RMB2,372 million in 2017 to RMB3,452 million in 2018, primarily due to the increase in purchases of property, plant and equipment for our new plants in the production bases in Danjiangkou, Hubei Province (湖北丹江口), Mount Changbai, Jilin Province (吉林長白山) and Thousand-island Lake, Zhejiang Province (浙江千島湖).

The capital expenditure is expected to be RMB2,929 million in 2020, primarily to be used for purchases of property, plant and equipment. The capital expenditure is expected to be RMB2,130 million in 2021, primarily to be used for purchases of property, plant and equipment. We plan to finance our capital expenditure with the net proceeds from the Global Offering, net cash flows from operations and interest-bearing borrowings.

Capital Commitments

Our capital commitments are mainly related to the construction of plants which had been contracted but not yet paid for. The table below sets forth our capital commitments as of the dates indicated.

	As of December 31,			As of May 31,
	2017	2018	2019	2020
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
Contracted, but not paid for purchase of property, plant and equipment	930	1,235	988	1,126

Capital commitments increased from RMB988 million as of December 31, 2019 to RMB1,126 million as of May 31, 2020, primarily related to the construction of our new plants in the production bases in Thousand-island Lake, Zhejiang Province (浙江千島湖) and Mount Taibai, Shaanxi Province (陝西太白山).

Capital commitments decreased from RMB1,235 million in 2018 to RMB988 million in 2019, primarily because (i) the payment for some contracts was made in 2019, and (ii) the short-term lease contracts newly obtained in 2019 were fewer than that in 2018 as affected by the decrease in capital expenditure in 2019.

Capital commitments increased from RMB930 million in 2017 to RMB1,235 million in 2018, primarily related to the construction of our new plants in the production bases in Danjiangkou, Hubei Province (湖北丹江口), Mount Changbai, Jilin Province (吉林長白山) and Thousand-island Lake, Zhejiang Province (浙江千島湖).

DIVIDENDS

With respect to 2017, 2018 and 2019 financial years, we paid dividends of RMB367 million, RMB367 million and RMB9,598 million to the Shareholders of the Company, respectively. At our shareholders' general meeting held in March 2020, we declared dividends of RMB900 million in total, consisting of RMB720 million share dividends and RMB180 million cash dividends. Such dividends have been fully paid in April 2020. At the same shareholders' general meeting, it was resolved that all of our distributable historical retained profit as of December 31, 2019 shall be retained by our existing Shareholders as of the date of the shareholders' general meeting. Any declaration and payment as well as the amount of dividends will be subject to our Articles of Association and the relevant PRC laws, according to which the dividends may be paid only out of distributable profits as determined under PRC GAAP or IFRSs, whichever is lower. Accordingly, we declared RMB7,800 million of such historical retained profit as dividends to our existing Shareholders on August 14, 2020 and we intend to pay all such dividends in cash before the completion of the Global Offering. We believe that the distribution of these dividends will not have a material impact on the sufficiency of our working capital after the Listing. We had unrestricted deposits of RMB7,162 million as of July 31, 2020. We expect to continuously record net cash inflows from operating activities from August 2020 onward. Therefore, we believe that we will be able to maintain sufficient funds to meet our working capital requirements and debt obligations. We do not intend to take out extra bank borrowings for the purpose of dividends settlement.

We currently do not have a pre-determined dividend payout ratio. The Board may declare, and the Company may pay, dividends after taking into account our results of operations, financial condition, cash flow, operating and capital expenditure requirements, future business development strategies and estimates and other factors as it may deem relevant. Our future declarations of dividends may not reflect our historical declarations of dividends.

DISTRIBUTABLE RESERVES

Pursuant to our Articles of Association and following the Listing Rules, the amount of our retained profits available for distribution shall be the lower of the amount determined under PRC GAAP and that determined under IFRSs. Although the calculation of net profit and distributable reserves under PRC GAAP differs from that under IFRS, we do not expect such difference to have a material impact on our future decision to declare or pay dividends. As of May 31, 2020, we had RMB8,375 million under IFRSs as reserve available for distribution. After the payment of the declared dividends of RMB7,800 million, our distributable reserves will be reduced by RMB7,800 million accordingly.

KEY FINANCIAL RATIOS

	Year Ended/As of December 31,			Five Months Ended/ As of May 31,	
	2017	2018	2019	2019	2020
Gross profit margin[(1)]	56.1%	53.3%	55.4%	56.2%	59.1%
Adjusted net profit margin for the year/period[(2)]	19.4%	19.4%	22.8%	23.8%	22.6%
Return on assets[(3)]	23.1%	19.2%	25.6%	N/M[(8)]	N/M[(8)]
Return on equity[(4)]	35.0%	28.2%	40.8%	N/M[(8)]	N/M[(8)]
Current ratio[(5)]	1.32	1.43	0.59	N/A	0.81
Quick ratio[(6)]	1.04	1.13	0.35	N/A	0.61
Gearing ratio[(7)]	0.9%	0.3%	10.5%	N/A	18.5%

Notes:

(1) Equals gross profit divided by revenue. See "– Results of Operations – Gross Profit and Gross Profit Margin."

(2) Equals adjusted profit for the year/period divided by revenue. See "– Results of Operations." Adjusted profit for the year/period is a non-IFRS financial measure.

(3) Equals profit for the year divided by the average of the beginning and ending total assets for that year and multiplied by 100%.

(4) Equals profit for the year divided by the average of the beginning and ending total equity for that year and multiplied by 100%.

(5) Equals current assets divided by current liabilities as of the same date.

(6) Equals current assets less inventories and divided by current liabilities as of the same date.

(7) Equals total debt (including interest-bearing borrowings and lease liabilities) divided by total equity and multiplied by 100%.

(8) These ratios are not meaningful as numbers for the period are not comparable to the numbers for the year.

Return on Assets

The return on assets ratio increased from 19.2% in 2018 to 25.6% in 2019, primarily due to a decrease in our total assets attributable to our distribution of cash dividends paid to the Shareholders of the Company of RMB9,598 million in 2019, and an increase in our profit for the year.

The return on assets ratio decreased from 23.1% in 2017 to 19.2% in 2018, primarily due to an increase in our total assets attributable to an increase in our property, plant and equipment and structured deposits, and was partially offset by an increase in our profit for the year.

Return on Equity

The return on equity ratio increased from 28.2% in 2018 to 40.8% in 2019, primarily due to an increase in profit for the year of RMB1,342 million in 2019, attributable to our business growth as well as a significant decrease in our equity as we distributed cash dividends paid to the Shareholders of the Company of RMB9,598 million during the year.

The return on equity ratio decreased from 35.0% in 2017 to 28.2% in 2018, primarily because the increase in our profit was less than the increase in our total equity. Our profit for 2018 increase by 6.7% as compared to 2017 and our total equity at the end of 2018 increased by 29.1% as compared to the end of 2017, primarily due to the significant increase in our profit during the year.

Current Ratio

The current ratio increased from 0.59 as of December 31, 2019 to 0.81 as of May 31, 2020, primarily due to the growth rate of our current assets was higher than that of current liabilities. The increase in our current assets was primarily due to a net increase in cash and bank balances attributable to the cash generated from operating activities. The increase in our current liabilities was primarily due to the increase in interest-bearing borrowings and other payables and accruals.

The current ratio decreased from 1.43 as of December 31, 2018 to 0.59 as of December 31, 2019, primarily due to a decrease in our structured deposits and cash and bank balances attributable to the cash dividends paid to the Shareholders of the Company as well as an increase in other payables and accruals and interest-bearing borrowings attributable to the increase in deposits.

The current ratio increased from 1.32 as of December 31, 2017 to 1.43 as of December 31, 2018, primarily due to an increase in our current assets attributable to an increase in our structured deposits as we remained profitable, partially offset by an increase in other payables and accruals attributable to the increase in deposits and an increase in contract liabilities attributable to the rapid growth of sales through sales to distributors.

Quick Ratio

The quick ratio increased from 0.35 as of December 31, 2019 to 0.61 as of May 31, 2020, primarily due to the growth rate of our current assets was higher than that of current liabilities. The increase in our current assets was primarily due to a net increase in cash and bank balances attributable to the cash generated from operating activities. The increase in our current liabilities was mainly due to the increase in interest-bearing borrowings and other payables and accruals.

The quick ratio decreased from 1.13 as of December 31, 2018 to 0.35 as of December 31, 2019, primarily due to a decrease in our structured deposits and cash and bank balances, attributable to the cash dividend as well as an increase in other payables and accruals and interest-bearing borrowings attributable to the increase in deposits.

The quick ratio increased from 1.04 as of December 31, 2017 to 1.13 as of December 31, 2018, primarily due to an increase in our current assets less inventories, attributable to an increase in structured deposits as we remained profitable, partially offset by an increase in other payables and accruals attributable to the increase in deposits and an increase in contract liabilities attributable to the rapid growth of revenue from distributors.

Gearing Ratio

The gearing ratio increased from 10.5% as of December 31, 2019 to 18.5% as of May 31, 2020, primarily due to an increase of RMB1,113 million in our interest-bearing borrowings as of May 31, 2020 as compared with that as of December 31, 2019. Such increase in gearing ratio was partially offset by an increase in total equity attributable to the increase in our share capital and retained earnings.

The gearing ratio increased from 0.3% as of December 31, 2018 to 10.5% as of December 31, 2019, primarily due to (i) a decrease in our total equity as we paid dividends of RMB9,598 million to the Shareholders of the Company in 2019; and (ii) we obtained interest-bearing borrowings of RMB1,000 million in 2019.

The gearing ratio decreased from 0.9% as of December 31, 2017 to 0.3% as of December 31, 2018, primarily due to (i) an increase in our total equity attributable to an increase in our retained earnings; and (ii) the repayment of the interest-bearing borrowings of RMB50.0 million.

DISCLOSURE ABOUT FINANCIAL RISK

We are exposed to various types of risks, including credit risk, liquidity risk and raw materials price risk.

Credit Risk

We generally only grant credit periods to direct sale customers who make relatively large purchases and have good credit records. All customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. Our exposure to bad debts is not significant. See Note 42 to "Appendix I – Accountants' Report" for an analysis of the credit quality and the maximum exposure to credit risk based on our credit policy.

Liquidity Risk

We monitor and maintain a level of cash and cash equivalents deemed adequate by our management.

The table below sets out the maturity profile of our financial liabilities as of December 31, 2017, 2018 and 2019 and as of May 31, 2020, based on the contractual undiscounted payments.

	Less than one year	One to five years	Over five years	Total
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
As of December 31, 2017				
Trade and bills payables	821	–	–	821
Financial liabilities included in other payables and accruals	1,189	–	–	1,189
Interest-bearing borrowings	51	–	–	51
Lease liabilities	23	32	2	57
	2,084	**32**	**2**	**2,118**

	Less than one year	One to five years	Over five years	Total
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
As of December 31, 2018				
Trade and bills payables	837	–	–	837
Financial liabilities included in other payables and accruals	1,569	–	–	1,569
Lease liabilities	31	18	0	49
	2,437	**18**	**0**	**2,455**

	Less than one year	One to five years	Over five years	Total
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
As of December 31, 2019				
Trade and bills payables	791	–	–	791
Financial liabilities included in other payables and accruals	1,907	–	–	1,907
Interest-bearing borrowings	1,000	–	–	1,000
Lease liabilities	8	33	0	41
	3,706	**33**	**0**	**3,739**

	Less than one year	One to five years	Over five years	Total
	RMB (million)	RMB (million)	RMB (million)	RMB (million)
As of May 31, 2020				
Trade and bills payables	1,039	–	–	1,039
Financial liabilities included in other payables and accruals	2,512	–	–	2,512
Interest-bearing borrowings	2,145	–	–	2,145
Lease liabilities	16	27	–	43
Total	**5,712**	**27**	**–**	**5,739**

Raw Materials Price Risk

We are exposed to raw materials price risk primarily in relation to fluctuations in the price of PET. See "– Significant Factors Affecting Our Results of Operations – Costs of Raw Materials and Packaging Materials." Cost of PET is the largest component of our cost of raw materials. In 2017, 2018 and 2019 and the five months ended May 31, 2019 and 2020, cost of PET accounted for 29.0%, 31.9%, 31.6%, 32.8% and 28.2% of the cost of sales, respectively, and represented 12.7%, 14.9%, 14.1%, 14.3% and 11.5% of our total revenue, respectively. As a result, fluctuations in the price of PET significantly affect our profit. We monitor the supply and cost trends of raw materials and have sought to mitigate the impact of price fluctuations. For example, we will enter into a framework agreement with suppliers to lock down the price of raw materials when the price is considered appropriate.

The following sensitivity analysis illustrates the effects of hypothetical fluctuations in our cost for PET on our gross profit for the periods indicated, assuming all other factors affecting our profitability had remained unchanged.

	Decrease by 15%	Decrease by 10%	Decrease by 5%	0%	Increase by 5%	Increase by 10%	Increase by 15%
Change in gross profit (RMB million)							
2017	334	223	111	0	(111)	(223)	(334)
2018	457	304	145	0	(145)	(304)	(457)
2019	507	338	169	0	(169)	(338)	(507)
Five months ended May 31, 2020	149	100	50	0	(50)	(100)	(149)

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into, nor do we expect to enter into, any off-balance sheet arrangements. We also have not entered into any financial guarantees or other relevant commitments. In addition, we have not entered into any derivative contracts that are indexed to our equity interests and classified as owners' equity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging with us.

DISCLOSURE REQUIRED UNDER THE HONG KONG LISTING RULES

Except as otherwise disclosed in this prospectus, our Directors confirm that, as of the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Hong Kong Listing Rules.

RELATED-PARTY TRANSACTIONS

Related party transactions are set out in Note 39 to "Appendix I – Accountants' Report." our Directors confirm that these transactions were conducted in the ordinary and usual course of business and on an arm's length basis.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is an illustrative statement of our unaudited pro forma adjusted consolidated net tangible assets prepared in accordance with paragraph 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on our consolidated net tangible assets attributable to equity holders of the Company as if the Global Offering had taken place on May 31, 2020. This unaudited pro forma statement of our adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets had the Global Offering been completed as of May 31, 2020 or any future dates:

	Consolidated net tangible assets of the Group attributable to equity holders of the Company as at May 31, 2020	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	RMB'000	**RMB'000**	**RMB'000**	**RMB**	**HK$**
	(note 1)	*(note 2)*		*(note 3)*	*(note 3)*
Based on an Offer Price of HK$19.50 per Share	11,577,339	6,614,848	18,192,187	1.63	1.82
Based on an Offer Price of HK$21.50 per Share	11,577,339	7,295,823	18,873,162	1.69	1.88

Notes:

(1) Our consolidated net tangible assets attributable to equity holders of the Company as at May 31, 2020 is based on our consolidated net assets attributable to equity holders of the Company as at May 31, 2020 of approximately RMB11,633,348,000 as extracted from the Accountants' Report set out in Appendix I to this prospectus, after netting off intangible assets of approximately RMB56,009,000.

(2) The estimated net proceeds from the Global Offering are based on 388,231,800 Offer Shares at the indicative price of HK$19.50 and HK$21.50 per Share, respectively, after deduction of underwriting fees and commissions and other listing related expenses payable by the Company and without taking into account of any shares which may be allotted and issued upon the exercise of the Over-allotment Option. For the purpose of the estimated net proceeds from the Global Offering, the amount denominated in Hong Kong dollars has been converted into Renminbi at the rate of HK$1 to RMB0.8955, which was the exchange rate prevailing on August 14, 2020 with reference to the rate published by PBOC. No representation is made that the Hong Kong dollar amounts have been, could have been or may be converted to Renminbi, or vice versa, at that rate or any other rates or at all.

(3) The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 11,188,231,800 Shares in issue immediately following the completion of the Global Offering and the subdivision of shares issued on a one-for-ten basis, but takes no account of any Shares which may be issued under the Over-allotment Option, or any Shares which may be allotted, issued or repurchased by the Company. For the purpose of the unaudited pro forma adjusted consolidated net tangible assets, the balance stated in Renminbi is converted into Hong Kong dollars at a rate of HK$1 to RMB0.8955. No representation is made that the Hong Kong dollar amounts have been, could have been or may be converted to Renminbi, or vice versa, at that rate or any other rates or at all.

(4) The unaudited pro forma adjusted consolidated net tangible assets does not take into account the cash dividend distribution of approximately RMB7,800.0 million declared on August 14, 2020. Had such dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share would be approximately RMB0.93, assuming an Offer Price of HK$19.50 per Share, and RMB0.99, assuming an Offer Price of HK$21.50 per Share.

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commission and fees incurred in connection with the Listing and the Global Offering.

Our listing expenses are estimated to be approximately RMB201 million (including underwriting commission), based on the mid-point of our indicative Offer Price range for the Global Offering and assuming the Over-allotment Option is not exercised.

During the Track Record Period, we incurred RMB29 million of listing expenses, which has been charged to our consolidated statements of profit or loss.

We expect to incur additional expenses of approximately RMB172 million after May 31, 2020, of which RMB32 million is expected to be charged to our consolidated statements of profit or loss and RMB140 million will be capitalized expenses. The listing expenses above are the latest practicable estimate for reference only, and the actual amount may differ from this estimate. Our Directors do not expect such listing expenses to have a material adverse impact on our results of operation for 2020.

IMPACT OF THE COVID-19 OUTBREAK

Since the end of December 2019, the outbreak of COVID-19 has materially and adversely affected the global economy. From January to April 2020, local governments in the PRC implemented strict measures of varying degrees to control such outbreak in China. In particular, school and business closures, transport bans and workplace shutdowns helped to limit transmission of COVID-19. Demand for consumer goods and the operations of the retail industry was significantly affected. According to the National Bureau of Statistics, China's total retail sales of consumer goods decreased by 16.2% in the first four months of 2020, compared with the same period in 2019.

The retail industry was affected in various degrees. Specialty channels and catering channels were affected most significantly. Traditional channels were also significantly affected. Most shops were temporarily closed. Modern channels, including supermarkets and hypermarkets, were affected less significantly, compared to other channels. E-commerce channels became people's first choice of shopping, but the sales growth from such channel was limited, primarily due to difficulties in logistics and distribution.

Resumption of work in China has gradually taken place at locations less affected by the COVID-19 outbreak since February 3, 2020. As of April 10, 2020, according to the Ministry of Industry and Information Technology, 98.6% of industrial enterprises of national scale and over 80% of small and medium enterprises in China had resumed operation. By the end of April 2020, most secondary and primary schools in China had resumed class, and people's lives and production activities gradually returned to normal.

Upon the outbreak, our employees in various places, together with our distributors, actively participated in volunteer work, donated and delivered packaged drinking water products to medical staff, military police and relief agencies for major hospitals across the country. In Wuhan City of Hubei Province, we delivered our products to the construction sites of Huoshenshan Hospital, Leishenshan Hospital and Fangcang shelter hospitals, and the frontline medical staff. As of the Latest Practicable Date, except one employee from our sales department who was infected and has fully recovered while such employee was on leave, we had no case of employee infection.

Sales and Customers

Due to the impact of the COVID-19 outbreak, our revenue decreased by 12.6% from RMB9,917 million in the five months ended May 31, 2019 to RMB8,664 million in the five months ended May 31, 2020. With the outbreak has become under control in China, resumption of work and classes in various locations has gradually taken place since April 2020 and people's lives gradually returned to normal, the adverse impact of the COVID-19 outbreak on us is expected to gradually subside. From 2017 to 2019, our sales to overseas markets amounted to no more than RMB2 million each year. The global impact of COVID-19 on our sales is minimal.

Our revenue from packaged drinking water products in the five months ended May 31, 2020 decreased by 4.3% as compared with that in the five months ended May 31, 2019. Packaged drinking water, as a consumption necessity, addresses consumers' basic drinking needs, and such needs were less affected by COVID-19 outbreak. As a result, revenue from our packaged drinking water products in the five months ended May 31, 2020 only decreased slightly by 4.3% as compared with that in the five months ended May 31, 2019. The growth of medium- to large-sized packaged drinking water products suitable for household consumption remained strong. During the COVID-19 outbreak, the mobility of consumers was restricted, and the distribution capabilities of e-commerce channels were limited. Consumers tend to shop at supermarkets and hypermarkets which have a wider selection for daily necessities. As a result, during the outbreak, we increased the supply of packaged drinking water products in modern channels. In order to help our consumers to purchase our packaged drinking water products, we have set up unmanned convenient water supply points in various residential areas. Consumers could take our products after paying via mobile phones. In this unique period of time, we placed our trust in consumers and consumers showed us their integrity. This measure partially offset the impact of the decline in sales of our products at retail points of sale.

The sales of our beverage products in the five months ended May 31, 2020 decreased by 24.5% compared with that in the five months ended May 31, 2019. In particular, the revenue of tea beverage products, functional beverage products and juice beverage products decreased by 21.2%, 40.9% and 13.6% respectively. During the COVID-19 outbreak, places for consumption, such as schools, scenic area and sports facilities, were closed, resulting in a significant decrease in the demand for functional beverage products and tea beverage products.

We primarily sell our products through distributors and we typically deliver products to distributors after they have made the payment. We provided temporary credit periods to certain distributors who have good credit records in order to assist them in coping with the impact of the COVID-19 outbreak. The provision of such credit period resulted in an increase of our trade and bills receivables turnover days in the five months ended May 31, 2020 by 0.5 days. For direct sales customers, we generally only grant credit period to direct sale customers who make relatively large purchases and have good credit records. The COVID-19 outbreak has not significantly increased our credit risk.

During the COVID-19 outbreak, the health awareness of consumers has been strengthened. We have adhered to our belief in natural and healthy products and provided consumers with quality products. The increased health awareness will have a long-term positive effect on the demand for our products.

Production and Supply Chain

Affected by the COVID-19 outbreak and the government's relevant control measures, business operation of our production bases was temporarily suspended after the Chinese New Year in 2020. In order to prevent and control the outbreak, we adjusted our business operations and set up specific plans for resumption of work, the health and safety management system and emergency plans. During the COVID-19 outbreak, enterprises recognized by the local governments as essential enterprises in relation to assuring the supply of anti-pandemic goods were allowed to resume operation from an earlier date than other enterprises. In seven out of our ten production bases, some of our subsidiaries were recognized as such enterprises and had gradually resumed production since January 30, 2020. We have fully resumed our business operations since March 2020.

With the COVID-19 outbreak related travel restrictions have been gradually lifted, the adverse effects on logistics and distribution have gradually subsided. By the end of April 2020, all of our third-party logistics suppliers resumed work.

Due to the COVID-19 outbreak, overseas engineers could not partake in the installation and commission of imported production equipment on site. We are looking for alternative means such as video conferencing to gradually resolve this issue. We do not expect it to have a material impact on our production.

In terms of raw materials supply, international crude oil prices have fallen sharply since February 2020 due to the excess supply and the impact of the COVID-19 outbreak on the demand. The price of PET, as a petrochemical product, also declined. We have taken the opportunity to purchase PET to reduce our cost of raw materials. Our average PET purchase price decreased from RMB7,283 per ton for the five months ended May 31, 2019 to RMB5,975 per ton for the five months ended May 31, 2020. Our raw materials and packaging materials are sourced from more than one supplier. As a result, our production will not be affected. Our inventory of raw material not-from-concentrate juice is adequate, and we do not expect it will affect the production of juice beverage products in 2020. However, as the overseas outbreak continues, it may affect the supply of overseas juice raw materials in 2021. In this case, we will get more domestic supply and implement production plans for alternative juice raw materials when necessary to ensure the normal production of juice beverage products.

Our Liquidity

Our net cash generated from operating activities in the five months ended May 31, 2020 was positive. In addition, in the five months ended May 31, 2020, we obtained new bank borrowings of RMB1,113 million. The net cash generated from operating activities and the cash generated from financing activities can fully satisfy the cash used for our investment activities.

We had unrestricted deposits of RMB7,162 million as of July 31, 2020. Assuming our operations will remain at a similar level as compared with the first five months of 2020, our revenue in the second half of 2020 would be 12.6% less as compared with that in the same period in 2019. Even in such circumstances, we would still have sufficient working capital to maintain our daily operations. In addition, taking into consideration the cash payment of dividend of RMB7,800 million prior to the Listing and our plan to use 10% of the net proceeds from the Global Offering as our working capital, we would still have sufficient working capital to maintain our daily operations.

Assuming the worst case scenario of the COVID-19 outbreak, in which we:

- cease all operations from September 2020 onward, which assumes that from September 2020 onward, we will not earn or incur (a) any revenue and costs in relation to sales activities, (b) any expenses in relation to marketing activities, (c) any expenses in relation to the production of products, and (d) expenses in relation to R&D activities;
- keep all of our employees and make all their salaries payments;
- settle all of our outstanding trade payables as of August 31, 2020;
- estimate the settlement of trade receivables on a prudent basis by taking into account our historical settlement patterns;
- use 10% of the net proceeds from the Global Offering as our working capital;
- sell all of our inventories as of August 31, 2020;
- make the cash payment of dividend of RMB7,800 million prior to the Listing; and
- use our unutilized and unrestricted overdraft facilities when needed, which was RMB8,479 million as of June 30, 2020;

we would have sufficient cashflow for our business to remain financially viable for at least the 12 months ending August 31, 2021, which includes, but is not limited to the timely payment as the following:

- employee’s salaries payments;
- lease payments;
- payments for existing purchases plans for long-term assets; and
- repayments of bank loans.

RECENT DEVELOPMENT

Our Directors confirmed that, as of the date of this prospectus, save as disclosed in this subsection, there has been no material adverse change in our financial or trading position or prospects since May 31, 2020.

Our revenue decreased by 6.2% from RMB12,310 million in the six months ended June 30, 2019 to RMB11,545 million in the six months ended June 30, 2020, which represented a smaller decrease as compared with the 12.6% decrease in revenue from the five months ended May 31, 2019 to the five months ended May 31, 2020. The foregoing selected unaudited financial data in relation to our revenue in the six months ended June 30, 2020 is derived from our unaudited interim financial statements for the six months ended June 30, 2020. Our unaudited interim financial statements for the six months ended June 30, 2020 have been reviewed by our reporting accountants in accordance with Hong Kong Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the Hong Kong Institute of Certified Public Accountants.

The selected unaudited financial data shows that our revenue increased at a higher rate in June 2020 compared with June 2019, primarily due to the sales growth in our packaged water products. Our business is gradually recovering from the impact from the COVID-19 outbreak, and we believe that our business operations are returning to the normal level prior to the COVID-19 outbreak.

According to the information currently available, our Directors are of the view that the COVID-19 outbreak would not have a material adverse effect on our results of operations in the twelve months ending December 31, 2020 and our long-term business development.

The heavy rainfall in July 2020 resulted in floods across several provinces in China. Such rainfall and floods had a negative impact on the sales of our products at retail points of sale, as some retail points of sale were temporarily closed due to the rainfall or the floods. In addition, the delivery of our products to some retail points of sale were disrupted. As a result, our revenue and profit were adversely affected. Such adverse impact is expected to be only temporary as the weather conditions had improved and the floods had become under control in mid-August 2020. Our production was not materially and adversely affected by the rainfall or the floods.

SHARE CAPITAL

Immediately before the Global Offering

As of the Latest Practicable Date, the registered share capital of the Company was RMB1,080,000,000, comprising 10,800,000,000 Shares with a nominal value of RMB0.1 each.

Upon the Completion of the Global Offering

Immediately after the Global Offering and Conversion of Domestic Shares into H Shares (assuming that the Over-allotment Option is not exercised), the share capital of the Company will be as follows.

Description of Shares	Number of Shares	Approximate % of the enlarged issued share capital after the Global Offering
Domestic Shares	6,211,800,000	55.5208%
H Shares to be converted from Domestic Shares[Note]	4,588,200,000	41.0092%
H Shares to be issued pursuant to the Global Offering	388,231,800	3.4700%
Total	11,188,231,800	100%

Note: Please refer to "Our Structure Immediately Following the Global Offering" in "History and Corporate Structure" for details of the identities of the shareholders whose Shares will be converted into H Shares upon Listing.

Immediately after the Global Offering and Conversion of Domestic Shares into H Shares (assuming that the Over-allotment Option is fully exercised), the share capital of the Company will be as follows.

Description of Shares	Number of Shares	Approximate % of the enlarged issued share capital after the Global Offering
Domestic Shares	6,211,800,000	55.2334%
H Shares to be converted from Domestic Shares[Note]	4,588,200,000	40.7968%
H Shares to be issued pursuant to the Global Offering	446,466,400	3.9698%
Total	11,246,466,400	100%

Note: Please refer to "Our Structure Immediately Following the Global Offering" in "History and Corporate Structure" for details of the identities of the Shareholders whose Shares will be converted into H Shares upon Listing.

CLASS OF SHARES

Upon the completion of the Global Offering and Conversion of Domestic Shares into H Shares, the Shares will consist of Domestic Shares and H Shares. Domestic Shares and H Shares are all ordinary Shares in the share capital of the Company.

Apart from certain qualified domestic institutional investors in the PRC, the qualified PRC investors under the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect and other persons who are entitled to hold our H Shares pursuant to relevant PRC laws and regulations or upon approvals of any competent authorities (such as our certain existing shareholders the Domestic Shares held by whom will be converted into H Shares according to the approval of the CSRC), H Shares generally cannot be subscribed for by or traded between legal or natural PRC persons.

Domestic Shares and H Shares are regarded as different classes of Shares. The differences between the two classes of Shares, provisions on class rights, dispatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares on different registers of Shareholders, the procedure of transfer of Shares and appointment of dividend receiving agents as contained in the Articles of Association are summarized in "Appendix V – Summary of the Articles of Association."

Furthermore, any change or abrogation of the rights of class Shareholders shall be approved by way of a special resolution of the general meeting of Shareholders and by a separate class shareholders meeting of class Shareholders convened by the affected class of Shareholders. The circumstances under which a general meeting and/or a class meeting is required are summarized in "Appendix V – Summary of the Articles of Association." However, the special approval process of separate classes of Shareholders is not required under the following circumstances:

(i) issue of Domestic Shares or H Shares of not more than 20% of existing Domestic Shares or H Shares, respectively, either separately or concurrently in a period of 12 months, pursuant to an approval by a special resolution of the general meeting;

(ii) proposal to issue of Domestic Shares and H Shares of the Company upon its establishment pursuant to approval of the securities regulatory authority under the State Council, provided that such proposal is carried out within 15 months after such approval; or

(iii) transfer of Domestic Shares by domestic shareholder to foreign investors, or conversion of Domestic Shares by domestic shareholder to foreign Shares in part or in full, and such transferred or converted Shares are listed on overseas stock exchange as approved by the securities regulatory authority under the State Council and with the consent of the Hong Kong Stock Exchange.

Save as disclosed above, Domestic Shares and H Shares shall rank *pari passu* with each other in all other respects and, in particular, will rank equally for dividends or distributions declared, paid or made. All dividends for H Shares will be denominated and declared in Renminbi, and paid in Hong Kong dollars or Renminbi, whereas all dividends for Domestic Shares will be paid in Renminbi. Other than cash, dividends could also be paid in the form of shares.

CONVERSION OF DOMESTIC SHARES INTO H SHARES

If any of the Domestic Shares are to be converted, listed and traded as H Shares on the Hong Kong Stock Exchange, such conversion, listing and trading will need the approval of the relevant PRC regulatory authorities, including the CSRC, and the approval of the Hong Kong Stock Exchange.

Listing Review and Approval by the CSRC

In accordance with the Guidelines for the "Full Circulation" Program for Domestic Unlisted Shares of H-share Listed Companies (《H股公司境內未上市股份申請「全流通」業務指引》) announced by the CSRC, H-share listed companies which apply for the conversion of domestic shares into H shares for listing and circulation on the Hong Kong Stock Exchange shall file the application with the CSRC according to the administrative licensing procedures necessary for the "examination and approval of public issuance and listing (including additional issuance) of overseas shares by a joint stock company". An H-share listed company may apply for a "Full Circulation" separately or when applying for refinancing overseas. An unlisted domestic joint stock company may apply for "full circulation" when applying for an overseas initial public offering.

The Company applied for a "Full Circulation" when applying for an overseas listing with the CSRC on March 17, 2020, and submitted the application reports, authorization documents of the shareholders of domestic unlisted shares for which an H-share "full circulation" were applied, explanation about the compliance of share acquisition and other documents in accordance with the requirements of the CSRC.

The Company has received the reply from the CSRC dated July 24, 2020 in relation to the approval of the overseas listing and "Full Circulation", pursuant to which, (1) the Company was approved to issue no more than 1,380,000,000 H Shares with a nominal value of RMB0.1 each, which are all ordinary shares, and upon this issuance the Company may be listed on the Main Board of the Hong Kong Stock Exchange; (2) a total of 4,588,200,000 domestic unlisted shares (with a nominal value of RMB0.1 each) held by the 70 Shareholders of the Company including Yangshengtang (the "Domestic Participating Shareholders") were approved to be converted into H Shares, and the relevant Shares may be listed on the Hong Kong Stock Exchange upon completion of the conversion. This reply shall remain effective within 12 months from the date of approval.

Listing Approval by the Hong Kong Stock Exchange

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the granting of listing of, and permission to deal in, our H Shares to be issued pursuant to the Global Offering (including any H Shares which may be issued pursuant to the exercise of the Over-allotment Option) and the H Shares to be converted from 4,588,200,000 Domestic Shares on the Hong Kong Stock Exchange, which is subject to the approval by the Hong Kong Stock Exchange.

We will perform the follow procedures for the conversion of domestic unlisted shares into H Shares after receiving the approval of the Hong Kong Stock Exchange: (1) giving instructions to our H Share Registrar regarding relevant share certificates of the converted H Shares; and (2) enabling the converted H Shares to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in the CCASS. The Domestic Participating Shareholders may only deal in the Shares upon completion of following domestic procedures.

Domestic Procedures

The Domestic Participating Shareholders may only deal in the Shares upon completion of the below arrangement procedures for the registration, deposit and transaction settlement in relation to the conversion and listing:

(a) We will appoint CSDC as the nominal holder to deposit the relevant securities at CSDC (Hong Kong), which will then deposit the securities at HKSCC in its own name. CSDC, as the nominal holder of the Domestic Participating Shareholders, shall handle all custody, maintenance of detailed records, cross-broader settlement and corporate actions, etc. relating to the converted H Shares for the Domestic Participating Shareholders;

(b) We will engage a domestic securities company (the "**Domestic Securities Company**") to provide services such as the transmission of sell orders and trading messages in respect of the converted H Shares. The Domestic Securities Company will engage a Hong Kong securities company (the "**Hong Kong Securities Company**") for settlement of share transactions. We will make an application to CSDC, Shenzhen Branch for the maintenance of a detailed record of the initial holding of the converted H Shares held by our Shareholders. Meanwhile, we will submit applications for a domestic transaction commission code and abbreviation, which shall be confirmed by CSDC, Shenzhen Branch as authorized by SZSE;

(c) The SZSE shall authorize Shenzhen Securities Communication Co., Ltd. to provide services relating to transmission of trading orders and trading messages in respect of the Converted H Shares between the Domestic Securities Company and the Hong Kong Securities Company, and the real-time market forwarding services of the H Shares;

(d) According to the Notice of the SAFE on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》), the Domestic Participating Shareholders shall complete the overseas shareholding registration with the local foreign exchange administration bureau before the Shares are sold, and after the overseas shareholding registration, open a specified bank account for the holding of overseas shares by domestic investors at a domestic bank with relevant qualifications and open a fund account for the H Share "Full Circulation" at the Domestic Securities Company. The Domestic Securities Company shall open a securities trading account for the H Share "Full Circulation" at the Hong Kong Securities Company; and

(e) The Domestic Participating Shareholders shall submit trading orders of the Converted H Shares through the Domestic Securities Company. Trading orders of the Domestic Participating Shareholders for the relevant Shares will be submitted to the Hong Kong Stock Exchange through the securities trading account opened by the Domestic Securities Company at the Hong Kong Securities Company. Upon completion of the transaction, settlements between each of the Hong Kong Securities Company and CSDC (Hong Kong), CSDC (Hong Kong) and CSDC, CSDC and the Domestic Securities Company, and the Domestic Securities Company and the Domestic Participating Shareholders, will all be conducted separately.

As a result of the conversion, the shareholding of the relevant Domestic Participating Shareholders in our Domestic Share capital registered shall be reduced by the number of Domestic Shares converted and the number of H Shares shall be increased by the number of converted H Shares.

A Domestic Shareholders can work with the Company according to the Articles of Association and follow the procedures set out in this Prospectus to convert the Domestic Shares into H Shares after the Listing if they want, provided that such conversion of Domestic Shares into and listing and trading of H Shares will be subject to the approval of the relevant PRC regulatory authorities, including the CSRC, the approval of the Hong Kong Stock Exchange and the satisfaction of the public float requirement under the Listing Rules by the Company.

TRANSFER OF SHARES ISSUED PRIOR TO THE GLOBAL OFFERING

According to the Company Law, the Shares issued by the Company prior to the Global Offering (including a total of 4,588,200,000 H Shares to be converted from Domestic Shares held by 70 Shareholders of the Company, which include Yangshengtang and 69 individual Shareholders) are restricted from trading within one year from the Listing Date.

The Company will work with the Domestic Securities Company to be engaged by the Company to restrict the trading of the H Shares converted from Domestic Shares technically within one year after the Listing. In the unlikely event that any Participating Domestic Shareholders trades their H Shares during such restriction period, as advised by the PRC Legal Advisor, there will be no administrative penalty on the Company under the PRC laws and regulations but there is risk that the underlying agreement for the transfer of such H Shares may be declared void pursuant to the Contract Law of the People's Republic of China.

REGISTRATION OF SHARES NOT LISTED ON AN OVERSEAS STOCK EXCHANGE

According to the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (《關於境外上市公司非境外上市股份集中登記存管有關事宜的通知》) issued by the CSRC, the Company is required to register the Domestic Shares with the China Clearing within 15 business days upon the Listing and provide a written report to the CSRC regarding the results of centralized registration and deposit of the Domestic Shares as well as the offering and listing of the H Shares.

SHAREHOLDERS' APPROVAL FOR THE GLOBAL OFFERING

Approval from holders of the Shares is required for the Company to issue H Shares and seek the listing of H Shares on the Hong Kong Stock Exchange. The Company has obtained such approval at the Shareholders' general meeting held on March 6, 2020.

As of the Latest Practicable Date, the following persons directly or indirectly held, or are entitled to exercise the control of 5% or more of our share capital:

Name of Shareholder	Nature of Interest	Class of Shares	Number of Shares Held or Interested	Approximate Percentage
Mr. Zhong Shanshan [1]	Interest held by controlled corporations	Domestic Shares	7,515,052,410	69.5838%
	Beneficial owner	Domestic Shares	1,929,249,240	17.8634%
Yangshengtang [1]	Beneficial owner	Domestic Shares	7,515,052,410	69.5838%

Note:

(1) As of the Latest Practicable Date, Mr. Zhong Shanshan directly held 98.3800% equity interest in Yangshengtang and indirectly held 1.6200% equity interest in Yangshengtang through Hangzhou Youfu (wholly owned by Mr. Zhong Shanshan). Therefore, Mr. Zhong Shanshan was deemed to be interested in the Shares held by Yangshengtang.

So far as is known to the Directors as at the Latest Practicable Date, immediately following the completion of the Global Offering and Conversion of Domestic Shares into H Shares (assuming the Over-allotment Option is not exercised), each of following persons will have an interest and/or short position (as applicable) in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the Shares, once the Shares are listed on the Stock Exchange:

Name of Shareholder	Nature of Interest	Class of Shares	Number of Shares Held or Interested	Approximate Percentage of Shareholding in the Relevant Class of Shares	Approximate Percentage of Shareholding in the Total Issued Share Capital
Mr. Zhong Shanshan [1]	Interest held by controlled corporations	Domestic Shares	6,211,800,000	100%	55.5208%
	Interest held by controlled corporations	H Shares	1,303,252,410	26.1885%	11.6484%
	Beneficial owner	H Shares	1,929,249,240	38.7677%	17.2435%
Yangshengtang [1]	Beneficial owner	Domestic Shares	6,211,800,000	100%	55.5208%
	Beneficial owner	H Shares	1,303,252,410	26.1885%	11.6484%

Note:

(1) As of the Latest Practicable Date, Mr. Zhong Shanshan directly held 98.3800% equity interest in Yangshengtang and indirectly held 1.6200% equity interest in Yangshengtang through Hangzhou Youfu (wholly owned by Mr. Zhong Shanshan). Therefore, Mr. Zhong Shanshan was deemed to be interested in the Shares held by Yangshengtang.

Save as disclosed above, the Directors are not aware of any person who will, immediately following the completion of the Global Offering and Conversion of Domestic Shares into H Shares (and the offering of any additional H Shares pursuant to the Over-allotment Option), have an interest or short position in the Shares or underlying Shares of the Company which would be required to be disclosed to the Company and the Hong Kong Stock Exchange under Divisions 2 and 3 of Part XV of the SFO or will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at any general meeting of the Company.

OVERVIEW

As of the Latest Practicable Date, Mr. Zhong Shanshan held approximately 87.4472% interest in our share capital, including approximately 17.8634% direct interest and approximately 69.5838% indirect interest through Yangshengtang. Mr. Zhong Shanshan is interested in 100% of the registered capital of Yangshengtang, including 98.3800% direct interest and 1.6200% indirect interest through Hangzhou Youfu, which is wholly owned by Mr. Zhong Shanshan. Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), Mr. Zhong Shanshan will hold approximately 84.4128% interest in our share capital, including approximately 17.2435% direct interest and approximately 67.1693% indirect interest through Yangshengtang. Accordingly, Mr. Zhong Shanshan and Yangshengtang will remain as our Controlling Shareholders immediately after the Listing.

For details of the Controlling Shareholders and their shareholdings in the Company, see "Substantial Shareholders."

CONFIRMATION OF NO COMPETING INTEREST

For details of the biography of the Mr. Zhong Shanshan, see "Directors, Supervisors and Senior Management."

Yangshengtang is a limited liability company incorporated under the laws of the PRC on March 12, 1993. Yangshengtang Group (excluding the Group) is primarily engaged in production and sales of food, healthy food and cosmetic products, biopharmaceutical, and industry investment.

Each of our Controlling Shareholders and Directors has confirmed that he/she/it does not have any interest in a business, apart from the business of the Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

NON-COMPETITION UNDERTAKING

Mr. Zhong Shanshan and Yangshengtang entered into a non-competition undertaking in favor of the Company on August 14, 2020 (the "**Non-competition Undertaking**"), pursuant to which, each of Mr. Zhong Shanshan and Yangshengtang has irrevocably and unconditionally undertaken that during the term of the Non-competition Undertaking, Mr. Zhong Shanshan and Yangshengtang, as the Controlling Shareholders, shall not, and shall procure their respective subsidiaries and controlled entities (excluding their listed subsidiaries and the Group) not to, operate any business in the PRC (the "**Restricted Business**") that directly or indirectly competes with or is likely to compete with the principal business of the Group, i.e. production and sales of packaged water and beverage in the PRC, or directly or indirectly hold any equity interests in any Restricted Business, or directly or indirectly participate in or acquire any rights or interests in any Restricted Business by other means.

The Non-competition Undertaking does not apply to circumstances where the Controlling Shareholders or their subsidiaries (excluding their listed subsidiaries and the Group) hold equity interests in a company engaged in the Restricted Business other than any member of the Group, or participate in or acquire any rights or interests in any Restricted Business by other means, provided that:

(i) according to the latest consolidated audited accounts of such company, the revenue contribution of the Restricted Business in which such company (and its related assets) is engaged accounts for less than 30% of the consolidated revenue of such company; or

(ii) the Controlling Shareholders and their subsidiaries (excluding their listed subsidiaries and the Group) directly and indirectly hold less than 10% equity or other interests in such company, and the Controlling Shareholders and their subsidiaries (excluding their listed subsidiaries and the Group) have no right to appoint a majority of the directors of the board of such company.

Pursuant to the Non-competition Undertaking, the above restrictions shall remain in full effect so long as: (i) the Shares remain listed on the Stock Exchange; (ii) the Group still operates the Restricted Business in the PRC; and (iii) Mr. Zhong Shanshan and Yangshengtang remain as our Controlling Shareholders.

New Business Opportunities

The Controlling Shareholders have undertaken in the Non-competition Undertaking that if any of them or their subsidiaries (excluding their listed subsidiaries and the Group) are recommended or provided with new business opportunities which directly or indirectly compete with the Restricted Business (the "**New Business Opportunities**") in the PRC during the term of the Non-competition Undertaking, the New Business Opportunities should be recommended or introduced to the Group following the procedures set out below:

(i) the Controlling Shareholders and their subsidiaries (excluding their listed subsidiaries and the Group) shall provide the Group with a written notification (the "**Offer Notice**") which includes all reasonable and necessary information known to the Controlling Shareholders and their subsidiaries (excluding their listed subsidiaries and the Group) relating to the New Business Opportunities for the Group to consider (a) whether the New Business Opportunities compete with the Restricted Business; and (b) whether engaging in such New Business Opportunities would be in the interests of the Group;

(ii) the Controlling Shareholders and their subsidiaries (excluding their listed subsidiaries and the Group) will have the right to participate in the New Business Opportunities as long as: (a) they have received a written rejection of the New Business Opportunities from the Group; or (b) they have not received any written response regarding the acceptance of the New Business Opportunities within thirty (30) Business Days upon receipt of the Offer Notice by the Group. The major terms of the New Business Opportunities finally accepted by the Controlling Shareholders and their subsidiaries (excluding their listed subsidiaries and the Group) shall not be more favourable than those offered to the Group; and

(iii) if the Group decides to take up the New Business Opportunities, the Controlling Shareholders and their subsidiaries (excluding their listed subsidiaries and the Group) will be obligated to provide the New Business Opportunities to the Group.

If any of the Controlling Shareholders or their subsidiaries (excluding their listed subsidiaries and the Group) is aware of any material changes in the conditions of the New Business Opportunities they recommended, the Controlling Shareholders and their subsidiaries (excluding their listed subsidiaries and the Group) (as the case maybe) shall notify the Group of such changes in the manner as set out above.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Taking into consideration the following factors, the Directors are of the view that we can conduct our business independently from each of our Controlling Shareholders and their respective close associates after completion of the Global Offering.

Operational Independence

We operate our business independently from our Controlling Shareholders and their respective close associates.

We hold or enjoy the benefits of all relevant licenses necessary to carry out our business in all material respects. We have obtained all relevant qualifications and authorization, independent operating premises, facilities, intellectual properties, domain names and electronic information systems needed for our business in all material respects.

We have our own independent and integrate organizational corporate structure, including the Brand Center, Sales and Marketing Center, Engineering & Equipment Center, Financial Center, Human Resources Center, Supply Chain Management Center, Project Equipment Center, Product Research and Development Center, Audit and Supervisory Center and other supporting departments, each with specific areas of responsibility to facilitate the effective operation of our business, despite that the Group has entered into certain continuing connected transactions with Yangshengtang and its associates on normal commercial terms as disclosed under "Connected Transactions" which will not impact the Group's independent operation of business.

In addition to the fact that the businesses of the Company and Yangshengtang are clearly delineated, we identify our own distributors, manage our own distributing network, enter into the distribution contracts and communicate with, serve, and maintain relationship with our distributors independently from Yangshengtang.

Based on the above, our Directors are satisfied that the Group is able to operate independently from our Controlling Shareholders and their respective close associates.

Financial Independence

We have the ability to operate independently from our Controlling Shareholders and their respective close associates from the financial perspective.

As of June 30, 2020, the Company had sufficient funds to carry on its operations and we had approximately RMB8,479 million of unutilized and unrestricted banking facilities granted by several commercial banks which are all independent third parties. Our Directors are of the view that we are capable of obtaining financing from external sources independently without reliance on our Controlling Shareholders and/or their respective close associates.

We have set up the Financial Center to be responsible for the accounting, management accounting, taxation, sales financial management and treasury management in the ordinary and usual course of business of the Company. The Group has its own risk management and internal control system, independent accounting and financial management system and independent management for cash receipts and payments, and we make financial decisions according to our own business needs.

We do not rely on the Controlling Shareholders and/or their respective close associates by virtue of their provision of financial assistance. Our Directors confirmed that, as of the Latest Practicable Date, none of the Controlling Shareholders or their respective close associates had provided any loans, guarantees or pledges to the Group.

Based on the above, the Directors are of the view that the Group is able to maintain financially independent from our Controlling Shareholders and their respective close associates.

Management Independence

The Board consists of nine Directors, including five executive Directors (including Mr. Zhong Shanshan, our ultimate Controlling Shareholder), one non-executive Director and three independent non-executive Directors, among whom, two Directors also hold positions in Yangshengtang (see details below). Our management and operational decisions are made by our executive Directors and senior management, most of whom have served the Group for over twelve years and have extensive experiences in the industry we are engaged in. For details of the biography of the Directors and senior management and their roles in the Company, see "Directors, Supervisors and Senior Management."

The following table sets forth the major positions held by the Directors and our senior management in Yangshengtang as of the Latest Practicable Date:

Name	Position(s) held in the Group	Major position(s) held in Yangshengtang
Mr. Zhong Shanshan	Chairman of the Board, executive Director and general manager of the Company and director of certain subsidiaries of the Company	Director of Yangshengtang
Mr. Zhong Shu Zi (Mr. Zhong Shanshan's son)	Non-executive Director	General manager of the Brand Center of Yangshengtang

Save as disclosed above, as of the Latest Practicable Date, none of the other Directors or senior management held any position in Yangshengtang and/or its subsidiaries (excluding the Group).

We believe the Directors and senior management can independently perform their duties in the Company and we can operate independently from the Controlling Shareholders due to the following reasons:

(i) each of our Directors is well aware of and understands his/her fiduciary duties which, among other things, require them to act in the best interests of the Company and the Shareholders as a whole. Mr. Zhong Shanshan is the founder of both the Company and Yangshengtang, so it is necessary for him to remain as a director of both companies. Nevertheless, when performing his duty as an executive Director and the general manager of the Company, he has been allocating and will continue to allocate sufficient time and resources to the management and operation of the Company and bear the best interests of the Company and the Shareholders in mind;

(ii) we have four executive Directors and four senior management besides Mr. Zhong Shanshan to oversee the operation and the development of the Group and make independent decisions, all of whom have extensive experiences in the industry we are engaged in and will not have any role in Yangshengtang or its subsidiaries;

(iii) Mr. Zhong Shu Zi, as the non-executive Director, has not been and will not be involved in our daily operation. As a member of the Board, Mr. Zhong Shu Zi only participates in formulating the Company's corporate and business strategies and the decision-making process of significant events through attending Board meetings;

(iv) the decision-making mechanism of the Board as specified in the Articles of Association has set out relevant provisions to avoid conflicts of interests, including but not limited to the followings:

- a Director shall be abstained from voting on any resolution approving any contract, transaction or arrangement in which such Director or any of his/her close associates has a material interest nor shall such Director be counted in the quorum present at the Board meeting;

- under the circumstance that a Director shall be abstained from voting, a resolution shall be passed by more than half of all the other Directors who have no related relationship; if the number of the other Directors who have no related relationship present is less than three, the resolution shall be submitted to the general meeting of the Company for deliberation; and

- when connected transactions are considered by the general meeting of the Company, Shareholders who shall be abstained from voting according to applicable laws, regulations or Listing Rules shall not vote and the voting Shares held by them shall not be counted in the total number of valid voting Shares.

(v) we have three independent non-executive Directors to balance the numbers of interested Director(s) and independent non-executive Directors for the protection of the interests of the Company and the Shareholders as a whole. The independent non-executive Directors, Mr. Stanley Yi Chang, Mr. Yang, Lei Bob and Mr. Lu Yuan are not involved in the daily business operations and management of the Company. Mr. Stanley Yi Chang, Mr. Yang, Lei Bob and Mr. Lu Yuan are primarily responsible for supervising and providing independent judgement to the Board. The daily business operations and management of the Company are managed by the executive Directors and senior management who have substantial experiences in the industry we are engaged in to ensure the proper functioning of the daily operation and management of the Company.

Based on the above, the Directors are of the view that our management is independent from the Controlling Shareholders and their respective close associates.

CORPORATE GOVERNANCE MEASURES

In order to further safeguard the interests of the Shareholders, we will adopt the following corporate governance measures to manage any potential conflicts of interest with the Controlling Shareholders and their respective close associates:

(i) as part of our preparation for the Global Offering, we have amended our Articles of Association to comply with the Listing Rules which will become effective upon the Listing. In particular, our Articles of Association provides that, a Director shall be abstained from voting on any resolution approving any contract, transaction or arrangement in which such Director or any of his/her close associates has a material interest nor shall such Director be counted in the quorum present at the Board meeting;

(ii) the Company has established internal control mechanisms to identify connected transactions. Upon the Listing, if the Company enters into connected transactions with the Controlling Shareholders or any of their associates, the Company will comply with the applicable requirements under the Listing Rules;

(iii) we are committed that our Board shall include a balanced composition of executive Directors and non-executive Directors (including independent non-executive Directors). We have appointed three independent non-executive Directors, and we believe our independent non-executive Directors (i) possess sufficient experiences, (ii) are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment, and (iii) will be able to provide an impartial and external opinion to protect the interests of our Shareholders as a whole. For details of the independent non-executive Directors, see "Directors, Supervisors and Senior Management;"

(iv) if a substantial shareholder or a Director has a conflict of interest in a proposal which the Board has determined to be material, such matter should be dealt with by a Board meeting rather than a written resolution. Independent non-executive Directors who, and whose close associates, have no material interests in the matter should be present at such Board meeting; and

(v) we have appointed Somerley Capital Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors' duties and corporate governance.

OVERVIEW

As of the Latest Practicable Date, Mr. Zhong Shanshan held approximately 87.4472% interest in our share capital, including approximately 17.8634% direct interest and approximately 69.5838% indirect interest through Yangshengtang. Immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), Mr. Zhong Shanshan will hold approximately 84.4128% interest in our share capital, including approximately 17.2435% direct interest and approximately 67.1693% indirect interest through Yangshengtang. Both Mr. Zhong Shanshan and Yangshengtang will remain as our substantial Shareholders upon the Listing and therefore, Mr. Zhong Shanshan and Yangshengtang and their respective associates will become our connected persons upon the Listing.

Prior to the Listing, the Group has entered into certain transactions in the ordinary and usual course of business of the Company with Yangshengtang and its several associates, among which, certain transactions will continue and constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules upon the Listing.

NON-FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

The transactions set out below are made in the ordinary and usual course of business and on normal commercial terms where, as our Directors currently expect, the highest applicable percentage ratios for the purpose of Chapter 14A of the Listing Rules will be more than 0.1% but less than 5% on an annual basis. Accordingly, such transactions will be subject to the announcement, reporting, and annual review requirements under Chapter 14A of the Listing Rules but will be exempted from the circular (including independent financial advice) and independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

				Proposed Annual Cap(s)		
				Year ending December 31,		
No.	**Nature of Transactions**	**Relevant Listing Rules**	**Waiver Sought**	**2020**	**2021**	**2022**
				RMB (million)	**RMB (million)**	**RMB (million)**
1	Purchase of goods from Yangshengtang and its associates	14A.35	Waiver from strict compliance with announcement requirement	215.00	235.00	265.00
2	IT products and services provided by Yangshengtang and its associates	14A.35	Waiver from strict compliance with announcement requirement	150.00	150.00	150.00
3	Basic R&D and test services provided by Yangshengtang and/or its associates	14A.35	Waiver from strict compliance with announcement requirement	100.00	100.00	100.00

Purchasing Framework Agreement

On August 12, 2020, the Company entered into the purchasing framework agreement ("**Purchasing Framework Agreement**") with Yangshengtang, pursuant to which, Yangshengtang and its associates have agreed to sell and the Group has agreed to purchase bottle caps for the production of "Scream (尖叫)" and other products of Yangshengtang Group (including snack food and cosmetics products) which will be sold through the Group's new retail channels represented by vending machines, with a term commencing from the Listing Date to December 31, 2022. The Purchasing Framework Agreement will be renewable subject to the negotiation between the parties to the agreement and compliance with the requirements of the Listing Rules.

Subject to terms of the Purchasing Framework Agreement, the Group will enter into specific agreements or place purchase orders with Yangshengtang and its associates to set out specific terms and conditions in respect of the supply of goods. The consideration payable by the Group under the Purchasing Framework Agreement for purchasing goods will be paid at the time and according to the method to be agreed in specific agreements or purchase orders.

Reasons and benefits for the transactions

"Scream (尖叫)" is one of our most popular beverage products. For the year ended December 31, 2019, the revenue of the sales of "Scream (尖叫)" amounted to RMB2,668 million. Specially-designed bottle caps of "Scream (尖叫)" are popular among our consumers. We purchase bottle caps of "Scream (尖叫)" from certain subsidiaries of Yangshengtang and another independent third party. Transactions contemplated under the Purchasing Framework Agreement enable us to obtain necessary materials for our production at the prevailing market price in a cost-efficient way, i.e., without having to establish our own research and production facilities for bottle caps of "Scream (尖叫)."

We have been actively exploring new retail channels represented by vending machines to extend our reach to consumers. As of May 31, 2020, we had deployed nearly 62,900 smart retail equipment represented by vending machines in nearly 300 cities across China. Establishing such channels will help us to increase the number of retail points of sale to meet consumers' need for spontaneous purchases of beverage products. Yangshengtang and its associates produce and sell several kinds of snack food, cosmetics products, etc. We believe that we can enrich the categories of products of our new retail business by procuring such snack food and cosmetics products and meet consumers' need for spontaneous purchases better.

Pricing basis

The prices of transactions contemplated under the Purchasing Framework Agreement shall be determined on an arm's length basis.

The price for purchasing bottle caps of "Scream (尖叫)" from Yangshengtang and/or its associates by the Group shall be determined with reference to the fee quote of bottle caps of "Scream (尖叫)" that the Group could obtain from the independent third party, but in any event shall not be higher than the fee quote provided by the independent third party; and the price for purchasing other products of Yangshengtang and its associates, such as snack food and cosmetics products, shall be determined with reference to prices of such products provided to other independent third parties by Yangshengtang and its associates, but in any event shall not exceed the prices provided to independent third parties by Yangshengtang and its associates.

Historical figures, annual caps and basis

The historical transaction amounts of the transactions contemplated under the Purchasing Framework Agreement were approximately RMB94.08 million, RMB155.29 million, RMB202.27 million and RMB76.81 million for the years ended December 31, 2017, 2018 and 2019 and five months ended May 31, 2020, respectively, among which, 100%, 99.9%, 99.0%, and 99.6% were related to the purchase of bottle caps of "Scream (尖叫)", respectively.

Our proposed annual caps of the transactions contemplated under the Purchasing Framework Agreement for the years ending December 31, 2020, 2021 and 2022 are RMB215.00 million, RMB235.00 million and RMB265.00 million, respectively.

In arriving at the above annual caps, the Directors have considered, among other things, the following factors:

(i) **historical transaction amounts and trends for the purchase of bottle caps of "Scream (尖叫)" by the Group:** the transaction amount of such purchase increased by approximately 65.0% and 29.1% from 2017 to 2018 and 2018 to 2019, respectively, because of the growth of the sales volume of "Scream (尖叫)" and the increase in the proportion of purchasing bottle caps of "Scream (尖叫)" from Yangshengtang's associates out of our external purchase of bottle caps of "Scream (尖叫)";

(ii) **expected growth of the sales volume of "Scream (尖叫)" and demand for its bottle caps:** Yangshengtang's associate established a new factory to produce bottle caps for "Scream (尖叫)" in 2018. Based on the capacity of such new factory and our expectation that the sales volume of "Scream (尖叫)" will increase steadily from 2020 to 2022, we expect that our demand for bottle caps of "Scream (尖叫)" will also grow relatively steadily;

(iii) **the market price of the same type of products:** the prices of bottle caps of "Scream (尖叫)" and Yangshengtang's products which are sold through our new retail channel remained basically stable from 2017 to 2019. We expect that such prices will continue to remain stable. Thus the trend of relevant transaction amount will not be significantly affected by the price fluctuations but maintain relatively stable growth; and

(iv) **expansion of new retail channel of the Group:** we are considering developing diversified smart retail equipment to expand our sales channel which is expected to in turn increase the volume of Yangshengtang's products which will be sold through such channels, and will in further increase our demand for relevant products of Yangshengtang.

IT Product and Service Framework Agreement

On August 12, 2020, the Company entered into the IT product and service framework agreement ("**IT Product and Service Framework Agreement**") with Yangshengtang and its wholly-owned subsidiary, Rainbow Fish Technology, pursuant to which, Yangshengtang and Rainbow Fish Technology have agreed to provide several types of IT products and services to the Company with a term commencing from the Listing Date to December 31, 2022. The IT Product and Service Framework Agreement will be renewable subject to the negotiation between the parties to the agreement and compliance with the requirements of the Listing Rules.

Details of the type and the pricing basis of IT products and services to be provided by Yangshengtang and Rainbow Fish Technology are set out below:

Yangshengtang software licensing service

Yangshengtang acquires computer software licenses from software suppliers and provides sub-licenses for the Group's use.

Fees payable by the Group to Yangshengtang in respect of the software license services will be determined with reference to Yangshengtang's actual costs calculated based on the number of the Group's users of each software.

Rainbow Fish Technology IT products and services

Self-developed software products and maintenance services

Rainbow Fish Technology develops and licenses the Group its own software products of which it has/will have copyrights, and provides maintenance services to the Group of such software products.

For the first year of using such software products, fees payable to Rainbow Fish Technology by the Group will be determined with reference to the actual costs of software products with a cost mark-up of 16% of the actual costs ("**Initial Fee**"); and after the first year, a maintenance fee equaling to 15% of the Initial Fee will be charged by Rainbow Fish Technology per year.

Customized software development services

Rainbow Fish Technology provides customized development and technology supporting services in respect of operation systems, business intelligence systems, information security systems, and big data analysis systems according to our business needs. Rainbow Fish Technology may also help us to source third-party suppliers for customized development and technology supporting services and supervise such work.

For development and technology supporting services directly provided by Rainbow Fish Technology, fees will be charged in a man-month method (i.e. the monthly cost per person multiplies the number of working months) and determined with reference to the prevailing market price; and for customized development and technology supporting services procured by Rainbow Fish Technology from third-party suppliers, fees to be charged by Rainbow Fish Technology will be determined with reference to its actual costs for procurement of such services. The proprietary rights of all work products, intellectual property rights and other rights obtained by Rainbow Fish Technology when providing customized software development services pursuant to the IT Product and Service Framework Agreement will be owned by the Group.

Infrastructure and network

Rainbow Fish Technology will select and provide guidance to third-party suppliers to build information system infrastructure and network environment for the Group, including computing devices, storage, network switching devices and computer room leasing, to facilitate the installment and operation of our software system.

Fees to be charged by Rainbow Fish Technology will be determined with reference to the actual costs incurred by Rainbow Fish Technology for procuring or leasing such facilities or rooms from third-party suppliers.

Daily maintenance services

Rainbow Fish Technology provides daily maintenance services, including system updates and patches, anti-virus implementation and regular preventive maintenance to us.

Fees will be charged by Rainbow Fish Technology in a man-month method and determined with reference to the prevailing market price.

IT help desk supporting services

Rainbow Fish Technology provides IT help desk support services, which handles IT incidents and service requests from the Group and daily inquiries and needs from the users of the Group.

Fees to be charged by Rainbow Fish Technology will be determined with reference to its actual costs incurred.

Subject to terms of the IT Product and Service Framework Agreement, the Group will enter into specific agreements or place purchase orders with Yangshengtang and Rainbow Fish Technology to set out specific terms and conditions in respect of the products and services abovementioned. The consideration payable by the Group under the IT Product and Service Framework Agreement will be paid at the time and according to the method agreed in specific agreements and purchase orders, and in any event shall not be higher than the prices at which the Group can procure similar IT products and services from independent third-party suppliers.

Reasons and benefits for the transaction

We typically prepare our IT system request booklet based on our best practices for business operations and management requirements. Such requests include the formulation of systematic business processes, pivotal control points, control algorithms and functional requirement interfaces.

We choose to outsource code development, testing and IT system maintenance services related to our IT system requests while we participate in the evaluation and determination of the IT system framework and technical details. This is because after exploring different options for years, we consider that compared with establishing and maintaining an internal IT department, outsourcing IT services in relation to implementation to a professional IT service company can better serve our business demands on the following basis:

- IT technologies are always undergoing rapid upgrades and changes. A professional IT service company usually has an exposure to a wider range of industries and enterprises and therefore can gain more comprehensive experience and have more immediate access to the latest changes in IT technologies compared with an internal IT department of a company like us. This allows a professional IT service company to provide services with cutting-edge technologies and have stronger ability of implementation of IT projects.

- In addition, it is easier for a company specialized in IT-related services to attract and retain IT talents compared to the Company the principal business of which is providing consumer goods which will in turn enable it to provide better services.

- An IT company is managed in many ways materially different from a consumer goods company, especially in terms of professional trainings, performance evaluations and incentives. Therefore it is not in the commercial interest of the Group to retain an independent IT service subsidiary.

As a company starting to provide professional IT services since 2014, Rainbow Fish Technology provides IT services to enterprises in different industries including cosmetics, food and health care products. It has extensive experience and the expertise in providing various software development and other IT supporting services. And due to its long-term cooperation with us, it understands our needs better than other third-party suppliers. In addition, compared to an in-house IT department, Yangshengtang and Rainbow Fish Technology are more resourceful in procurement of IT software licensing service and technology supporting services and have better bargaining power due to their long-term experiences in the industry. The Group will be able to secure more favorable terms for obtaining these IT products and services by procuring through or from Yangshengtang and Rainbow Fish Technology.

The Company believes that it is common for peer companies in the industry to outsource their software development and IT services to third parties.

Historical figures, annual cap and basis

The historical transaction amounts of the transactions contemplated under the IT Product and Service Framework Agreement were approximately RMB53.78 million, RMB79.83 million, RMB100.02 million and RMB53.67 million for the years ended December 31, 2017, 2018 and 2019 and five months ended May 31, 2020, respectively.

The proposed annual cap of the transactions contemplated under the IT Product and Service Framework Agreement for all of the years ending December 31, 2020, 2021 and 2022 is RMB150.00 million.

In arriving at the above annual cap, the Directors have considered, among other things, the following factors:

(i) **historical transaction amounts and trends for the transactions contemplated under the IT Product and Service Framework Agreement:** each of the yearly increase rates of the transactions contemplated under the IT Product and Service Framework Agreement was approximately 48.4% and 25.3% from 2017 to 2018 and 2018 to 2019, primarily because of our continuous efforts to incorporate our best practice gained from our sales management into our information management system which incurred more expenses in respect of IT products and services;

(ii) **anticipated increased demands of the Company:** we expect to accelerate our own middle platform system development to integrate data from different dimensions for better big data analysis and therefore, we expect our investment in the development of our IT systems will increase significantly in the years of 2020 to 2022. We will continue to incorporate our best practice gained from sales management into our information management system to meet our needs of further optimizing the management efficiency. Therefore, we expect that we will incur more expenses in respect of IT products and services in the next three years; and

(iii) **prevailing market prices of the IT products and services with same quality and nature:** we expect that there will be no significant fluctuation in the prices of the same type(s) of IT products and services in the market in the years of 2020 to 2022 and thus our transaction amount in respect of these transactions with Yangshengtang and Rainbow Fish Technology will remain stable.

Basic R&D and Test Service Framework Agreement

On August 12, 2020, the Company entered into the basic R&D and test framework agreement ("**Basic R&D and Test Framework Agreement**") with Yangshengtang and its wholly-owned subsidiary, YST Natural Medicine Research, pursuant to which, Yangshengtang and/or YST Natural Medicine Research have/has agreed to provide basic beverage R&D services and test services of raw material and product to the Group, with a term commencing from the Listing Date to December 31, 2022. The Basic R&D and Test Framework Agreement shall be renewable subject to the negotiation between the parties to the agreement and compliance with the requirements of the Listing Rules.

Subject to terms of the Basic R&D and Test Framework Agreement, the Group will enter into specific agreements or place orders with Yangshengtang and/or its associates to set out specific terms and conditions in respect of the basic R&D and test services. The consideration payable by the Group under the Basic R&D and Test Framework Agreement for accepting such services will be paid at the time and according to the method agreed in specific agreements or orders. The proprietary rights of all work products and intellectual property rights and other rights obtained pursuant to the Basic R&D and Test Framework Agreement will be jointly owned by the Group and Yangshengtang and/or YST Natural Medicine Research. The Group has the exclusive right of use on such intellectual properties, while Yangshengtang and/or YST Natural Medicine Research are/is only able to use them with the consent of the Group. Use of such jointly-owned intellectual properties by Yangshengtang and/or YST Natural Medicine Research will be free of charge.

Reasons and benefits for the transaction

We have our own R&D department mainly focusing on applied R&D of beverage formula and processing technologies, which we believe is the critical component of our R&D demands.

In addition to our core R&D demands mentioned above, we also have demands for basic beverage R&D services and second-inspection test services of raw materials and products in our ordinary and usual course of business.

From time to time, we need certain work products from basic R&D, for example, an understanding of benefits of certain components in natural products to human bodies, and can apply such research results to the innovation of our products. However, in general, basic R&D has higher technical requirements and requires more advanced equipment compared to applied R&D which we conduct on our own. In addition, it takes more time and is more difficult for basic R&D to turn into results which may be applied in commercial development compared with applied R&D. Therefore, it is more cost-efficient for the Group to outsource the basic R&D to a research institution whose research results can be applied to other parties' products in addition to bottled water and soft beverage because in that case relevant fees and expenses can be shared by such other parties too.

As for test services, despite that we have comprehensive ability to conduct quality tests and analysis and established our own complete quality control system, we also outsource certain test services of raw materials and products for the purpose of a second inspection of samples of our raw materials and products. This helps ensure the impartiality of such tests, and also serves as an evaluation of our own test capability, which in turn strengthens our quality control.

When considering a service provider for basic R&D and test services, we consider, among other things, capabilities of the service provider and capacities that can be allocated to serve our demands. YST Natural Medicine Research was established in 1999 and focuses on researches in relation to healthcare products and medicines since its establishment. It has extensive experience in basic development and research in different areas. YST Natural Medicine Research has strong basic R&D capabilities in areas including molecular biology, safety and dynamic performance evaluation,experimental animal models, compound analysis. Since the basic R&D on medicines and healthcare products conducted by YST Natural Medicine Research sometimes comes out with results that are useful to soft beverage development and innovation too, the ability of basic R&D of YST Natural Medicine Research will help our continuous innovation in beverage products, and we believe that leveraging on their basic R&D is cost-efficient than establishing our own basic R&D team.

YST Natural Medicine Research also provides second inspections of samples of our materials and products. As mentioned above, this helps ensure the impartiality of such tests, and also serves as an evaluation of our own test capability, which in turn strengthens our quality control. Requirements for the quality of tests and analysis of medicines are usually stricter than beverages. The testing center of YST Natural Medicine Research have been engaged in tests and analysis of medicines for a long time and thus has advanced testing equipment and professional personnel. It also has a national-level certificate of China National Accreditation Service, which helps ensure the authority of its test results.

Furthermore, given our long-term cooperation with YST Natural Medicine Research, YST Natural Medicine Research understands our demands very well. Subcontracting of basic R&D and test service to YST Natural Medicine Research is expected to serve our needs for basic R&D and test well and to help limit our own costs of basic R&D and test.

The Company believes that it is common for peer companies in the industry to outsource their basic R&D and test services of raw materials and products to third parties.

Pricing basis

Fees of basic R&D services provided by Yangshengtang and/or YST Natural Medicine Research under the Basic R&D and Test Framework Agreement will be determined with reference to the actual cost incurred by Yangshengtang and/or YST Natural Medicine Research with a cost markup of 25% of the actual costs, and in any event shall not be higher than the prices of similar services that can be procured from independent third-party suppliers by the Group.

Fees of test services provided by Yangshengtang and/or YST Natural Medicine Research under the Basic R&D and Test Framework Agreement will be determined with reference to the prevailing market prices, and in any event shall not be higher than the prices of similar services that can be procured from independent third-party suppliers by the Group.

Historical figures, annual cap and basis

The historical transaction amounts of the transactions contemplated under the Basic R&D and Test Framework Agreement are approximately RMB40.01 million, RMB71.36 million, RMB81.36 million and RMB45.43 million for the years ended December 31, 2017, 2018 and 2019 and five months ended May 31, 2020, respectively.

Our proposed annual cap of the transactions contemplated under the Basic R&D and Test Framework Agreement for all of the years ending December 31, 2020, 2021 and 2022 is RMB100.00 million.

In arriving at the above annual cap, the Directors have considered, among other things, the following factors:

(i) **historical transaction amounts and trends for the basic R&D and test services between the Group and YST Natural Medicine Research:** the transaction amounts under the Basic R&D and Test Framework Agreement witnessed significant growth during the Track Record Period. From 2017 to 2018 and 2018 to 2019, the transaction amount increased by approximately 78.4% and 14.0%, respectively, along with our increased demands for new product development;

(ii) **demand for new product development:** we expect that along with the intensified competition in the soft beverage industry, a new product will require more investment in basic R&D. As such, we will continue to maintain our investment in basic R&D;

(iii) **prevailing market prices of the same types of basic R&D and test services:** we expect that market prices of the same type of basic R&D and test services will increase in the years of 2020, 2021 and 2022 due to the increase of costs of research materials and labor; and

(iv) **the labor resource of YST Natural Medicine Research to provide basic R&D and test services:** considering that there will be a limitation in the staff resource to be provided by YST Natural Medicine Research for the Group's basic R&D and test services in the next three years, we expect that the amount of the transactions contemplated under the Basic R&D and Test Framework Agreement will remain stable in the next three years.

MEASURES TO SAFEGUARD THE INTERESTS OF OUR SHAREHOLDERS

To safeguard the interests of the Shareholders, including the minority Shareholders, and the Company as a whole, the Company has put in place certain internal approval and monitoring procedures relating to the proposed connected transactions contemplated under the agreements mentioned above, which include the following:

- we have formulated internal guidelines according to the Listing Rules, which provide approval procedures for connected transactions based on their nature and amounts;

- the pricing of the connected transactions should be no less favorable to us compared with the prices provided by independent third parties or provided to independent third parties in respect of similar products or services (if applicable). For prices of similar products and services provided by independent third parties, we will conduct price enquiries and comparison on the market to ensure that pricings of relevant connected transactions are no less favorable than prices provided by independent third parties;

- the Company shall collect the transaction amount information regularly and conduct analysis of the data to manage the connected transactions;

- the independent non-executive Directors and auditors will conduct annual review of the non-fully exempt continuing connected transactions mentioned above and provide annual confirmations in accordance with the Listing Rules that the non-fully exempt continuing connected transactions are conducted in accordance with terms of the relevant agreements, on normal commercial terms, in accordance with the pricing policy and do not exceed the proposed applicable annual caps;

- in respect of the connected transactions not governed by the existing framework agreements (if any), the relevant operating entities shall communicate with the headquarters in advance and provide necessary documents to facilitate related decision-making and disclosure process; and

- for transactions the amount(s) of which exceed(s) the proposed annual cap(s), we will re-comply with the Listing Rules and the Articles of Association and seek approval(s) and make additional disclosure (as applicable).

WAIVER APPLICATION FOR NON-FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

The transactions abovementioned will constitute connected transactions which are subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

As the above non-fully exempt continuing connected transactions are expected to continue a recurring and continuing basis, our Directors consider that compliance with the above announcement requirements will be impractical, will incur unnecessary administrative costs for us, and will be unduly burdensome to us.

Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver to us under Rule 14A.105 of the Listing Rules from compliance with the announcement requirements in respect of the above non-fully exempt continuing connected transactions.

The waiver granted by the Hong Kong Stock Exchange for the non-fully exempt continuing connected transactions under the Purchasing Framework Agreement, IT Product and Service Framework Agreement and Basic R&D and Test Service Framework Agreement will expire on December 31, 2022, respectively.

CONFIRMATION FROM THE DIRECTORS

The Directors (including independent non-executive Directors) are of the view that the non-fully exempt continuing connected transactions as set out above have been entered into in our ordinary and usual course of business and on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and the proposed annual caps for those transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

CONFIRMATION FROM THE JOINT SPONSORS

Based on the documentation and data provided by the Company and participation in the due diligence and discussion with the Company, the Joint Sponsors are of the view that the non-fully exempt continuing connected transactions as set out above have been entered into in the ordinary and usual course of business of the Company on normal commercial terms which are fair and reasonable, and in the interests of the Company and the Shareholders as a whole, and the proposed annual caps for those non-fully exempt continuing connected transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

OVERVIEW

The Board currently consists of nine Directors, including five executive Directors, one non-executive Director and three independent non-executive Directors. The Board is responsible for and has the general power over the management and operation of our business, including determining our business strategies and investment plans, implementing resolutions passed at our Shareholders' general meetings, and exercising other powers, functions and duties as conferred by the Articles of Association. The Board also assumes the responsibilities for developing and reviewing the policies and practices of the Company on corporate governance, risk management and internal control and compliance with legal and regulatory requirements.

The Supervisory Committee currently consists of three Supervisors, including one employee representative Supervisor and two shareholder representative Supervisors. The Supervisory Committee is responsible for supervising the performance of duty of the Board and the senior management of the Company and overseeing the financial, internal control and risk conditions of the Company. The employee representative Supervisor is elected by our employees, while shareholder representative Supervisors are elected at the Shareholders' general meetings.

The senior management is currently comprised of five members who are responsible for our day-to-day management and operation.

DIRECTORS

The following table sets forth the key information about our Directors as at the Latest Practicable Date.

Name	Age	Position	Responsibilities	Date of first appointment	Date of joining the Group
Mr. Zhong Shanshan[1] (鍾睒睒)	65	Founder, Chairman of the Board, Executive Director and General Manager	• Responsible for our overall development strategies, business plans and major operational decisions and direct management of our brands, sales and human resources • Chairman of the Nomination Committee • Member of the Remuneration Committee	Appointed as Chairman of the Board and an executive Director on June 10, 2001 and the General Manager on May 6, 2005	September 1996 (when the Company was founded)

(1) Mr. Zhong Shanshan is the father of Mr. Zhong Shu Zi, the non-executive Director.

Name	Age	Position	Responsibilities	Date of first appointment	Date of joining the Group
Mr. Guo Zhen (郭振)	62	Executive Director, Deputy General Manager and deputy general manager of the production and operation center	• Responsible for our overall production and operation	Appointed as an executive Director on December 15, 2019, a Deputy General Manager on March 11, 2020 and the deputy general manager of the production and operation center on September 28, 2018	June 2003
Mr. Zhou Li (周力)	48	Executive Director and Deputy General Manager	• Responsible for our product research and development, quality management, technology-related regulations and legal affairs	Appointed as an executive Director on September 3, 2019 and a Deputy General Manager on July 21, 2019	April 2008
Ms. Zhou Zhenhua (周震華)	43	Executive Director and Chief Financial Officer	• Responsible for our financial matters and external investment, and assisting the General Manager in managing our overall operations as an assistant to the General Manager	Appointed as an executive Director on September 3, 2019 and the Chief Financial Officer on November 20, 2007	July 2007
Mr. Liao Yuan (廖原)	50	Executive Director	• Responsible for management of our engineering and equipment	Appointed as an executive Director on March 6, 2020	April 2000
Mr. Zhong Shu Zi[(2)]	32	Non-executive Director	• Providing advice on our business plans, major decisions and investment activities • Member of the Audit Committee	Appointed as the non-executive Director on June 21, 2017	January 2014

(2) Mr. Zhong Shu Zi is the son of Mr. Zhong Shanshan, the founder of the Company.

Name	Age	Position	Responsibilities	Date of first appointment	Date of joining the Group
Mr. Stanley Yi Chang	62	Independent non-executive Director	• Supervising and providing independent judgement to the Board • Chairman of the Audit Committee • Member of the Nomination Committee	March 6, 2020	March 2020
Mr. Yang, Lei Bob (楊磊)	53	Independent non-executive Director	• Supervising and providing independent judgement to the Board • Member of the Nomination Committee • Member of the Remuneration Committee	September 3, 2019	September 2019
Mr. Lu Yuan (呂源)	65	Independent non-executive Director	• Supervising and providing independent judgement to the Board • Chairman of the Remuneration Committee • Member of the Nomination Committee	September 3, 2019	September 2019

Mr. Zhong Shanshan (鍾睒睒), age 65, is the founder, Chairman of the Board, an executive Director and the General Manager of the Company. He founded Zhejiang Thousand-Island Lake Yangshengtang Drinking Water Company Limited (浙江千島湖養生堂飲用水有限公司), the predecessor of the Company, in September 1996. Mr. Zhong was appointed as the Chairman of the Board and an executive Director in June 2001 and the General Manager of the Company in May 2005. Mr. Zhong Shanshan has also been serving as the director of all subsidiaries of the Company since their establishment. Mr. Zhong is responsible for our overall development strategies, business plans and major operational decisions and direct management of our brands, sales and human resources. Under the guidance of Mr. Zhong Shanshan, the Group has taken the dual-engine development approach underpinned by drinking water and beverage, and become a leading company in the PRC soft beverage industry. Prior to the establishment of the Company, Mr. Zhong Shanshan founded Yangshengtang in March 1993 and has served successively as a director, the general manager and the chairman of the board of directors of Yangshengtang since March 1993. Mr. Zhong Shanshan has been the chairman of Beijing Wantai Biological Pharmaceutical Enterprise Co., Ltd. (北京萬泰生物藥業股份有限公司) (listed on the Shanghai Stock Exchange, stock code: 603392) since November 2001. Mr. Zhong Shanshan has nearly 30 years of extensive experience in the food and soft beverage industry.

Mr. Zhong Shanshan is the father of Mr. Zhong Shu Zi, the non-executive Director.

Mr. Guo Zhen (郭振) (alias: Mr. Guo Zhen (郭震)), age 62, was appointed as an executive Director in December 2019 and a Deputy General Manager of the Company in March 2020 and is responsible for our overall production and operation. Mr. Guo Zhen served as a Supervisor of the Company from September to December 2019. Mr. Guo Zhen has been serving as the deputy general manager of the production and operation center of the Group since September 2018. Upon joining the Group in June 2003, Mr. Guo Zhen was successively the manager of Danjiangkou plant, the Regional Production Director of east China and north China regions of the Group. Currently, Mr. Guo Zhen is the manager of several subsidiaries of the Company. Prior to joining the Group, Mr. Guo Zhen held several management positions in Hangzhou Tingjin Food Co., Ltd. (杭州頂津食品有限公司) from September 1994 to March 2001.

Mr. Guo Zhen obtained a master's degree in law from Northeast Normal University in December 1992, and a bachelor's degree in politics from Northeast Normal University in August 1982.

Mr. Zhou Li (周力), age 48, was appointed as an executive Director in September 2019 and the Deputy General Manager of the Company since July 2019 and is responsible for our product research and development, quality management, technology-related regulations and legal affairs. Mr. Zhou Li served as the secretary to the Board from April 2008 to February 2020. In addition, Mr. Zhou Li concurrently serves as the manager of several subsidiaries of the Company. In addition, Mr. Zhou Li was the general manager of Yangshengtang Zhejiang Food Company Limited (養生堂浙江食品有限公司) from May 2004 to March 2008. Mr. Zhou Li served as a researcher and a deputy director of YST Natural Medicine Research from March 1998 to May 2004, and concurrently as the production technology director of Yangshengtang from November 2002 to May 2004.

Mr. Zhou Li obtained a PhD in chemical engineering and a bachelor's degree in chemical engineering from Zhejiang University in May 1998 and July 1993, respectively. Mr. Zhou Li is a professor-level senior engineer.

Ms. Zhou Zhenhua (周震華), age 43, was appointed as an executive Director in September 2019 and as the Chief Financial Officer in November 2007, is responsible for our financial matters and external investment. Ms. Zhou Zhenhua has been assisting Mr. Zhong Shanshan in managing the overall operations of the Company as an assistant to the General Manager since March 2014 and was concurrently in charge of the branding and marketing of the Group from April 2015 to September 2016. After joining the Group in July 2007, Ms. Zhou Zhenhua, being the Chief Financial Officer of the Group, successively served as the chief financial officer and general manager of the financial center of the Company until July 2012. Ms. Zhou Zhenhua was a Supervisor from June 2014 to September 2019. Ms. Zhou Zhenhua also served as a consultant of Yangshengtang from July 2012 to March 2014. Prior to joining the Group, Ms. Zhou Zhenhua successively served as a consultant at Deloitte Consulting (Shanghai Pudong) Co., Ltd. (德勤企業管理諮詢(上海浦東)有限公司) and an investment banking associate at HSBC Markets (Asia) Limited from March 2000 to June 2007.

Ms. Zhou Zhenhua obtained an MBA from Fudan University in June 2004 and completed the International MBA Program of MIT Sloan School of Management during the same year. She obtained a bachelor's degree in electrical engineering from Shanghai Jiao Tong University in July 1998. Ms. Zhou Zhenhua is a fellow member of the Chartered Institute of Management Accountants in the UK and a Chartered Global Management Accountant in the USA.

Mr. Liao Yuan (廖原), age 50, was appointed as an executive Director in March 2020 and is responsible for the management of our engineering and equipment. Mr. Liao Yuan has been the general manager of the engineering and equipment center of the Group since February 2020. After joining the Group in April 2000, Mr. Liao Yuan successively served as the section chief of the equipment technology section and deputy manager of the Jiande Plant, manager of the Chun'an Plant, manager of the Group's quality assurance department, production director, director of the engineering and equipment department and assistant to the general manager of the production and operation center, etc., and served as the general manager of the engineering and equipment center of Yangshengtang from May 2018 to February 2020. Prior to joining the Group, Mr. Liao Yuan was a technician and the chief of the manufacturing section at Hangzhou Tingjin Food Co., Ltd. (杭州頂津食品有限公司) from April 1995 to April 2000, and a technician at Shaoxing Automobile Oil Pump Factory (紹興汽車油泵廠) from August 1993 to March 1995.

Mr. Liao Yuan obtained a bachelor's degree in technique of mechanical manufacturing and equipment from Nanchang University in July 1993.

Mr. Zhong Shu Zi, age 32, was appointed as a non-executive Director in June 2017 and is responsible for providing advice on our business plans, major decisions and investment activities. Mr. Zhong Shu Zi joined the Group in January 2014 and has been the general manager of Yangshengtang Brand Center since January 2020.

Mr. Zhong Shu Zi obtained a bachelor of arts degree in English from University of California, Irvine in the United States in December 2011.

Mr. Zhong Shu Zi is the son of Mr. Zhong Shanshan, the founder of the Company.

Mr. Stanley Yi Chang, age 62, was appointed as an independent non-executive Director in March 2020 and is responsible for overseeing and providing independent judgment to the Board, and offering strategic advice and guidance to our financial management, internal control and external investment. Mr. Chang is currently a standing council member of China Institute of Internal Audit, and a member of Auditing Expert Panel of Asian Development Bank. Mr. Chang has been a Professor at Shanghai Advance Institute of Finance of Shanghai Jiaotong University since July 2018. He was a Professor at National Taiwan University from August 2016 to June 2018. Prior to that, Mr. Chang successively served as the Chief Operating Officer of MarcumBP where he also led its China Advisory Services; Managing Partner of China Advisory Services and Global Business Risk Services Leader for Grant Thornton; and Partner of Business Risk Services and Asia Pacific Life Sciences Leader for Ernst & Young from September 2007 to October 2016.

Mr. Chang received his PhD in Accounting from Texas Tech University in the United States in August 1987; his Master Degree in Accounting from University of Missouri-Columbia in the United States in August 1983; and his Bachelor Degree in Business Administration from National Taiwan University in June 1980. Mr. Chang is a Certified Public Accountant of Texas, United States.

Mr. Yang, Lei Bob (楊磊), age 53, was appointed as an independent non-executive Director in September 2019 and is responsible for supervising and providing independent judgement to the Board. Mr. Yang, Lei Bob was a visiting professor of finance at China Europe International Business School from January 2012 to December 2012 and from April 2016 to December 2019, and was an adjunct professor of finance at China Europe International Business School from April 2013 to March 2016. Mr. Yang, Lei Bob has extensive experience in corporate finance and financial management. He worked for The Hongkong and Shanghai Banking Corporation Limited from July 2004 to March 2010 with his last positions as the Global Banking and Markets managing director and head of the China Investment Banking Division, and worked for Goldman Sachs Asia Limited from August 1999 to June 2004 with his last position as an executive director of the Investment Bank Division. Mr. Yang, Lei Bob was an independent director, chairman of the nomination committee and member of the audit committee of Shanghai Kehua Bio-Engineering Co., Ltd. (上海科華生物工程股份有限公司, a company listed on the Shenzhen Stock Exchange, stock code: 002022) from May 2017 to June 2020.

Mr. Yang, Lei Bob obtained an MBA (with a finance concentration) degree from McGill University in Montreal, Canada in June 1993.

Mr. Lu Yuan (呂源), age 65, was appointed as an independent non-executive Director in September 2019 and is responsible for supervising and providing independent judgement to the Board and offering strategic advice and guidance in relation to the business and operations of the Group. Mr. Lu Yuan has been a chair professor at the School of Business Administration of South China University of Technology since February 2019, an adjunct professor at the School of Management of Zhejiang University of Technology since August 2018 and an adjunct professor at the Department of Management of The Chinese University of Hong Kong since December 2013. Mr. Lu Yuan has been an independent director of Sirio Pharma Co., Ltd. (仙樂健康科技股份有限公司, a company listed on the Shenzhen Stock Exchange, stock code: 300791) since April 2015. Prior to that, Mr. Lu Yuan was the Dean of the Business School of Shantou University from October 2013 to August 2017, and the distinguished professor there from September 2017 to August 2018, an adjunct professor, an associate professor and a professor at the Department of Management of the Chinese University of Hong Kong from August 1996 to September 2013, the Rothmans researcher at Cambridge Judge Business School (the predecessor of the Judge Institute of Management Studies) from January 1993 to August 1996 and an assistant research fellow at Lancaster University Management School in the UK from 1991 to 1992.

Mr. Lu Yuan obtained a PhD in management from Aston University in Birmingham, the UK in July 1991, an MBA from the China-Europe Management Programme (the predecessor of China Europe International Business School) in December 1986, and a bachelor's degree in engineering from Beijing University of Technology in January 1982.

SUPERVISORS

The following table sets forth the key information about our Supervisors as at the Latest Practicable Date.

Name	Age	Position	Responsibilities	Date of first appointment	Date of joining the Group
Ms. Qiu Hongying (裘紅鶯)	56	Shareholder representative Supervisor and Chairman of the Supervisory Committee	Overseeing our operations and financial activities	April 15, 2008	April 2008
Mr. Liu Xiyue (劉熹悦)	47	Shareholder representative Supervisor and chief information officer of the Group	Overseeing our operations and financial activities	Appointed as a shareholder representative Supervisor on December 15, 2019 and as the chief information officer of the Group on November 20, 2017	November 2017
Mr. Rao Minghong (饒明紅)	45	Employee representative Supervisor	Overseeing our operations and financial activities	December 15, 2019	June 1999

Ms. Qiu Hongying (裘紅鶯), age 56, has been a shareholder representative Supervisor of the Company since April 2008 and the chairman of the Supervisory Committee since December 2019, responsible for overseeing our operations and financial activities. Ms. Qiu Hongying has been serving as a vice president of Yangshengtang since April 2016 and is responsible for auditing and human resources works. She was the general manager of Hainan Yangshengtang Pharmaceuticals Co., Ltd. (海南養生堂藥業有限公司) from August 2004 to April 2016 and the head of general office and director of advertisement center of Yangshengtang successively from April 1995 to August 2004. In addition, Ms. Qiu Hongying served as the secretary to the Youth League Committee of Hangzhou Hospital of Traditional Chinese Medicine from May 1989 to October 1995.

Ms. Qiu Hongying graduated from the master's degree programme on economic management of Hangzhou University (a predecessor of Zhejiang University) in September 1998 and obtained an associate's degree in Chinese from Hangzhou University in June 1988.

Mr. Liu Xiyue (劉熹悦), age 47, has been a shareholder representative Supervisor since December 2019 and is responsible for overseeing our operations and financial activities. Mr. Liu Xiyue has been the Chief Information Officer of the Group since November 2017. Prior to joining the Company, Mr. Liu Xiyue was a senior manager at Accenture (China) Co., Ltd. (埃森哲(中國)有限公司) and a marketing expert at Huawei Technologies Co., Ltd. (華為軟件技術有限公司) successively from May 2005 to

November 2017. Prior to that, Mr. Liu Xiyue worked as a project manager at the software center of the Ministry of Posts and Telecommunications of the People's Republic of China (the predecessor of the Ministry of Industry and Information Technology of the People's Republic of China), a manager of the network planning department of China Enterprise ICT Solutions Limited and a product manager of UTStarcom Telecom Co., Ltd. (UT斯達康通訊有限公司) successively from August 1996 to April 2005.

Mr. Liu Xiyue obtained an MBA degree from the School of Economics and Management of Tsinghua University in June 2001 and completed the International MBA Program of MIT Sloan School of Management in the same year. Mr. Liu Xiyue obtained a bachelor's degree in computer communication from Beijing University of Posts and Telecommunications in July 1996.

Mr. Rao Minghong (饒明紅), age 45, has been an employee representative Supervisor of the Company since December 2019 and is responsible for overseeing our operations and financial activities. Mr. Rao Minghong was elected as the president of the labour union of the Company in April 2020. Since joining the Company in June 1999, Mr. Rao Minghong successively served as a foreman of the manufacturing section, a mechanical engineer, the section chief of the manufacturing and equipment maintenance sections, an assistant to the plant manager, a deputy plant manager and the plant manager of Chun'an Plant and general manager of the East China Base. Prior to joining the Group, Mr. Rao Minghong worked at Hangzhou Creator Machinery Manufacture Co., Ltd. (杭州創先機械製造有限公司) from January 1995 to June 1999.

Mr. Rao Minghong graduated from Zhejiang Mechanical Industry College (浙江機械工業學校) (the predecessor of Zhejiang Institute of Mechanical and Electrical Engineering) in July 1994 with a major in mechatronics.

SENIOR MANAGEMENT

The following table sets forth the key information about our senior management as at the Latest Practicable Date.

Name	Age	Position	Responsibilities	Date of first appointment	Date of joining the Group
Mr. Zhong Shanshan (鍾睒睒)	65	Founder, Chairman of the Board, Executive Director and the General Manager	• Responsible for our overall development strategies, business plans and major operational decisions and direct management of our brands, sales and human resources • Chairman of the Nomination Committee • Member of the Remuneration Committee	Appointed as Chairman of the Board and an executive Director on June 10, 2001 and the General Manager on May 6, 2005	September 1996 (when the Company was founded)

Name	Age	Position	Responsibilities	Date of first appointment	Date of joining the Group
Mr. Guo Zhen (郭振)	62	Executive Director and Deputy General Manager	• Responsible for our overall production and operation	Appointed as an executive Director on December 15, 2019 and appointed as a Deputy General Manager on March 11, 2020	June 2003
Mr. Zhou Li (周力)	48	Executive Director and Deputy General Manager	• Responsible for our product research and development, quality management, technology-related regulations and legal affairs	Appointed as an executive Director on September 3, 2019 and a Deputy General Manager on July 21, 2019	April 2008
Ms. Zhou Zhenhua (周震華)	43	Executive Director and Chief Financial Officer	• Responsible for our financial matters and external investment, and assisting the General Manager in managing our overall operations as an assistant to the General Manager	Appointed as an executive Director on September 3, 2019 and the Chief Financial Officer on November 20, 2007	July 2007
Ms. Han Linyou (韓林攸)	39	Secretary to the Board and joint company secretary	• Responsible for our corporate governance, information disclosure and investor relations management	Appointed as the Secretary to the Board on February 19, 2020 and a joint company secretary on January 1, 2020	November 2019

For the biographical details of Mr. Zhong Shanshan, Mr. Guo Zhen, Mr. Zhou Li and Ms. Zhou Zhenhua, see "– Directors".

Ms. Han Linyou (韓林攸, former name: Han Yang (韓揚)), age 39, has been the Secretary to the Board of the Company since February 2020 and concurrently a joint company secretary since January 2020. She is responsible for our corporate governance, information disclosure and investor relations management. Ms. Han Linyou joined the Group in November 2019 as the deputy general manager of Nongfu Spring Drinking Water Hong Kong Company Limited (農夫山泉飲用水香港有限公司). Prior to joining the Group, Ms. Han Linyou was an executive director of Tibet Water Resources Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 01115) from May 2017 to November 2019 and has been chairman of the risk management committee of the board since August 2017, an assistant to the chief executive officer, a legal director and a senior vice president of the aforesaid company since April 2013. Ms. Han Linyou worked at Jingtian & Gongcheng from August 2002 to March 2013 and became a partner of such firm in 2009. She concurrently served as the PRC legal adviser of Chiu & Partners in Hong Kong from May 2008 to May 2009.

Ms. Han Linyou obtained a bachelor's degree in law from Peking University in July 2002 and a PRC Legal Professional Qualification Certificate in February 2008.

Save as disclosed above, none of the Directors, Supervisors or senior management has held any directorship in any public company the securities of which are listed on any securities market in Hong Kong or overseas during the three years immediately preceding the Latest Practicable Date.

As at the Latest Practicable Date:

(i) none of the Directors had any interests in any business, which competes or is likely to compete, either directly or indirectly, with our business;

(ii) save as disclosed above, none of the Directors, Supervisors or members of the senior management of the Company is related to any other Directors, Supervisors and members of the senior management;

(iii) save as disclosed in the section headed "Statutory and General Information," none of the Directors, Supervisors or members of the senior management holds any interest in the Shares which would be required to be disclosed pursuant to Part XV of the Securities and Futures Ordinance; and

(iv) there is no additional matter with respect to the appointment of the Directors or Supervisors that needs to be brought to the attention of the Shareholders, and there is no additional information relating to the Directors or Supervisors that is required to be disclosed pursuant to Rule 13.51(2) of the Hong Kong Listing Rules.

JOINT COMPANY SECRETARIES

Ms. Han Linyou (韓林攸) is one of our joint company secretaries. For the biographical details of Ms. Han Linyou, see "– Senior Management".

Ms. Mak Po Man Cherie (麥寶文) will be a joint company secretary of the Company with effect from the Listing Date. Ms. Mak Po Man Cherie is the vice president of SWCS Corporate Services Group (Hong Kong) Limited. She has worked for various professional firms and listed companies in Hong Kong, with over 15 years of experience in the fields of auditing, accounting, corporate finance, compliance and company secretarial. Ms. Mak has been the vice president of SWCS Corporate Services Group (Hong Kong) Limited since October 2019 and was the assistant vice president from August 2018 to September 2019. Ms. Mak also served as a company secretary of Cosmos Machinery Enterprises Limited (a company listed on the Hong Kong Stock Exchange, stock code: 0118) from June 2014 to March 2018. Ms. Mak obtained a master of corporate governance degree from the Hong Kong Polytechnic University in 2017. She has been admitted as an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom in 2017, a member of the Hong Kong Institute of Certified Public Accountants in 2003, and a fellow member of the Association of Chartered Certified Accountants in 2006.

BOARD COMMITTEES

The Company has established three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee.

Audit Committee

The Audit Committee consists of three Directors, namely Mr. Stanley Yi Chang, Mr. Yang, Lei Bob and Mr. Zhong Shu Zi with Mr. Stanley Yi Chang currently serving as the chairman. Mr. Stanley Yi Chang has the appropriate professional qualification and experiences as required under Rules 3.10(2) and 3.21 of the Listing Rules. The Audit Committee is mainly responsible for reviewing and overseeing the financial reporting procedure and internal control system of the Group.

Remuneration Committee

The Remuneration Committee consists of three Directors, namely Mr. Lu Yuan, Mr. Zhong Shanshan and Mr. Yang, Lei Bob, with Mr. Lu Yuan currently serving as the chairman. The Remuneration Committee is mainly responsible for evaluating the remuneration polices for Directors and senior management of the Group and making recommendations thereon to the Board.

Nomination Committee

The Nomination Committee consists of three Directors, namely Mr. Zhong Shanshan, Mr. Lu Yuan and Mr. Stanley Yi Chang, with Mr. Zhong Shanshan currently serving as the chairman. The Nomination Committee is mainly responsible for identifying, screening and recommending to the Board qualified candidates to serve as the Directors and monitoring the procedures for evaluating the performance of the Board.

DIVERSITY

We have adopted the board diversity policy which sets out the objective and approach for achieving and maintaining diversity of the Board in order to enhance its effectiveness. In accordance with the board diversity policy, the Company seeks to achieve board diversity by taking into account a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and/or length of service.

Upon the Listing, the Nomination Committee will from time to time (i) discuss and agree on expected goals to ensure board diversity, and (ii) review and, where necessary, update the board diversity policy to ensure that the policy remains effective. The Company will (i) disclose the biographical details of each Director and (ii) report on the implementation of the board diversity policy (including whether we have achieved board diversity) in its annual corporate governance report.

In particular, although we currently have one female Director, going forward, we will continue to work to enhance gender diversity of the Board. The Nomination Committee will use its best endeavors and on suitable basis to, within five years after the Listing, identify and recommend at least one female candidate to our Board for its consideration on appointment of a Director, with the goal to have one or two female Director(s) at all times.

REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The Directors, Supervisors and senior management members who receive remuneration from the Company are paid in forms of salaries, allowances, discretionary bonuses and other benefits in kind. The remuneration of the Directors, Supervisors and senior management members is determined with reference to the remuneration paid by relevant companies in the PRC consumer goods industry and the achievement of major operating indicators of the Company.

The aggregate amount of remuneration (including salaries, allowances, contribution to pension schemes and discretionary bonuses) and other benefits in kind paid to the Directors for each of the years ended December 31, 2017, 2018, 2019 and the five months ended May 31, 2020 amounted to RMB1.200 million, RMB2.160 million, RMB55.858 million (including equity-settled share award) and RMB5.665 million, respectively. The aggregate amount of remuneration (including salaries, allowances and discretionary bonuses) and other benefits in kind paid to the five highest paid individuals (including the Directors) for each of the years ended December 31, 2017, 2018, 2019 and the five months ended May 31, 2020 amounted to RMB9.088 million, RMB9.671 million, RMB97.074 million (including equity-settled share award) and RMB5.405 million, respectively.

Under the arrangement currently in force, the Company estimates that the aggregate fixed remuneration (before tax) payable to the Directors and Supervisors for the year ended December 31, 2020 is approximately RMB9.460 million.

During the Track Record Period, no fees were paid by the Company to any of the Directors (or former Directors) or the five highest paid individuals as an inducement to join the Company or as compensation for loss of office. None of the Directors or Supervisors waived their remuneration during the Track Record Period.

COMPLIANCE ADVISER

The Company has appointed Somerley Capital Limited as our compliance adviser in compliance with Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules. The material terms of the compliance adviser's agreement are as follows:

(i) Somerley Capital Limited shall act as our compliance adviser for the purpose of Rules 3A.19 and 19A.05 of the Hong Kong Listing Rules for a period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Hong Kong Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier;

(ii) the compliance adviser will provide us with certain services, including proper guidance and advice as to compliance with the requirements under the Hong Kong Listing Rules and applicable laws, regulations and rules;

(iii) the compliance adviser will, as soon as reasonably practicable, inform us of any amendment or supplement to the Hong Kong Listing Rules announced by the Hong Kong Stock Exchange from time to time, and of any amendment or supplement to the applicable laws, regulations and rules in Hong Kong applicable to the Company; and

(iv) the compliance adviser will act as one of the key channels of communication of the Company with the Hong Kong Stock Exchange.

CODE PROVISION A.2.1 OF THE CORPORATE GOVERNANCE CODE

Mr. Zhong Shanshan is the Chairman of the Board and General Manager of the Company. As our founder, Mr. Zhong Shanshan has extensive experience in the drinking water and soft beverage industry and is responsible for the overall management of our business strategies and operations. We believe that Mr. Zhong has been mainstay to our growth and business expansion since our establishment in 1996. The Board is of the view that vesting both roles of Chairman and General Manager in Mr. Zhong Shanshan is beneficial to the management of the Company. We believe that the balance of power and authority is ensured by the operation of the senior management and the Board which comprises experienced and high-caliber individuals. The Board currently consists of five executive Directors (including Mr. Zhong Shanshan), one non-executive Director and three independent non-executive Directors, therefore we consider that the Board has a fairly strong independence element in its composition.

Save as disclosed above, we have complied with all the code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules.

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements with cornerstone investors (the "**Cornerstone Investors**", and each a "**Cornerstone Investor**"), pursuant to which the Cornerstone Investors have agreed to subscribe, or cause their designated entities to subscribe, at the Offer Price for certain number of our Offer Shares (the "**Cornerstone Placing**").

The Cornerstone Investors are very reputable and renowned PRC and global investors who are well-known by PRC and international institutional and professional investors. In fact, almost all of them have participated in other listings in Hong Kong as cornerstone investors or invested directly or indirectly in listed companies on the Hong Kong Stock Exchange. In addition, considering the potential size of the Global Offering, it is also common for other offerings of similar size to introduce cornerstone investors. Therefore, the Company is of the view that selecting the Cornerstone Investors would also enhance the Company's profile within PRC and international institutional and professional investors. As a result, the Company's Global Offering could be further facilitated to an even more successful listing on the Hong Kong Stock Exchange. The Company is also of the view that given the Cornerstone Investors are renowned PRC and global investors, they would form part of a very institutional and market-driven shareholder base for the Company upon completion of the Global Offering which would be beneficial to the Company.

Based on the Offer Price of HK$21.50 per Offer Share, being the high-end of the range of the Offer Price set out in this prospectus, the total investment amount by all the Cornerstone Investors will be US$320 million and the number of H Shares to be subscribed for by the Cornerstone Investors would be 115,354,400, representing, assuming that the Over-allotment Option is not exercised, approximately (i) 2.3180% of the H Shares in issue upon completion of the Global Offering; and (ii) 1.0310% of the Shares in issue upon completion of the Global Offering.

In the event that the final Offer Price is less than the maximum Offer Price as disclosed in this Prospectus, the investment amount by each of the Cornerstone Investors will be scaled down on a pro rata basis such that the total number of H Shares to be subscribed for by all the Cornerstone Investors would remain approximately 30% of the H Shares under the Global Offering (assuming that the Over-allotment Option is not exercised). Therefore, based on the Offer Price of HK$19.50 per Offer Share, being the low-end of the range of the Offer Price set out in this prospectus, the total investment amount by all the Cornerstone Investors will be scaled down to US$290 million, and based on the Offer Price of HK$20.50 per Offer Share, being the mid-point of the range of the Offer Price set out in this prospectus, the total investment amount by all the Cornerstone Investors will be scaled down to US$305 million, while the total number of H Shares to be subscribed for by the Cornerstone Investors will remain unchanged as 115,354,400, representing, assuming that the Over-allotment Option is not exercised, approximately (i) 2.3180% of the H Shares in issue upon completion of the Global Offering; and (ii) 1.0310% of the Shares in issue upon completion of the Global Offering.

To the best knowledge of the Company, each of the Cornerstone Investors is independent of other Cornerstone Investors, independent of the Company, its connected persons and their respective close associates, and not an existing shareholder or close associates of the Company. All Cornerstone Investors were recommended and introduced to the Company by the Joint Global Coordinators. The Company did not have any relationship with any of the Cornerstone Investors prior to the introduction made by the Joint Global Coordinators.

There are no side agreements/arrangement between our Company and the Cornerstone Investors or any benefit, direct or indirect, conferred on the Cornerstone Investors by virtue of or in relation to the Cornerstone Placing, other than a guaranteed allocation of the relevant Offer Shares at the Offer Price. None of the Cornerstone Investors are accustomed to take instructions from the Company, the Directors, the chief executive of the Company, the Controlling Shareholders or the existing Shareholders or any of its subsidiaries or their respective close associates, in relation to the acquisition, disposal, voting or other disposition of securities of the Company registered in their name or otherwise held by them; and none of the subscription of the Offer Shares by the Cornerstone Investors is financed by the Company, the Directors, the chief executive of the Company, the Controlling Shareholders, or the existing Shareholders or any of its subsidiaries or their respective close associates. The H Shares to be held by the Cornerstone Investors will count towards the public float of the Company.

The Cornerstone Investors (a) will not have any representation on the Board immediately following the completion of the Global Offering; (b) will not subscribe for any Offer Shares pursuant to the Global Offering, other than pursuant to the relevant cornerstone investment agreements; and (c) do not have any preferential rights compared with other public Shareholders in their respective cornerstone investment agreements.

If there is over-allocation in the International Offering, there may be delayed delivery of the Offer Shares to be subscribed by the Cornerstone Investors under the Cornerstone Placing. If there is delayed delivery, the Cornerstone Investors have agreed that they shall nevertheless pay for the relevant Offer Shares on the Listing Date, therefore there will be no deferred settlement. There will be no deferred settlement if there is no over-allocation in the International Offering. The Offer Shares to be subscribed by the Cornerstone Investors may be affected by reallocation in the event of over-subscription under the Hong Kong Public Offering, as described in “Structure of the Global Offering – The Hong Kong Public Offering – Reallocation and Clawback”.

The investment amounts of and the final numbers of H Shares to be subscribed by the Cornerstone Investors will be determined based on the exchange rate set out under “Information about this Prospectus and the Global Offering — Currency Translations” according to the relevant cornerstone investment agreements. Details of the allocations to the Cornerstone Investors will be disclosed in the announcement of the allotment results of the Company to be published on or around Monday, September 7, 2020.

CORNERSTONE INVESTORS

Please see below the identities of our Cornerstone Investors, their respective investment amounts and the numbers of H Shares to be subscribed by each of them.

	Based on the Offer Price of HK$21.50 per Offer Share, being the high-end of the range of the Offer Price set out in this prospectus		Based on the Offer Price of HK$20.50 per Offer Share, being the mid-point of the range of the Offer Price set out in this prospectus		Based on the Offer Price of HK$19.50 per Offer Share, being the low-end of the range of the Offer Price set out in this prospectus	
Cornerstone Investor (each as defined below)	**Investment Amount (in US$ million)**	**Hong Kong Dollar Equivalent (in million)**	**Investment Amount (in US$ million)**	**Hong Kong Dollar Equivalent (in million)**	**Investment Amount (in US$ million)**	**Hong Kong Dollar Equivalent (in million)**
Fidelity International	100	775	95	739	91	703
Coatue	80	620	76	591	73	562
GIC	70	543	67	517	63	492
China Structural Reform Fund and CCT-CITIC Agriculture Fund	42 and 8	326 and 62	40 and 8	310 and 59	38 and 7	295 and 56
ORIX Asia Consumer Trend Investment	20	155	19	148	18	141
Total	320	2,480	305	2,365	290	2,249

		Approximate percentage of the Shares in issue immediately following the completion of the Global Offering		Approximate percentage of the H Shares in issue immediately following the completion of the Global Offering		Approximate percentage of the H Shares to be offered in the International Offering (assuming no relocation)	
Cornerstone Investor (each as defined below)	**Number of H Shares to be Subscribed**	**Assuming that the Over-allotment Option is not exercised**	**Assuming that the Over-Allotment Option is fully exercised**	**Assuming that the Over-allotment Option is not exercised**	**Assuming that the Over-allotment Option is fully exercised**	**Assuming that the Over-allotment Option is not exercised**	**Assuming that the Over-allotment Option is fully exercised**
Fidelity International	36,048,400	0.3222%	0.3205%	0.7244%	0.7160%	9.9842%	8.5975%
Coatue	28,838,600	0.2578%	0.2564%	0.5795%	0.5728%	7.9873%	6.8780%
GIC	25,233,800	0.2255%	0.2244%	0.5071%	0.5012%	6.9889%	6.0182%
China Structural Reform Fund and CCT-CITIC Agriculture Fund	15,140,200 and 2,883,800	0.1353% and 0.0258%	0.1346% and 0.0256%	0.3042% and 0.0579%	0.3007% and 0.0573%	4.1933% and 0.7987%	3.6109% and 0.6878%
ORIX Asia Consumer Trend Investment	7,209,600	0.0644%	0.0641%	0.1449%	0.1432%	1.9968%	1.7195%

We set out below a brief description of our Cornerstone Investors.

Fidelity International

FIL Investment Management (Hong Kong) Limited agreed to subscribe for such number of the Offer Shares (rounded down to the nearest whole board lot of 200 Shares) at the Offer Price which may be purchased with an amount of US$100 million based on the high end of the Offer Price range set out in this prospectus, in the capacity as the professional fiduciary and agent for the following entities: Fidelity China Special Situations PLC, Fidelity Japan Asia Growth Mother Fund, sub-funds of Fidelity Funds: China Consumer Fund, Emerging Markets, Pacific Funds, Greater China Fund, Greater China II Fund, Emerging Markets 2, Asia Pacific Dividend, Multi Asset Asia Defensive Equities Pool and Institutional Hong Kong Equity Fund, sub-funds of Fidelity Global Investment Fund: Hong Kong Equity Fund and Asia Pacific Equity Fund, sub-funds of Fidelity Institutional Funds: Emerging Markets and South East Asia Fund, a sub-fund of Fidelity Investment Funds: Fidelity China Consumer Fund, a sub-fund of Fidelity Active Strategy: Emerging Markets Fund and certain other third-party funds and accounts all of which are advised or sub-advised by FIL Investment Management (Hong Kong) Limited and its related group of companies collectively known as Fidelity International.

Coatue PE Asia 37 LLC ("Coatue")

Coatue has, in its capacity as an investor, agreed to subscribe for such number of the Offer Shares (rounded down to the nearest whole board lot of 200 Shares) at the Offer Price which may be purchased with an amount of US$80 million based on the high end of the Offer Price range set out in this prospectus.

Coatue is a U.S.-based special purpose investment vehicle managed by Coatue Management, L.L.C. as the investment manager. The investors of Coatue are one or more discretionary investment funds managed by Coatue Management, L.L.C. As of December 31, 2019, Coatue Management, L.L.C. managed approximately US$19.2 billion of net assets for its clients on a discretionary basis. The sole owner of Coatue Management, L.L.C. is Coatue Management Partners L.P., for which Coatue Management Partners GP L.L.C. serves as general partner. Mr. Philippe Laffont serves as managing member of Coatue Management Partners GP L.L.C.

GIC Private Limited ("GIC")

GIC has, in its capacity as an investor, agreed to subscribe for such number of the Offer Shares (rounded down to the nearest whole board lot of 200 Shares) at the Offer Price which may be purchased with an amount of US$70 million based on the high end of the Offer Price range set out in this prospectus.

GIC is a global investment management company established in 1981 to manage Singapore's foreign reserves. GIC invests internationally in equities, fixed income, foreign exchange, commodities, money markets, alternative investments, real estate and private equity. With its current portfolio size of more than USD100 billion, GIC is amongst the world's largest fund management companies.

China Structural Reform Fund Corporation Limited (中國國有企業結構調整基金股份有限公司) ("China Structural Reform Fund") and CCT-CITIC Agriculture Fund (LP) (誠通中信農業結構調整投資基金(有限合夥)) ("CCT-CITIC Agriculture Fund")

China Structural Reform Fund and CCT-CITIC Agriculture Fund, have, in their respective capacity as an investor, severally and jointly agreed to subscribe for such number of the Offer Shares (rounded down to the nearest whole board lot of 200 Shares) at the Offer Price which may be purchased with an amount of US$42 million and US$8 million (US$50 million in aggregate) based on the high end of the Offer Price range set out in this prospectus, respectively. Subject to the PRC laws and regulations, China Structural Reform Fund and CCT-CITIC Agriculture Fund may subscribe for the H Shares directly or through one or more qualified domestic institutional investor(s).

China Structural Reform Fund is a company incorporated in the PRC ultimately controlled by the State-owned Assets Supervision and Administration Commission of the State Council indirectly. It is mainly engaged in businesses including private funds, equity investment, project investment, capital management, investment consulting and enterprise management consulting.

CCT-CITIC Agriculture Fund is a partnership enterprise incorporated in the PRC. Its principal business includes private equity investment management and related consulting services, industrial investment, investment management and investment consulting in the field of agriculture technology and food & beverage.

CITIC Agriculture Fund Management Co., Ltd. (中信農業產業基金管理有限公司) is the general partner of CCT-CITIC Agriculture Fund. China Structural Reform Fund is a limited partner of CCT-CITIC Agriculture Fund with 34.9% interest, and interested in 10.0% in CITIC Agriculture Fund Management Co., Ltd. CITIC Limited (a company listed on the Hong Kong Stock Exchange, stock code: 00267) is the ultimate beneficiary of 37.2% interest in CCT-CITIC Agriculture Fund.

ORIX Asia Consumer Trend Investment Limited ("ORIX Asia Consumer Trend Investment")

ORIX Asia Consumer Trend Investment has, in its capacity as an investor, agreed to subscribe for such number of the Offer Shares (rounded down to the nearest whole board lot of 200 Shares) at the Offer Price which may be purchased with an amount of US$20 million based on the high end of the Offer Price range set out in this prospectus. ORIX Asia Capital Limited ("**ORIX Asia Capital**") has agreed to be the guarantor of ORIX Asia Consumer Trend Investment in relation to its subscription of the Offer Shares.

ORIX Asia Consumer Trend Investment is an exempted company formed under the laws of the Cayman Islands. It is a special purpose vehicle 100% owned by ORIX Asia Capital, a wholly-owned subsidiary of ORIX Corporation ("**ORIX**") and the investment platform for ORIX in the Greater China region. Built on ORIX's reputation, experiences, resources and network, ORIX Asia Capital has invested in many leading companies from various sectors including renewable energy, infrastructure, healthcare, consumer, and Fintech etc. ORIX Asia Capital has been considered a strategic partner with strong commitment to the long-term development of the portfolio companies.

ORIX (a company listed on the Tokyo Stock Exchange (stock code: 8591), and the New York Stock Exchange (ticker symbol: IX)), headquartered in Tokyo, is a financial services group which provides innovative products and services to its customers by constantly pursuing new businesses. Established in 1964 in Japan, from its start in the leasing business, ORIX has advanced into neighboring fields and at present has expanded into lending, investment, life insurance, banking, asset management, automobile related, real estate and environment and energy related businesses. Since its first oversea expansion in 1971, ORIX has spread its businesses globally by establishing locations in 37 countries and regions across the world. Deeply rooted in Japan, ORIX has successfully cultivated its corporate networks, the expertise in finance, and business operations in Japan and overseas.

To the best of the knowledge, information and belief of the Company and after making reasonably enquiries, (i) Fidelity International and Coatue will use the existing funds managed by them, respectively, as their sources of funding; (ii) GIC will use the reserve of Singapore government as its source of funding; and (iii) China Structural Reform Fund, CCT-CITIC Agriculture Fund and ORIX Asia Consumer Trend Investment will use internal resources as their sources of funding.

CONDITIONS PRECEDENT

The subscription of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

(i) the underwriting agreements for the Hong Kong Public Offering and the International Offering being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) by no later than the time and date as specified in these underwriting agreements, and neither of the aforesaid underwriting agreements having been terminated;

(ii) the Offer Price having been agreed upon between the Company and the Joint Global Coordinators (on behalf of the underwriters of the Global Offering);

(iii) the Listing Committee having granted the listing of, and permission to deal in, the H Shares (including the H Shares to be subscribed by the Cornerstone Investors as well as other applicable waivers and approvals) and such approval, permission or waiver having not been revoked prior to the commencement of dealings in the H Shares on the Hong Kong Stock Exchange;

(iv) no Laws shall have been enacted or promulgated by any governmental authority which prohibits the consummation of the transactions contemplated in the Global Offering or herein and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions; and

(v) the respective representations, warranties, undertakings and confirmations of the Cornerstone Investors under the relevant cornerstone investment agreements are accurate and true in all (material) respects and not misleading and that there is no material breach of the relevant cornerstone investment agreements on the part of the Cornerstone Investors.

RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed, covenanted with and undertaken to the Company, the Joint Global Coordinators and/or the Joint Sponsors that, among other things, without the prior written consent of each of the Company, the Joint Global Coordinators and/or the Joint Sponsors, the Cornerstone Investor will not, whether directly or indirectly, at any time during the period of six (6) months from the Listing Date (the "**Lock-up Period**"), directly or indirectly, dispose of, in any way, any H Shares to be subscribed by the Cornerstone Investors pursuant to the respective cornerstone investment agreement (the "**Relevant Shares**") or any interest in any company or entity holding any Relevant Shares; or enter into any transactions directly or indirectly with the same economic effect as any aforesaid transaction.

Cornerstone Investors (or certain of them) may transfer or enter into specific transactions in relation to the H Shares so subscribed for in certain limited circumstances as permitted in the relevant cornerstone investment agreement, such as transfer to a wholly-owned subsidiary or an affiliate of such Cornerstone Investor, provided that prior to such transfer, such wholly-owned subsidiary or affiliate undertakes, and such Cornerstone Investor undertakes to procure, that such wholly-owned subsidiary or affiliate agrees to be bound by such Cornerstone Investor's obligations under the relevant cornerstone investment agreement and subject to the restrictions on disposals imposed on the Cornerstone Investor.

FUTURE PLANS

See "Business – Development Strategies" for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK$7,768 million, after deducting underwriting commissions, fees and estimated expenses payable by us in connection with the Global Offering, assuming an Offer Price of HK$20.50 per H Share, being the mid-point of the indicative Offer Price range stated in this prospectus, and assuming no exercise of the Over-allotment Option.

We currently intend to apply these net proceeds for the following purposes:

- approximately 25%, or HK$1,942 million, will be used for brand building. High-quality products are the foundation for the success of our brands. We will increase our efforts on the development of products based on natural ingredients such as fruits, tea, natural plants, coffee and vegetable protein, as well as the research and development on functional beverage products that have health benefits. Consumers need time to get used to new brands and, particularly, new product category. We will increase our efforts on marketing and promotion for launched products as well as the products to be launched in the future. We will strive to enhance consumers' recognition of our brands and products through continuously creating high-quality marketing content. In particular:

  (i) approximately 12.5%, or HK$971 million, will be used for the promotion of products launched within the past three years and products to be launched in the future through various means primarily including variety show title sponsorship, social media marketing and celebrity endorsements; and

  (ii) approximately 12.5%, or HK$971 million, will be used for the promotion of our classic products through various means primarily including advertisement placing, product placement in films or television programmes, sports event sponsorship, cross-industry cooperation and promotional gifts;

- approximately 25%, or HK$1,942 million, will be used for purchasing equipment such as refrigerators, warm cabinets and smart retail equipment to expand our sales capabilities, including:

  (i) approximately 18.5%, or HK$1,437 million, will be used for purchasing refrigerators and warm cabinets. In summer, consumers prefer cold drinks, and in winter, consumers prefer warm drinks. Placing refrigerators and warm cabinets in retail points of sale will help us increase sales in summer and winter, respectively. We will replace certain existing refrigerators with new ones and increase the number of refrigerators in selected retail points of sale. We will start to place some warm cabinets in our retail points of sale to help our sales of beverage products in winter; and

(ii) approximately 6.5%, or HK$505 million, will be used for purchasing smart retail equipment. Many of our products are ready-to-drink products. Increasing the number of smart retail equipment will allow consumers to get to our products more easily when they have instant drinking needs;

- approximately 20%, or HK$1,553 million, will be used for increasing our production capacity at our existing production facilities and building new production facilities. Although the utilization rate of our packaged drinking water production lines and beverage production lines in 2019 were 51% and 52%, respectively, the utilization rates of the production lines for certain products in some production bases exceeded 80% during the production peak season. Our planned increase in production capacity includes the following:

(i) approximately 16%, or HK$1,242 million, will be used for building new production lines for the existing plants of our production bases including (a) the planned addition of natural drinking water production line and beverage production line in our production base in Thousand-island Lake, Zhejiang Province (浙江千島湖), as the utilization rate of the natural drinking water production lines and beverage production lines at our production base in Thousand-island Lake, Zhejiang Province (浙江千島湖) in the peak production month in 2019 reached 89% and 87%, respectively; (b) the planned addition of natural drinking water production lines in our production base in Wanlv Lake, Guangdong Province (廣東萬綠湖), as the utilization rate of the natural drinking water production lines at our production base in Wanlv Lake, Guangdong Province (廣東萬綠湖) in the peak production month in 2019 reached 86%; (c) the planned addition of medium- to large-sized packaged natural drinking water production lines at our production base in Mount Changbai, Jilin Province (吉林長白山), as the utilization rate of the 5L packaged natural drinking water production lines at our production base in Mount Changbai, Jilin Province (吉林長白山) in the peak production month in 2019 reached 80%; and (d) the planned construction of aseptic beverage production lines at our production base in Mount Taibai, Shaanxi Province (陝西太白山) for solving the issue of no production capacity for aseptic beverage production in that area. These constructions are expected to be completed in 2022; and

(ii) approximately 4%, or HK$311 million, will be used for building new plants and production lines for our production base at Mount Changbai, Jilin Province (吉林長白山), including medium- to large-sized packaged drinking water production lines and ancillary equipments, which are expected to be completed in 2023;

- approximately 10%, or HK$777 million, will be used for strengthening our fundamental capabilities in business operations, including:

(i) approximately 4%, or HK$311 million, will be used for developing information technology systems, we plan to improve our middle platform system development to integrate the sales data from different dimensions for better big data analysis. We also plan to incorporate the best practices of our sales management into our information technology system, so we can respond to the changes in the market trends faster and improve our operational efficiency. In particular, we plan to use our data base and big data platform in areas such as performing sales volume analysis, conducting assessment and implementing incentives for our sales personnel, and monitoring the efficiency of our sales channels;

(ii) approximately 4%, or HK$311 million, will be used for developing research and development capability, we plan to (a) strengthening our abilities in basic research, applied research and product innovation in areas such as aseptic technology, fermentation technology and sensory optimization, and (b) strengthening cooperation with domestic and overseas universities and institutions to conduct research on product ingredients and food processing techniques, and theoretical research on the nutritional and health benefits of drinking water; and

(iii) approximately 2%, or HK$155 million, will be used for human resources, we plan to provide better trainings and empowerment for our employees at all levels. Our headquarters, sales regions, and production plants will formulate and implement the recruitment and training plan of management trainees annually to select high-quality college students and supplement the source of high-potential talents. We will implement the various development and promotion pathways that we formulated for our employees. In addition, we will also implement the training programs that we formulated to expand our talent reserve for key positions and improve the leadership skills of our managers;

- approximately 10%, or HK$777 million, will be used for repaying bank loans of RMB2,113 million which were unguaranteed and unsecured with effective annualized interest rates ranging from 2.05% to 3.95%. RMB310 million will become due in 2020 and RMB1,803 million will become due in 2021. Such bank loans were used for working capital purposes; and

- approximately 10%, or HK$777 million, will be used for working capital and other general corporate purposes.

If the net proceeds from the Global Offering exceed the above funding requirements and, to the extent permitted by applicable laws and regulations, we will use the surplus funds for working capital. If we urgently need the funds for the above purposes, but cannot immediately obtain the net proceeds from the Global Offering, we will use self-raised funds to meet the relevant funding requirements and replace these self-raised funds with the net proceeds from the Global Offering when the proceeds become available to us. If the net proceeds of the Global Offering are not immediately applied to the above purposes, we will deposit those net proceeds into interest-bearing bank accounts only.

If the Offer Price is set at HK$21.50 per H Share, being the high end of the indicative Offer Price range, the net proceeds from the Global Offering will increase to approximately HK$8,149 million. If the Offer Price is set at HK$19.50 per H Share, being the low end of the indicative Offer Price range, the net proceeds from the Global Offering will decrease to approximately HK$7,388 million. The above allocation of the net proceeds from the Global Offering will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the indicative Offer Price range stated in this prospectus.

If the Over-allotment Option is exercised in full, the net proceeds that we will receive will be approximately HK$8,938 million, assuming an Offer Price of HK$20.50 per H Share (being the mid-point of the indicative Offer Price range). In the event that the Over-allotment Option is exercised, we intend to apply the additional net proceeds to the above purposes in the proportions stated above.

If any part of our development plan does not proceed as planned for reasons such as changes in government policies that would hinder the development of any of our projects, or the occurrence of force majeure events, the Directors will carefully evaluate the situation and may reallocate the net proceeds from the Global Offering.

We will issue an appropriate announcement if there is any material change to the above proposed use of proceeds.

In preparation of the Global Offering, the Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules provides that a new applicant for listing on the Hong Kong Stock Exchange must have a sufficient management presence in Hong Kong and, under normal circumstances, at least two of the new applicant's executive directors must be ordinarily resident in Hong Kong. Rule 19A.15 of the Listing Rules further provides that the requirement in Rule 8.12 may be waived by having regard to, among other considerations, the applicant's arrangements for maintaining regular communication with the Hong Kong Stock Exchange.

The Company's business operations are mostly located in the PRC and most of the Company's assets are located in the PRC. The Company's executive Directors are based in the PRC as the Board believes it would be more effective and efficient for its executive Directors to be based in a location where the Company's operations are located. Therefore, no executive Directors will, in the foreseeable future, be ordinarily resident in Hong Kong.

Accordingly, pursuant to Rule 19A.15 of the Hong Kong Listing Rules, the Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted the Company, a waiver from strict compliance with the requirements under Rule 8.12 of the Hong Kong Listing Rules, provided that the Company implements the following arrangements:

(i) the Company has appointed Ms. Han Linyou, one of the joint company secretaries of the Company and Ms. Zhou Zhenhua, an executive Director, as the authorized representatives of the Company (the "**Authorized Representatives**") for the purpose of Rule 3.05 of the Listing Rules. The Authorized Representatives will serve as the Company's principal channel of communication with the Hong Kong Stock Exchange. They can be readily contactable by phone, fax and email to deal promptly with enquiries from the Hong Kong Stock Exchange and will also be available to meet with the Hong Kong Stock Exchange to discuss any matters on short notice. The contact details of our authorized representatives have been provided to the Hong Kong Stock Exchange.

(ii) all the Directors who are not ordinarily resident in Hong Kong possess or can apply for valid travel documents to visit Hong Kong and can meet with the Hong Kong Stock Exchange within a reasonable period. In addition, each Director has provided his/her contact details, including office phone numbers (if any), mobile phone numbers and email addresses, as well as fax numbers (if any), to the authorized representatives and to the Hong Kong Stock Exchange. The Directors have also provided the contact information of their emergency contacts to the Authorized Representatives, so that each of the Authorized Representatives would be able contact all the Directors (including the independent non-executive Directors) promptly at all times if and when the Hong Kong Stock Exchange wishes to contact the Directors.

(iii) the Company has appointed Somerley Capital Limited as its compliance adviser for the period commencing on the Listing Date and ending on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of the Company's financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier. The Company's compliance adviser will act as the Company's additional and alternative channel of communication with the Hong Kong Stock Exchange, and its representatives will be readily available to answer enquiries from the Hong Kong Stock Exchange.

CONTINUING CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Hong Kong Listing Rules, a new applicant must, after listing, comply with the announcement, circular and shareholders' approval requirements (as applicable) for continuing connected transactions entered into by the new applicant or its subsidiaries.

The Company has conducted, and is expected to continue after the Listing Date, certain connected transactions with Yangshengtang and/or its associates, which will constitute continuing connected transactions of the Company under the Hong Kong Listing Rules upon the Listing.

Accordingly, pursuant to Rule 14A.105 of the Hong Kong Listing Rules, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with certain requirements under Chapter 14A of the Hong Kong Listing Rules. See "Connected Transactions."

JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, the Company must appoint a company secretary who possesses the necessary academic or professional qualifications or relevant experience and is therefore capable to discharge the functions of the company secretary.

Note 1 to Rule 3.28 of the Listing Rules provides that the Hong Kong Stock Exchange considers the following academic or professional qualifications to be acceptable:

(i) a member of The Hong Kong Institute of Chartered Secretaries;

(ii) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and

(iii) a certified public accountant (as defined in the Professional Accountants Ordinance).

In addition, Note 2 to Rule 3.28 of the Listing Rules provides that in assessing "relevant experience", the Hong Kong Stock Exchange will consider the individual's:

(i) length of employment with the issuer and other issuers and the roles he played;

(ii) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance, and the Takeovers Code;

(iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and

(iv) professional qualifications in other jurisdictions.

The Company has appointed Ms. Han Linyou and Ms. Mak Po Man Cherie, as the joint company secretaries of the Company to jointly discharge the duties and responsibilities of company secretary of the Company with reference to their work experience and qualifications. Ms. Han is currently the secretary to the Board. For further biographical details of Ms. Han, see "Directors, Supervisors and Senior Management – Senior Management – Han Linyou". Although Ms. Han does not possess the qualifications set out in Rule 3.28 of the Listing Rules, the Company has appointed her as one of the joint company secretaries of the Company due to her extensive experience in corporate governance matters, information disclosure, investor relationship and corporate secretarial affairs. Ms. Mak Po Man Cherie has been appointed as the other joint company secretary of the Company with effect from the Listing Date to assist Ms. Han in discharging the duties of a company secretary of the Company. Ms. Mak is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom and is therefore qualified under Rule 3.28 of the Listing Rules to act as a joint company secretary of the Company. For further biographical details of Ms. Mak, see "Directors, Supervisors and Senior Management – Joint Company Secretaries".

The following arrangements have been, or will be, put in place to assist Ms. Han in acquiring the qualifications and experience required under Rule 3.28 of the Listing Rules:

(i) In preparation of the application of the Listing, Ms. Han has attended training on the respective obligations of the Directors, supervisors, senior managements and the Company under the relevant Hong Kong laws and the Listing Rules organised by the Hong Kong legal advisors to the Company.

(ii) Ms. Mak will work closely with Ms. Han to jointly discharge the duties and responsibilities as the joint company secretaries of the Company and to assist Ms. Han to acquire the relevant experience as required under the Listing Rules for an initial period of three years from the Listing Date, a period which should be sufficient for Ms. Han to acquire the relevant experience as required under the Listing Rules.

(iii) The Company will ensure that Ms. Han continues to have access to the relevant training and support in relation to the Listing Rules and the duties required for a company secretary of an issuer listed on the Hong Kong Stock Exchange. Furthermore, both Ms. Han and Ms. Mak will seek advice from the Company's Hong Kong legal and other professional advisers as and when required. Ms. Han also undertakes to take no less than 15 hours of relevant professional training in each financial year of the Company.

(iv) At the end of the three-year period, the qualifications and experience of Ms. Han and the need for on-going assistance of Ms. Mak will be further evaluated by the Company. The Company will then endeavour to demonstrate to the Hong Kong Stock Exchange's satisfaction that Ms. Han, having had the benefit of the assistance of Ms. Mak for the immediately preceding three years, has acquired the relevant experience (within the meaning of Note 2 to Rule 3.28 of the Listing Rules) such that a further waiver from Rules 3.28 and 8.17 of the Listing Rules will not be necessary. The Company understands that the Hong Kong Stock Exchange may revoke the waiver if Ms. Mak ceases to provide assistance to Ms. Han during the three-year period.

The Company has applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted the Company, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules. Upon the expiry of the initial three-year period, the qualifications of Ms. Han will be re-evaluated to determine whether the requirements as stipulated in Note 2 to Rule 3.28 of the Listing Rules can be satisfied.

PUBLIC FLOAT

Rule 8.08(1)(a) of the Listing Rules requires that there shall be an open market for the securities for which listing is sought, and that a sufficient public float of an issuer's listed securities shall be maintained. Generally, at least 25% of the issuer's total issued share capital must at all times be held by the public.

Based on the minimum Offer Price HK$19.50 and assuming no exercise of the Over-allotment Option, we expected that our market capitalization will be not less than HK$10 billion. We have applied to the Hong Kong Stock Exchange, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rule 8.08(1)(a) of the Hong Kong Listing Rules. Therefore, the minimum public float of the Company shall be the highest of (1) approximately 13.66% of the total issued share capital of the Company; (2) such percentage of H Shares to be held by the public immediately after the completion of the Global Offering and the exercise of the Over-allotment Option.

In order to support the application of this waiver, the Company has confirmed to the Hong Kong Stock Exchange that: (a) the Company will have an expected market capitalization at the time of Listing of far over HK$10 billion; (b) there will be an open market in the H Shares and the quantity and scale of the issued securities would enable the market to operate properly with a lower percentage of public float; (c) the Company will make appropriate disclosure of the lower percentage of public float required by the Hong Kong Stock Exchange in this prospectus; and (d) the Company will confirm sufficiency of public float in the successive annual reports of the Company after the Listing.

CLAWBACK MECHANISM

Under Paragraph 4.2 of Practice Note 18 to the Listing Rules, where an initial public offering includes both a placing tranche and a public subscription tranche, the minimum allocation of shares to the public subscription tranche shall be an initial allocation of 10% of the shares offered in the initial public offering and subject to a clawback mechanism that increases the number of shares available in the public subscription tranche depending on the demand for those shares as set out in the paragraph.

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with Paragraph 4.2 of Practice Note 18 of the Listing Rules such that, in the event of over-subscription in the Hong Kong Public Offering, the Joint Sponsors and Joint Global Coordinators will apply an alternative clawback mechanism following the closing of the application lists. For further information, please refer to the section headed "Structure of the Global Offering — The Hong Kong Public Offering — Reallocation and Clawback" in this prospectus.

INTERNATIONAL EMPLOYEE PREFERENTIAL OFFERING

China International Capital Corporation Hong Kong Securities Limited ("**CICC**") has been appointed by the Company as one of the Joint Global Coordinators and Joint Bookrunners of the Global Offering. CICC Wealth Investment Ltd ("**CICC WI**") is a member of the same group of CICC, therefore CICC WI is a connected client of CICC.

We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, its consent under paragraph 5(1) of Appendix 6 to the Listing Rules to permit CICC WI to act as a placee in the Global Offering to facilitate Eligible Employees to participate in the International Employee Preferential Offering subject to the following conditions:

1. any Employee Reserved Shares to be allocated to CICC WI will be held for, and on behalf of, Eligible Employees including employees and past employees of the Group who are not core connected persons of the Company, or existing shareholders of the Company or their close associates;

2. CICC WI has not received, and will not receive any preferential treatment in the IPO allocation as a placee by virtue of its relationship with CICC, other than the allocation to the Eligible Employees on a preferential basis under the International Employee Preferential Offering following the principles set out in Rule 10.01 of the Listing Rules;

3. each of the Joint Sponsors, the Company, the Joint Bookrunners and CICC WI has provided the Hong Kong Stock Exchange a written confirmation in accordance with Guidance Letter HKEX-GL85-16; and

4. the total number of the Employee Reserved Shares subscribed by the Eligible Employees will be disclosed in the allotment results announcement of the Company.

HONG KONG UNDERWRITERS

China International Capital Corporation Hong Kong Securities Limited
Morgan Stanley Asia Limited
Citigroup Global Markets Asia Limited
CLSA Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, the Company is offering initially 27,176,400 Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee granting listing of, and permission to deal in, our H Shares to be issued and to be converted from the Domestic Shares as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers for their respective applicable proportions of the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on and subject to the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

Grounds for Termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. If at any time prior to 8:00 a.m. on the day that trading in the H Shares commences on the Stock Exchange:

(a) there develops, occurs, exists or comes into force:

  (i) any new law or regulation or any change or development involving a prospective change in existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, Singapore, Australia, the United States, the United Kingdom, the European Union (or any member thereof) or Japan (each a "**Relevant Jurisdiction**"); or

  (ii) any change or development involving a prospective change or development, or any event or series of events likely to result in or representing a change or development, or prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions or any monetary or trading settlement system (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a change of the Hong Kong dollars or of the Renminbi against any foreign currencies) in or affecting any Relevant Jurisdiction; or

(iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, labour disputes, strikes, lock-outs, fire, explosion, earthquake, flooding, tsunami, volcanic eruption, civil commotion, riots, rebellions, public disorder, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, paralysis in government operations, accident or interruption in transportation, destruction of power plant, outbreak, of diseases or its escalation, mutation or aggravation, epidemics or pandemic including, but not limited to, SARS, swine or avian flu, H5N1, H1N1, H1N7, H7N9, Ebola virus, Middle East respiratory syndrome (MERS), COVID-19 and such related/mutated forms, economic sanction, in whatever form); or

(iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or whatever form in or directly or indirectly affecting any Relevant Jurisdiction; or

(v) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Singapore Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or

(vi) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Governmental Authority), New York (imposed at Federal or New York State level or other competent Governmental Authority), London, Singapore, the PRC, the European Union (or any member thereof), Japan or any Relevant Jurisdiction or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any Relevant Jurisdiction; or

(vii) any (A) change or prospective change in exchange controls, currency exchange rates or foreign investment regulations (including, without limitation, a change of the Hong Kong dollars or RMB against any foreign currencies, a change in the system under which the value of the Hong Kong dollars is linked to that of the United States dollars or RMB is linked to any foreign currency or currencies), or (B) any change or prospective change in Taxation in any Relevant Jurisdiction adversely affecting an investment in the H Shares; or

(viii) the issue or requirement to issue by the Company of a supplemental or amendment to the Prospectus, Application Forms, Preliminary Offering Circular or Offering Circular in connection with the offer and sale of the H Shares pursuant to the Companies Ordinance or the Listing Rules or upon any requirement or request of the Stock Exchange or the SFC; or

(ix) any change or development involving a prospective change which has the effect of materialisation of any of the risks set out in the section headed "Risk Factors" in the Prospectus; or

(x) any litigation, legal action or claim being threatened or instigated against any member of the Group or any executive Director; or

(xi) any contravention by the Company or any Director of the Companies Ordinance, the PRC Company Law or the Listing Rules; or

(xii) a governmental authority or a regulatory body or organisation in any Relevant Jurisdiction commencing any investigation or other action or proceedings, or announcing an intention to investigate or take other action or proceedings, against the Company or any Director; or

(xiii) any of the chairman or executive Director of the Company vacating his or her office, or any litigation or claim being threatened or instigated against, or a governmental authority or a regulatory body or organisation in any Relevant Jurisdiction commencing any investigation or action or other Proceedings, or announcing an intention to investigate or take other action or Proceedings against the Company or any of the chairman or executive Director of the Company, or any of them being charged with an indictable offence or prohibited by operation of Laws or otherwise disqualified from taking part in the management of a company or the commencement by any governmental, political, regulatory body of any action against any of the chairman or executive Director of the Company or any announcement by any governmental, political, regulatory body that it intends to take any such action; or

(xiv) any material adverse change or prospective material adverse change in the assets, business, management, shareholder's equity, profits, losses, properties, results of operations, position or condition (financial or trading) or prospects of any member of the Group; or

(xv) any order or petition being presented for the winding-up or liquidation of any member of the Group, or any member of the Group making any composition or arrangement with its creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager being appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or

(xvi) a prohibition on the Company for whatever reason from allotting, issuing or selling the H Shares (including the Over-allotment Option Shares) pursuant to the terms of the Global Offering; or

(xvii) the imposition of sanctions, in whatever form, directly or indirectly, by, or for, any Relevant Jurisdiction on the Company or any other member of the Group, which, in any such case individually or in the aggregate, in the sole and absolute opinion of the Joint Sponsors and the Joint Global Coordinators: (A) is or will be or is likely to be materially adverse to, or materially and prejudicially affects, the assets, liabilities, business, management, shareholder's equity, profit, losses, results of operations, position or condition (financial or trading), or prospects of the Group; or (B) has or will have or is likely to have a Material Adverse Effect (as defined in the Hong Kong Underwriting Agreement) on the success of the Global Offering or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares and/or has made or is likely to make it impracticable or inadvisable or incapable for any material part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or (C) makes or will make it or is likely to make it impracticable or inadvisable or incapable to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by the Prospectus, the Application Forms, the Formal Notice, or the Offering Circular; or (D) would have or is likely to have the effect of making a material part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(b) there has come to the notice of the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, or any of the Hong Kong Underwriters:

(i) that any statement contained in the Offering Documents (as defined in the Hong Kong Underwriting Agreement), the Operative Documents (as defined in the Hong Kong Underwriting Agreement), the Preliminary Offering Circular and/or any notices, announcements, advertisements, communications issued by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become untrue, incomplete, incorrect in any material respect or misleading or any forecasts, estimate, expressions of opinion, intention or expectation expressed in the Hong Kong Public Offering Documents (as defined in the Hong Kong Underwriting Agreement) and/or any notices, announcements, advertisements, communications so issued by or on behalf of the Company in connection with the Hong Kong Public Offering are not fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, in any material respect when taken as a whole; or

(ii) any material non-compliance of this prospectus (or any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Law; or

(iii) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in the Offering Documents, constitutes a material omission therefrom; or

(iv) either (i) there has been a breach of any of the representations, warranties, undertakings or provisions of either the Hong Kong Underwriting Agreement or the International Underwriting Agreement by the Company or the Controlling Shareholders or (ii) any of the representations, warranties and undertakings given by the Company and the Controlling Shareholders in the Hong Kong Underwriting Agreement or the International Underwriting Agreement, as applicable, is (or would when repeated be) untrue, incorrect, incomplete or misleading; or

(v) any event, act or omission which gives or is likely to give rise to any liability of any of the Company or the Controlling Shareholders pursuant to the indemnities given by the Company or the Controlling Shareholders which will have a Material Adverse Effect; or

(vi) any experts named in this prospectus (other than the Joint Sponsors) has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or

(vii) any breach of any of the obligations of the Company or the Controlling Shareholders under the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or

(viii) any breach of, or any event rendering any of the Company or the Controlling Shareholders untrue or incorrect or misleading in any material respect; or

(ix) a significant portion of the orders in the bookbuilding process at the time of the International Underwriting Agreement is entered into, or the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors, have been withdrawn, terminated or cancelled; or

(x) any person (other than the Joint Sponsors) has withdrawn or subject to withdraw its consent to being named in any of the Hong Kong Public Offering Documents or to the issue of any of the Hong Kong Public Offering Documents; or

(xi) admission is refused or not granted, other than subject to customary conditions, on or before the Listing Date, or if granted, the admission is subsequently withdrawn, cancelled, qualified (other than by customary conditions), revoked or withheld; or

(xii) the Company has withdrawn the Offering Documents (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering,

then the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunner and Hong Kong Underwriters) may, in their sole and absolute discretion and upon giving notice in writing to the Company, terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by the Company

We have undertaken to the Stock Exchange that, no further shares or securities convertible into equity securities of the Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of H shares or securities will be completed within six months from the Listing Date), except (a) pursuant to the Global Offering and the Over-allotment Option, if any, (b) pursuant to the Conversion of Domestic Shares into H Shares, or (c) under any of the circumstances provided under Rule 10.08 of the Listing Rules.

Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to the Stock Exchange and to the Company that, it/he shall not and shall procure that the relevant registered holder(s) shall not without the prior written consent of the Stock Exchange or unless in compliance with the requirements of the Listing Rules:

(i) in the period commencing on the date by reference to which disclosure of its/his shareholding in the Company is made in this prospectus and ending on the date which is six months from the Listing Date (the "**First Six-Month Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities in respect of which it/he is shown by this prospectus to be the beneficial owner(s); and

(ii) in the period of six months commencing on the date on which the First Six-Month Period expires (the "**Second Six-Month Period**"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests, or encumbrances in respect of, any of the securities referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he would cease to be a Controlling Shareholder of the Company.

Note (2) to Rule 10.07(2) of the Listing Rules provides that Rule 10.07 does not prevent a Controlling Shareholder from using the Shares beneficially owned by it/him as security (including a charge or pledge) in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan.

Pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has further undertaken to the Stock Exchange and to the Company that within the period commencing on the date by reference to which disclosure of its/his shareholding in the Company is made in this prospectus and ending on the date which is twelve months from the Listing Date, it/he shall:

(i) when it/he pledges or charges any securities of the Company beneficially owned by it/him in favor of an authorized institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform the Company of such pledge/charge together with the number of securities so pledged/charged; and

(ii) when it/he receives indications, either verbal or written, from the pledgee/chargee that any of the pledged/charged securities of the Company will be disposed of, immediately inform the Company of such indications.

We will inform the Stock Exchange as soon as we have been informed of the matters referred to in paragraph (i) and (ii) above (if any) by any of our Controlling Shareholders and subject to the then requirements of the Listing Rules disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by the Company

We have also undertaken to the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option), at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date (the "**First Six-Month Period**"), we will not, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators and unless in compliance with the requirements of the Listing Rules:

(i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, assign, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an Encumbrance (as defined in the Hong Kong Underwriting Agreement) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, or repurchase, any legal or beneficial interest in the share capital or any other equity securities of the Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase any equity securities of the Company, as applicable), or deposit any share capital or other equity securities of the Company or such other member of the Group, as applicable, with a depositary in connection with the issue of depositary receipts; or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of any H Shares or any other equity securities of the Company, or any interest in any of the foregoing (including, without limitation, any equity securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any H Shares); or

(iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or

(iv) offer to or agree to do any of the foregoing or announce any intention to effect any transaction specified in (i), (ii) or (iii) above,

in each case, whether any of the foregoing transactions is to be settled by delivery of share capital or such other equity securities, in cash or otherwise (whether or not the issue of such share capital or other equity securities will be completed within the First Six-Month Period).

Undertaking by the Controlling Shareholders

Each of the Controlling Shareholders undertakes to each of the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option) or permitted by Note 2 and 3 to Rule 10.07 of the Listing Rules, at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling 12 months after the Listing Date, it will not, except using its interests in the Company in any way that is permitted by the Listing Rules, without the prior written consent of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Joint Bookrunners and the Hong Kong Underwriters):

(a) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase any of its share capital or other securities of the Company or any interest therein (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein); or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership (legal or beneficial) of such share capital or securities or any interest therein, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares); or

(c) enter into any transaction with the same economic effect as any transaction specified in Clause (a) or (b) above; or

(d) offer to or agree to do any of the foregoing or announce any intention to do so,

in each case, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise.

Indemnity

Each of the Company and the Controlling Shareholders has agreed to indemnify, among others, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement, as the case may be.

The International Offering

In connection with the International Offering, it is expected that the Company will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, among others, the International Underwriters will, subject to certain conditions set out therein, severally and not jointly, agree to procure subscribers or purchasers for the International Offer Shares, failing which they agree to subscribe for or purchase their respective proportions of the International Offer Shares which are not taken up under the International Offering.

The Company is expected to grant to the International Underwriters the Over-allotment Option, if any, exercisable by the Joint Global Coordinators on behalf of the International Underwriters at any time from the date of the International Underwriting Agreement until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require the Company to allot and issue up to an aggregate of 58,234,600 additional Offer Shares representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover, among other things, over-allocations (if any) in the International Offering.

It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors should note that if the International Underwriting Agreement is not entered into, or is terminated, the Global Offering will not proceed.

Total Commission and Expenses

The Underwriters will receive an underwriting commission of 1.5% of the aggregate Offer Price of all the Offer Shares for both the Hong Kong Public Offering and the International Offering (including any Offer Shares to be issued pursuant to the exercise of the Over-allotment Option), out of which they will pay any sub-underwriting commissions and other fees. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, the Company will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the relevant International Underwriters and not the Hong Kong Underwriters. The Company may, at its sole and absolute discretion, pay to the Underwriters an incentive fee up to 0.5% of the Offer Price for each Offer Share for both the Hong Kong Public Offering and the International Offering (including any Offer Shares to be issued pursuant to the exercise of the Over-allotment Option).

Assuming the Over-allotment Option, if any, is not exercised at all and based on the Offer Price of HK$20.50 per Offer Share (being the mid-point of the indicative Offer Price range stated in this prospectus), the aggregate commissions and fees, together with listing fees, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees and printing and other expenses, payable by the Company relating to the Global Offering (collectively the "**Commissions and Fees**") are estimated to be approximately HK$224 million in total.

Activities by Syndicate Members

We describe below a variety of activities that underwriters of the Hong Kong Public Offering and the International Offering, together referred to as "**Syndicate Members**", may each individually undertake, and which do not form part of the underwriting or the stabilizing process. When engaging in any of these activities, it should be noted that the Syndicate Members are subject to restrictions, including the following:

The Syndicate Members (except for Morgan Stanley Asia Limited, as the Stabilizing Manager, its affiliates or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilizing or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and all of them must comply with all applicable laws, including the market misconduct provisions of the SFO, the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to our H Shares, those activities could include acting as agent for buyers and sellers of our H Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in our H Shares and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have our H Shares as their or part of their underlying assets. Those activities may require hedging activity by those entities involving, directly or indirectly, buying and selling our H Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in our H Shares, in baskets of securities or indices including our H Shares, in units of funds that may purchase our H Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having our H Shares as their or part of their underlying assets, whether on the Stock Exchange or on any other stock exchange, the rules of the relevant exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in our H Shares in most cases.

All these activities may occur both during and after the end of the stabilizing period described in "Structure of the Global Offering – The International Offering – Over-allotment Option" and "Structure of the Global Offering – The International Offering – Stabilization" in this prospectus. These activities may affect the market price or value of our H Shares, the liquidity or trading volume in our H Shares and the volatility of their share price, and the extent to which this occurs from day to day cannot be estimated.

Hong Kong Underwriters' Interests in the Company

Save for its obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interests in the Company or the right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of our H Shares as a result of fulfilling their obligations under the Underwriting Agreements.

Other Services to the Company

Certain of the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters or their respective affiliates have, from time to time, provided and expect to provide in the future investment banking and other services to the Company and our respective affiliates, for which such Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Hong Kong Underwriters or their respective affiliates have received or will receive customary fees and commissions.

Other Services Provided by the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters

The Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters may in their ordinary course of business provide financing to investors subscribing for the Offer Shares offered by this prospectus. Such Joint Global Coordinators, Joint Bookrunners, Joint Lead Managers and Underwriters may enter into hedges and/or dispose of such Offer Shares in relation to the financing which may have a negative impact on the trading price of our H Shares.

Over-Allotment and Stabilization

Details of the arrangements relating to the stabilization and Over-allotment Option, if any, are set forth in "Structure of the Global Offering – The International Offering – Stabilization", and "Structure of the Global Offering – The International Offering – Over-allotment Option" in this prospectus.

Sponsor's Independence

Each of Joint Sponsors satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

(i) the Hong Kong Public Offering of 27,176,400 H Shares in Hong Kong as described below in the paragraph headed "– The Hong Kong Public Offering" below; and

(ii) the International Offering of an aggregate of initially 361,055,400 H Shares (a) in the United States to QIBs in reliance on Rule 144A or another available exemption; and (b) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in accordance with Regulation S as described in "The International Offering" below. At any time from the date of the International Underwriting Agreement until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, the Joint Global Coordinators, as representatives of the International Underwriters, have an option to require us to allot and issue up to 58,234,600 additional Offer Shares, representing approximately 15% of the initial number of Offer Shares to be offered in the Global Offering, at the Offer Price to cover over-allocations in the International Offering, if any. If the Over-allotment Option, if any, is exercised in full, the additional Offer Shares will represent approximately 0.52% of the Company's enlarged share capital immediately following the completion of the Global Offering and the full exercise of the Over-allotment Option. In the event that the Over-allotment Option, if any, is exercised, a press announcement will be made.

Investors may apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 3.47% of the enlarged issued share capital of the Company immediately after completion of the Global Offering without taking into account the exercise of the Over-allotment Option, if any. If the Over-allotment Option, if any, is exercised in full, the Offer Shares will represent approximately 3.97% of the enlarged issued share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option, if any, as set out in the paragraph headed "– The International Offering – Over-allotment Option" below.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering may be subject to reallocation as described in the paragraph headed "– The Hong Kong Public Offering – Reallocation and Clawback" below.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

The Company is initially offering 27,176,400 H Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 7% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the Hong Kong Offer Shares will represent approximately 0.24% of the enlarged share capital of the Company immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised).

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed "– The International Offering – Conditions of the Hong Kong Public Offering" below.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Offer Shares initially available for subscription under the Hong Kong Public Offering (after taking into account of any reallocation referred to below) is to be divided into two pools for allocation purposes: 13,588,200 Offer Shares for pool A and 13,588,200 Offer Shares for pool B. The Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of HK$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable) or less. The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK$5 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable) and up to the total value in pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 13,588,200 Offer Shares (being 50% of the Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering) are liable to be rejected.

Reallocation and Clawback

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. Paragraph 4.2 of Practice Note 18 of the Listing Rules requires a clawback mechanism to be put in place which would have the effect of increasing the number of Offer Shares under the Hong Kong Public Offering to a certain percentage of the total number of Offer Shares to be offered under the Global Offering if certain prescribed total demand levels are reached. We have applied for, and the Hong Kong Stock Exchange has granted to us, a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Listing Rules to the effect as further described below (the "**Mandatory Reallocation**"):

(i) 27,176,400 Offer Shares are initially available in the Hong Kong Public Offering, representing approximately 7% of the Offer Shares initially available for subscription under the Global Offering;

in the event that the International Offer Shares are fully subscribed or oversubscribed,

(ii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 13 times or more but less than 47 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available for subscription under the Hong Kong Public Offering will be 38,823,200 Offer Shares, representing approximately 10% of the Offer Shares initially available for subscription under the Global Offering;

(iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 47 times or more but less than 94 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available for subscription under the Hong Kong Public Offering will be 54,352,600 Offer Shares, representing approximately 14% of the Offer Shares initially available for subscription under the Global Offering; and

(iv) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 94 times or more than the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available for subscription under the Hong Kong Public Offering will be 104,822,600 Offer Shares, representing approximately 27% of the Offer Shares initially available for subscription under the Global Offering.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Underwriters). Subject to the foregoing paragraph, the Joint Global Coordinators and the Joint Sponsors may in their discretion reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In addition, if the Hong Kong Public Offering is not fully subscribed for, the Joint Global Coordinators and the Joint Sponsors have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators and the Joint Sponsors deem appropriate.

In addition to any Mandatory Reallocation which may be required, the Joint Sponsors and the Joint Global Coordinators may reallocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In the event that (i) the International Offer Shares are undersubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed irrespective of the number of times; or (ii) the International Offer Shares are fully subscribed or oversubscribed and the Hong Kong Offer Shares are fully subscribed or oversubscribed as to less than 13 times of the number of Hong Kong Offer Shares initially available for subscription under the Hong Kong Public Offering provided that the Offer Price would be set at HK$19.50 (the low-end of the indicative Offer Price), up to 27,176,400 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Shares available for subscription under the Hong Kong Public Offer will be increased to 54,352,800 Offer Shares, representing approximately 14% of the number of the Offer Shares initially available for subscription under the Global Offering (before any exercise of the Over-allotment Option).

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

The listing of H Shares on the Hong Kong Stock Exchange is sponsored by the Joint Sponsors. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK$21.50 per Offer Share in addition to any brokerage, SFC transaction levy and Hong Kong Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the section headed "– Pricing and Allocation" below, is less than the maximum Offer Price of HK$21.50 per Hong Kong Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in "– How to Apply for Hong Kong Offer Shares".

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Number of Offer Shares offered

Subject to reallocation as described above, the International Offering will consist of an aggregate of 361,055,400 Offer Shares to be initially offered by us.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the paragraph headed "– Pricing and Allocation" below and based on a number of factors, including the level and timing of demand, the total value of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Company and our Shareholders as a whole.

The Joint Global Coordinators may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant application under the Hong Kong Public Offering and to ensure that it is excluded from any application of Offer Shares under the Hong Kong Public Offering.

Over-allotment Option

In connection with the Global Offering, we are expected to grant an Over-allotment Option, if any, to the International Underwriters, exercisable by the Joint Global Coordinators on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, if any, the Joint Global Coordinators have the right, exercisable at any time from the date of the International Underwriting Agreement until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require the Company to issue and allot up to 58,234,600 additional Offer Shares, representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering to cover, among other things, over-allocation in the International Offering, if any. If the Over-allotment Option, if any, is exercised in full, the additional Offer Shares will represent approximately 0.52% of the Company's enlarged share capital immediately following the completion of the Global Offering and the full exercise of the Over-allotment Option. In the event that the Over-allotment Option, if any, is exercised, an announcement will be made.

International Employee Preferential Offering

Of the 361,055,400 Offer Shares initially being offered under the International Offering, the Employee Reserved Shares are available for subscription by the Eligible Employees on a preferential basis under the International Employee Preferential Offering.

The Employee Reserved Shares are being offered out of the International Offer Shares but will not be subject to the clawback mechanism as set out in "Structure of the Global Offering — The Hong Kong Public Offering — Reallocation" in this section.

Since all the Eligible Employees will be PRC residents and could not directly participate in the Global Offering according to relevant PRC laws and regulations, the Company intends to place certain Employee Reserved Shares to CICC WI, a connected client of CICC, to facilitate the Eligible Employees in participating in the economic exposure to the Global Offering of the Company through OTC Swaps (as defined below) under the International Employee Preferential Offering.

CICC WI and China International Capital Corporation Limited, a member of the CICC Group incorporated in the PRC, have entered into a series of cross border delta-one OTC swap transactions with each other and with each of the Privately-offered Investment Funds subscribed by the Eligible Employees ("**OTC Swaps**"). Accordingly, CICC WI will hold the Shares of the Company to hedge the OTC Swaps while the economic risks and returns of the underlying Shares will be passed to such Eligible Employees, subject to customary fees and commissions in accordance with applicable PRC laws and regulations.

Pursuant to the Law on Securities Investment Fund of the PRC (《中華人民共和國證券投資基金法》), the number of investors for a non-publicly raised fund shall not exceed 200. Due to such requirement, the Eligible Employees propose to subscribe to set up two Privately-offered Investment Funds products ("**Product A**" and "**Product B**", and collectively, the "**Products**") to participate in the International Employee Preferential Offering through OTC Swaps. Each of the Products has the same product structure and subscribing terms. The number of Eligible Employees under each of the Products shall be no more than 200, and the subscription amount for each of the Products shall be no more than US$30 million. Accordingly, no more than 23,591,600 Employee Reserved Shares will be allocated to no more than 400 Eligible Employees during the International Employee Preferential Offering, representing approximately 6.53% of the total number of the Offer Shares initially available under the International Offering and 6.08% of the total number of the Offer Shares initially available under the Global Offering, respectively, assuming an Offer Price of HK$19.50 (being the low end of the indicative Offer Price range) without taking into account the exercise of the Over-Allotment Option.

An Eligible Employee may only participate in the International Employee Preferential Offering through Product A or Product B, but not both.

The maximum subscription amount of H Shares that any Eligible Employee may apply for under the International Employee Preferential Offering will be limited to RMB2.5 million, representing approximately 0.04% of the International Offer Shares initially available for subscription assuming an Offer Price of HK$19.50 (being the low end of the indicative Offer Price range) without taking into account the exercise of the Over-Allotment Option. Any application for more than RMB2.5 million by any Eligible Employee will be treated as if it is an application for RMB2.5 million. Such measures will help to ensure that no single Eligible Employee would hold an excessively large number of the H Shares under the International Employee Preferential Offering to the disadvantage of the other Eligible Employees.

The Eligible Employees shall pay for their subscription amounts of the Employee Reserved Shares in full upon subscription. In case the total subscription amounts exceed the cap limit of US$30 million for each of the Products, the respective allocation for each Eligible Employee will be deducted on a pro-rata basis so that the final subscription amounts of each Product will not exceed US$30 million.

Each Eligible Employees will confirm that he/she:

(a) is an employee or a past employee of the Group;

(b) is not a core connected person of the Company or an existing shareholder of the Company or its close associates;

(c) is not any person whose acquisition of securities will be financed directly or indirectly by a core connected person;

(d) is not any person who is accustomed to take instructions from a core connected person in relation to the acquisition, disposal, voting or other disposition of securities of the Company registered in his/her name or otherwise held by him/her;

(e) is outside the U.S. and not a U.S. person (as defined in Rule 902 of Regulation S); and

(f) will only participate in the Company's Global Offering through the subscription of the Employee Reserved Shares under the International Employee Preferential Offering and will not subscribe for the Company's H Shares through any other channels.

Any Employee Reserved Shares not subscribed for by the Eligible Employees will be available for subscription by the other institutional and professional investors and other investors in the International Offering after the reallocation as described in "Structure of The Global Offering — The Hong Kong Public Offering" of the Prospectus. The total number of the Employee Reserved Shares subscribed by the Eligible Employees will be disclosed in the Company's allotment results announcement.

CICC WI is a member of the same group of CICC and therefore constitutes a connected client (as defined in the Listing Rules) of CICC. We have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, its consent under paragraph 5(1) of Appendix 6 to the Hong Kong Listing Rules to permit CICC WI to act as a placee in the Global Offering to facilitate the Eligible Employees to participate in the International Employee Preferential Offering. For further details, please refer to "Waivers from Strict Compliance with the Listing Rules — International Employee Preferential Offering".

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, any decline in the market price of the securities below the Offer Price. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilizing Manager or any person acting for it, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of the H Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of H Shares than the Underwriters are required to purchase in the Global Offering. "Covered" short sales are sales made in an amount not greater than the Over-allotment Option, if any. The Stabilizing Manager may close out the covered short position by either exercising the Over-allotment Option, if any, to purchase additional H Shares or purchasing H Shares in the open market. In determining the source of the H Shares to close out the covered short position, the Stabilizing Manager will consider, among others, the price of H Shares in the open market as compared to the price at which they may purchase additional H Shares pursuant to the Over-allotment Option, if any. Stabilizing transactions consist of certain bids or purchases to be made for the purpose of preventing or retarding a decline in the market price of the H Shares while the Global Offering is in progress. Any market purchases of the H Shares may be affected on any stock exchange, including the Stock Exchange, any over-the-counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days after the last day for the lodging of applications under the Hong Kong Public Offering. The number of the H Shares that may be over-allocated will not exceed the number of the H Shares that may be sold under the Over-allotment Option, if any, namely, 58,234,600 H Shares, which is approximately 15% of the number of Offer Shares initially available for subscription under the Global Offering, in the event that the whole or part of the Over-allotment Option is exercised.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules. Stabilizing actions permitted pursuant to the Securities and Futures (Price Stabilizing) Ordinance include:

(a) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the H Shares;

(b) selling or agreeing to sell the H Shares so as to establish a short position in them for the purpose of preventing or minimizing any deduction in the market price of the H Shares;

(c) subscribing, or agreeing to subscribe, for the H Shares pursuant to the Over-allotment Option, if any, in order to close out any position established under (a) or (b) above;

(d) purchasing, or agreeing to purchase, the H Shares for the sole purpose of preventing or minimizing any reduction in the market price of the H Shares;

(e) selling or agreeing to sell any H Shares to liquidate a long position held as a result of those purchases; and

(f) offering or attempting to do anything described in (b), (c), (d) and (e) above.

Stabilizing actions by the Stabilizing Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilization.

As a result of effecting transactions to stabilize or maintain the market price of the H Shares, the Stabilizing Manager, or any person acting for it, may maintain a long position in the H Shares. The size of the long position, and the period for which the Stabilizing Manager, or any person acting for it, will maintain the long position is at the discretion of the Stabilizing Manager and is uncertain. In the event that the Stabilizing Manager liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the H Shares.

Stabilizing action by the Stabilizing Manager, or any person acting for it, is not permitted to support the price of the H Shares for longer than the stabilizing period, which begins on the day on which trading of the H Shares commences on the Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilizing period is expected to end on Sunday, September 27, 2020. As a result, demand for the H Shares, and their market price, may fall after the end of the stabilizing period. These activities by the Stabilizing Manager may stabilize, maintain or otherwise affect the market price of the H Shares. As a result, the price of the H Shares may be higher than the price that otherwise may exist in the open market. Any stabilizing action taken by the Stabilizing Manager, or any person acting for it, may not necessarily result in the market price of the H Shares staying at or above the Offer Price either during or after the stabilizing period. Bids for or market purchases of the H Shares by the Stabilizing Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the H Shares by purchasers. A public announcement in compliance with the Securities and Futures (Price Stabilizing) Ordinance will be made within seven days of the expiration of the stabilizing period.

PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators and us on the Price Determination Date, which is expected to be on or about Friday, August 28, 2020 and in any event no later than Tuesday, September 1, 2020.

The Offer Price will not be more than HK$21.50 per Offer Share and is expected to be not less than HK$19.50 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators and us by Tuesday, September 1, 2020, the Global Offering will not proceed and will lapse.

Announcement of Offer Price Reduction

The Joint Sponsors and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of the Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published on the website of the Stock Exchange (**www.hkexnews.hk**) and on the website of the Company (**www.nongfuspring.com**) notices of the reduction. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised Offer Price range will be final and conclusive. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, once agreed upon, will under no circumstances be higher than the maximum Offer Price as stated in the Application Forms.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Joint Global Coordinators may at their discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares in the Global Offering. The Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators. Allocation of the International Offer Shares under the International Offering will be determined by the Joint Global Coordinators and will be based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector, and whether or not it is expected that the relevant investor is likely to buy further and/ or hold or sell Offer Shares after the Listing. Such allocation may be made to professional, institutional, or corporate investors and is intended to result in a distribution of our Offer Shares on a basis which would lead to the establishment of a solid Shareholder base to the benefit of the Company and our Shareholders as a whole. Allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of the Hong Kong Offer Shares validly applied for by applicants. The allocation of the Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of the Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

Announcement of Results

The final Offer Price, the level of indications of interest in the Global Offering, the results of applications and the basis of allotment of Offer Shares available under the Hong Kong Public Offering are expected to be announced on or around Monday, September 7, 2020 on the website of the Stock Exchange (**www.hkexnews.hk**) and the website of the Company (**www.nongfuspring.com**).

HONG KONG UNDERWRITING AGREEMENT

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is conditional upon the International Underwriting Agreement being signed and becoming unconditional.

The Company expects to enter into the International Underwriting Agreement relating to the International Offering on or around Friday, August 28, 2020.

These underwriting arrangements, and the respective Underwriting Agreements, are summarized in "Underwriting" in this prospectus.

SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Company complies with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

(a) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Offer Shares being offered pursuant to the Global Offering (including the additional Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option, if any) (subject only to allotment) and the H Shares to be converted from part of the Domestic Shares on the Main Board of the Stock Exchange and such listing permission not subsequently having been revoked prior to the commencement of dealings in the H Shares on the Stock Exchange;

(b) the Offer Price having been fixed on or around the Price Determination Date;

(c) the execution and delivery of the International Underwriting Agreement on or around Friday, August 28, 2020; and

(d) the obligations of the Underwriters under each of the respective Underwriting Agreements becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements.

If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators and us on or before Tuesday, September 1, 2020, the Global Offering will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company on the website of the Stock Exchange at **www.hkexnews.com** and the Company at **www.nongfuspring.com** on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in "How to Apply for Hong Kong Offer Shares". In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving bank or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares are expected to be issued on Monday, September 7, 2020 but will only become valid certificates of title at 8:00 a.m. on Tuesday, September 8, 2020 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for Termination" has not been exercised.

DEALINGS IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Tuesday, September 8, 2020, it is expected that dealings in the Offer Shares on the Stock Exchange will commence at 9:00 a.m. on Tuesday, September 8, 2020.

The Shares will be traded in board lots of 200 H Shares each and the stock code of the H Shares will be 9633.

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest in International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at **www.eipo.com.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Global Coordinators, the **White Form eIPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorized officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you:

- are an existing beneficial owner of Shares in our Company and/or any of its subsidiaries;
- are a Director or chief executive of the Company and/or any of its subsidiaries;
- are an associate (as defined in the Listing Rules) of any of the above;
- are a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for or indicated an interest in any Offer Shares under the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.eipo.com.hk**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, August 25, 2020 to 12:00 noon on Friday, August 28, 2020 from:

(1) any of the following offices of the Hong Kong Underwriters:

China International Capital Corporation Hong Kong Securities Limited	29/F, One International Finance Centre 1 Harbour View Street Central Hong Kong
Morgan Stanley Asia Limited	46/F, International Commerce Centre 1 Austin Road West Kowloon Hong Kong

Citigroup Global Markets Asia Limited	50/F, Champion Tower 3 Garden Road Central Hong Kong
CLSA Limited	18/F, One Pacific Place 88 Queensway Hong Kong

(2) or any of the following branches of the receiving bank:

Bank of China (Hong Kong) Limited

Hong Kong Island	Bank of China Tower Branch	1 Garden Road, Hong Kong
	North Point (King's Centre) Branch	193-209 King's Road, North Point, Hong Kong
Kowloon	Tsim Sha Tsui Branch	24-28 Carnarvon Road, Tsim Sha Tsui, Kowloon
New Territories	Tseung Kwan O Plaza Branch	Shop 112-125, Level 1, Tseung Kwan O Plaza, Tseung Kwan O, New Territories
	Castle Peak Road (Yuen Long) Branch	162 Castle Peak Road, Yuen Long, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, August 25, 2020 until 12:00 noon on Friday, August 28, 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong, or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "BANK OF CHINA (HONG KONG) NOMINEES LIMITED — NONGFU SPRING PUBLIC OFFER" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Tuesday, August 25, 2020 – 9:00 a.m. to 4:00 p.m.
Wednesday, August 26, 2020 – 9:00 a.m. to 4:00 p.m.
Thursday, August 27, 2020 – 9:00 a.m. to 4:00 p.m.
Friday, August 28, 2020 – 9:00 a.m. to 12:00 noon.

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, August 28, 2020, the last application day or such later time as described in "– 10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorize our Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the PRC Company Law, the Special Regulations and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

(vi) agree that none of our Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

(viii) agree to disclose to our Company, our H Share Registrar, receiving bank, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been, and will not be registered under the U.S. Securities Act or any state securities law in the United States, or any securities regulatory authority of any other jurisdiction; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are (a) outside the United States and (b) not a U.S. person (as defined in Regulation S);

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorize our Company to place your name(s) or the name of the HKSCC Nominees on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any H Share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in "– 14. Dispatch/Collection of H Share Certificates and Refund Monies – Personal Collection" in this section to collect the H Share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that our Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** service provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Terms and Conditions for Yellow Application Form

You may refer to the YELLOW Application Form for details.

5. APPLYING THROUGH THE WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in "– 2. Who can apply" in this section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorize the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO service

You may submit your application to the **White Form eIPO** Service Provider at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, August 25, 2020 until 11:30 a.m. on Friday, August 28, 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, August 28, 2020 or such later time under the " 10. Effects of Bad Weather on the Opening of the Application Lists" in this section.

No Multiple Applications

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance).

Commitment to sustainability

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK$2.00 for each "NONGFU SPRING CO., LTD." **White Form eIPO** application submitted via **www.eipo.com.hk** to support sustainability.

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (**https://ip.ccass.com**) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square,
8 Connaught Place, Central,
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators and our H Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

- declare that only one set of **electronic application instruction**s has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorized to give those instructions as their agent;

- confirm that you understand that our Company, our Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorize our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send H share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of our Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to our Company, our H Share Registrar, our receiving bank, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Underwriters and/or their respective advisers and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read together with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for Hong Kong Offer Shares;

- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the PRC Company Law, the Special Regulations and the Articles of Association;

- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong;

- agree with our Company, for itself and for the benefit of each Shareholder and each director, supervisor, manager and other senior officer of our Company (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders and each director, supervisor, manager and other senior officer of our Company, with each CCASS Participant giving **electronic application instructions**):

  (a) to refer all differences and claims arising from the Articles of Association of our Company or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles of Association;

  (b) that any award made in such arbitration shall be final and conclusive;

  (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;

- agree with the Company (for the Company itself and for the benefit of each Shareholder) that the H shares are freely transferable by their holders; and

- authorize our Company to enter into a contract on its behalf with each director and officer of our Company whereby each such director and officer undertakes to observe and comply with his obligations to Shareholders stipulated in the Articles of Association.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- instructed and authorized HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 200 Hong Kong Offer Shares. Instructions for more than 200 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions[(1)]

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Tuesday, August 25, 2020	**–**	**9:00 a.m. to 8:30 p.m.**
Wednesday, August 26, 2020	**–**	**8:00 a.m. to 8:30 p.m.**
Thursday, August 27, 2020	**–**	**8:00 a.m. to 8:30 p.m.**
Friday, August 28, 2020	**–**	**8:00 a.m. to 12:00 noon**

Note:

(1) The times in this sub-section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, August 25, 2020 until 12:00 noon on Friday, August 28, 2020 (24 hours daily, except on Friday, August 28, 2020 the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, August 28, 2020, the last application day or such later time as described in "– 10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, the H Share Registrar, the receiving bank, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** service provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, August 28, 2020.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Hong Kong Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for the Hong Kong Offer Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through the **White Form eIPO** service in respect of a minimum of 200 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 200 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see "Structure of the Global Offering – Pricing and Allocation" in this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is/are:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning; and/or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, August 28, 2020. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have any of those warnings or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, August 28, 2020 or if there is/are a tropical cyclone warning signal number 8 or above, a "black" rainstorm warning signal and/or Extreme Conditions in force in Hong Kong that may affect the dates mentioned in "Expected Timetable", an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Monday, September 7, 2020 on our Company's website at **www.nongfuspring.com** and the website of the Stock Exchange at **www.hkexnews.com**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at **www.nongfuspring.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m. on Monday, September 7, 2020;

- from the designated results of allocations website at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Monday, September 7, 2020 to 12:00 midnight on Sunday, September 13, 2020;

- by telephone enquiry line by calling +852 2862 8555 between 9:00 a.m. and 6:00 p.m. from Monday, September 7, 2020 to Thursday, September 10, 2020;

- in the special allocation results booklets which will be available for inspection during opening hours from Monday, September 7, 2020 to Wednesday, September 9, 2020 at all the receiving bank designated branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in "Structure of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **White Form eIPO** service provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Global Coordinators, the **White Form eIPO** service provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Global Coordinators believe that by accepting your application, it/they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK$21.50 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering – Conditions of the Hong Kong Public Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Monday, September 7, 2020.

14. DISPATCH/COLLECTION OF H SHARE CERTIFICATE(S) AND REFUND MONIES

You will receive one H Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the H Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the H Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- H Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, H Share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of H Share certificates and refund monies as mentioned below, any refund cheques and H Share certificates are expected to be posted on or before Monday, September 7, 2020. The right is reserved to retain any H Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

H Share certificates will only become valid at 8:00 a.m. on Tuesday, September 8, 2020 provided that the Global Offering has become unconditional and the right of termination described in "Underwriting" in this prospectus has not been exercised. Investors who trade the H Shares prior to the receipt of H Share certificates or the H Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or H Share certificate(s) from the H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Monday, September 7, 2020 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation's chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or H Share certificate(s) personally within the time specified for collection, it/they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or H Share certificate(s) will be sent to the address on the relevant Application Form on or before Monday, September 7, 2020, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares, please follow the same instructions as described above for collecting refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Monday, September 7, 2020, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Monday, September 7, 2020, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

  For Hong Kong Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant*

  Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "11. Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, September 7, 2020 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

***(iii) If you apply through the* White Form eIPO** Service

If you apply for 1,000,000 or more Hong Kong Offer Shares and your application is wholly or partially successful, you may collect your H Share certificate(s) from the H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, September 7, 2020, or such other date as notified by us in the newspapers as the date of dispatch/collection of H Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your H Share certificate(s) personally within the time specified for collection, it/they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your H Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Monday, September 7, 2020 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) on or before Monday, September 7, 2020 by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of H Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your H share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Monday, September 7, 2020, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "11. Publication of Results" above on Monday, September 7, 2020. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, September 7, 2020 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Monday, September 7, 2020. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee) but without interest will be credited to your designated bank account or the designated bank account of your broker or custodian on Monday, September 7, 2020.

15. ADMISSION OF THE H SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

The following is the text of a report, prepared for inclusion in this prospectus, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors
Nongfu Spring Co., Ltd.

China International Capital Corporation Hong Kong Securities Limited
Morgan Stanley Asia Limited

Dear Sirs,

We report on the historical financial information of Nongfu Spring Co., Ltd. (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages I-4 to I-130, which comprises the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the years ended 31 December 2017, 2018, 2019, and the five months ended 31 May 2020 (the "**Relevant Periods**"), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2017, 2018, 2019 and 31 May 2020 and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages I-4 to I-130 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 25 August 2020 (the "**Prospectus**") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group and the Company as at 31 December 2017, 2018, 2019 and 31 May 2020 and of the financial performance and cash flows of the Group for each of the years ended 31 December 2017, 2018, 2019 and the five months ended 31 May 2020 in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

REVIEW OF INTERIM COMPARATIVE FINANCIAL INFORMATION

We have reviewed the interim comparative financial information of the Group which comprises the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the five months ended 31 May 2019 and other explanatory information (the "**Interim Comparative Financial Information**"). The directors of the Company are responsible for the preparation of the Interim Comparative Financial Information in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the years ended 31 December 2017, 2018, 2019 and the five months ended 31 May 2020.

Yours faithfully,

Certified Public Accountants
Hong Kong

25 August 2020

I. HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

		Year ended 31 December			Five months ended 31 May	
	Notes	**2017**	**2018**	**2019**	**2019**	**2020**
		RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (unaudited)**	**RMB'000**
REVENUE	*5*	17,491,214	20,475,045	24,021,041	9,917,234	8,663,655
Cost of sales		(7,681,940)	(9,554,211)	(10,710,410)	(4,341,471)	(3,544,555)
Gross profit		9,809,274	10,920,834	13,310,631	5,575,763	5,119,100
Other income and gains	*6*	402,387	533,548	773,959	276,880	188,217
Selling and distribution expenses		(4,889,967)	(5,217,524)	(5,816,393)	(2,251,609)	(2,127,019)
Administrative expenses		(859,485)	(1,065,167)	(1,382,507)	(522,314)	(595,284)
Other expenses	*6*	(18,858)	(404,340)	(371,405)	(6,984)	(2,949)
Finance costs	*8*	(8,381)	(4,113)	(15,525)	(1,346)	(23,067)
PROFIT BEFORE TAX	*7*	4,434,970	4,763,238	6,498,760	3,070,390	2,558,998
Income tax expense	*11*	(1,049,021)	(1,151,526)	(1,544,516)	(710,437)	(628,111)
PROFIT FOR THE YEAR/PERIOD		3,385,949	3,611,712	4,954,244	2,359,953	1,930,887
Attributable to:						
Owners of the parent		3,380,409	3,606,059	4,948,568	2,356,174	1,930,887
Non-controlling interests		5,540	5,653	5,676	3,779	–
		3,385,949	3,611,712	4,954,244	2,359,953	1,930,887
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT						
Basic and diluted						
For profit for the year/period	*13*	RMB0.31 Yuan	RMB0.33 Yuan	RMB0.46 Yuan	RMB0.22 Yuan	RMB0.18 Yuan

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December			Five months ended 31 May	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit for the year/ period	3,385,949	3,611,712	4,954,244	2,359,953	1,930,887
OTHER COMPREHENSIVE INCOME					
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	(2,326)	285	2,396	1,483	593
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	(2,326)	285	2,396	1,483	593
Other comprehensive (loss)/income for the year/period, net of tax	(2,326)	285	2,396	1,483	593
Total comprehensive income for the year/period	3,383,623	3,611,997	4,956,640	2,361,436	1,931,480
Attributable to:					
Owners of the parent	3,378,815	3,606,311	4,950,124	2,357,143	1,931,480
Non-controlling interests	4,808	5,686	6,516	4,293	–
	3,383,623	3,611,997	4,956,640	2,361,436	1,931,480

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 31 May
	Notes	2017	2018	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	*14*	8,930,732	11,088,681	12,314,346	12,578,480
Right-of-use assets	*15*	546,377	599,817	656,421	674,301
Intangible assets	*16*	36,037	63,676	59,841	56,009
Deferred tax assets	*17*	212,946	340,767	372,789	394,853
Other non-current assets	*18*	39,734	16,012	20,738	102,454
Total non-current assets		9,765,826	12,108,953	13,424,135	13,806,097
CURRENT ASSETS					
Inventories	*19*	1,442,450	1,906,335	1,762,103	1,740,785
Trade and bills receivables	*20*	194,069	222,651	306,003	422,394
Prepayments, other receivables and other assets	*21*	568,991	1,165,323	1,021,088	911,680
Financial assets at fair value through profit or loss	*22*	4,415	177,438	–	–
Structured deposits	*23*	2,035,000	3,600,000	200,000	–
Pledged deposits	*24*	48,959	5,634	–	–
Cash and cash equivalents	*24*	2,562,883	1,763,664	1,083,142	4,060,036
Total current assets		6,856,767	8,841,045	4,372,336	7,134,895
CURRENT LIABILITIES					
Trade and bills payables	*26*	821,043	837,328	791,462	1,039,120
Other payables and accruals	*27*	1,991,760	2,604,345	2,855,079	3,584,754
Contract liabilities	*28*	1,578,017	1,995,570	2,077,549	1,385,981
Interest-bearing borrowings	*25*	50,066	–	1,000,000	2,112,420
Lease liabilities	*15*	21,259	29,027	5,941	15,148
Tax payables		734,541	697,127	711,435	709,117
Total current liabilities		5,196,686	6,163,397	7,441,466	8,846,540
NET CURRENT ASSETS/ (LIABILITIES)		1,660,081	2,677,648	(3,069,130)	(1,711,645)
TOTAL ASSETS LESS CURRENT LIABILITIES		11,425,907	14,786,601	10,355,005	12,094,452

	Notes	As at 31 December 2017	As at 31 December 2018	As at 31 December 2019	As at 31 May 2020
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT LIABILITIES					
Deferred income	*29*	229,166	208,927	248,088	249,349
Deferred tax liabilities	*17*	138	145,281	194,628	187,791
Lease liabilities	*15*	31,135	16,628	30,421	23,964
Total non-current liabilities		260,439	370,836	473,137	461,104
NET ASSETS		11,165,468	14,415,765	9,881,868	11,633,348
EQUITY					
Share capital	*30*	360,000	360,000	360,000	1,080,000
Reserves		10,767,435	14,011,546	9,521,868	10,553,348
Equity attributable to owners of the parent		11,127,435	14,371,546	9,881,868	11,633,348
Non-controlling interests		38,033	44,219	–	–
Total equity		11,165,468	14,415,765	9,881,868	11,633,348

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the parent							
	Share capital	**Capital reserve***	**Statutory reserve***	**Exchange fluctuation reserve***	**Retained earnings***	**Total**	**Non-controlling interests**	**Total equity**
	(note 30)	*(note 32)*	*(note 32)*	*(note 32)*				
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
As at 1 January 2017	360,000	2,103	180,000	1,952	7,571,765	8,115,820	33,225	8,149,045
Profit for the year	–	–	–	–	3,380,409	3,380,409	5,540	3,385,949
Other comprehensive loss for the year:								
Exchange differences on translation of foreign operations	–	–	–	(1,594)	–	(1,594)	(732)	(2,326)
Total comprehensive (loss)/income for the year	–	–	–	(1,594)	3,380,409	3,378,815	4,808	3,383,623
Dividends declared *(note 12)*	–	–	–	–	(367,200)	(367,200)	–	(367,200)
As at 31 December 2017	360,000	2,103	180,000	358	10,584,974	11,127,435	38,033	11,165,468
As at 1 January 2018	360,000	2,103	180,000	358	10,584,974	11,127,435	38,033	11,165,468
Profit for the year	–	–	–	–	3,606,059	3,606,059	5,653	3,611,712
Other comprehensive income for the year:								
Exchange differences on translation of foreign operations	–	–	–	252	–	252	33	285
Total comprehensive income for the year	–	–	–	252	3,606,059	3,606,311	5,686	3,611,997
Dividends declared *(note 12)*	–	–	–	–	(367,200)	(367,200)	–	(367,200)
Capital contribution from a shareholder *(note 2.1)*	–	100,000	–	–	–	100,000	–	100,000
Deemed distribution to a shareholder *(note 2.1)*	–	(95,000)	–	–	–	(95,000)	–	(95,000)
Acquisition of a subsidiary *(note 33)*	–	–	–	–	–	–	500	500
As at 31 December 2018	360,000	7,103	180,000	610	13,823,833	14,371,546	44,219	14,415,765

	Attributable to owners of the parent							
	Share capital	**Capital reserve***	**Statutory reserve***	**Exchange fluctuation reserve***	**Retained earnings***	**Total**	**Non-controlling interests**	**Total equity**
	(note 30)	*(note 32)*	*(note 32)*	*(note 32)*				
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
As at 1 January 2019	360,000	7,103	180,000	610	13,823,833	14,371,546	44,219	14,415,765
Profit for the year	–	–	–	–	4,948,568	4,948,568	5,676	4,954,244
Other comprehensive income for the year:								
Exchange differences on translation of foreign operations	–	–	–	1,556	–	1,556	840	2,396
Total comprehensive income for the year	–	–	–	1,556	4,948,568	4,950,124	6,516	4,956,640
Dividends declared *(note 12)*	–	–	–	–	(9,597,600)	(9,597,600)	–	(9,597,600)
Dividends paid to non-controlling shareholders	–	–	–	–	–	–	(20,000)	(20,000)
Equity-settled share award arrangements by the ultimate holding company *(note 31)*	–	156,894	–	–	–	156,894	–	156,894
Acquisition of non-controlling interests	–	904	–	–	–	904	(30,289)	(29,385)
Disposal of subsidiaries *(note 34)*	–	–	–	–	–	–	(446)	(446)
As at 31 December 2019	360,000	164,901	180,000	2,166	9,174,801	9,881,868	–	9,881,868

	Attributable to owners of the parent					
	Share capital	**Capital reserve***	**Statutory reserve***	**Exchange fluctuation reserve***	**Retained earnings***	**Total**
	(note 30)	*(note 32)*	*(note 32)*	*(note 32)*		
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
As at 1 January 2020	360,000	164,901	180,000	2,166	9,174,801	9,881,868
Profit for the period	–	–	–	–	1,930,887	1,930,887
Other comprehensive income for the period:						
Exchange differences on translation of foreign operations	–	–	–	593	–	593
Total comprehensive income for the period	–	–	–	593	1,930,887	1,931,480
Cash dividends declared *(note 12)*	–	–	–	–	(180,000)	(180,000)
Stock dividends *(note 12)*	720,000	–	–	–	(720,000)	–
As at 31 May 2020	1,080,000	164,901	180,000	2,759	10,205,688	11,633,348

* These reserve accounts comprise the consolidated reserves of RMB10,767,435,000, RMB14,011,546,000, RMB9,521,868,000, and RMB10,553,348,000 in the consolidated statements of financial position as at 31 December 2017, 2018, 2019, and 31 May 2020, respectively.

	Attributable to owners of the parent							
	Share capital	**Capital reserve***	**Statutory reserve***	**Exchange fluctuation reserve***	**Retained earnings***	**Total**	**Non-controlling interests**	**Total equity**
	(note 30)	*(note 32)*	*(note 32)*	*(note 32)*				
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
As at 1 January 2019	360,000	7,103	180,000	610	13,823,833	14,371,546	44,219	14,415,765
Profit for the period (unaudited)	–	–	–	–	2,356,174	2,356,174	3,779	2,359,953
Other comprehensive income for the period: (unaudited)								
Exchange differences on translation of foreign operations (unaudited)	–	–	–	969	–	969	514	1,483
Total comprehensive income for the period (unaudited)	–	–	–	969	2,356,174	2,357,143	4,293	2,361,436
As at 31 May 2019 (unaudited)	360,000	7,103	180,000	1,579	16,180,007	16,728,689	48,512	16,777,201

* These reserve accounts comprise the consolidated reserves of RMB16,368,689,000 (unaudited) in the consolidated statements of financial position as at 31 May 2019.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December 2017 RMB'000	2018 RMB'000	2019 RMB'000	Five months ended 31 May 2019 RMB'000 (unaudited)	2020 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		4,434,970	4,763,238	6,498,760	3,070,390	2,558,998
Adjustments for:						
Depreciation of property, plant and equipment	7	1,103,867	1,326,057	1,663,650	640,954	756,885
Depreciation of right-of-use assets	7	38,096	52,965	57,753	33,693	16,265
Amortisation of intangible assets	7	17,821	15,719	12,170	4,976	5,406
Losses/(gains) on disposal of items of property, plant and equipment	6	7,343	7,143	(35,709)	5,872	855
Gains on disposal of right-of-use assets	6	–	(1,631)	–	–	–
Fair value (gain)/loss on financial assets at fair value through profit or loss	6	(1,779)	14,193	(35,750)	(31,350)	–
Interest income	6	(136,760)	(205,513)	(216,933)	(83,894)	(23,134)
Impairment of trade receivables	7	4,550	1,643	5,254	7,152	6,648
(Write-back of impairment)/ impairment of financial assets in prepayments, other receivables and other assets	7	(706)	5,594	(9,872)	(3,670)	(2,956)
Deferred income recognised in profit or loss		(19,566)	(24,184)	(30,299)	(7,260)	(13,236)
Finance costs	8	8,381	4,113	15,525	1,346	23,067
Equity-settled share award expenses	7	–	–	156,894	–	–
Gain on disposal of subsidiaries	34	–	–	(1,580)	–	(1,621)
		5,456,217	5,959,337	8,079,863	3,638,209	3,327,177

	Notes	Year ended 31 December			Five months ended 31 May	
		2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
(Increase)/decrease in inventories		(339,659)	(463,514)	136,590	28,214	(13,444)
Increase in trade and bills receivables		(75,717)	(30,185)	(92,480)	(124,134)	(187,328)
(Increase)/decrease in prepayments, other receivables and other assets		(206,885)	(574,071)	98,485	(191,034)	96,577
Decrease/(increase) in financial assets at fair value through profit or loss		16,929	(187,216)	213,188	(815)	–
Decrease/(increase) in pledged bank deposits		38,817	43,325	5,634	(538)	–
(Decrease)/increase in trade and bills payables		(81,398)	16,285	(43,055)	205,912	320,323
Increase in other payables and accruals		530,575	442,995	246,501	616,931	651,383
Increase/(decrease) in contract liabilities		141,380	417,553	81,979	(878,236)	(690,958)
Cash generated from operations		5,480,259	5,624,509	8,726,705	3,294,509	3,503,730
Income tax paid		(868,741)	(1,175,891)	(1,511,211)	(753,871)	(655,862)
Interest received		95,438	185,287	271,870	104,949	24,868
Interest paid		(9,556)	(4,179)	(15,525)	(1,346)	(23,067)
Net cash flows from operating activities		4,697,400	4,629,726	7,471,839	2,644,241	2,849,669

	Notes	Year ended 31 December			Five months ended 31 May	
		2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment		(2,272,876)	(3,336,910)	(3,230,597)	(1,706,035)	(1,073,230)
Increase of structured deposits		(4,240,000)	(6,100,000)	(5,700,000)	(2,200,000)	–
Redemption on maturity of structured deposit		3,425,000	4,535,000	9,100,000	3,200,000	200,000
Proceeds from disposal of items of property, plant and equipment		31,831	43,467	375,243	21,578	15,463
Purchases of intangible assets		(11,070)	(43,881)	(8,628)	(1,286)	(3,235)
Proceeds from disposal of intangible assets		406	523	184	–	1,661
Purchases of right-of-use assets		(88,203)	(70,765)	(73,833)	(46,491)	(30,730)
Proceeds from disposal of right-of-use assets		6,790	3,781	–	–	–
Receipt of government grants for property, plant and equipment		101,890	3,945	69,460	40,951	14,497
Increase in time deposits with original maturity of more than three months when acquired		(2,200,000)	(1,000,000)	(3,200,000)	(1,500,000)	–
Withdrawal of time deposits with original maturity of more than three months when acquired		600,000	2,300,000	3,300,000	400,000	200,000
Acquisition of a subsidiary	*33*	–	(9,234)	–	–	–
Disposal of subsidiaries	*34*	–	–	11,203	–	72,682
Net cash flows from/(used in) investing activities		(4,646,232)	(3,674,074)	643,032	(1,791,283)	(602,892)

	Notes	Year ended 31 December			Five months ended 31 May	
		2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES						
Dividends paid		(367,200)	(367,200)	(9,597,600)	–	(180,000)
Dividends paid to non-controlling shareholders		–	–	(20,000)	–	–
Repayment of interest-bearing borrowings		(104,500)	(50,000)	–	–	(1,140,000)
Proceeds from interest-bearing borrowings		50,000	–	1,000,000	–	2,252,420
Principal portion of lease payments		(22,461)	(44,529)	(49,817)	(32,847)	(3,731)
Capital contribution from a shareholder		–	100,000	–	–	–
Deemed distribution to a shareholder		–	(95,000)	–	–	–
Acquisition of non-controlling interests		–	–	(29,385)	–	–
Net cash flows from/(used in) financing activities		(444,161)	(456,729)	(8,696,802)	(32,847)	928,689
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		(392,993)	498,923	(581,931)	820,111	3,175,466
Cash and cash equivalents at beginning of year/period		1,256,547	862,883	1,363,664	1,363,664	783,142
Effect of foreign exchange rate changes		(671)	1,858	1,409	2,223	1,428
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		862,883	1,363,664	783,142	2,185,998	3,960,036

	Notes	Year ended 31 December 2017 RMB'000	2018 RMB'000	2019 RMB'000	Five months ended 31 May 2019 RMB'000 (unaudited)	2020 RMB'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances		462,883	563,664	783,142	1,985,998	3,960,036
Non-pledged time deposits		2,100,000	1,200,000	300,000	1,700,000	100,000
Cash and cash equivalents as stated in the statements of financial position	*24*	2,562,883	1,763,664	1,083,142	3,685,998	4,060,036
Less: Time deposits with original maturity of more than three months		(1,700,000)	(400,000)	(300,000)	(1,500,000)	(100,000)
Cash and cash equivalents as stated in the statements of cash flows		862,883	1,363,664	783,142	2,185,998	3,960,036

STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December			As at 31 May
		2017	2018	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	*14*	747,632	789,193	673,998	678,097
Right-of-use assets	*15*	42,374	37,331	21,662	16,999
Intangible assets	*16*	29,355	56,075	52,213	48,133
Investments in subsidiaries		1,533,125	1,700,125	1,761,064	1,865,064
Deferred tax assets	*17*	74,045	97,179	92,606	83,036
Other non-current assets	*18*	14,695	2,209	381	1,360
Total non-current assets		2,441,226	2,682,112	2,601,924	2,692,689
CURRENT ASSETS					
Inventories	*19*	34,600	57,436	34,163	42,524
Trade and bills receivables	*20*	503,128	661,863	386,660	358,351
Prepayments, other receivables and other assets	*21*	4,084,720	6,141,779	10,854,744	9,844,022
Financial assets at fair value through profit or loss	*22*	–	59,981	–	–
Structured deposits	*23*	1,900,000	3,450,000	200,000	–
Pledged deposits	*24*	48,200	5,534	–	–
Cash and cash equivalents	*24*	2,302,747	1,586,007	828,954	3,714,610
Total current assets		8,873,395	11,962,600	12,304,521	13,959,507
CURRENT LIABILITIES					
Trade and bills payables	*26*	1,165,199	816,590	1,425,087	1,421,579
Other payables and accruals	*27*	947,007	1,242,115	1,527,405	1,942,136
Contract liabilities	*28*	1,919,937	2,289,945	2,164,610	1,854,631
Interest-bearing borrowings	*25*	50,066	–	–	1,452,420
Lease liabilities	*15*	17,745	23,861	4,547	5,602
Tax payables		239,831	284,084	187,739	125,456
Total current liabilities		4,339,785	4,656,595	5,309,388	6,801,824
NET CURRENT ASSETS		4,533,610	7,306,005	6,995,133	7,157,683
TOTAL ASSETS LESS CURRENT LIABILITIES		6,974,836	9,988,117	9,597,057	9,850,372

		As at 31 December			As at 31 May
	Notes	**2017**	**2018**	**2019**	**2020**
		RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
NON-CURRENT LIABILITIES					
Deferred income	*29*	32,826	25,530	18,732	15,900
Deferred tax liabilities	*17*	–	54,314	42,135	37,143
Lease liabilities	*15*	20,041	6,702	9,927	5,898
Total non-current liabilities		52,867	86,546	70,794	58,941
NET ASSETS		6,921,969	9,901,571	9,526,263	9,791,431
EQUITY					
Share capital	*30*	360,000	360,000	360,000	1,080,000
Reserves	*32*	6,561,969	9,541,571	9,166,263	8,711,431
Total equity		6,921,969	9,901,571	9,526,263	9,791,431

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

Nongfu Spring Co., Ltd. was incorporated and registered in the People's Republic of China ("**PRC**") on 27 June 2001. The address of the registered office is No. 181, Geyazhuang Road, Xihu District, Hangzhou, Zhejiang Province.

The Company and its subsidiaries are principally engaged in the following activities:

– Production and sales of packaged water and beverage

– Sales of agricultural products

In the opinion of management, the immediate holding company and the ultimate holding company of the Company is Yangshengtang Co., Ltd.

Information about subsidiaries

As at the date of this report, particulars of the Company's principal subsidiaries are as follows:

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shanghai Nongfu Spring Drinking Water Company Limited ("上海農夫山泉飲用水有限公司") (ii)	PRC/Mainland China 4 September 1997	RMB1,000,000	100%	N/A	Sales of packaged water and beverage
Nongfu Spring Hangzhou Thousand-Island Lake Drinking Water Company Limited ("農夫山泉杭州千島湖飲用水有限公司") (i)	PRC/Mainland China 3 August 1999	RMB171,000,000	100%	N/A	Production of packaged water and beverage
Nongfu Spring Jilin Changbai Mountain Company Limited ("農夫山泉吉林長白山有限公司") (ii)	PRC/Mainland China 26 June 2001	RMB108,000,000	100%	N/A	Production of packaged water and beverage
Nongfu Spring Zhejiang Thousand-Island Lake Company Limited ("農夫山泉浙江千島湖有限公司") (i)	PRC/Mainland China 23 July 2003	RMB111,800,000	100%	N/A	Production of packaged water and beverage

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Nongfu Spring Guangdong Wanlv Lake Company Limited ("農夫山泉廣東萬綠湖有限公司") (i)	PRC/Mainland China 7 April 2004	RMB50,000,000	100%	N/A	Production of packaged water and beverage
Xinjiang Nongfu Base Manas Food Company Limited ("新疆農夫基地瑪納斯食品有限公司") (ii)	PRC/Mainland China 9 February 2006	RMB25,000,000	100%	N/A	Production of packaged water and beverage
Nongfu Spring (Jiande) Xin'an River Beverage Company Limited ("農夫山泉(建德)新安江飲料有限公司") (i)	PRC/Mainland China 9 November 2006	RMB190,000,000	100%	N/A	Production of packaged water and beverage
Nongfu Spring (Chun'an Pingshan) Company Limited ("農夫山泉(淳安坪山)有限公司") (ii)	PRC/Mainland China 26 December 2006	RMB30,000,000	95%	5%	Sales of packaged water and beverage
Nongfu Spring (Chun'an Tea Garden) Company Limited ("農夫山泉(淳安茶園)有限公司") (i)	PRC/Mainland China 26 December 2006	RMB65,000,000	100%	N/A	Production of packaged water and beverage
Nongfu Spring Sichuan Emei Mountain Beverage Company Limited ("農夫山泉四川峨眉山飲料有限公司") (ii)	PRC/Mainland China 27 November 2008	RMB20,000,000	100%	N/A	Production of packaged water and beverage
Nongfu Spring Hubei DanJiangKou (Xincheng) Beverage Company Limited ("農夫山泉湖北丹江口(新城)飲料有限公司") (ii)	PRC/Mainland China 29 June 2009	RMB116,000,000	100%	N/A	Production of packaged water and beverage
Nongfu Spring Fusong Changbai Mountain Natural Mineral Water Company Limited ("農夫山泉撫松長白山天然礦泉水有限公司") (ii)	PRC/Mainland China 4 February 2010	RMB236,000,000	100%	N/A	Production of packaged water and beverage

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Nongfu Spring Shaanxi Taibai Mountain Beverage Company Limited ("農夫山泉陝西太白山飲料有限公司") (ii)	PRC/Mainland China 2 September 2011	RMB60,000,000	100%	N/A	Production of packaged water and beverage
Nongfu Spring (Guizhou) Wuling Mountain Beverage Company Limited ("農夫山泉(貴州)武陵山飲料有限公司") (ii)	PRC/Mainland China 23 October 2012	RMB50,000,000	100%	N/A	Production of packaged water and beverage
Nongfu Spring Manas County Beverage Company Limited ("農夫山泉瑪納斯縣飲料有限公司") (ii)	PRC/Mainland China 21 October 2014	RMB1,000,000	100%	N/A	Sales of packaged water and beverage
Nongfu Spring (Jiande) Xin'an River Drinking Water Company Limited ("農夫山泉(建德)新安江飲用水有限公司") (ii)	PRC/Mainland China 10 December 2014	RMB30,000,000	100%	N/A	Production of packaged water and beverage
Nongfu Spring Sichuan Beverage Products Company Limited ("農夫山泉四川飲品有限公司") (ii)	PRC/Mainland China 31 December 2014	RMB10,000,000	100%	N/A	Production of packaged water and beverage
Yili Nongfu Spring Fruit Industry Company Limited ("伊犁農夫山泉果業有限公司") (ii)	PRC/Mainland China 8 June 2015	RMB10,000,000	N/A	100%	Sales of agricultural products
Xinfeng Nongfu Spring Fruit Industry Company Limited ("信豐農夫山泉果業有限公司") (ii)	PRC/Mainland China 27 July 2015	RMB10,000,000	N/A	100%	Sales of agricultural products
Nongfu Spring Hubei DanJiangkou (Junzhou) Beverage Company Limited ("農夫山泉湖北丹江口(均州)飲料有限公司") (ii)	PRC/Mainland China 11 July 2017	RMB50,000,000	100%	N/A	Production of packaged water and beverage

Name	Place and date of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Nongfu Spring (Anji) Smart Life Company Limited ("農夫山泉(安吉)智能生活有限公司") (ii)	PRC/Mainland China 12 December 2017	RMB100,000,000	100%	N/A	Sales of packaged water and beverage
Nongfu Spring (Chun'an Tea Garden) Beverage Company Limited ("農夫山泉(淳安茶園)飲料有限公司") (iii)	PRC/Mainland China 25 October 2018	RMB20,000,000	100%	N/A	Production of packaged water and beverage
Nongfu Spring Hubei DanJiangKou Sales Company Limited ("農夫山泉湖北丹江口銷售有限公司") (iv)	PRC/Mainland China 21 November 2018	RMB1,000,000	100%	N/A	Sales of packaged water and beverage
Shanghai Nongfu Spring Supply Chain Technology Company Limited ("上海農夫山泉供應鏈科技有限公司") (iv)	PRC/Mainland China 16 May 2019	RMB50,000,000	100%	N/A	Supply chain management

The English names of the companies registered in the PRC represent the best efforts made by the management of the Company in directly translating the Chinese names of these companies as no English names have been registered.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results during the Relevant Periods or formed a substantial portion of the net assets of the Group.

Notes:

(i) The statutory financial statements of these companies, for the years ended 31 December 2017, 2018 and 2019 prepared in accordance with PRC Generally Accepted Accounting Principles ("**PRC GAAP**") were audited by Pan-China Certified Public Accountants LLP.

(ii) The statutory financial statements of these companies, for the years ended 31 December 2017 and 2018 prepared in accordance with PRC Generally Accepted Accounting Principles ("**PRC GAAP**") were audited by Pan-China Certified Public Accountants LLP.

(iii) The statutory financial statements of this company, for the years ended 31 December 2018 prepared in accordance with PRC Generally Accepted Accounting Principles ("**PRC GAAP**") were audited by Pan-China Certified Public Accountants LLP.

(iv) No statutory audited financial statements of these companies have been prepared for the years ended 31 December 2017, 2018 and 2019.

2.1 BASIS OF PRESENTATION

In July 2018, the Company entered into a share purchase agreement with Yangshengtang Co., Ltd, its ultimate holding company, to acquire 100% equity interests of Nongfu Spring (Anji) Smart Life Company Limited ("**Anji Smart Life**") for an aggregate purchase price of RMB95,000,000 in cash. Anji Smart Life was set up by Yangshengtang Co., Ltd. with a capital injection of RMB100,000,000 in 2018, which is principally engaged in selling packaged water and beverage. The acquisition of Anji Smart Life was made as part of the Group's strategy to support its business and expand its market share of products in China. The acquisition was consummated in December 2018.

Since the Group and Anji Smart Life are under common control of Yangshengtang Co., Ltd., the Group's acquisition of Anji Smart Life has been accounted for as a combination of entities under common control with the pooling of interest method applied as if such acquisition had been completed at the date when the Group and Anji Smart Life came under the common control of the ultimate holding company. The assets and liabilities of Anji Smart Life were included using the existing book values from the ultimate holding company's perspective. No adjustments were made to reflect fair values, or recognise any new assets or liabilities as a result of such acquisition. The results and cash flows of Anji Smart Life were included since the date when Anji Smart Life and the Group came under the common control of the ultimate holding company. The contribution from the ultimate holding company to Anji Smart Life and the consideration paid for the acquisition of Anji Smart Life are accounted for as an equity transaction in capital reserve in the consolidated statement of changes in equity.

2.2 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which comprise all standards and interpretations approved by the International Accounting Standards Board (the "**IASB**").

All IFRSs effective for the accounting period commencing from 1 January 2020, including IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, and IFRS 16 *Leases*, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods and in the period covered by the Interim Comparative Financial Information.

The Historical Financial Information has been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value.

As at 31 May 2020, the Group had net current liabilities of approximately RMB1,711,645,000. The Directors believe that the Group has sufficient cash flows in the foreseeable future from the operations and current available unutilised banking facilities to continue its operation and meet its liabilities as and when they fall due for at least the next 12 months from the end of the reporting period. Therefore, the Historical Financial Information has been prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the years ended 31 December 2017, 2018, 2019 and the five months ended 31 May 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

a. the contractual arrangement with the other vote holders of the investee;

b. rights arising from other contractual arrangements; and

c. the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not adopted the following new and revised IFRSs that have been issued but are not yet effective in the Historical Financial Information:

Amendments to IFRS 3	*Reference to the Conceptual Framework*[6]
Amendments to IFRS 4	*Extension of the Temporary Exemption from Applying IFRS 9*[4]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[5]
Amendments to IFRS 16	*Covid-19-Related Rent Concessions*[1]
IFRS 17	*Insurance Contracts*[2]
Amendments to IFRS 17	*Insurance Contracts*[4]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current*[3]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[3]
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[3]
Annual Improvements to IFRSs 2018-2020	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41[3]

1 Effective for annual periods beginning on or after 1 June 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after 1 January 2022
4 Effective for annual periods beginning on or after 1 January 2023
5 No mandatory effective date yet determined but available for adoption
6 Business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2022

The Group has already commenced an assessment of the impact of these new or revised standards and amendments. So far, the Group considers that these new and revised IFRSs may result in changes in accounting policies but are unlikely to have a significant impact on the Group's financial performance and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its equity investments at fair value at 31 December 2017, 2018, 2019 and 31 May 2020. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Historical Financial Information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Historical Financial Information on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each of the Relevant Periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Category	Estimated useful life	Estimated residual value
Buildings	10-20 years	3%
Machinery	5-10 years	3%
Motor vehicles	5-10 years	3%
Furniture, fixtures and equipment	3-5 years	3%
Leasehold improvements	Shorter of the lease terms or 3-5 years	0%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and machinery, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of the acquisition. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for another intangible asset with a finite useful life are reviewed at least at each financial year end.

The principal estimated useful lives of intangible assets are as follows:

Category	**Estimated useful life**	**Estimated residual value**
Software	2-10 years	0%
Mineral water mining license	Over the license term	0%
Others	5-10 years	0%

Software

Software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful lives of 2 to 10 years.

Mineral water mining license

Mineral water mining license is stated at cost and is amortised on the straight-line basis over the license term.

Others

Others include patents and emission right, which are stated at cost and amortised on the straight-line basis over their estimated useful lives of 5 to 10 years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Prepaid land lease payments	50 years
Office premises and plant	2-5 years
Equipment	7 years
Others	3-5 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership to an underlying asset to the lessee, are accounted for as finance leases.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income ("**OCI**"), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statements of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through OCI. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statements of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1	–	Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
Stage 2	–	Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
Stage 3	–	Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accruals, interest-bearing borrowings and lease liabilities.

Financial liabilities at amortised cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted average cost basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each of the Relevant Periods of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carry-forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the Relevant Periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each of the Relevant Periods.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss.

Revenue recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Some contracts for the sale of goods provide customers with rights of return and volume rebates. The rights of return and volume rebates give rise to variable consideration.

Rights of return

For contracts which provide a customer with a right of return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

Variable consideration: volume-based rebates

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a liability for the expected future rebates is recognised.

Interest income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Share-based payments

Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("**equity-settled transactions**").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is computed based on their most recent post-money valuations. The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each of the Relevant Periods until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Other employee benefits

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The Group is required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Employee benefits to all eligible employees of the overseas subsidiaries are made in accordance with the rules set forth in the collective labour agreement, and recorded as an expense in the period they are due as a charge to the statement of profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each of the Relevant Periods. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of each of the Relevant Periods, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of each of the Relevant Periods and their statements of profit or loss are translated into RMB at the weighted average exchange rates for the year/period.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statements of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year/period.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the Historical Financial Information:

Deferred tax assets

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary difference can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 17 to the Historical Financial Information.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Variable consideration for volume rebates

The Group estimates variable consideration to be included in the transaction price for the sales of products with volume rebates.

The Group's volume rebates are analysed on a per customer basis for contracts that are subject to a single volume threshold. Determining whether a customer will likely be entitled to a rebate depends on the customer's historical rebate entitlement and accumulated purchases to date.

The Group updates its assessment of expected volume rebates yearly and the sales discount and rebate payables are adjusted accordingly. Estimates of expected volume rebates are sensitive to changes in circumstances and the Group's past experience regarding rebate entitlements may not be representative of a customer's actual rebate entitlements in the future. As at 31 December 2017, 2018, 2019 and 31 May 2020, the amounts recognised as sales discount and rebate payables were RMB318,844,000, RMB427,257,000, RMB447,820,000 and RMB422,900,000 for the expected volume rebates, respectively.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by product type, customer type and rating and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products, consumer price index, deposit reserve ratio, inflation rate and rate of unemployment) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 20.

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

Fair value of financial instruments

If the market for a financial instrument is not active, the Group estimates fair value by using a valuation technique. Valuation techniques include using recent prices in arm's length market transactions between knowledgeable and willing parties, if available, reference to the current fair value of another instrument that is substantially the same, or discounted cash flow analyses and option pricing models. To the extent practicable, valuation technique makes the maximum use of market inputs.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at 31 December 2017, 2018, 2019 and 31 May 2020. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate to calculate the present value of those cash flows.

4. OPERATING SEGMENT INFORMATION

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

– the water products segment engages in manufacturing and sale of natural packaged drinking water;

– the functional drinks products segment engages in manufacturing and sale of functional beverages;

– the ready-to-drink tea products segment engages in manufacturing and sale of ready-to-drink tea beverages;

– the juice beverage products segment engages in manufacturing and sale of juice beverage products; and

– the other products segment engages in manufacturing and sale of agricultural products and other beverages.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, other income and gains, as well as head office and corporate expenses are excluded from such measurement. No analysis of segment assets and liabilities is presented as management does not regularly review such information for the purposes of resource allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segments.

	Year ended 31 December 2017					
	Water products	**Functional drinks products**	**Ready-to-drink tea products**	**Juice beverage products**	**Other products**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Segment revenue *(note 5)*						
Sales to external customers	10,120,018	2,935,727	2,596,712	1,468,167	370,590	17,491,214
Segment results	2,719,639	979,836	942,867	269,127	7,837	4,919,306
Reconciliation:						
Interest income						136,760
Other unallocated income and gains						265,627
Corporate and other unallocated expenses						(878,342)
Finance costs						(8,381)
Profit before tax						4,434,970
Other segment information						
Depreciation and amortization	571,200	195,119	154,386	121,989	38,336	1,081,030

	Year ended 31 December 2018					
	Water products	Functional drinks products	Ready-to-drink tea products	Juice beverage products	Other products	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue *(note 5)*						
Sales to external customers	11,780,199	3,321,978	3,036,272	1,854,406	482,190	20,475,045
Segment results	3,064,030	1,072,345	1,098,437	440,915	27,585	5,703,312
Reconciliation:						
Interest income						205,513
Other unallocated income and gains						328,035
Corporate and other unallocated expenses						(1,469,509)
Finance costs						(4,113)
Profit before tax						4,763,238
Other segment information						
Depreciation and amortization	706,701	222,899	176,061	142,638	47,779	1,296,078

	Year ended 31 December 2019					
	Water products	Functional drinks products	Ready-to-drink tea products	Juice beverage products	Other products	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue *(note 5)*						
Sales to external customers	14,346,314	3,779,291	3,137,524	2,311,057	446,855	24,021,041
Segment results	4,513,169	1,344,157	1,198,281	430,118	8,515	7,494,240
Reconciliation:						
Interest income						216,933
Other unallocated income and gains						557,026
Corporate and other unallocated expenses						(1,753,914)
Finance costs						(15,525)
Profit before tax						6,498,760
Other segment information						
Depreciation and amortization	887,861	272,341	194,956	208,772	50,222	1,614,152

	Five months ended 31 May 2019					
	Water products	Functional drinks products	Ready-to-drink tea products	Juice beverage products	Other products	Total
	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
Segment revenue *(note 5)*						
Sales to external customers	5,601,863	1,837,524	1,479,240	869,753	128,854	9,917,234
Segment results	1,842,482	668,752	615,324	194,967	2,629	3,324,154
Reconciliation:						
Interest income						83,894
Other unallocated income and gains						192,986
Corporate and other unallocated expenses						(529,298)
Finance costs						(1,346)
Profit before tax						3,070,390
Other segment information						
Depreciation and amortization	331,434	129,513	87,155	74,920	14,681	637,703

	Five months ended 31 May 2020					
	Water products	Functional drinks products	Ready-to-drink tea products	Juice beverage products	Other products	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue *(note 5)*						
Sales to external customers	5,360,257	1,085,074	1,166,045	751,425	300,854	8,663,655
Segment results	1,763,877	424,375	512,400	183,809	107,620	2,992,081
Reconciliation:						
Interest income						23,134
Other unallocated income and gains						165,083
Corporate and other unallocated expenses						(598,233)
Finance costs						(23,067)
Profit before tax						2,558,998
Other segment information						
Depreciation and amortization	368,173	85,735	80,104	71,715	25,147	630,874

Geographical information

Over 99% of the Group's revenue and operating profits are derived from customers based in Mainland China and over 98% of the Group's identifiable assets and liabilities were in Mainland China.

Information about major customers

No sales to a single customer accounted for 10% or more of the Group's revenue during the Relevant Periods.

5. REVENUE

An analysis of revenue is as follows:

	Year ended 31 December			Five months ended 31 May	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000 (unaudited)**	**RMB'000**
Revenue from contracts with customers					
Sale of goods	17,491,214	20,475,045	24,021,041	9,917,234	8,663,655

The timing of the above revenue recognition is when the performance obligations of sales and delivery of goods are satisfied at a point in time.

The performance obligation is satisfied upon delivery of the goods and payment in advance is normally required, except for customers with credit terms, where payment is generally due within 30 days and extended up to 90 days for major customers. Some contracts provide customers with a right of return and volume rebates which give rise to variable consideration.

The Group has no revenue contract that has an original expected duration more than one year, thus management applied practical expedient under IFRS15 and are not disclosing the aggregate amount of the transaction price allocated to the performance obligation that are unsatisfied or partially satisfied as of the end of the reporting period.

6. OTHER INCOME AND GAINS, AND OTHER EXPENSES

		Year ended 31 December			Five months ended 31 May	
		2017	2018	2019	2019	2020
	Notes	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Other income						
Government grants and subsidies						
related to income	*(i)*	194,283	226,098	353,657	108,881	110,132
related to assets	*(ii)*	19,566	24,184	30,299	7,260	13,236
Interest income		136,760	205,513	216,933	83,894	23,134
Income from compensation		10,012	15,484	15,891	6,679	7,294
Sale of scraps		35,267	55,384	66,546	27,744	28,391
		395,888	526,663	683,326	234,458	182,187
Gains						
Gains from disposal of right-of-use assets		–	1,631	–	–	–
Fair value gain on financial assets at fair value through profit or loss		1,779	–	35,750	31,350	–
Gains on disposal of subsidiaries		–	–	1,580	–	1,621
Gains on disposal of items of property, plant and equipment		–	–	35,709	–	–
Foreign exchange gains, net		–	–	–	3,135	835
Others		4,720	5,254	17,594	7,937	3,574
		6,499	6,885	90,633	42,422	6,030
		402,387	533,548	773,959	276,880	188,217

		Year ended 31 December			Five months ended 31 May	
		2017	2018	2019	2019	2020
	Notes	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Other expenses						
Donations	*(iii)*	(3,604)	(365,476)	(362,109)	(960)	(1,667)
Foreign exchange loss, net		(1,627)	(10,455)	(6,569)	–	–
Loss on disposal of items of property, plant and equipment		(7,343)	(7,143)	–	(5,872)	(855)
Fair value loss on financial assets at fair value through profit or loss		–	(14,193)	–	–	–
Others		(6,284)	(7,073)	(2,727)	(152)	(427)
		(18,858)	(404,340)	(371,405)	(6,984)	(2,949)

(i) The government grants and subsidies related to income have been received to reward for the contribution to the local economic growth. These grants related to income are recognised in the statement of profit or loss upon receipt of these rewards. There are no unfulfilled conditions or contingencies relating to these grants.

(ii) The Group has received certain government grants related to the investments in production bases. The grants related to assets were recognised in the statement of profit or loss over the useful lives of relevant assets. Details of these grants related to assets are set out in note 29.

(iii) The Group has donated RMB360,000,000 and RMB360,000,000 during the years ended 31 December 2018 and 2019, respectively, to Hangzhou Xihu District Zhongziyi Education Fund, which is controlled by the shareholder of the ultimate holding company.

7. PROFIT BEFORE TAX

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

	Year ended 31 December			Five months ended 31 May	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cost of inventories sold*	7,681,940	9,554,211	10,710,410	4,341,471	3,544,555
Depreciation of property, plant and equipment	1,103,867	1,326,057	1,663,650	640,954	756,885
Depreciation of right-of-use assets	38,096	52,965	57,753	33,693	16,265
Amortisation of intangible assets**	17,821	15,719	12,170	4,976	5,406
Employee benefit expenses (including directors' and chief executive's remuneration *(note 9)*):					
Wages and salaries	1,496,784	1,569,448	1,705,110	686,048	669,948
Pension scheme contributions, social welfare and other welfare	301,052	317,200	329,714	138,763	91,045
Equity-settled share award expenses	–	–	156,894	–	–
Research and development costs	46,712	106,996	115,135	44,587	60,437
Expenses relating to short-term leases and leases of low-value assets	66,482	98,527	142,751	55,741	71,945
Impairment of trade receivables	4,550	1,643	5,254	7,152	6,648
(Write-back of impairment)/impairment of financial assets included in prepayments, other receivables and other assets	(706)	5,594	(9,872)	(3,670)	(2,956)
Auditor's remuneration	2,316	2,829	2,705	201	833
Listing expenses	–	–	6,729	–	22,215

* Cost of inventories sold include expenses relating to depreciation of property, plant and equipment, depreciation of right-of-use assets and staff costs, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

** The amortisation of intangible assets for the Relevant Periods is included in administrative expenses in the consolidated statements of profit or loss.

8. FINANCE COSTS

	Year ended 31 December			Five months ended 31 May	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest on interest-bearing borrowings	5,205	1,033	12,806	–	21,887
Interest on lease liabilities	3,176	3,080	2,719	1,346	1,180
	8,381	4,113	15,525	1,346	23,067

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Details of the emoluments paid or payable to the directors and the chief executive of the Company for their services provided to the Group during the Relevant Periods are as follows:

		Year ended 31 December 2017				
		Fees	Salaries	Performance-related bonuses	Pension scheme contributions	Total
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Chief executive and executive director:						
Mr. Shanshan Zhong		–	960	–	–	960
Non-executive directors:						
Mr. Cheng Lu	*ii*	–	–	–	–	–
Mr. Shuzi Zhong	*i*	–	–	–	–	–
Mr. Xingyan Sun	*iv*	–	–	–	–	–
Independent non-executive directors:						
Mr. Weisen Li		120	–	–	–	120
Mr. Fanyu Zhu	*iii*	60	–	–	–	60
Mr. Jianing Zhu	*iii*	60	–	–	–	60
		240	960	–	–	1,200

		Year ended 31 December 2018				
		Fees	Salaries	Performance-related bonuses	Pension scheme contributions	Total
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Chief executive and executive director:						
Mr. Shanshan Zhong		–	2,040	–	–	2,040
Non-executive directors:						
Mr. Cheng Lu	*ii*	–	–	–	–	–
Mr. Shuzi Zhong	*i*	–	–	–	–	–
Mr. Xingyan Sun	*iv*	–	–	–	–	–
Independent non-executive director:						
Mr. Weisen Li		120	–	–	–	120
		120	2,040	–	–	2,160

		Year ended 31 December 2019					
		Fees	Salaries	Performance-related bonuses	Pension scheme contributions	Equity-settled share award expenses	Total
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Chief executive and executive director:							
Mr. Shanshan Zhong		–	2,040	1,460	–	–	3,500
Executive directors:							
Mr. Li Zhou	*v*	–	1,380	1,375	88	16,299	19,142
Mr. Jigang Zhong	*v*	–	1,283	1,100	14	26,388	28,785
Ms. Zhenhua Zhou	*v*	–	1,389	1,750	114	–	3,253
Mr. Zhen Guo	*vi*	–	606	392	–	–	998
Non-executive directors:							
Mr. Cheng Lu	*ii*	–	–	–	–	–	–
Mr. Shuzi Zhong	*i*	–	–	–	–	–	–
Mr. Xingyan Sun	*iv*	–	–	–	–	–	–
Independent non-executive directors:							
Mr. Weisen Li		120	–	–	–	–	120
Mr. Yuan Lu	*v*	30	–	–	–	–	30
Mr. Lei Yang	*v*	30	–	–	–	–	30
		180	6,698	6,077	216	42,687	55,858

		Five months ended 31 May 2019				
		Fees	Salaries	Performance-related bonuses	Pension scheme contributions	Total
	Notes	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)	RMB'000 (unaudited)
Chief executive and executive director:						
Mr. Shanshan Zhong		–	850	608	–	1,458
Non-executive directors:						
Mr. Cheng Lu	*ii*	–	–	–	–	–
Mr. Shuzi Zhong	*i*	–	–	–	–	–
Mr. Xingyan Sun	*iv*	–	–	–	–	–
Independent non-executive directors:						
Mr. Weisen Li	*viii*	50	–	–	–	50
		50	850	608	–	1,508

		Five months ended 31 May 2020				
		Fees	Salaries	Performance-related bonuses	Pension scheme contributions	Total
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Chief executive and executive director:						
Mr. Shanshan Zhong		–	850	608	–	1,458
Executive directors:						
Mr. Li Zhou	*v*	–	475	417	31	923
Mr. Jigang Zhong	*v*	–	190	167	–	357
Ms. Zhenhua Zhou	*v*	–	475	729	44	1,248
Mr. Zhen Guo	*vi*	–	240	236	–	476
Mr. Yuan Liao	*vii*	–	350	313	31	694
Non-executive directors:						
Mr. Shuzi Zhong	*i*	–	300	–	9	309
Independent non-executive directors:						
Mr. Weisen Li	*viii*	20	–	–	–	20
Mr. Yuan Lu	*v*	70	–	–	–	70
Mr. Lei Yang	*v*	70	–	–	–	70
Mr. Stanley Yi Chang	*vii*	40	–	–	–	40
		200	2,880	2,470	115	5,665

Notes:

(i) Mr. Shuzi Zhong was appointed on 21 June 2017.

(ii) Mr. Cheng Lu was appointed on 30 June 2014 and resigned on 15 December 2019.

(iii) Mr. Fanyu Zhu and Mr. Jianing Zhu were appointed on 30 June 2014 and resigned on 21 June 2017.

(iv) Mr. Xingyan Sun was appointed on 30 June 2014 and resigned on 12 August 2019.

(v) Mr. Li Zhou, Ms. Zhenhua Zhou, Mr. Yuan Lu and Mr. Lei Yang were appointed on 3 September 2019. Mr. Jigang Zhong was appointed on 3 September 2019 and resigned on 6 March 2020.

(vi) Mr. Zhen Guo was appointed on 15 December 2019.

(vii) Mr. Yuan Liao and Mr. Stanley Yi Chang were appointed on 6 March 2020.

(viii) Mr. Weisen Li was appointed on 30 June 2014 and resigned on 6 March 2020.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Relevant Periods.

10. FIVE HIGHEST PAID EMPLOYEES

The five individuals with the highest emoluments in the Group for the years ended 31 December 2017, 2018, 2019 and the five months ended 31 May 2019 and 2020 include nil, one, two, one and three directors disclosed above, respectively, details of whose remuneration are set out as above in note 9. Details of the remuneration of the remaining five, four, three, four and two highest paid employees who are neither a director nor chief executive of the Company for the years ended 31 December 2017, 2018, 2019 and the five months ended 31 May 2019 and 2020 are as follows:

	Year ended 31 December			Five months ended 31 May	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries	5,753	5,280	1,515	1,973	929
Performance related bonuses	2,873	1,988	1,687	2,141	789
Pension scheme contributions	462	363	192	131	58
Equity-settled share award expenses	–	–	45,753	–	–
	9,088	7,631	49,147	4,245	1,776

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees				
	Year ended 31 December			Five months ended 31 May	
	2017	2018	2019	2019	2020
				(unaudited)	
RMB500,001 to RMB1,000,000	–	–	–	2	2
RMB1,000,001 to RMB1,500,000	–	–	–	2	–
RMB1,500,001 to RMB2,000,000	4	2	–	–	–
RMB2,000,001 to RMB2,500,000	1	2	–	–	–
RMB4,000,001 to RMB4,500,000	–	–	1	–	–
RMB11,000,001 to RMB11,500,000	–	–	1	–	–
RMB33,500,001 to RMB34,000,000	–	–	1	–	–
	5	4	3	4	2

11. INCOME TAX EXPENSE

	Year ended 31 December			Five months ended 31 May	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current - PRC					
Charge for the year/period	1,098,003	1,133,945	1,528,953	731,862	653,254
(Over)/under provision in prior years	(5,195)	(147)	(1,454)	(1,454)	3,752
Current - Other jurisdiction	5	406	(308)	(87)	6
Deferred *(note 17)*	(43,792)	17,322	17,325	(19,884)	(28,901)
Total	1,049,021	1,151,526	1,544,516	710,437	628,111

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

PRC corporate income tax

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the EIT rate of the Group's PRC subsidiaries is 25% unless subject to tax exemption set out below.

The statutory PRC Enterprise income tax for the PRC subsidiaries is 25% for the Relevant Periods. According to the Tax Relief Notice (Cai Shui [2011] no.58) on the Grand Development of Western Region jointly issued by the Ministry of Finance, the State Administration of Taxation and China Customs, foreign investment enterprises located in the western region of the PRC with over 70% of the principal revenue generated from the encouraged business activities are entitled to a preferential income tax rate of 15% for 10 years from 1 January 2011 to 31 December 2020. Accordingly, certain subsidiaries located in the Western region of the PRC are entitled to an income tax rate of 15% for the Relevant Periods.

Certain of the Group's PRC subsidiaries are qualified as small and micro enterprises and are entitled to a preferential corporate income tax rate of 20% during the Relevant Periods.

Certain of the Group's PRC subsidiaries are engaged in agriculture and entitled to the tax exemption on agricultural products.

Hong Kong profits tax

The statutory rate of Hong Kong profits tax was 16.5% for the Relevant Periods on the estimated assessable profits arising in Hong Kong. No provision for Hong Kong profits tax was made as the Group had no assessable profits arising in Hong Kong during the Relevant Periods.

Income tax for other jurisdictions

The Group's tax provision in respect of other jurisdictions has been calculated at the applicable tax rates in accordance with the prevailing practices of the jurisdictions in which the Group operates.

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the statutory tax rates to the effective tax rates, are as follows:

	Year ended 31 December			Five months ended 31 May	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB' 000	**RMB'000**	**RMB'000**	**RMB'000 (unaudited)**	**RMB'000**
Profit before tax	4,434,970	4,763,238	6,498,760	3,070,390	2,558,998
Tax at the PRC corporate income tax rate of 25%	1,108,743	1,190,810	1,624,690	767,598	639,750
Lower tax rate(s) for specific provinces or enacted by local authority	(23,904)	(20,226)	(23,717)	(12,263)	(7,636)
Effect of tax concessions	(24,890)	(20,035)	(76,552)	(41,547)	(11,548)
Expenses not deductible for tax	2,024	13,447	43,705	2,872	8,281
Income not subject to tax	(317)	(61)	(6,493)	–	(900)
(Over)/under provision in respect of prior years	(5,195)	(147)	(1,454)	(1,454)	3,752
Research and development super deduction	(6,016)	(16,878)	(21,704)	(5,852)	(6,438)
Tax losses utilised from prior years	(4,057)	(16)	(28)	(63)	–
Tax losses not recognised	2,633	4,632	6,069	1,146	2,850
Income tax expense	1,049,021	1,151,526	1,544,516	710,437	628,111

12. DIVIDENDS

	Year ended 31 December			Five months ended 31 May	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Dividends declared by the Company	367,200	367,200	9,597,600	–	900,000

On 6 March 2020, the Company's shareholders approved the 2019 profit distribution plan at an annual general meeting, pursuant to which a dividend of RMB0.5 for every share of the Company's 360,000,000 shares, in an aggregate amount of RMB180,000,000, which was paid in March and April 2020 to shareholders of the Company. Also, a share dividend of 20 shares for every 10 shares of the Company was declared to all shareholders with the conversion of retained earnings amounted to RMB720,000,000.

On 12 August 2019, the Company's shareholders approved the 2018 profit distribution plan at an annual general meeting, pursuant to which a dividend of RMB26.66 for every share of the Company's 360,000,000 shares, in an aggregate amount of RMB9,597,600,000, was paid in September 2019 to shareholders of the Company.

On 20 June 2018, the Company's shareholders approved the 2017 profit distribution plan at an annual general meeting, pursuant to which a dividend of RMB1.02 for every share of the Company's 360,000,000 shares, in an aggregate amount of RMB367,200,000, was paid in July 2018 to shareholders of the Company.

On 31 July 2017, the Company's shareholders approved the 2016 profit distribution plan at an annual general meeting, pursuant to which a dividend of RMB1.02 for every share of the Company's 360,000,000 shares, in an aggregate amount of RMB367,200,000, was paid in October 2017 to shareholders of the Company.

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

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 10,800,000,000 during years ended 31 December 2017, 2018, 2019 and the five months ended 31 May 2019 and 2020, respectively, as adjusted retrospectively to reflect the approval of the issue of share dividend on the basis of 20 share dividend for every ten shares in March 2020 and the subdivision of shares on a one-for-ten basis in August 2020.

The Group had no potentially dilutive ordinary shares in issue during the Relevant Periods.

The calculations of basic and diluted earnings per share are based on:

	Year ended 31 December			Five months ended 31 May	
	2017	**2018**	**2019**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000** (unaudited)	**RMB'000**
Earnings:					
Profit attributable to ordinary equity holders of the parent	3,380,409	3,606,059	4,948,568	2,356,174	1,930,887

	Year ended 31 December			Five months ended 31 May	
	2017	**2018**	**2019**	**2019**	**2020**
				(unaudited)	
Number of shares:					
Weighted average number of ordinary shares used in the basic and diluted earnings per share calculations	10,800,000,000	10,800,000,000	10,800,000,000	10,800,000,000	10,800,000,000

14. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings	Machinery	Furniture, fixtures and equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2017							
At 1 January 2017							
Cost	2,868,200	7,625,466	964,340	155,921	120,377	529,972	12,264,276
Accumulated depreciation and impairment	(596,185)	(3,374,352)	(404,227)	(102,849)	(10,916)	–	(4,488,529)
Net carrying amount	2,272,015	4,251,114	560,113	53,072	109,461	529,972	7,775,747
At 1 January 2017, net of accumulated depreciation and impairment	2,272,015	4,251,114	560,113	53,072	109,461	529,972	7,775,747
Additions	237,139	334,522	157,437	48,545	48,125	1,472,258	2,298,026
Disposals	(12,904)	(13,360)	(8,794)	(4,116)	–	–	(39,174)
Depreciation provided during the year	(157,670)	(730,412)	(163,920)	(25,680)	(26,185)	–	(1,103,867)
Transfers	241,680	773,111	–	–	–	(1,014,791)	–
At 31 December 2017, net of accumulated depreciation and impairment	2,580,260	4,614,975	544,836	71,821	131,401	987,439	8,930,732
At 31 December 2017							
Cost	3,330,067	8,542,475	1,082,702	186,984	168,502	987,439	14,298,169
Accumulated depreciation and impairment	(749,807)	(3,927,500)	(537,866)	(115,163)	(37,101)	–	(5,367,437)
Net carrying amount	2,580,260	4,614,975	544,836	71,821	131,401	987,439	8,930,732

Group	Buildings	Machinery	Furniture, fixtures and equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2018							
At 1 January 2018							
Cost	3,330,067	8,542,475	1,082,702	186,984	168,502	987,439	14,298,169
Accumulated depreciation and impairment	(749,807)	(3,927,500)	(537,866)	(115,163)	(37,101)	–	(5,367,437)
Net carrying amount	2,580,260	4,614,975	544,836	71,821	131,401	987,439	8,930,732
At 1 January 2018, net of accumulated depreciation and impairment	2,580,260	4,614,975	544,836	71,821	131,401	987,439	8,930,732
Additions	62,932	450,653	936,589	49,889	40,170	1,987,643	3,527,876
Acquisition of subsidiaries (note 33)	4,063	2,609	–	68	–	–	6,740
Disposals	(16,622)	(27,781)	(4,058)	(2,149)	–	–	(50,610)
Depreciation provided during the year	(183,448)	(851,657)	(220,585)	(26,681)	(43,686)	–	(1,326,057)
Transfers	441,330	1,286,537	–	–	–	(1,727,867)	–
At 31 December 2018, net of accumulated depreciation and impairment	2,888,515	5,475,336	1,256,782	92,948	127,885	1,247,215	11,088,681
At 31 December 2018							
Cost	3,790,378	10,071,736	1,912,546	227,646	208,672	1,247,215	17,458,193
Accumulated depreciation and impairment	(901,863)	(4,596,400)	(655,764)	(134,698)	(80,787)	–	(6,369,512)
Net carrying amount	2,888,515	5,475,336	1,256,782	92,948	127,885	1,247,215	11,088,681

Group	Buildings	Machinery	Furniture, fixtures and equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2019							
At 1 January 2019							
Cost	3,790,378	10,071,736	1,912,546	227,646	208,672	1,247,215	17,458,193
Accumulated depreciation and impairment	(901,863)	(4,596,400)	(655,764)	(134,698)	(80,787)	–	(6,369,512)
Net carrying amount	2,888,515	5,475,336	1,256,782	92,948	127,885	1,247,215	11,088,681
At 1 January 2019, net of accumulated depreciation and impairment	2,888,515	5,475,336	1,256,782	92,948	127,885	1,247,215	11,088,681
Additions	72,193	555,500	519,431	27,521	62,120	2,000,662	3,237,427
Disposal of subsidiaries (note 34)	(5,644)	(1,279)	(248)	(45)	(315)	(1,047)	(8,578)
Disposals	(246,632)	(45,249)	(7,590)	(4,063)	(36,000)	–	(339,534)
Depreciation provided during the year	(208,379)	(992,881)	(389,418)	(27,524)	(45,448)	–	(1,663,650)
Transfers	622,340	1,389,151	–	–	–	(2,011,491)	–
At 31 December 2019, net of accumulated depreciation and impairment	3,122,393	6,380,578	1,378,957	88,837	108,242	1,235,339	12,314,346
At 31 December 2019							
Cost	4,184,522	11,881,811	2,396,011	243,418	214,339	1,235,339	20,155,440
Accumulated depreciation and impairment	(1,062,129)	(5,501,233)	(1,017,054)	(154,581)	(106,097)	–	(7,841,094)
Net carrying amount	3,122,393	6,380,578	1,378,957	88,837	108,242	1,235,339	12,314,346

Group	Buildings	Machinery	Furniture, fixtures and equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 May 2020							
At 1 January 2020							
Cost	4,184,522	11,881,811	2,396,011	243,418	214,339	1,235,339	20,155,440
Accumulated depreciation and impairment	(1,062,129)	(5,501,233)	(1,017,054)	(154,581)	(106,097)	–	(7,841,094)
Net carrying amount	3,122,393	6,380,578	1,378,957	88,837	108,242	1,235,339	12,314,346
At 1 January 2020, net of accumulated depreciation and impairment	3,122,393	6,380,578	1,378,957	88,837	108,242	1,235,339	12,314,346
Additions	28,226	183,607	252,653	5,899	2,109	605,307	1,077,801
Disposal of subsidiaries (note 34)	(8,763)	(27,671)	(2,298)	(316)	–	(1,416)	(40,464)
Disposals	–	(12,058)	(3,436)	(824)	–	–	(16,318)
Depreciation provided during the period	(90,058)	(451,189)	(184,013)	(12,007)	(19,618)	–	(756,885)
Transfers	170,919	416,972	–	–	–	(587,891)	–
At 31 May 2020, net of accumulated depreciation and impairment	3,222,717	6,490,239	1,441,863	81,589	90,733	1,251,339	12,578,480
At 31 May 2020							
Cost	4,363,478	12,428,123	2,626,919	245,734	213,192	1,251,339	21,128,785
Accumulated depreciation and impairment	(1,140,761)	(5,937,884)	(1,185,056)	(164,145)	(122,459)	–	(8,550,305)
Net carrying amount	3,222,717	6,490,239	1,441,863	81,589	90,733	1,251,339	12,578,480

As at 31 December 2017, 2018, 2019 and 31 May 2020, the Group had buildings with net carrying amounts of RMB295,772,000, RMB317,324,000, RMB674,177,000 and RMB14,560,000, respectively, in the process of building ownership certificate application.

Company	Buildings	Machinery	Furniture, fixtures and equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2017							
At 1 January 2017							
Cost	86,848	151,072	552,033	21,961	82,180	3,892	897,986
Accumulated depreciation and impairment	(29,138)	(72,287)	(222,017)	(12,286)	–	–	(335,728)
Net carrying amount	57,710	78,785	330,016	9,675	82,180	3,892	562,258
At 1 January 2017, net of accumulated depreciation and impairment	57,710	78,785	330,016	9,675	82,180	3,892	562,258
Additions	201,442	–	86,324	3,977	36,514	1,609	329,866
Disposals	(3,162)	(265)	(2,728)	(125)	–	–	(6,280)
Depreciation provided during the year	(5,704)	(13,420)	(94,427)	(3,689)	(20,972)	–	(138,212)
Transfers	–	1,456	–	–	–	(1,456)	–
At 31 December 2017, net of accumulated depreciation and impairment	250,286	66,556	319,185	9,838	97,722	4,045	747,632
At 31 December 2017							
Cost	285,037	146,134	615,545	25,384	118,693	4,045	1,194,838
Accumulated depreciation and impairment	(34,751)	(79,578)	(296,360)	(15,546)	(20,971)	–	(447,206)
Net carrying amount	250,286	66,556	319,185	9,838	97,722	4,045	747,632

Company	Buildings	Machinery	Furniture, fixtures and equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2018							
At 1 January 2018							
Cost	285,037	146,134	615,545	25,384	118,693	4,045	1,194,838
Accumulated depreciation and impairment	(34,751)	(79,578)	(296,360)	(15,546)	(20,971)	–	(447,206)
Net carrying amount	250,286	66,556	319,185	9,838	97,722	4,045	747,632
At 1 January 2018, net of accumulated depreciation and impairment	250,286	66,556	319,185	9,838	97,722	4,045	747,632
Additions	21,223	228	336,176	666	33,076	1,386	392,755
Disposals	(13)	(235)	(184,654)	(6)	–	(3,003)	(187,911)
Depreciation provided during the year	(13,953)	(12,771)	(103,530)	(3,554)	(29,475)	–	(163,283)
Transfers	–	2,331	–	–	–	(2,331)	–
At 31 December 2018, net of accumulated depreciation and impairment	257,543	56,109	367,177	6,944	101,323	97	789,193
At 31 December 2018							
Cost	306,236	147,268	597,564	25,866	130,799	97	1,207,830
Accumulated depreciation and impairment	(48,693)	(91,159)	(230,387)	(18,922)	(29,476)	–	(418,637)
Net carrying amount	257,543	56,109	367,177	6,944	101,323	97	789,193

Company	Buildings	Machinery	Furniture, fixtures and equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2019							
At 1 January 2019							
Cost	306,236	147,268	597,564	25,866	130,799	97	1,207,830
Accumulated depreciation and impairment	(48,693)	(91,159)	(230,387)	(18,922)	(29,476)	–	(418,637)
Net carrying amount	257,543	56,109	367,177	6,944	101,323	97	789,193
At 1 January 2019, net of accumulated depreciation and impairment	257,543	56,109	367,177	6,944	101,323	97	789,193
Additions	774	636	272,746	4,184	57,740	5,835	341,915
Disposals	(241,074)	(590)	(2,505)	(352)	(35,316)	–	(279,837)
Depreciation provided during the year	(13,887)	(11,104)	(112,826)	(3,167)	(36,289)	–	(177,273)
At 31 December 2019, net of accumulated depreciation and impairment	3,356	45,051	524,592	7,609	87,458	5,932	673,998
At 31 December 2019							
Cost	30,694	147,692	850,931	28,724	143,943	5,932	1,207,916
Accumulated depreciation and impairment	(27,338)	(102,641)	(326,339)	(21,115)	(56,485)	–	(533,918)
Net carrying amount	3,356	45,051	524,592	7,609	87,458	5,932	673,998

Company	Buildings	Machinery	Furniture, fixtures and equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 May 2020							
At 1 January 2020							
Cost	30,694	147,692	850,931	28,724	143,943	5,932	1,207,916
Accumulated depreciation and impairment	(27,338)	(102,641)	(326,339)	(21,115)	(56,485)	–	(533,918)
Net carrying amount	3,356	45,051	524,592	7,609	87,458	5,932	673,998
At 1 January 2020, net of accumulated depreciation and impairment	3,356	45,051	524,592	7,609	87,458	5,932	673,998
Additions	3,898	831	70,067	–	934	9,684	85,414
Disposals	–	(30)	(349)	(6)	–	–	(385)
Depreciation provided during the period	(142)	(5,109)	(58,485)	(1,319)	(15,875)	–	(80,930)
Transfers	6,852	2,419	–	–	–	(9,271)	–
At 31 May 2020, net of accumulated depreciation and impairment	13,964	43,162	535,825	6,284	72,517	6,345	678,097
At 31 May 2020							
Cost	41,444	149,959	914,631	28,518	144,877	6,345	1,285,774
Accumulated depreciation and impairment	(27,480)	(106,797)	(378,806)	(22,234)	(72,360)	–	(607,677)
Net carrying amount	13,964	43,162	535,825	6,284	72,517	6,345	678,097

15. LEASES

The Group has lease contracts for various items of office premises and plant, equipment and others used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of office premises and plant generally have lease terms between 2 and 5 years. Equipment has lease term of 7 years, while others including vehicles and staff dormitories have lease terms between 3 and 5 years. Other rental agreements generally have lease terms of 12 months or less and are individually of low value.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the Relevant Periods are as follows:

Group	**Prepaid land lease payments**	**Office premises and plant**	**Equipment**	**Others**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
31 December 2017					
As at 1 January 2017	417,813	55,548	9,192	2,398	484,951
Additions	88,203	18,109	–	–	106,312
Disposal	(6,790)	–	–	–	(6,790)
Depreciation charge	(10,114)	(25,657)	(1,513)	(812)	(38,096)
As at 31 December 2017	489,112	48,000	7,679	1,586	546,377

Group	**Prepaid land lease payments**	**Office premises and plant**	**Equipment**	**Others**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
31 December 2018					
As at 1 January 2018	489,112	48,000	7,679	1,586	546,377
Additions	70,765	28,387	–	9,403	108,555
Disposal	(2,150)	–	–	–	(2,150)
Depreciation charge	(10,986)	(34,977)	(1,514)	(5,488)	(52,965)
As at 31 December 2018	546,741	41,410	6,165	5,501	599,817

Group	Prepaid land lease payments	Office premises and plant	Equipment	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2019					
As at 1 January 2019	546,741	41,410	6,165	5,501	599,817
Additions	73,833	33,591	–	6,933	114,357
Depreciation charge	(12,813)	(37,990)	(1,514)	(5,436)	(57,753)
As at 31 December 2019	607,761	37,011	4,651	6,998	656,421

Group	Prepaid land lease payments	Office premises and plant	Equipment	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
31 May 2020					
As at 1 January 2020	607,761	37,011	4,651	6,998	656,421
Additions	30,730	6,481	–	–	37,211
Disposal of subsidiaries (note 34)	(3,066)	–	–	–	(3,066)
Depreciation charge	(6,035)	(8,079)	(630)	(1,521)	(16,265)
As at 31 May 2020	629,390	35,413	4,021	5,477	674,301

As at 31 December 2017, 2018, 2019 and 31 May 2020, the Group had land use rights with net carrying amounts of RMB118,644,000, RMB38,319,000, RMB1,163,000 and RMB23,807,000, respectively, in the process of land use right certificate application.

Company	Prepaid land lease payments	Office premises	Total
	RMB'000	RMB'000	RMB'000
31 December 2017			
As at 1 January 2017	1,879	53,136	55,015
Additions	–	8,461	8,461
Depreciation charge	(63)	(21,039)	(21,102)
As at 31 December 2017	1,816	40,558	42,374

Company	Prepaid land lease payments	Office premises	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2018				
As at 1 January 2018	1,816	40,558	–	42,374
Additions	–	25,081	2,560	27,641
Depreciation charge	(63)	(31,283)	(1,338)	(32,684)
As at 31 December 2018	1,753	34,356	1,222	37,331

Company	Prepaid land lease payments	Office premises	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2019				
As at 1 January 2019	1,753	34,356	1,222	37,331
Additions	–	16,907	359	17,266
Depreciation charge	(63)	(32,045)	(827)	(32,935)
As at 31 December 2019	1,690	19,218	754	21,662

Company	Prepaid land lease payments	Office premises	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
31 May 2020				
As at 1 January 2020	1,690	19,218	754	21,662
Depreciation charge	(26)	(4,386)	(251)	(4,663)
As at 31 May 2020	1,664	14,832	503	16,999

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the Relevant Periods are as follows:

Group

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Carrying amount at 1 January	56,746	52,394	45,655	36,362
New leases	18,109	37,790	40,524	6,481
Accretion of interest recognised during the year/period	3,176	3,080	2,719	1,180
Payments	(25,637)	(47,609)	(52,536)	(4,911)
Carrying amount at 31 December	52,394	45,655	36,362	39,112
Analysed into:				
Current	21,259	29,027	5,941	15,148
Non-current	31,135	16,628	30,421	23,964

As at 31 December 2017, 2018, 2019 and 31 May 2020, the Group had lease liability to the ultimate holding company with balance of RMB27,118,000, RMB23,028,000, RMB184,000 and nil, respectively.

Company

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Carrying amount at 1 January	45,893	37,786	30,563	14,474
New leases	8,461	27,641	17,266	–
Accretion of interest recognised during the year/period	2,360	2,199	1,425	449
Payments	(18,928)	(37,063)	(34,780)	(3,423)
Carrying amount at 31 December	37,786	30,563	14,474	11,500
Analysed into:				
Current	17,745	23,861	4,547	5,602
Non-current	20,041	6,702	9,927	5,898

As at 31 December 2017, 2018, 2019 and 31 May 2020, the Company had lease liability to the ultimate holding company with balance of RMB27,118,000, RMB23,028,000, RMB184,000 and nil, respectively.

The maturity analysis of lease liabilities is disclosed in note 42 to the Historical Financial Information.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

Group

	Year ended 31 December			Five months ended 31 May	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest on lease liabilities	3,176	3,080	2,719	1,346	1,180
Depreciation charge of right-of-use assets	38,096	52,965	57,753	33,693	16,265
Expense relating to short-term leases and leases of low-value assets	66,482	98,527	142,751	55,741	71,945
Total amount recognised in profit or loss	107,754	154,572	203,223	90,780	89,390

Company

	Year ended 31 December			Five months ended 31 May	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest on lease liabilities	2,360	2,199	1,425	580	449
Depreciation charge of right-of-use assets	21,102	32,684	32,935	16,747	4,663
Expense relating to short-term leases and leases of low-value assets	28,919	17,734	43,807	18,253	20,761
Total amount recognised in profit or loss	52,381	52,617	78,167	35,580	25,873

16. INTANGIBLE ASSETS

Group

	Mineral water mining license	Software	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2017				
At 1 January 2017:				
Cost	6,556	57,300	3,412	67,268
Accumulated amortisation	(3,513)	(19,502)	(1,059)	(24,074)
Net carrying amount	3,043	37,798	2,353	43,194
At 1 January 2017, net of accumulated amortisation	3,043	37,798	2,353	43,194
Additions	–	8,355	2,715	11,070
Disposal	–	–	(406)	(406)
Amortisation provided during the year	(328)	(16,721)	(772)	(17,821)
At 31 December 2017, net of accumulated amortisation	2,715	29,432	3,890	36,037
At 31 December 2017:				
Cost	6,556	65,655	5,721	77,932
Accumulated amortisation	(3,841)	(36,223)	(1,831)	(41,895)
Net carrying amount	2,715	29,432	3,890	36,037

	Mineral water mining license	Software	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2018				
At 1 January 2018:				
Cost	6,556	65,655	5,721	77,932
Accumulated amortisation	(3,841)	(36,223)	(1,831)	(41,895)
Net carrying amount	2,715	29,432	3,890	36,037
At 1 January 2018, net of accumulated amortisation	2,715	29,432	3,890	36,037
Additions	–	41,866	2,015	43,881
Disposal	–	(523)	–	(523)
Amortisation provided during the year	(328)	(14,355)	(1,036)	(15,719)
At 31 December 2018, net of accumulated amortisation	2,387	56,420	4,869	63,676
At 31 December 2018:				
Cost	6,556	106,998	7,736	121,290
Accumulated amortisation	(4,169)	(50,578)	(2,867)	(57,614)
Net carrying amount	2,387	56,420	4,869	63,676

	Mineral water mining license	Software	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2019				
At 1 January 2019:				
Cost	6,556	106,998	7,736	121,290
Accumulated amortisation	(4,169)	(50,578)	(2,867)	(57,614)
Net carrying amount	2,387	56,420	4,869	63,676
At 1 January 2019, net of accumulated amortisation	2,387	56,420	4,869	63,676
Additions	–	8,567	61	8,628
Disposal	–	(184)	–	(184)
Disposal of subsidiaries (note 34)	–	(109)	–	(109)
Amortisation provided during the year	(328)	(10,530)	(1,312)	(12,170)
At 31 December 2019, net of accumulated amortisation	2,059	54,164	3,618	59,841
At 31 December 2019:				
Cost	6,556	115,272	7,797	129,625
Accumulated amortisation	(4,497)	(61,108)	(4,179)	(69,784)
Net carrying amount	2,059	54,164	3,618	59,841

	Mineral water mining license	Software	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
31 May 2020				
At 1 January 2020:				
Cost	6,556	115,272	7,797	129,625
Accumulated amortisation	(4,497)	(61,108)	(4,179)	(69,784)
Net carrying amount	2,059	54,164	3,618	59,841
At 1 January 2020, net of accumulated amortisation	2,059	54,164	3,618	59,841
Additions	2,191	1,038	6	3,235
Disposal	–	–	(1,661)	(1,661)
Amortisation provided during the period	(183)	(5,163)	(60)	(5,406)
At 31 May 2020, net of accumulated amortisation	4,067	50,039	1,903	56,009
At 31 May 2020:				
Cost	8,747	116,310	6,142	131,199
Accumulated amortisation	(4,680)	(66,271)	(4,239)	(75,190)
Net carrying amount	4,067	50,039	1,903	56,009

Company

	Software	Others	Total
	RMB'000	RMB'000	RMB'000
31 December 2017			
At 1 January 2017:			
Cost	57,095	210	57,305
Accumulated amortisation	(19,381)	(66)	(19,447)
Net carrying amount	37,714	144	37,858
At 1 January 2017, net of accumulated amortisation	37,714	144	37,858
Additions	8,229	–	8,229
Amortisation provided during the year	(16,690)	(42)	(16,732)
At 31 December 2017, net of accumulated amortisation	29,253	102	29,355
At 31 December 2017:			
Cost	65,324	210	65,534
Accumulated amortisation	(36,071)	(108)	(36,179)
Net carrying amount	29,253	102	29,355

	Software	Others	Total
	RMB'000	RMB'000	RMB'000
31 December 2018			
At 1 January 2018:			
Cost	65,324	210	65,534
Accumulated amortisation	(36,071)	(108)	(36,179)
Net carrying amount	29,253	102	29,355
At 1 January 2018, net of accumulated amortisation	29,253	102	29,355
Additions	41,456	–	41,456
Disposal	(393)	–	(393)
Amortisation provided during the year	(14,301)	(42)	(14,343)
At 31 December 2018, net of accumulated amortisation	56,015	60	56,075
At 31 December 2018:			
Cost	106,387	210	106,597
Accumulated amortisation	(50,372)	(150)	(50,522)
Net carrying amount	56,015	60	56,075

	Software	Others	Total
	RMB'000	RMB'000	RMB'000
31 December 2019			
At 1 January 2019:			
Cost	106,387	210	106,597
Accumulated amortisation	(50,372)	(150)	(50,522)
Net carrying amount	56,015	60	56,075
At 1 January 2019, net of accumulated amortisation	56,015	60	56,075
Additions	6,800	–	6,800
Disposal	(184)	–	(184)
Amortisation provided during the year	(10,436)	(42)	(10,478)
At 31 December 2019, net of accumulated amortisation	52,195	18	52,213
At 31 December 2019:			
Cost	113,003	210	113,213
Accumulated amortisation	(60,808)	(192)	(61,000)
Net carrying amount	52,195	18	52,213

	Software	Others	Total
	RMB'000	RMB'000	RMB'000
31 May 2020			
At 1 January 2020:			
Cost	113,003	210	113,213
Accumulated amortisation	(60,808)	(192)	(61,000)
Net carrying amount	52,195	18	52,213
At 1 January 2020, net of accumulated amortisation	52,195	18	52,213
Additions	1,038	–	1,038
Amortisation provided during the period	(5,100)	(18)	(5,118)
At 31 May 2020, net of accumulated amortisation	48,133	–	48,133
At 31 May 2020:			
Cost	114,041	210	114,251
Accumulated amortisation	(65,908)	(210)	(66,118)
Net carrying amount	48,133	–	48,133

17. DEFERRED TAX

Group

The movements in deferred tax assets during the years ended 31 December 2017, 2018, 2019 and five months ended 31 May 2020 are as follows:

	Impairment of assets	Accruals and deferred income	Losses and deductions available for offsetting against future taxable profits	Unrealised profits	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	23,105	106,794	25,487	13,869	–	169,255
Deferred tax (charged)/credited to the statement of profit or loss during the year	(2,877)	28,505	17,416	647	–	43,691
Deferred tax assets at 31 December 2017	20,228	135,299	42,903	14,516	–	212,946
At 1 January 2018	20,228	135,299	42,903	14,516	–	212,946
Deferred tax (charged)/credited to the statement of profit or loss during the year	(2,225)	21,579	100,316	4,612	3,539	127,821
Deferred tax assets at 31 December 2018	18,003	156,878	143,219	19,128	3,539	340,767
At 1 January 2019	18,003	156,878	143,219	19,128	3,539	340,767
Deferred tax (charged)/credited to the statement of profit or loss during the year	(8,923)	16,601	(3,768)	31,651	(3,539)	32,022
Deferred tax assets at 31 December 2019	9,080	173,479	139,451	50,779	–	372,789
At 1 January 2020	9,080	173,479	139,451	50,779	–	372,789
Deferred tax credited /(charged) to the statement of profit or loss during the period	156	(8,179)	30,492	(405)	–	22,064
Deferred tax assets at 31 May 2020	9,236	165,300	169,943	50,374	–	394,853

The movements in deferred tax liabilities during the years ended 31 December 2017, 2018, 2019 and five months ended 31 May 2020 are as follows:

	Accelerated tax depreciation	Others	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2017	–	239	239
Deferred tax credited to the statement of profit or loss during the year	–	(101)	(101)
Deferred tax liabilities at 31 December 2017	–	138	138
At 1 January 2018	–	138	138
Deferred tax charged/(credited) to the statement of profit or loss during the year	145,281	(138)	145,143
Deferred tax liabilities at 31 December 2018	145,281	–	145,281
At 1 January 2019	145,281	–	145,281
Deferred tax charged to the statement of profit or loss during the year	49,347	–	49,347
Deferred tax liabilities at 31 December 2019	194,628	–	194,628
At 1 January 2020	194,628	–	194,628
Deferred tax credited to the statement of profit or loss during the period	(6,837)	–	(6,837)
Deferred tax liabilities at 31 May 2020	187,791	–	187,791

As at 31 December 2017, 2018, 2019 and 31 May 2020, deferred tax assets that have not been recognised in respect of tax losses of RMB648,000, RMB2,568,000, RMB8,537,000 and RMB13,756,000 and deductible temporary differences of RMB3,948,000, RMB3,008,000, RMB1,020,000 and RMB2,567,000 arising in Mainland China , respectively, which will expire in one to five years for offsetting against future taxable profits. As at 31 December 2017, 2018, 2019 and 31 May 2020, deferred tax assets that have not been recognised in respect of tax losses arising in Hong Kong of nil, RMB1,410,000, RMB3,230,000 and RMB4,295,000, respectively, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. As at 31 December 2017, 2018, 2019 and 31 May 2020, deferred tax assets that have not been recognised in respect of tax losses arising in New Zealand of RMB10,936,000, RMB24,852,000, RMB38,469,000 and RMB42,740,000, respectively, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of the above tax losses and deductible temporary differences as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses and deductible temporary differences can be utilised.

Company

The movements in deferred tax assets during the years ended 31 December 2017, 2018, 2019 and five months ended 31 May 2020 are as follows:

	Impairment of assets	Accruals and deferred income	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017	2,295	60,249	–	62,544
Deferred tax credited to the statement of profit or loss during the year	779	10,722	–	11,501
Deferred tax assets at 31 December 2017	3,074	70,971	–	74,045
At 1 January 2018	3,074	70,971	–	74,045
Deferred tax credited to the statement of profit or loss during the year	2,133	15,746	5,255	23,134
Deferred tax assets at 31 December 2018	5,207	86,717	5,255	97,179
At 1 January 2019	5,207	86,717	5,255	97,179
Deferred tax (charged)/ credited to the statement of profit or loss during the year	(958)	1,640	(5,255)	(4,573)
Deferred tax assets at 31 December 2019	4,249	88,357	–	92,606
At 1 January 2020	4,249	88,357	–	92,606
Deferred tax credited/(charged) to the statement of profit or loss during the period	1,824	(11,394)	–	(9,570)
Deferred tax assets at 31 May 2020	6,073	76,963	–	83,036

The movements in deferred tax liabilities during the years ended 31 December 2017, 2018, 2019 and five months ended 31 May 2020 are as follows:

	Accelerated tax depreciation
	RMB'000
At 1 January 2017, 31 December 2017 and 1 January 2018	–
Deferred tax charged to the statement of profit or loss during the year	54,314
Deferred tax liabilities at 31 December 2018	54,314
At 1 January 2019	54,314
Deferred tax credited to the statement of profit or loss during the year	(12,179)
Deferred tax liabilities at 31 December 2019	42,135
At 1 January 2020	42,135
Deferred tax credited to the statement of profit or loss during the period	(4,992)
Deferred tax liabilities at 31 May 2020	37,143

18. OTHER NON-CURRENT ASSETS

Group

	As at 31 December			**As at 31 May**
	2017	**2018**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Prepayments for property, plant and equipment	30,677	8,543	15,760	102,454
Others	9,057	7,469	4,978	–
	39,734	16,012	20,738	102,454

Company

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments for property, plant and equipment	14,695	2,209	381	1,360

As at 31 December 2017, 2018, 2019 and 31 May 2020, the financial assets included in other non-current assets of the Group are considered to have low credit risk and thus the Group has assessed that the ECL for deposits is immaterial under the 12-month expected credit loss method.

19. INVENTORIES

Group

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	873,780	1,328,233	1,219,960	1,166,062
Work in progress	333,205	345,597	311,011	223,525
Finished goods	235,465	232,505	231,132	351,198
Total	1,442,450	1,906,335	1,762,103	1,740,785

Company

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	4,157	10,262	14,785	5,095
Work in progress	4,369	2,701	5,419	4,971
Finished goods	26,074	44,473	13,959	32,458
Total	34,600	57,436	34,163	42,524

20. TRADE AND BILLS RECEIVABLES

Group

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Trade receivables	206,813	237,038	325,644	447,348
Bills receivables	–	–	–	1,335
Impairment	(12,744)	(14,387)	(19,641)	(26,289)
	194,069	222,651	306,003	422,394

The Group's trading terms are mainly cash before delivery, except for direct sale customers where credits are granted. The credit period is generally one month, extending up to three months for major direct sale customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the afore-mentioned and the fact that the Group's trade and bills receivables related to various diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade and bills receivable balances. The balances of trade and bills receivables are non-interest-bearing.

Included in the Group's trade and bills receivables are amounts due from the ultimate holding company and fellow subsidiaries of nil and RMB2,166,000 as at 31 December 2017, nil and RMB8,099,000 as at 31 December 2018, RMB79,000 and RMB4,367,000 as at 31 December 2019, and RMB88,000 and RMB2,529,000 as at 31 May 2020, respectively, which are repayable on credit terms similar to those offered to the major customers of the Group.

An ageing analysis of the trade and bills receivables as at 31 December 2017, 2018, 2019 and 31 May 2020, based on the invoice date and net of loss allowance, is as follows:

Group

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Within 90 days	182,333	214,921	295,990	390,457
91 to 180 days	4,433	2,037	2,396	24,865
181 to 365 days	7,303	5,693	7,617	7,072
	194,069	222,651	306,003	422,394

The movements in the loss allowance for impairment of trade receivables are as follows:

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period	8,194	12,744	14,387	19,641
Impairment losses, net	4,550	1,643	5,254	6,648
At end of year/period	12,744	14,387	19,641	26,289

The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables.

Bills receivable are bank acceptance bills that are unconditionally accepted by banks within the maturity period, and there is no loss allowance for impairment of bills receivable.

An impairment analysis is performed at 31 December 2017, 2018, 2019 and 31 May 2020 using a provision matrix to measure expected credit losses of trade receivables. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at 31 December 2017, 2018, 2019 and 31 May 2020 about past events, current conditions and forecasts of future economic conditions.

The Group writes off trade receivables when there is information indicating that the counterparty is in severe financial difficulties and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs sooner, also taking into account legal advice where appropriate.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

Group

	As at 31 December 2017		
	Expected credit loss rate	**Gross carrying amount**	**Expected credit losses**
		RMB'000	**RMB'000**
Within 90 days	0.26%	182,695	475
91 to 180 days	4.51%	4,762	215
181 to 365 days	54.82%	16,163	8,861
Over 365 days	100.00%	3,193	3,193
		206,813	12,744

	As at 31 December 2018		
	Expected credit loss rate	**Gross carrying amount**	**Expected credit losses**
		RMB'000	**RMB'000**
Within 90 days	0.15%	215,244	323
91 to 180 days	4.32%	2,129	92
181 to 365 days	68.46%	18,050	12,357
Over 365 days	100.00%	1,615	1,615
		237,038	14,387

	As at 31 December 2019		
	Expected credit loss rate	Gross carrying amount	Expected credit losses
		RMB'000	RMB'000
Within 90 days	0.15%	296,435	445
91 to 180 days	4.85%	2,518	122
181 to 365 days	67.00%	23,088	15,471
Over 365 days	100.00%	3,603	3,603
		325,644	19,641

	As at 31 May 2020		
	Expected credit loss rate	Gross carrying amount	Expected credit losses
		RMB'000	RMB'000
Within 90 days	0.17%	389,785	663
91 to 180 days	6.40%	26,565	1,700
181 to 365 days	73.81%	27,003	19,931
Over 365 days	100.00%	3,995	3,995
		447,348	26,289

Company

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables – third parties	124,599	136,547	209,166	275,470
Trade receivables – subsidiaries of the Company	385,962	533,750	190,336	98,244
Bills receivables	–	–	–	1,165
Impairment	(7,433)	(8,434)	(12,842)	(16,528)
	503,128	661,863	386,660	358,351

Trade receivables are non-interest-bearing.

The movements in the loss allowance for impairment of trade receivables are as follows:

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period	27,643	7,433	8,434	12,842
(Write-back of impairment losses)/ impairment losses, net	(20,210)	1,001	4,408	3,686
At end of year/period	7,433	8,434	12,842	16,528

Set out below is the information about the credit risk exposure on the Company's trade receivables:

	As at 31 December			As at 31 May
	2017	2018	2019	2020
Expected credit loss rate	1.46%	1.26%	3.21%	4.42%
Gross carrying amount (RMB'000)	510,561	670,297	399,502	373,714
Expected credit losses	7,433	8,434	12,842	16,528

21. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

Group

	As at December 31			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Prepayments to suppliers	136,944	187,918	165,652	63,191
Deposits and other receivables	92,368	132,951	81,937	61,754
Prepaid expenses	51,185	60,996	84,358	81,990
Amounts due from related parties	25,527	139,857	7,564	391
Value added tax recoverable	272,659	654,614	684,390	707,679
Corporate income tax recoverable	867	5,140	3,468	–
Impairment losses	(10,559)	(16,153)	(6,281)	(3,325)
	568,991	1,165,323	1,021,088	911,680

Included in the Group's prepayments, other receivables and other assets are amounts due from the ultimate holding company and fellow subsidiaries of RMB900,000 and RMB24,627,000 as at 31 December 2017, nil and RMB139,857,000 as at 31 December 2018, RMB118,000 and RMB7,446,000 as at 31 December 2019, and RMB65,000 and RMB326,000 as at 31 May 2020, respectively, which are recoverable within one year.

The movements in the loss allowance for impairment of other receivables are as follows:

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At beginning of year/period	11,265	10,559	16,153	6,281
(Write-back of impairment losses)/impairment losses, net	(706)	5,594	(9,872)	(2,956)
At end of year/period	10,559	16,153	6,281	3,325

The information about the credit risk exposure on the Group's financial assets included in prepayments, other receivables and other assets is disclosed in note 42 to the Historical Financial Information.

Company

	As at December 31			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Prepayments to suppliers	38,185	90,568	101,117	30,197
Deposits and other receivables	64,659	76,142	20,070	19,635
Prepaid expenses	25,798	25,427	30,917	33,822
Amounts due from related parties	25,528	139,857	7,472	391
Amounts due from subsidiaries	3,935,412	5,822,178	10,409,560	9,693,990
Value added tax recoverable	–	–	5,961	–
Dividend receivables from subsidiaries	–	–	283,800	73,750
Impairment losses	(4,862)	(12,393)	(4,153)	(7,763)
	4,084,720	6,141,779	10,854,744	9,844,022

The movements in the loss allowance for impairment of other receivables are as follows:

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At beginning of year/period	1,322	4,862	12,393	4,153
Impairment losses/(write-back of impairment losses), net	3,540	7,531	(8,240)	3,610
At end of year/period	4,862	12,393	4,153	7,763

Financial assets included in prepayments, other receivables and other assets of the Company are considered as having low credit risk and the loss allowance recognised during the Relevant Periods was therefore limited to 12 months expected credit loss.

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Group

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Listed equity investments, at fair value	4,415	117,457	–	–
Other unlisted investments, at fair value	–	59,981	–	–
	4,415	177,438	–	–

Company

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Other unlisted investments, at fair value	–	59,981	–	–

The above investments were classified as financial assets at fair value through profit or loss as they were held for trading.

23. STRUCTURED DEPOSITS

Group

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Structured deposits	2,035,000	3,600,000	200,000	–

As at 31 December 2017, 2018, 2019 and 31 May 2020, nil, nil, RMB200,000,000 and nil of the Group's structured deposits were pledged for the Group's interest-bearing borrowings (note 25).

Company

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Structured deposits	1,900,000	3,450,000	200,000	–

As at 31 December 2017, 2018, 2019 and 31 May 2020, nil, nil, RMB200,000,000 and nil of the Company's structured deposits were pledged for the Company's issuance of bills (note 26).

The Group's and the Company's structured deposits are all principal guaranteed structured deposits. The structured deposits are placed with banks in the PRC with expected return rates linked to certain exchange rates, interest rates and other indices specified in the contracts. The annual expected return rates are range from 4.05% to 5.3%. The initial maturities are usually in 3 to 6 months.

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Cash and bank balances	462,883	563,664	783,142	3,960,036
Time deposits	2,100,000	1,200,000	300,000	100,000
Cash and cash equivalents	2,562,883	1,763,664	1,083,142	4,060,036
Pledged deposits	48,959	5,634	–	–

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and cash equivalents and pledged deposits denominated in				
RMB	2,535,722	1,724,096	1,035,113	4,034,050
New Zealand Dollar (NZD)	48,383	36,882	23,438	18,795
Others	27,737	8,320	24,591	7,191
	2,611,842	1,769,298	1,083,142	4,060,036

Cash and cash equivalents earn interest at floating rates based on daily bank deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

Pledged deposits represent the amounts pledged to issue letters of credit and bills and earn interest at interest rates stipulated by the respective financial institutions.

Company

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank balances	202,747	386,007	528,954	3,614,610
Time deposits	2,100,000	1,200,000	300,000	100,000
Cash and cash equivalents	2,302,747	1,586,007	828,954	3,714,610
Pledged deposits	48,200	5,534	–	–

25. INTEREST-BEARING BORROWINGS

Group

	As at 31 December									As at 31 May		
	2017			2018			2019			2020		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Bank loans – unsecured	–	–	–	–	–	–	–	–	–	2.05-3.95	2020-2021	1,552,420
Other borrowings – secured	–	–	–	–	–	–	2.77	2020	200,000	–	–	–
Other borrowings – unsecured	4.35	2018	50,066	–	–	–	2.6-2.65	2020	800,000	2.13-2.80	2020-2021	560,000
			50,066			–			1,000,000			2,112,420

Company

	As at 31 December									As at 31 May		
	2017			2018			2019			2020		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Bank loans – unsecured	–	–	–	–	–	–	–	–	–	2.05-3.95	2020-2021	1,452,420
Other borrowings – unsecured	4.35	2018	50,066	–	–	–	–	–	–	–	–	–
			50,066			–			–			1,452,420

As at 31 December 2017, the Group and the Company had an entrusted loan of RMB50,066,000 from a fellow subsidiary, which was due within one year with an interest rate of 4.35%. As at 31 December 2019, certain of the Group's other borrowings are secured by the pledge of the Group's structure deposits amounting to RMB200,000,000. All interest-bearing borrowings are denominated in Renminbi.

The guarantee provided by the ultimate holding company of the Group for the other borrowings was stated in note 39 (b).

26. TRADE AND BILLS PAYABLES

Trade and bills payables are non-interest-bearing and normally settled on terms of within 90 days.

An ageing analysis of the trade and bills payables as at 31 December 2017, 2018, 2019 and 31 May 2020, based on the invoice date, is as follows:

Group

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	774,377	757,113	674,222	897,164
91-180 days	5,238	31,649	38,861	48,565
181-365 days	3,977	14,535	28,802	43,976
Over 1 year	37,451	34,031	49,577	49,415
	821,043	837,328	791,462	1,039,120

Included in the trade and bills payables are amounts due to fellow subsidiaries of RMB14,379,000, RMB14,839,000, RMB102,000 and RMB26,965,000 as at 31 December 2017, 2018, 2019 and 31 May 2020, respectively, which are repayable within 90 days.

As at 31 December 2017 and 2018, RMB56,570,000 and RMB34,740,000 of the Group's bills payables were secured by certain of the Group's pledged deposits amounting to RMB5,934,000 and RMB3,474,000, respectively, and were also guaranteed by the ultimate holding company as stated in note 39 (b).

Company

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	761,826	524,154	999,690	1,415,318
91-180 days	398,733	284,243	420,462	457
181-365 days	1,263	4,483	789	1,835
Over 1 year	3,377	3,710	4,146	3,969
	1,165,199	816,590	1,425,087	1,421,579

Included in the trade and bills payables are amounts due to subsidiaries of RMB1,019,255,000, RMB630,205,000, RMB912,594,000 and RMB845,212,000 as at 31 December 2017, 2018, 2019 and 31 May 2020, respectively, which are repayable within 90 days.

As at 31 December 2017 and 2018, RMB56,570,000 and RMB34,740,000 of the Company's bills payables were guaranteed by the ultimate holding company and secured by certain of the Company's pledged deposits amounting to RMB5,934,000 and RMB3,474,000, respectively.

As at 31 December 2019, RMB569,619,000 of the Company's bills payables were guaranteed by the ultimate holding company, and RMB200,000,000 of the Company's bills payables were secured by certain of the Company's structured deposits amounting to RMB200,000,000.

27. OTHER PAYABLES AND ACCRUALS

Group

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits	246,499	574,210	788,501	993,413
Payables for purchase of plant and equipment	362,018	529,262	517,706	603,993
Staff payroll and welfare payables	376,560	369,257	424,057	263,677
Accrued expenses	489,864	362,122	444,006	700,791
Sales discount and rebate payables	318,844	427,257	447,820	422,900
Tax payable other than income tax	107,450	239,235	75,880	385,722
Amounts due to related parties	14,695	26,105	70,574	80,441
Others	75,830	76,897	86,535	133,817
	1,991,760	2,604,345	2,855,079	3,584,754

Included in other payables and accruals are amounts due to the ultimate holding company and fellow subsidiaries of RMB568,000 and RMB14,127,000 as at 31 December 2017, RMB25,055,000 and RMB1,050,000 as at 31 December 2018, nil and RMB70,574,000 as at 31 December 2019, and RMB4,251,000 and RMB76,190,000 as at 31 May 2020, respectively, which are repayable within 1 year.

Company

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Deposits	123,990	335,735	465,073	618,274
Sales discount and rebate payables	254,557	321,341	334,697	301,802
Staff payroll and welfare payables	239,970	211,010	228,122	140,344
Tax payable other than income tax	54,935	171,064	3,607	172,068
Accrued expenses	158,216	93,078	109,645	149,380
Amounts due to subsidiaries	78,839	62,720	298,248	415,556
Amounts due to related parties	14,391	25,184	70,574	80,441
Others	22,109	21,983	17,439	64,271
	947,007	1,242,115	1,527,405	1,942,136

Amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

Amounts due to the ultimate holding company and fellow subsidiaries are RMB568,000 and RMB13,823,000, RMB25,055,000 and RMB129,000, nil and RMB70,574,000 and RMB4,251,000 and RMB76,190,000 as at 31 December 2017, 2018, 2019 and 31 May 2020, respectively, which are unsecured, interest-free and repayable on demand.

28. CONTRACT LIABILITIES

Group

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Advance payments from customers	1,578,017	1,995,570	2,077,549	1,385,981

Company

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Advance payments from customers – third parties	1,002,780	1,107,783	1,369,575	835,575
Advance payments from customers – subsidiaries	917,157	1,182,162	795,035	1,019,056
Advance payments from customers	1,919,937	2,289,945	2,164,610	1,854,631

Contract liabilities of the Group and the Company mainly arise from the advance payments made by customers while the goods are yet to be provided. Such liabilities increased as a result of the growth of the business during the Relevant Periods. In December 2019, the increase was partially offset by the impact of advances transferred to revenue upon delivery due to customers' preparation of 2020 lunar new year holiday which is earlier than that of 2019. In May 2020, the decrease of contract liabilities was primarily contributed by the impact of advances transferred to revenue upon delivery due to the upcoming peak season.

29. DEFERRED INCOME

Group

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Government grants	229,166	208,927	248,088	249,349

Movements of government grants of the Group during the years ended 31 December 2017, 2018 and 2019 are as follows:

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
At beginning of year/period	146,842	229,166	208,927	248,088
Government grants received	101,890	3,945	69,460	14,497
Credited to the statement of profit or loss during the year/period	(19,566)	(24,184)	(30,299)	(13,236)
At the end of year/period	229,166	208,927	248,088	249,349

Company

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Government grants	32,826	25,530	18,732	15,900

Movements of government grants of the Company during the years ended 31 December 2017, 2018, 2019 and five months ended 31 May 2020 are as follows:

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year/period	17,896	32,826	25,530	18,732
Government grants received	20,890	–	–	–
Credited to the statement of profit or loss during the year/period	(5,960)	(7,296)	(6,798)	(2,832)
At the end of year/period	32,826	25,530	18,732	15,900

The Group received government grants for capital expenditure incurred for plant and equipment. The amounts are deferred and amortised over the estimated useful lives of the respective assets.

30. SHARE CAPITAL

Group and Company

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Issued and fully paid	360,000	360,000	360,000	1,080,000

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital
		RMB'000
At 1 January 2017, 31 December 2017, 31 December 2018, 31 December 2019 and 1 January 2020	360,000,000	360,000
Transferred from retained profits *(note a)*	720,000,000	720,000
Split shares by 1:10 *(note b)*	9,720,000,000	–
At 31 May 2020	10,800,000,000	1,080,000

(a) In March 2020, the profit distribution plan was approved by the Company's board of directors. The Company distributed a cash dividend of RMB0.50 (tax inclusive) per share for the Company's 360,000,000 shares and 20 share dividend for every 10 shares. 20 new shares for every 10 shares of the Company were issued out of reserve to all shareholders.

(b) As approved by CRSC in July 2020, and approved by the Company's shareholders' general meeting in August 2020, the ordinary shares of the Company were split on a one-for-ten basis, and the nominal value of the shares was changed from RMB1.0 each to RMB0.1 each. Immediately after such share split, the registered share capital of the Company became RMB1,080,000,000 with 10,800,000,000 shares of nominal value RMB0.1 each, all of which were fully paid up.

31. EQUITY-SETTLED SHARE AWARD ARRANGEMENTS

Grant of the Company's ordinary shares to employees of the Company

In August 2019 and December 2019, the ultimate holding company and the shareholder of the ultimate holding company transferred 2,849,011 shares of the Company in total to certain individuals to reward those who made contributions to the ultimate holding company and the Group, among which 1,119,604 shares of the Company were transferred to two then directors (Mr. Li Zhou and Mr. Jigang Zhong) and other eligible employees of the Group, including a total of 256,576 shares of the Company were granted by the shareholder of the ultimate holding company in August 2019 and 863,028 shares of the Company were granted by the ultimate holding company in December 2019, in recognition of their past services to the Company. Those shares awards were immediately vested at the grant date.

For the year ended 31 December 2019, the Group has recorded equity-settled share award expenses of RMB156,894,000 for the above mentioned 1,119,604 shares of the Company granted to directors and employees of the Group.

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statements of changes in equity in the Historical Financial Information.

(i) Statutory reserve

In accordance with the Company Law of the People's Republic of China, the companies in the PRC are required to allocate 10% of the statutory after tax profits to the statutory reserve until the cumulative total of the reserve reaches 50% of the companies registered capital. Subject to approval from the relevant PRC authorities, the statutory reserve may be used to offset any accumulated losses or increase the registered capital of the companies. The statutory reserve is not available for dividend distribution to shareholders of the PRC subsidiaries.

(ii) Capital reserve

The capital reserve of the Group represents the contribution from the ultimate holding company and shareholder and the excess of the consideration over the carrying amount of the non-controlling interests acquired.

(iii) Exchange fluctuation reserve

The exchange fluctuation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from the Group's presentation currency.

(b) Company

	Share capital	Statutory reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2017	360,000	180,000	3,659,524	4,199,524
Profit for the year	–	–	3,089,645	3,089,645
Total comprehensive income for the year	–	–	3,089,645	3,089,645
Dividend declared	–	–	(367,200)	(367,200)
As at 31 December 2017	360,000	180,000	6,381,969	6,921,969

	Share capital	Statutory reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2018	360,000	180,000	6,381,969	6,921,969
Profit for the year	–	–	3,346,802	3,346,802
Total comprehensive income for the year	–	–	3,346,802	3,346,802
Dividend declared	–	–	(367,200)	(367,200)
As at 31 December 2018	360,000	180,000	9,361,571	9,901,571

	Share capital	Capital reserve	Statutory reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2019	360,000	–	180,000	9,361,571	9,901,571
Profit for the year	–	–	–	9,065,398	9,065,398
Total comprehensive income for the year	–	–	–	9,065,398	9,065,398
Dividend declared	–	–	–	(9,597,600)	(9,597,600)
Equity-settled share award arrangements by the ultimate holding company	–	156,894	–	–	156,894
As at 31 December 2019	360,000	156,894	180,000	8,829,369	9,526,263

	Share capital	Capital reserve	Statutory reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2020	360,000	156,894	180,000	8,829,369	9,526,263
Profit for the period	–	–	–	445,168	445,168
Total comprehensive income for the period	–	–	–	445,168	445,168
Cash dividend declared*	–	–	–	(180,000)	(180,000)
Stock dividends*	720,000	–	–	(720,000)	–
As at 31 May 2020	1,080,000	156,894	180,000	8,374,537	9,791,431

* At the shareholders' general meeting held on 6 March 2020, the Company declared dividends of RMB900 million, consisting of RMB720 million share dividends and RMB180 million cash dividends. At the same shareholders' general meeting, it was resolved that all of the distributable historical retained profits as of 31 December 2019 shall be retained by the existing shareholders as of the date of the shareholders' general meeting.

33. BUSINESS COMBINATIONS

Year ended 31 December 2018

In July 2018, Anji Smart Life, a subsidiary of the Company, entered into a share purchase agreement with third parties to acquire 95% equity interests of Zhejiang Ruide Agricultural Technology Co., Ltd ("**Zhejiang Ruide**") for an aggregate purchase price of RMB9,500,000 in cash. Zhejiang Ruide is principally engaged in agriculture. The acquisition was made as part of the Group's strategy to support its sales of agricultural products business in China. The acquisition was consummated in July 2018.

The fair values of the identifiable assets and liabilities of Zhejiang Ruide as at the date of acquisition were as follows:

	Note	**Fair value recognised on acquisition** **RMB'000**
Property, plant and equipment	*14*	6,740
Inventories		370
Trade receivables		40
Prepayments, other receivables and other assets		4,929
Cash and cash equivalents		266
Other payables and accruals		(2,345)
Total identifiable net assets at fair value		10,000
Non-controlling interests		(500)
Satisfied by cash		9,500

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	9,500
Cash and cash equivalents acquired	(266)
Net outflow of cash and cash equivalents included in cash flows used in investing activities	9,234

Since the acquisition, Zhejiang Ruide contributed RMB576,000 to the Group's revenue and caused a loss of RMB4,586,000 to the consolidated profit of the Group for the year ended 31 December 2018.

Had the combination taken place at the beginning of the year ended 31 December 2018, the revenue of the Group and the profit of the Group for the year ended 31 December 2018 would have been RMB20,475,566,000 and RMB3,606,114,000, respectively.

34. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2019, the Group disposed of two subsidiaries, Zhejiang Ruide Agricultural Technology Co., Ltd. and Zhejiang Anji Youguo Fruit Industry Co., Ltd., to the ultimate holding company at a total consideration of RMB12,977,000.

Year ended 31 December 2019

	Notes	**RMB'000**
Net assets disposed of:		
Property, plant and equipment	*14*	8,578
Intangible assets	*16*	109
Inventories		7,642
Trade receivables		3,874
Cash and cash equivalents		1,774
Trade and bills payables		(2,811)
Other payables and accruals		(7,323)
Non-controlling interests		(446)
		11,397
Gain on disposal of subsidiaries	*6*	1,580
		12,977
Satisfied by:		
Cash		12,977

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2019
	RMB'000
Cash consideration	12,977
Cash and cash equivalents disposed of	(1,774)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	11,203

During the five months ended 31 May 2020, the Group disposed of two subsidiaries, Nongfu Spring Greater Khingan Range Forest Products Company Limited and Xinjiang Yangshengtang Base Fruit Industry Co., Ltd. to the related parties at a total consideration of RMB72,883,000.

Five months ended 31 May 2020

	Notes	**RMB'000**
Net assets disposed of:		
Property, plant and equipment	*14*	40,464
Right-of-use assets	*15*	3,066
Inventories		34,762
Trade receivables		64,289
Prepayments, other receivables and other assets		9,750
Cash and cash equivalents		201
Trade and bills payables		(72,665)
Contract liabilities		(610)
Other payables and accruals		(7,995)
		71,262
Gain on disposal of subsidiaries	*6*	1,621
		72,883
Satisfied by:		
Cash		72,883

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	Five months ended 31 May 2020
	RMB'000
Cash consideration	72,883
Cash and cash equivalents disposed of	(201)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	72,682

35. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Major non-cash transaction

During the years ended 31 December 2017, 2018, 2019 and the five months ended 31 May 2019 and 2020, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB18,109,000, RMB37,790,000, RMB40,524,000, RMB25,738,000 (unaudited) and RMB6,481,000 as at 31 December 2017, 2018, 2019 and 31 May 2019 and 2020, respectively, in respect of lease agreements.

(b) Changes in liabilities arising from financing activities

	Interest-bearing borrowings	Lease liabilities
	RMB'000	RMB'000
At 1 January 2017	105,741	56,746
Changes from financing cash flows	(54,500)	(22,461)
New leases	–	18,109
Accretion of interest	5,205	3,176
Interest paid classified as operating cash flows	(6,380)	(3,176)
At 31 December 2017	50,066	52,394
At 1 January 2018	50,066	52,394
Changes from financing cash flows	(50,000)	(44,529)
New leases	–	37,790
Accretion of interest	1,033	3,080
Interest paid classified as operating cash flows	(1,099)	(3,080)
At 31 December 2018	–	45,655
At 1 January 2019	–	45,655
Changes from financing cash flows	1,000,000	(49,817)
New leases	–	40,524
Accretion of interest	12,806	2,719
Interest paid classified as operating cash flows	(12,806)	(2,719)
At 31 December 2019	1,000,000	36,362

	Interest-bearing borrowings	Lease liabilities
	RMB'000	RMB'000
At 1 January 2019	–	45,655
Changes from financing cash flows (unaudited)	–	(32,847)
New leases (unaudited)	–	25,738
Accretion of interest (unaudited)	–	1,346
Interest paid classified as operating cash flows (unaudited)	–	(1,346)
At 31 May 2019 (unaudited)	–	38,546
At 1 January 2020	1,000,000	36,362
Changes from financing cash flows	1,112,420	(3,731)
New leases	–	6,481
Accretion of interest	21,887	1,180
Interest paid classified as operating cash flows	(21,887)	(1,180)
At 31 May 2020	2,112,420	39,112

(c) Total cash outflow for leases

The total cash outflow for leases included in the statements of cash flows is as follows:

	Year ended 31 December			Five months ended 31 May	
	2017	2018	2019	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Within operating activities	69,658	101,607	145,470	57,087	73,125
Within investing activities	88,203	70,765	73,833	46,491	30,730
Within financing activities	22,461	44,529	49,817	32,847	3,731
	180,322	216,901	269,120	136,425	107,586

36. CONTINGENT LIABILITIES

As at 31 December 2017, 2018, 2019 and 31 May 2020, neither the Group nor the Company had any significant contingent liabilities.

37. PLEDGE OF ASSETS

Details of the Group's interest-bearing borrowings and bills payable, which are secured by the assets of the Group, are included in notes 25 and 26 to the Historical Financial Information.

38. COMMITMENTS

The Group had the following capital commitments at the end of each of the Relevant Periods:

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Contracted, but not provided for purchase of property, plant and equipment	929,647	1,235,211	987,554	1,125,842

39. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the Historical Financial Information, the Group had the following material transactions with related parties during the years ended 31 December 2017, 2018, 2019 and the five months ended 31 May 2019 and 2020:

(a) Transactions with related parties

	Notes	Year ended 31 December			Five months ended 31 May	
		2017	2018	2019	2019	2020
		RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Sales to related parties						
The ultimate holding company:						
Sales of products	*(i)*	29	81	450	154	105
Providing services		452	13,757	21,373	372	776
Transfer of fixed assets	*(iv)*	–	24	281,263	–	–
Fellow subsidiaries:						
Sales of products	*(i)*	14,273	19,207	17,531	697	2,170
Providing services		2,241	23,737	35,503	2,454	4,772
		16,995	56,806	356,120	3,677	7,823
Payments to related parties						
The ultimate holding company:						
Receiving services	*(ii)*	10,172	32,512	32,277	9,750	31,362
Fellow subsidiaries:						
Purchase of products	*(i)*	95,894	162,122	208,860	108,902	79,158
Receiving services	*(ii)*	106,649	165,365	181,466	58,076	93,120
Interest expense	*(iii)*	2,578	1,033	–	–	–
Purchase of fixed assets		217	–	1,505	–	–
		215,510	361,032	424,108	176,728	203,640

Notes:

(i) The sales to and purchases from related parties were made according to the prices agreed in the contracts with the ultimate holding company and fellow subsidiaries.

(ii) Advertising expenses of RMB10,172,000, RMB9,635,000, RMB9,683,000, nil and RMB4,324,000 were paid to the ultimate holding company during the years ended 31 December 2017, 2018, 2019 and the five months ended 31 May 2019 and 2020, respectively, for media advertisements. The charge was determined by the cost plus method.

E-commerce operating service fees of nil, RMB22,877,000, RMB22,594,000, nil and nil were paid to the ultimate holding company during the years ended 31 December 2017, 2018, 2019 and the five months ended 31 May 2019 and 2020, respectively. E-commerce operating service fees of nil, nil, nil, nil and RMB10,000 were paid to fellow subsidiaries during the years ended 31 December 2017, 2018, 2019 and the five months ended 31 May 2019 and 2020, respectively. The charge was determined by the cost plus method.

Management fees of nil, nil, nil, nil and RMB6,298,000 were paid to the ultimate holding company during the years ended 31 December 2017, 2018, 2019 and the five months ended 31 May 2019 and 2020, management fees of RMB12,663,000, RMB5,427,000, nil, nil and nil were paid to fellow subsidiaries during the years ended 31 December 2017, 2018, 2019 and the five months ended 31 May 2019 and 2020, respectively, for managing plant construction. The charge was determined by the cost plus method.

Research and development expenses of RMB40,010,000, RMB79,992,000, RMB81,358,000, RMB29,490,000 and RMB45,425,000 were paid to fellow subsidiaries during the years ended 31 December 2017, 2018, 2019 and the five months ended 31 May 2019 and 2020, respectively, for research and development activities in relation to new products. The charge was determined by the cost plus method.

Service fees of nil, nil, nil, nil and RMB5,985,000 were paid to the ultimate holding company during the years ended 31 December 2017, 2018, 2019 and the five months ended 31 May 2019 and 2020, service fees of RMB53,780,000, RMB79,827,000, RMB100,020,000, RMB28,586,000 and RMB47,685,000 were paid to fellow subsidiaries during the years ended 31 December 2017, 2018, 2019 and the five months ended 31 May 2019 and 2020, respectively, for providing IT service and system support. The charge was determined with reference to the prevailing market price.

Nil, nil, nil, RMB9,750,000 and RMB14,755,000 were paid to the ultimate holding company during the years ended 31 December 2017, 2018, 2019 and the five months ended 31 May 2019 and 2020 respectively, for providing other services. RMB196,000, RMB119,000, RMB88,000, nil and nil were paid to fellow subsidiaries during the years ended 31 December 2017, 2018, 2019 and the five months ended 31 May 2019 and 2020, respectively, for providing other services.

(iii) The fellow subsidiary provided the Group with an entrusted bank loan of RMB50,000,000 with an interest rate of 4.35% in 2017 and 2018, which was repaid in 2018. Interest expenses of RMB2,578,000 and RMB1,033,000 were paid to the fellow subsidiary during the years ended 31 December 2017 and 2018, respectively.

(iv) The Group transferred certain fixed assets such as buildings at RMB281,263,000 with gains amounting to RMB44,201,000 to the ultimate holding company for the year ended 31 December 2019.

(b) Guarantees

The Group's other borrowings of RMB540,000,000 for the year ended 31 December 2019 were guaranteed by the ultimate holding company.

The Group's bills payable of RMB56,570,000, RMB34,740,000 and RMB29,619,000 for the years ended 31 December 2017, 2018 and 2019, respectively, were guaranteed by the ultimate holding company.

(c) Compensation of key management personnel of the Group

Compensation of key management personnel of the Group, which comprises the remuneration of the directors, is disclosed in note 9 to the Historical Financial Information.

(d) Outstanding balances with related parties

The Group has the following significant balances with its related parties as at 31 December 2017, 2018, 2019 and 31 May 2020:

	As at 31 December			As at 31 May
	2017	2018	2019	2020
	RMB'000	RMB'000	RMB'000	RMB'000
Balances due from related parties:				
Trade related				
The ultimate holding company	900	–	197	153
Fellow subsidiaries	26,793	147,956	11,813	2,855
	27,693	147,956	12,010	3,008
Balances due to related parties:				
Trade related				
The ultimate holding company	568	25,055	–	4,251
Fellow subsidiaries	28,506	15,889	70,676	103,155
	29,074	40,944	70,676	107,406
Balances due to related parties:				
Non-trade related				
The ultimate holding company	27,118	23,028	184	–
A fellow subsidiary	50,066	–	–	–
	77,184	23,028	184	–

All the above related party balances which are non-trade in nature have been fully settled subsequently.

40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at 31 December 2017, 2018, 2019 and 31 May 2020 are as follows:

31 December 2017

Financial assets		Financial assets at fair value through profit or loss	
	Financial assets at amortised cost	Mandatorily designated as such	Total
	RMB'000	RMB'000	RMB'000
Financial assets at fair value through profit or loss	–	4,415	4,415
Trade and bills receivables	194,069	–	194,069
Financial assets included in prepayments, other receivables and other assets	107,336	–	107,336
Financial assets included in other non-current assets	9,057	–	9,057
Structured deposits	2,035,000	–	2,035,000
Pledged deposits	48,959	–	48,959
Cash and cash equivalents	2,562,883	–	2,562,883
	4,957,304	4,415	4,961,719

Financial liabilities	Financial liabilities at amortised cost
	RMB'000
Trade and bills payables	821,043
Financial liabilities included in other payables and accruals	1,188,906
Interest-bearing borrowings	50,066
Lease liabilities	52,394
	2,112,409

31 December 2018

Financial assets		**Financial assets at fair value through profit or loss**	
	Financial assets at amortised cost	**Mandatorily designated as such**	**Total**
	RMB'000	**RMB'000**	**RMB'000**
Financial assets at fair value through profit or loss	–	177,438	177,438
Trade and bills receivables	222,651	–	222,651
Financial assets included in prepayments, other receivables and other assets	256,655	–	256,655
Financial assets included in other non-current assets	7,469	–	7,469
Structured deposits	3,600,000	–	3,600,000
Pledged deposits	5,634	–	5,634
Cash and cash equivalents	1,763,664	–	1,763,664
	5,856,073	177,438	6,033,511

Financial liabilities	**Financial liabilities at amortised cost**
	RMB'000
Trade and bills payables	837,328
Financial liabilities included in other payables and accruals	1,568,596
Lease liabilities	45,655
	2,451,579

31 December 2019

Financial assets	Financial assets at amortised cost
	RMB'000
Trade and bills receivables	306,003
Financial assets included in prepayments, other receivables and other assets	83,220
Financial assets included in other non-current assets	4,978
Structured deposits	200,000
Cash and cash equivalents	1,083,142
	1,677,343

Financial liabilities	Financial liabilities at amortised cost
	RMB'000
Trade and bills payables	791,462
Financial liabilities included in other payables and accruals	1,907,322
Interest-bearing borrowings	1,000,000
Lease liabilities	36,362
	3,735,146

31 May 2020

Financial assets	Financial assets at amortised cost
	RMB'000
Trade and bills receivables	422,394
Financial assets included in prepayments, other receivables and other assets	58,820
Cash and cash equivalents	4,060,036
	4,541,250

Financial liabilities	Financial liabilities at amortised cost
	RMB'000
Trade and bills payables	1,039,120
Financial liabilities included in other payables and accruals	2,512,455
Interest-bearing borrowings	2,112,420
Lease liabilities	39,112
	5,703,107

41. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, structured deposits, trade and bills receivables, financial assets included in prepayments, other receivables and other assets, interest-bearing borrowings, lease liabilities, trade and bills payables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the other non-current assets have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

The Group's corporate finance team is responsible for determining the policies and procedures for the fair value management of financial instruments. The corporate finance team reports directly to the chief financial officer and the board of directors. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the board of directors for annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values.

The fair values of listed equity investments are based on quoted market prices.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2017				
Financial assets at fair value through profit or loss	4,415	–	–	4,415
As at 31 December 2018				
Financial assets at fair value through profit or loss	117,457	59,981	–	177,438

The fair values of certain unlisted investment fund, classified as financial assets at fair value through profit or loss, are based on the net asset value of underlying investment portfolio. The dealing price of the fund derived from the net asset value of the investments with reference to observable quoted price of underlying investment portfolio in active markets.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise lease liabilities, interest-bearing borrowings, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

The Group's major businesses are in mainland China and the majority of the transactions are conducted in RMB. Most of the Group's assets and liabilities are denominated in RMB. The Group does not have material foreign currency risk during the Relevant Periods.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade and bills receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging as at 31 December 2017, 2018, 2019 and 31 May 2020

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2017, 2018, 2019 and 31 May 2020. The amounts presented are gross carrying amounts for financial assets.

31 December 2017

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	206,813	206,813
Financial assets included in prepayments, other receivables and other assets					
– Normal**	117,895	–	–	–	117,895
Financial assets included in other non-current assets					
– Not yet past due	9,057	–	–	–	9,057
Structured deposits					
– Not yet past due	2,035,000	–	–	–	2,035,000
Pledged deposits					
– Not yet past due	48,959	–	–	–	48,959
Cash and cash equivalents					
– Not yet past due	2,562,883	–	–	–	2,562,883
	4,773,794	–	–	206,813	4,980,607

31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	237,038	237,038
Financial assets included in prepayments, other receivables and other assets					
– Normal**	272,808	–	–	–	272,808
Financial assets included in other non-current assets					
– Not yet past due	7,469	–	–	–	7,469
Structured deposits					
– Not yet past due	3,600,000	–	–	–	3,600,000
Pledged deposits					
– Not yet past due	5,634	–	–	–	5,634
Cash and cash equivalents					
– Not yet past due	1,763,664	–	–	–	1,763,664
	5,649,575	–	–	237,038	5,886,613

31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables*	–	–	–	325,644	325,644
Financial assets included in prepayments, other receivables and other assets					
– Normal**	89,501	–	–	–	89,501
Financial assets included in other non-current assets					
– Not yet past due	4,978	–	–	–	4,978
Structured deposits					
– Not yet past due	200,000	–	–	–	200,000
Cash and cash equivalents					
– Not yet past due	1,083,142	–	–	–	1,083,142
	1,377,621	–	–	325,644	1,703,265

31 May 2020

	12-month ECLs	Lifetime ECLs			
	Stage 1	**Stage 2**	**Stage 3**	**Simplified approach**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Trade receivables*	–	–	–	447,348	447,348
Bills receivables	1,335	–	–	–	1,335
Financial assets included in prepayments, other receivables and other assets					
– Normal**	62,145	–	–	–	62,145
Cash and cash equivalents					
– Not yet past due	4,060,036	–	–	–	4,060,036
	4,123,516	–	–	447,348	4,570,864

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 20 to the Historical Financial Information.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Liquidity risk

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management of the Group to finance the operations and mitigate the effects of fluctuations of cash flows.

The maturity profile of the Group's financial liabilities as at 31 December 2017, 2018, 2019 and 31 May 2020, based on the contractual undiscounted payments, is as follows:

31 December 2017	**Less than 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Interest-bearing borrowings	51,085	–	–	51,085
Trade and bills payables	821,043	–	–	821,043
Financial liabilities included in other payables and accruals	1,188,906	–	–	1,188,906
Lease liabilities	23,280	31,783	1,526	56,589
	2,084,314	31,783	1,526	2,117,623

31 December 2018	**Less than 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Trade and bills payables	837,328	–	–	837,328
Financial liabilities included in other payables and accruals	1,568,596	–	–	1,568,596
Lease liabilities	30,927	17,437	250	48,614
	2,436,851	17,437	250	2,454,538

31 December 2019	Less than 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing borrowings	1,000,000	–	–	1,000,000
Trade and bills payables	791,462	–	–	791,462
Financial liabilities included in other payables and accruals	1,907,322	–	–	1,907,322
Lease liabilities	7,933	32,403	36	40,372
	3,706,717	32,403	36	3,739,156

31 May 2020	Less than 1 year	1 to 5 years	Over 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing borrowings	2,145,149	–	–	2,145,149
Trade and bills payables	1,039,120	–	–	1,039,120
Financial liabilities included in other payables and accruals	2,512,455	–	–	2,512,455
Lease liabilities	16,051	27,105	–	43,156
	5,712,775	27,105	–	5,739,880

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017, 2018, 2019 and the five months ended 31 May 2020.

The Group monitors capital using a gearing ratio, which is debt divided by the adjusted capital. Debt includes interest-bearing borrowings and lease liabilities. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of each of the Relevant Periods were as follows:

	As at 31 December			As at 31 May
	2017	**2018**	**2019**	**2020**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Interest-bearing borrowings	50,066	–	1,000,000	2,112,420
Lease liabilities	52,394	45,655	36,362	39,112
Debt	102,460	45,655	1,036,362	2,151,532
Equity attributable to owners of the parent	11,127,435	14,371,546	9,881,868	11,633,348
Gearing ratio	0.9%	0.3%	10.5%	18.5%

43. EVENTS AFTER THE RELEVANT PERIODS

On 14 August 2020, cash dividends of RMB7,799,760,000 were declared out of historical retained profits of the Company as of 31 December 2019.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or any of the companies comprising the Group in respect of any period subsequent to 31 May 2020.

The following information sets out in this appendix does not form part of the Accountants' Report from Ernst & Young, Certified Public Accountants, Hong Kong, the Reporting Accountants, as set out in Appendix I to this prospectus, and is included herein for illustrative purpose only. The unaudited pro forma financial information should be read in conjunction with "Financial Information" and the Accountants' Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted consolidated net tangible assets of the Group prepared in accordance with paragraph 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to equity holders of the Company as if the Global Offering had taken place on 31 May 2020. This unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the Global Offering been completed as at 31 May 2020 or any future dates:

	Consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 May 2020	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to equity holders of the Company	Unaudited pro forma adjusted consolidated net tangible assets per Share	
	RMB'000	RMB'000	RMB'000	RMB	HK$
	(note 1)	*(note 2)*		*(note 3)*	*(note 3)*
Based on an Offer Price of HK$19.50 per Share	11,577,339	6,614,848	18,192,187	1.63	1.82
Based on an Offer Price of HK$21.50 per Share	11,577,339	7,295,823	18,873,162	1.69	1.88

Notes:

1. The consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 May 2020 is based on consolidated net assets of the Group attributable to equity holders of the Company as at 31 May 2020 of approximately RMB11,633,348,000 as extracted from the Accountants' Report set out in Appendix I to this prospectus, after netting off intangible assets of approximately RMB56,009,000.

2. The estimated net proceeds from the Global Offering are based on 388,231,800 Offer Shares at the indicative Price HK$19.50 and HK$21.50 per Share, respectively, after deduction of underwriting fees and commissions and other listing related expenses payable by the Company and without taking into account of any shares which may be allotted and issued upon the exercise of the Over-allotment Option. For the purpose of the estimated net proceeds from the Global Offering, the amount denominated in Hong Kong dollars has been converted into Renminbi at the rate of HK$1 to RMB0.8955, which was the exchange rate prevailing on 14 August 2020 with reference to the rate published by PBOC. No representation is made that the Hong Kong dollar amounts have been, could have been or may be converted to Renminbi, or vice versa, at that rate or any other rates or at all.

3. The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 11,188,231,800 Shares in issue immediately following the completion of the Global Offering and the subdivision of shares issued on a one-for-ten basis, but takes no account of any Shares which may be issued under the Over-allotment Option, or any Shares which may be allotted, issued or repurchased by the Company. For the purpose of the unaudited pro forma adjusted consolidated net tangible assets, the balance stated in Renminbi is converted into Hong Kong dollars at a rate of HK$1 to RMB0.8955. No representation is made that the Hong Kong dollar amounts have been, could have been or may be converted to Renminbi, or vice versa, at that rate or any other rates or at all.

4. The unaudited pro forma adjusted consolidated net tangible assets does not take into account the dividend of approximately RMB7,800.0 million cash dividend distribution declared on 14 August 2020. Had such dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share would be approximately RMB0.93, assuming an Offer Price of HK$19.50 per Share, and RMB0.99, assuming an Offer Price of HK$21.50 per Share.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following version is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Reporting Accountants, Ernst & Young, Certified Public Accountants.

To the Directors of Nongfu Spring Co., Ltd.

We have completed our assurance engagement to report on the compilation of pro forma financial information of Nongfu Spring Co., Ltd. (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at 31 May 2020, and related notes as set out on pages II-1 to II-2 of the prospectus dated 25 August 2020 issued by the Company (the "**Pro Forma Financial Information**"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in pages II-1 to II-2.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group's financial position as at 31 May 2020 as if the transaction had taken place at 31 May 2020. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the period ended 31 May 2020, on which an accountants' report has been published.

Directors' responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline ("**AG**") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Certified Public Accountants

Hong Kong
25 August 2020

TAXATION OF SECURITY HOLDERS

The following summary of certain Hong Kong and PRC tax consequences of the purchase, ownership and disposition of the H Shares is based upon the laws, regulations, rules and decisions now in effect, all of which are subject to change (possibly with retroactive effect). The summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the H Shares and does not purport to apply to all categories of prospective investors, some of whom may be subject to special rules, which does not and shall not be deemed as consisting a legal or taxation suggestion. Prospective investors should consult their own tax advisers concerning the application of Hong Kong and PRC tax laws to their particular situation as well as any consequences of the purchase, ownership and disposition of the shares arising under the laws of any other taxing jurisdiction.

The taxation of the Company and that of the Shareholders is described below. Where Hong Kong and PRC tax laws are discussed. These are merely an outline implications of such laws. It should not be assumed that the relevant tax authorities or the PRC or Hong Kong courts will accept or agree with the explanations or conclusions that are set out below.

Investors should note that the following statements are based on advice received by the Company regarding taxation laws, regulations and practice in force as at the date of this prospectus, which may be subject to change.

OVERVIEW OF TAX IMPLICATIONS OF PRC

Taxation on Dividends

Individual Investors

Pursuant to the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法) (the "**IIT Law**"), which was last amended on August 31, 2018 and the Regulations on Implementation of the Individual Income Tax Law of the PRC (《中華人民共和國個人所得稅法實施條例》), which was last amended on December 18, 2018, dividends paid by PRC enterprises are subject to individual income tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from an enterprise in the PRC is normally subject to individual income tax of 20% unless specifically exempted by the tax authority of the State Council or reduced by an applicable tax treaty.

Pursuant to the Notice of the SAT on Issues Concerning Taxation and Administration of Individual Income Tax After the Repeal of the Document Guo Shui Fa [1993] No. 45) (《國家稅務總局關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知) issued by the SAT on June 28, 2011, domestic non-foreign-invested enterprises issuing shares in Hong Kong may, when distributing dividends to overseas resident individuals in the jurisdiction of the tax treaty, normally withhold individual income tax at the rate of 10%. For the individual holders of H Shares receiving dividends who are citizens of countries that have entered into a tax treaty with the PRC with tax rates lower than 10%, the non-foreign-invested enterprise whose shares are listed in Hong Kong may apply on behalf of such holders for enjoying the lower preferential tax treatments, and, upon approval by the tax authorities, the excessive withholding amount will be refunded. For the individual holders of H Shares receiving dividends who are citizens of countries that have entered into a tax treaty with the PRC with tax rates higher than 10% but lower than 20%, the non-foreign-invested enterprise is required to withhold the tax at the agreed rate under the treaties, and no application procedures will be necessary. For the individual holders of H Shares receiving dividends who are citizens of countries without taxation treaties with the PRC or are under other situations, the non-foreign-invested enterprise is required to withhold the tax at a rate of 20%.

Enterprise Investors

In accordance with the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the "**EIT Law**"), which came into effect as of January 1, 2008 and was last amended on December 29, 2018, and the Implementation provisions for the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》), which came into effect as of January 1, 2008 and was last amended on April 23, 2019, the rate of enterprise income tax shall be 25%. A non-resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income (including dividends received from a PRC resident enterprise that issues shares in Hong Kong), if such non-resident enterprise does not have an establishment or place in the PRC or has an establishment or place in the PRC but the PRC-sourced income is not connected to such establishment or place in the PRC. The aforesaid income tax may be reduced pursuant to applicable treaties to avoid double taxation. Such withholding tax for non-resident enterprises are deducted at source, where the payer of the income are required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due.

The Circular of the SAT on Issues Relating to the Withholding of Enterprise Income Tax on Dividends Paid by Chinese Resident Enterprises to Overseas Non-PRC Resident Enterprise Shareholders of H Shares (《國家稅務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知》) (Guo Shui Han [2008] No. 897) which was issued by the SAT on November 6, 2008, further clarified that a PRC-resident enterprise must withhold enterprise income tax at a rate of 10% on dividends paid to overseas non-resident enterprise shareholders of H Shares for 2008 and subsequent years. In addition, the Response to Issues on Levying Enterprise Income Tax on Dividends Derived by Non-resident Enterprise from Holding Stock such as B-shares (《國家稅務總局關於非居民企業取得B股等股票股息徵收企業所得稅問題的批覆》) (Guo Shui Han [2009] No. 394) which was issued by the SAT and came into effect on July 24, 2009, further provides that any PRC-resident enterprise that is listed on overseas stock exchanges must withhold enterprise income tax at a rate of 10% on dividends of 2008 and onwards that it distributes to non-resident enterprises. Such tax rates may be further modified pursuant to the tax treaty or agreement that China has concluded with a relevant jurisdiction, where applicable.

Pursuant to the Arrangement between the Mainland and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on August 21, 2006, PRC Government may levy taxes on the dividends paid by a Chinese company to Hong Kong residents (including natural persons and legal entities) in an amount not exceeding 10% of total dividends payable by the Chinese company. If a Hong Kong resident directly holds 25% or more of the equity interest in a Chinese company, then such tax shall not exceed 5% of the total dividends payable by the Chinese company. The Fifth Protocol of the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion issued by the SAT (《國家稅務總局關於〈內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排〉第五議定書》) effective on December 6, 2019 states that such provisions shall not apply to those arrangements or transactions, of which the main purpose includes gaining such tax benefit. The application of the dividend clause of tax agreements shall be subject to the PRC tax laws and regulations, such as the Notice of the SAT on the Issues Concerning the Implementation of the Dividend Clauses of Tax Agreements (《國家稅務總局關於執行稅收協議股息條款有關問題的通知》) (Guo Shui Han [2009] No. 81).

Tax Treaties

Non-PRC resident investors residing in countries which have entered into treaties for the avoidance of double taxation with the PRC are entitled to a reduction of the withholding taxes imposed on the dividends received from PRC companies. The PRC currently has entered into Avoidance of Double Taxation Treaties/Arrangements with a number of countries and regions including HK, Macau, Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. Non-PRC resident enterprises entitled to preferential tax rates in accordance with the relevant income tax treaties or arrangements are required to apply to the Chinese tax authorities for a refund of the withholding tax in excess of the agreed tax rate, and the refund payment is subject to approval by the Chinese tax authorities.

Taxation on Share Transfer

Value-Added Tax and Local Surcharges

Pursuant to the Notice on the Full Implementation of Pilot Program for Transition from Business Tax to VAT (《關於全面推開營業税改增值税試點的通知》, Cai Shui [2016] No.36, "**Circular 36**"), effective from May 1, 2016, entities and individuals engaged in sales of services within the PRC shall be subject to VAT and sales of services within the PRC refers to the situation where either the seller or the buyer of a taxable service is located within the PRC. Circular 36 also provides that transfer of financial products, including transfer of the ownership of marketable securities, shall be subject to VAT at 6% on the taxable income (which is the balance of sales price upon deduction of purchase price), for a general or a foreign VAT taxpayer. However, individuals are exempt from VAT upon transfer of financial products.

Meanwhile, VAT taxpayers are also subject to urban maintenance and construction tax, education surcharge and local education surcharge (collectively, "**local surcharges**"), which is usually at 12% of the VAT payable, if any.

Income Tax

Individual Investors

According to the IIT Law and its implementation provisions, gains realized on the sale of equity interests in the PRC resident enterprises are subject to the individual income tax at a rate of 20%. Pursuant to the Circular of the MOF and the SAT on Declaring that Individual Income Tax Continues to be Exempted over Individual Income from Transfer of Shares (《財政部及國家税務總局關於個人轉讓股票所得繼續暫免徵收個人所得税的通知) issued by the MOF and the SAT on March 20, 1998, from January 1, 1997, income of individuals from the transfer of shares of listed enterprises shall continue to be exempted from individual income tax. On December 31, 2009, the MOF, the SAT and the CSRC jointly issued the Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (《關於個人轉讓上市公司限售股所得徵收個人所得税有關問題的通知》) which states that individuals' income from the transfer of listed shares on Shanghai Stock Exchange or Shenzhen Stock Exchange shall continue to be exempted from individual income tax, except for the relevant shares which are subject to sales restriction as defined in the Supplementary Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation (關於個人轉讓上市公司限售股所得徵收個人所得税有關問題的補充通知) jointly issued by the three aforementioned authorities on November 10, 2010.

As of the Latest Practicable Date, the aforesaid provision has not expressly provided that individual income tax shall be collected from non-PRC resident individuals on the sale of shares of PRC resident enterprises listed on overseas stock exchanges. To our knowledge, in practice, the PRC tax authorities have not sought to collect income tax from non-PRC resident individuals on gains from the sale of listed shares of PRC resident enterprises on overseas stock exchanges. However, there is no assurance that the PRC tax authorities will not change these practices, which could result in levying income tax on non-PRC resident individuals on gains from the sale of our H Share.

Enterprise Investors

In accordance with the EIT Law and its implementation provisions, a non-resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income, including gains derived from the disposal of equity interests in a PRC resident enterprise, if it does not have an establishment or place in the PRC or has an establishment or premises in the PRC but the PRC-sourced income does not have actual connection with such establishment or premise. Such income tax for non-resident enterprises are deducted at source, where the payer of the income are required to withhold the income tax from the amount to be paid to the non-resident enterprise when such payment is made or due. The withholding tax may be reduced or exempted pursuant to relevant treaties or agreements on avoidance of double taxation.

Stamp Duty

Pursuant to the Provisional Regulations of the PRC Concerning Stamp Duty (《中華人民共和國印花稅暫行條例》) effective as of October 1, 1988 and amended on January 8, 2011, and the Detailed Rules for Implementation of Provisional Regulations of the PRC Concerning Stamp Duty (《中華人民共和國印花稅暫行條例施行細則》) effective as of October 1, 1988, PRC stamp duty only applies on specific proof executed or received within the PRC and legally binding force in the PRC and protected under the PRC laws, thus the requirements of the stamp duty imposed on the transfer of shares of PRC listed companies shall not apply to the acquisition and disposal of H Shares by non-PRC investors outside of the PRC.

PRINCIPAL TAXATION OF THE COMPANY IN THE PRC

Enterprise Income Tax

Pursuant to EIT Law and its implementation provisions, enterprises and other organizations which generate income within the PRC are enterprise income tax payers and shall pay enterprise income tax at a tax rate of 25%. Meanwhile, pursuant to EIT Law, qualified small low-profit enterprises are given the reduced enterprise income tax rate of 20% and the income from agriculture, forestry, animal husbandry and fisheries may be entitled to exemption or reduction of enterprise income tax.

Pursuant to the Notice of the MOF and the SAT on Implementation of Inclusive Tax Relief Policy for Small Low-profit Enterprises (《財政部稅務總局關於實施小微企業普惠性稅收減免政策的通知》) ("**Cai Shui [2019] No. 13**"), from January 1, 2019 to December 31, 2021, the portion of annual taxable income amount of a small low-profit enterprise which does not exceed RMB1 million shall be computed at a reduced rate of 25% as taxable income amount, and be subject to enterprise income tax at 20% tax rate; the portion of annual taxable income which exceeds RMB1 million but does not exceed RMB3 million shall be computed at a reduced rate of 50% as taxable income amount, and be subject to enterprise income tax at 20% tax rate.

Pursuant to Announcement of the SAT on Issues Relating to Enterprise Income Tax Pertaining to Implementation of the Catalog of Encouraged Industries in Western Region(《國家稅務總局關於執行〈西部地區鼓勵類產業目錄〉有關企業所得稅問題的公告》) (State Administration of Taxation Announcement [2015] No. 14), enterprises established in the Western region whose principal activities are newly-added encouraged industry projects stipulated in the catalog of Encouraged Industries in Western Region and whose income from principal activities in the current year constitutes 70% and above of their total income may, with effect from October 1, 2014, pay enterprise income tax based on the reduced tax rate of 15%. According to the Notice on Issues concerning the Implementation of the Tax Policies for the Development of Western China by Ganzhou City (《財政部、海關總署、國家稅務總局關於贛州市執行西部大開發稅收政策問題的通知》) promulgated by the State Administration of Taxation, the Ministry of Finance and the General Administration of Customs on January 10, 2013, for domestic enterprises and foreign-invested enterprises established in Ganzhou that are in an industry sector encouraged by the State, enterprise income tax should be levied at a tax rate of 15% from January 1, 2012 till December 31, 2020.

Value-added Tax

Pursuant to Provisional Regulations of the People's Republic of China on Value-added Tax (《增值稅暫行條例》) ("**VAT Regulations**") and Implementation Rules for the Provisional Regulations the People's Republic of China on Value-added Tax (《增值稅暫行條例實施細則》) ("**VAT Implementation Rules**"), entities and individuals that sell goods or labor services of processing, repair or replacement, sales, intangible assets, real estates, or import goods within the territory of the PRC are taxpayers of value-added tax ("**VAT**"), and shall pay VAT in accordance with these Regulations. Unless otherwise provided for by law, the VAT rate is: 17%, for taxpayers selling goods, labor services, or tangible movable property leasing services or importing goods; 11%, for taxpayers selling transportation, postal, basic telecommunications, construction, or real estates leasing services, selling real estates, transferring the rights to use land, or selling or importing specific goods; 6%, for taxpayers selling services or intangible assets; zero, for domestic entities and individuals selling services or intangible assets within the scope prescribed by the State Council across national borders; and zero, for export, (except as otherwise specified by the State Council).

Pursuant to the Circular on Comprehensively Promoting the Pilot Program of the Collection of Value-added Tax in Lieu of Business Tax (《關於全面推開營業稅改徵增值稅試點的通知》) (promulgated by the MOF and the SAT on March 23, 2016, came into effect on May 1, 2016 and as amended on July 11, 2017, December 25, 2017 and March 20, 2019 respectively), the pilot program of the collection of value-added tax in lieu of business tax shall be promoted nationwide in a comprehensive manner, and all taxpayers of business tax engaged in the building industry, the real estate industry, the financial industry and the life service industry shall be included in the scope of the pilot program with regard to payment of value-added tax instead of business tax.

Pursuant to the Circular of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (《關於調整增值稅稅率的通知》) ("cai shui [2018] No.32"), promulgated on April 4, 2018 and came into effect on May 1, 2018, by the MOF and the SAT), where a taxpayer engages in a taxable sales activity for the value-added tax purpose or imports goods, the previous applicable 17% and 11% tax rates are lowered to 16% and 10% respectively.

Pursuant to the Announcement on Relevant Policies for Deepening the Value-Added Tax Reform (《關於深化增值稅改革有關政策的公告》) (promulgated by the MOF, the SAT and the General Administration of Customs of the PRC on March 20, 2019 and came into effect on April 1, 2019) ("**Circular 39**"), tax rates of the VAT on sales and imported goods that were previously subject to 16% and 10% were adjusted to 13% and 9% respectively.

OVERVIEW OF TAX IMPLICATIONS OF HONG KONG

HONG KONG Taxation of the Company

Profits Tax

The Company will be subject to Hong Kong profits tax in respect of profits arising in or derived from Hong Kong at the current rate of 16.5% unless such profits are chargeable under the half-rate of 8.25% that may apply for the first HK$2 million of assessable profits for years of assessment beginning on or after April 1, 2018. Dividend income derived by the Company from its subsidiaries will be excluded from Hong Kong profits tax.

Hong Kong Taxation of Shareholders

Tax on Dividends

No tax is payable in Hong Kong in respect of dividends paid by the Company.

Profits Tax

Hong Kong profits tax will not be payable by any Shareholders (other than Shareholders carrying on a trade, profession or business in Hong Kong and holding the H Shares for trading purposes) on any capital gains made on the sale or other disposal of the Shares. Trading gains from the sale of H Shares by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong income tax rates of 16.5% on corporations and 15.0% on individuals, unless such gains are chargeable under the respective half-rates of 8.25% and 7.5% that may apply for the first HK$2 million of assessable profits for years of assessment beginning on or after 1 April 2018. Gains from sales of H Shares effected on the Stock Exchange will be considered by the Hong Kong Inland Revenue Department to be derived from or arise in Hong Kong. Shareholders should take advice from their own professional advisers as to their particular tax position.

Stamp Duty

Hong Kong stamp duty will be charged on the sale and purchase of Shares at the current rate of 0.2% of the consideration for, or (if greater) the value of, the Shares being sold or purchased, whether or not the sale or purchase is on or off the Stock Exchange. The Shareholder selling the Shares and the purchaser will each be liable for one-half of the amount of Hong Kong stamp duty payable upon such transfer. In addition, a fixed duty of HK$5 is currently payable on any instrument of transfer of Shares.

Estate Duty

Hong Kong estate duty was abolished effective from 11 February 2006. No Hong Kong estate duty is payable by Shareholders in relation to the Shares owned by them upon death.

FOREIGN EXCHANGE CONTROL IN THE PRC

The lawful currency of the PRC is Renminbi, which is currently subject to foreign exchange controls and cannot be freely converted into foreign currency. The SAFE, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

According to Regulations on Foreign Exchange Administration of the PRC (《中華人民共和國外匯管理條例》) (the "**Foreign Exchange Administration Regulations**"), which was promulgated by the State Council of on January 29, 1996 and came into effect since 1 April 1996, the Foreign Exchange Administration Regulations classify all international payments and transfers into current items and capital items. Most of the current items are not subject to the approval of foreign exchange administration agencies, while capital items are subject to such approval. The Foreign Exchange Administration Regulations were subsequently amended on January 14, 1997 and August 1, 2008, and came into effect on August 5, 2008. The latest amendment to the Foreign Exchange Administration Regulations clearly states that PRC will not impose any restriction on international current payments and transfers.

On June 20, 1996, PBOC promulgated the Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》) (the "**Settlement Regulations**"), which became effective on July 1, 1996. The Settlement Regulations do not impose any restrictions on convertibility of foreign exchange under current items, while imposes restrictions on foreign exchange transactions under capital items.

According to the relevant laws and regulations in the PRC, PRC enterprises (including foreign investment enterprises) which need foreign exchange for current item transactions may, without the approval of the foreign exchange administrative authorities, effect payment through foreign exchange accounts opened at financial institutions that carries foreign exchange business or operating institutions that carries settlement and sale business, on the strength of valid receipts and proof. Foreign investment enterprises which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises which, in accordance with regulations, are required to pay dividends to their shareholders in foreign exchange may, on the strength of resolutions of the board of directors or the shareholders' meeting on the distribution of profits, effect payment from foreign exchange accounts opened at financial institutions that carries foreign exchange business or institutions that carries settlement and sale business, or effect exchange and payment at financial institutions that carry foreign exchange business or institutions that carry settlement and sale business.

On December 26, 2014, the SAFE issued the Notice of the SAFE on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》), pursuant to which a domestic company shall, within 15 business days of the date of the end of its overseas listing issuance, register the overseas listing with the SAFE's local branch at the place of its incorporation; and the proceeds from an overseas listing of a domestic company may be remitted to the domestic account or deposited in an overseas account, but the use of the proceeds shall be consistent with the content of the prospectus and other disclosure documents.

On February 13, 2015, the SAFE issued the Notice of the SAFE on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (Hui Fa [2015] No. 13), which came into effect on June 1, 2015. The notice has cancelled the confirmation of foreign exchange registration under domestic direct investment and the confirmation of foreign exchange registration under overseas direct investment, instead, banks shall directly examine and handle foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment, and the SAFE and its local offices shall indirectly regulate the foreign exchange registration of direct investment through banks.

According to the Notice of the SAFE of the PRC on Revolutionize and Regulate Capital Account Settlement Management Policies (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (Hui Fa [2016] No. 16) issued by the SAFE on June 9, 2016, foreign currency earnings in capital account that relevant policies of willingness exchange settlement have been clearly implemented on (including the recalling of raised capital by overseas listing) may undertake foreign exchange settlement in the banks according to actual business needs of the domestic institutions. The tentative percentage of foreign exchange settlement for foreign currency earnings in capital account of domestic institutions is 100%, subject to adjust of the SAFE in due time in accordance with international revenue and expenditure situations.

This Appendix sets forth summaries of certain aspects of PRC laws and regulations which are relevant to the Company's operations and business. Laws and regulations relating to taxation in the PRC are discussed separately in "Appendix III – Taxation and Foreign Exchange." This Appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain of the material differences between PRC and Hong Kong company law, certain requirements of the Hong Kong Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of the PRC issuers.

PRC LAWS AND REGULATIONS

This Appendix contains a summary of laws and regulations on companies and securities in the PRC, certain major differences between the PRC Company Law and Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Companies Ordinance as well as the additional regulatory provisions of the Hong Kong Stock Exchange on joint stock limited companies of the PRC. The principal objective of this summary is to provide potential investors with an overview of the principal laws and regulations applicable to us. This summary is with no intention to include all the information which may be important to the potential investors. For discussion of laws and regulations specifically governing the business of the Company, see section headed "Regulatory Overview" in this document.

PRC LEGAL SYSTEM

The PRC legal system is based on the Constitution of the PRC (《中華人民共和國憲法》) (the "**Constitution**") and is made up of written laws, administrative regulations, local regulations, autonomous regulations, separate regulations, rules and regulations of departments of the State Council, rules and regulations of local governments, international treaties of which the PRC government is a signatory, and other regulatory documents. Court verdicts may be used as judicial reference and guidance. However, they do not constitute binding precedents.

According to the Constitution and the Legislation Law of the PRC (《中華人民共和國立法法》) (the "**Legislation Law**"), National People's Congress (the "**NPC**") and the NPCSC are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing civil and criminal matters, state organs and other matters. The NPCSC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws. The State Council is the highest organ of the PRC administration and has the power to formulate administrative regulations based on the Constitution and laws. The people's congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of their own respective administrative areas, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations. The people's Congress of the National Autonomous Region has the power to formulate autonomous regulations and separate regulations in accordance with the political, economic and cultural characteristics of the local ethnic groups, and make flexible provisions on the provisions of laws and administrative regulations, but shall not violate the basic principles of laws or administrative regulations, and shall not make flexible provisions on the provisions of the constitution law and the law of regional ethnic autonomy, as well as other relevant laws and administrative regulations on ethnic autonomy.

The ministries and commissions of the State Council, PBOC, the State Audit Administration as well as the other organs endowed with administrative functions directly under the State Council may, in accordance with the laws as well as the administrative regulations, decisions and orders of the State Council and within the limits of their power, formulate rules. The people's governments of the provinces, autonomous regions, and municipalities directly under the central government, cities divided into districts and autonomous prefectures may enact rules, in accordance with laws, administrative regulations and the local regulations of their respective provinces, autonomous regions or municipalities.

The Constitution has supreme legal authority and no laws, administrative regulations, local regulations, autonomous regulations or separate regulations may contravene the Constitution. The authority of laws is greater than that of administrative regulations, local regulations and rules. The authority of administrative regulations is greater than that of local regulations and rules. The authority of local regulations is greater than that of the rules of the local governments at or below the corresponding level. The authority of the rules enacted by the people's governments of the provinces or autonomous regions is greater than that of the rules enacted by the people's governments of the cities divided into districts or autonomous prefectures within the administrative areas of the provinces and the autonomous regions.

The NPC has the power to alter or annul any inappropriate laws enacted by its Standing Committee, and to annul any autonomous regulations or separate regulations which have been approved by its Standing Committee, but which contravene the Constitution or the Legislation Law. The NPCSC has the power to annul any administrative regulations that contravene the Constitution and laws, to annul any local regulations that contravene the Constitution, laws or administrative regulations, and to annul any autonomous regulations or local regulations which have been approved by the standing committees of the people's congresses of the relevant provinces, autonomous regions or municipalities directly under the central government, but which contravene the Constitution and the Legislation Law. The State Council has the power to alter or annul any inappropriate ministerial rules and rules of local governments. The people's congresses of provinces, autonomous regions or municipalities directly under the central government have the power to alter or annul any inappropriate local regulations enacted or approved by their respective standing committees. The Standing Committees of local people's Congresses have the power to annul inappropriate rules enacted by the people's governments at the corresponding level. The people's governments of provinces and autonomous regions have the power to alter or annul any inappropriate rules enacted by the people's governments at a lower level.

According to the constitution, the power to interpret laws is invested in the NPCSC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》), if the scope prescribed by laws or decrees needs to be further defined or supplementary provisions need to be made, the NPCSC shall interpret them or make provisions by means of decrees. Issues involving the specific application of laws and decrees in the trial work of the court shall be interpreted by the Supreme People's court. Issues involving the specific application of laws and decrees in the procuratorial work of the procuratorate shall be interpreted by the Supreme People's procuratorate. If there are principled differences in the interpretation of the Supreme People's court and the Supreme People's Procuratorate, they shall be submitted to the NPCSC for interpretation or decision. Issues that do not involve the specific application of laws and decrees in judicial and procuratorial work shall be interpreted by the State Council and the competent departments. If the scope of local laws and regulations needs to be further defined or supplemented, the Standing Committee of the people's Congress of each province, autonomous region and municipality directly under the central government that promulgates such laws and regulations shall interpret or enact regulations. Issues involving the specific application of local laws and regulations shall be interpreted by the competent departments of the people's governments of all provinces, autonomous regions and municipalities directly under the central government.

PRC JUDICIAL SYSTEM

According to the Constitution and the Organic Law of the People's Court of the People's Republic of China (《中華人民共和國人民法院組織法》) ("**the Organic Law of the People's Court**"), the people's court is composed of the Supreme People's Court, the local people's courts at all levels and the special people's courts.

Local people's courts at all levels are composed of primary people's courts, intermediate people's courts and higher people's courts. The primary people's courts may set up civil, criminal and economic tribunals. The intermediate people's court has similar structure with the primary people's court, and can set up other tribunals, such as intellectual property tribunal when necessary. Special people's courts include military courts, maritime courts, intellectual property courts, financial courts, etc.

The higher level of people's court supervises the trial work of the people's court at a lower level. The people's Procuratorate also has the right to exercise legal supervision over the proceedings of the people's court at the same level or at a lower level. The Supreme People's Court is the highest judicial organ in China and supervises the trial work of local people's courts at all levels and special people's courts.

In accordance with the Criminal Procedure Law of the PRC (《中華人民共和國刑事訴訟法》) ("**Criminal Procedure Law**") and the Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》) ("**Civil Procedure Law**"), the people's courts apply a two-tier appellate system. Before a judgment or ruling of first instance has legal effect, the parties may appeal to the people's court at the next higher level. A judgment or ruling of second instance made by a higher court shall be final and binding. The first instance judgment or ruling of the Supreme People's Court is also final. However, if the Supreme People's Court or the people's court at a higher level finds an error in the effective judgment, ruling or conciliation statement made by the people's court at a lower level, it shall have the right to bring the case up for trial or order the people's court at a lower level to hold the case. If the president of a people's court at any level finds that there is an error in the effective judgment, written order or conciliation statement made by his court and considers that a retrial is necessary, he shall submit it to the judicial committee for discussion and decision.

The Civil Procedure Law contains provisions on the jurisdiction of the people's court, the procedures to be followed in conducting civil proceedings and the procedures for the enforcement of civil judgments or rulings. All parties to a civil action in China shall abide by the civil procedure law. Generally speaking, civil cases are heard by the local court where the defendant lives. The parties to the contract may also choose the court of jurisdiction to file a civil action by express agreement, but the court of jurisdiction shall be the place where the dispute is actually related, such as the place where the plaintiff or the defendant lives, the place where the contract is signed or performed, or the place where the subject matter of the action is located, etc. However, in any case, the above selection shall not violate the provisions of the Civil Procedure Law on level jurisdiction and exclusive jurisdiction.

A foreign individual, a person without nationality, a foreign enterprise or a foreign organization that institute or respond to proceedings in a people's court is given the same litigation rights and obligations as a citizen or legal person of the PRC. Should a foreign court limit the litigation rights of PRC citizens and enterprises, the PRC court shall apply the same limitations to the citizens and enterprises of such foreign country.

If any party to a civil action refuses to comply with the effective judgement, ruling, conciliation statement and other legal documents to be executed by the people's court or an award made by the arbitration tribunal in the PRC, the other party may apply to the people's court for the enforcement of the same. There are time limits of two years imposed on the right to apply for such enforcement. Suspension or disruption of the time limit for applying for such enforcement shall comply with the provisions of the applicable law concerning the suspension or disruption of the time-barring of actions.

A party seeking to enforce a judgement or ruling of a people's court against a party who is not personally or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of the judgement or ruling. A foreign judgement or ruling may also be recognized and enforced by the people's court according to PRC enforcement procedures if the PRC has entered into or acceded to an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgement or ruling satisfies the court's examination according to the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgement or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security or against social and public interest.

THE PRC COMPANY LAW, SPECIAL REGULATIONS AND MANDATORY PROVISIONS

The Company Law (《公司法》) was passed by the Standing Committee of the Eighth NPC on December 29, 1993 and came into effect on July 1, 1994. It was successively amended on December 25, 1999, August 28, 2004, October 27, 2005, December 28, 2013 and October 26, 2018. The revised Company Law came into effect on October 26, 2018.

Special Regulations of the State Council Concerning the Floatation and Listing Abroad of Stocks by Limited Stock Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》) (the "**Special Regulations**") were passed at the 22nd Standing Committee Meeting of the State Council on July 4,1994 and were promulgated and implemented on August 4, 1994. The Special Regulations were formulated according to the then applicable Article 85 and Article 155 of the Company Law and should be applicable to the overseas share issue and listing of joint stock limited companies. According to the Official Reply of the State Council on the Proposed Adjustment to the Provisions Concerning Matters Including the Notice Period for Convention of Shareholders' Meetings by Overseas Listed Companies (Guo Han [2019] No. 97) (《關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆》(國函[2019]97號)) (the "**Circular 97**") issued on October 17, 2019, the notice period for a shareholders' meeting, the shareholder proposal right, and the procedures for convening a shareholders' meeting, for those joint stock companies established within the territory of China but listed outside the territory of China should be governed by the relevant provisions of the Company Law, and the provisions laid down in Article 20 through Article 22 of the Special Regulations will no longer apply to the aforesaid matters.

The Mandatory Provisions in Articles of Association of Joint Stock Limited Companies to be Listed Overseas (《到境外上市公司章程必備條款》) (the "**Mandatory Provisions**") were promulgated and implemented by the former Securities Commission of the State Council and the former State Economic System Restructuring Commission on August 27, 1994, prescribing provisions which must be incorporated into the articles of association of joint stock limited companies to be listed overseas. Therefore, the Mandatory Provisions have been incorporated into the Articles of Association. Set out below is a summary of the provisions of the PRC Company Law, the Special Regulations, the Mandatory Provisions and the Circular 97 applicable to the Company.

General Provisions

A joint stock limited company is a corporate legal person incorporated under the Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to the extent of the shares they hold, and the liability of the company is limited to the full amount of all the assets it owns.

A company must conduct its business in accordance with laws as well as public and commercial ethics. A company may invest in other limited liability companies. The liabilities of the company to such invested companies are limited to the amount invested. Unless otherwise provided by laws, a company cannot be the capital contributor who has the joint and several liabilities associated with the debts of the invested enterprises.

Incorporation

A company may be incorporated by promotion or public subscription. A company may be incorporated by two to 200 promoters, but at least half of the promoters must reside in the PRC. A company incorporated by promotion is the one with registered capital entirely subscribed for by the promoters. Where a company is incorporated by public subscription, unless otherwise provided, the promoters are required to subscribe for not less than 35% of the total shares of the company, and the remaining shares can be offered to the public or specific parties.

The Company Law provides that for companies incorporated by way of promotion, the registered capital shall be the total capital subscribed for by all promoters as registered with the relevant administrative bureau for industry and commerce. Shares in the company shall not be offered to others unless the registered capital has been fully paid up.

For companies incorporated by way of public subscription, the registered capital is the amount of total paid-up capital as registered with the relevant administrative bureau for industry and commerce. The promoters shall subscribe in writing for the shares required to be subscribed for by them and pay up their capital contributions under the articles of association. Procedures relating to the transfer of titles to non-monetary assets shall be duly completed in accordance with laws if such assets are to be contributed as capital.

The latest revision of the Company Law no longer imposes restrictions on minimum amount or requirements for payment deadlines of paid-up registered capital. However, if there are laws, administrative regulations and other requirements imposed by the State Council provide for payment deadlines of paid-up registered capital or the minimum registered capital of a limited liability company or a joint stock limited company, such laws, administrative regulations and requirements shall prevail.

The promoters shall convene an extraordinary meeting within 30 days after the issued shares have been completely paid up. The extraordinary meeting may be convened only with the presence of promoters and subscribers holding shares representing more than 50% of the total issued shares of the company. Matters to be dealt with at the extraordinary meeting include passing the draft articles of association proposed by the promoters and electing the members of board of directors and the board of supervisors of the company. Any resolution of the meeting shall be approved by subscribers with more than half of the voting rights of those present at the meeting.

Within 30 days after the conclusion of the extraordinary meeting, the board of directors shall apply to the registration authority for registration of the incorporation of the company. A company is formally established and has the qualification of a legal person once the registration has been approved by the relevant administrative bureau for industry and commerce and a business license has been issued.

The promoters of a company shall individually and jointly be liable for the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated, the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated, and damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

Share Capital

The promoters of a company may make capital contributions in cash, or in kind that can be valued in currency and transferable according to laws such as intellectual property rights or land-use rights based on their appraised value.

There is no limit under the Company Law as to the percentage of shares held by an individual shareholder in a company. If capital contribution is made other than in cash by the promoters of the company, valuation and verification of the properties contributed must be carried out and converted into shares. A company may issue registered or bearer shares. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered shares and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative. The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in RMB and subscribed for in foreign currency.

Pursuant to the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from Hong Kong, Macau and Taiwan and subscribed in foreign currency are defined as foreign shares. Foreign shares listed overseas are defined as overseas listed and foreign invested shares. Shares issued to investors within the PRC other than the aforementioned areas and subscribed in RMB are defined as Domestic Shares. Qualified Foreign Institutional Investors ("**QFII**") approved by the China Securities Regulatory Commission (the "**CSRC**") may invest in the PRC securities market.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Detailed measures shall be specified by the State Council based on the Special Regulations. The share price may be equal to or in excess of par value, but shall not be less than par value. The transfer of shares by shareholders shall be conducted in legally established stock exchanges or via other methods as stipulated by the State Council.

Increase of Share Capital

Pursuant to the Company Law, an increase in the capital of a company by means of an issue of new shares must be approved by shareholders in general meeting. Except for above-mentioned conditions of obtaining approval at the general meeting required by the Company Law, the Securities Law of the People's Republic of China (《中華人民共和國證券法》) (the "**Securities Law**") requires the following conditions for a company to issue new shares to the public: the company is a complete and well-operated organization; the company is capable of making profits continuously; no false records or significant irregularities are found in its financial and accounting documents over the last three years; the issuer, its controlling shareholder, and actual controller have not been involved in corruption, bribery, embezzlement, misappropriation of property, or disruption of the socialist market economic order in the past three years; the company is able to fulfill any other requirements as prescribed by the securities regulatory authority of the State Council as approved by the State Council. The approval of the securities regulatory authority of the State Council must be obtained. After payment in full for the new shares issued, a company must modify its registration with the relevant administrative bureau for industry and commerce and issue a public notice accordingly.

Reduction of Share Capital

A company may reduce its registered capital in accordance with the following procedures stipulated by the Company Law:

- the company shall prepare a balance sheet and a list of properties;
- the reduction of registered capital must be approved by shareholders in the general meeting;
- the company shall inform its creditors of the reduction of capital within ten days, and publish an announcement in respect of the reduction in newspapers within thirty (30) days upon passing of the resolution approving the reduction of capital;
- creditors of the company may require the company to settle its debts or provide corresponding guarantees within the statutory time limit; and
- the company must apply to the relevant administrative bureau for industry and commerce for registration of the reduction of registered capital.

Repurchase of Shares

A company shall not purchase its own shares other than for the following purposes:

(1) reducing its registered capital;

(2) merging with other company which holds its shares;

(3) using shares for employees stock ownership plan or equity incentives;

(4) acquiring its own shares at the request of its shareholders who vote in a shareholders' general meeting against a resolution regarding a merger or division;

(5) using shares for converting convertible corporate bonds issued by the listed company; and

(6) for the purpose of protecting the corporate value and the rights and interests of shareholders of a listed company when necessary.

A company purchasing its own shares under any of the circumstances set forth in items (1) and (2) shall be subject to a resolution of the shareholders' meeting; and a company purchasing its own shares under any of the circumstances set forth in items (3), (5) and (6) may, pursuant to its articles of association or the authorization of the shareholders' meeting, be subject to a resolution of a meeting of the board of directors at which more than two-thirds of directors are present.

After purchasing its own shares in accordance with these requirements, a company shall, under the circumstance set forth in item (1), cancel them within 10 days after the purchase; while under the circumstance set forth in either item (2) or (4), transfer or cancel them within six months; and while under the circumstance set forth in item (3), (5) or (6), aggregately hold not more than 10% of the total shares that have been issued by the company, and transfer or cancel them within three years.

A listed company purchasing its own shares shall perform the obligation of information disclosure and under any of the circumstances set forth in items (3), (5) and (6) shall carry out trading in a public and centralized manner.

The Mandatory Provisions stipulate that upon obtaining approvals from relevant supervisory authorities in accordance with the articles of association of the company, a company may, for the aforementioned purposes, repurchase its issued shares by way of a general offer to its shareholders or purchase on a stock exchange or through off-market contract.

Transfer of Shares

Shares may be transferred in accordance with the relevant laws and regulations. A shareholder shall transfer his/her shares in stock changes established pursuant to laws or by other means as stipulated by the State Council. Registered shares may be transferred by endorsement of the shareholders or in any other manner specified in applicable laws and regulations. Bearer shares are transferred by delivering the shares to relevant transferees. Unless otherwise stipulated by laws, no modifications of registration in the share register caused by transfer of shares shall be made within twenty days prior to convening a shareholders' general meeting or five days prior to any record date for determination of dividend distributions. Shares of a company held by its promoter(s) shall not be transferred within one year from the date of incorporation of such company. Shares in issue prior to the company's public offering of shares shall not be transferred within one year from the listing date of its shares on the stock exchange.

Directors, supervisors and senior management of a company shall not transfer over 25% of the total shares held by them in the company each year during their term of office, and shall not transfer the shares held by them in the company within one year from the listing date of the shares. Such persons shall also not transfer the shares held by them in the company within half a year after they leave office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and senior management.

Shareholders

The company's articles of association set forth the rights and duties of its shareholders, which are binding on all shareholders. Pursuant to the Company Law and the Mandatory Provisions, the rights of shareholders include:

- the right to attend shareholders' general meetings in person or by proxy and to vote in respect of the number of shares held;
- the right to transfer their shares in accordance with the applicable laws, regulations and the company's articles of association;
- the right to inspect the company's articles of association, share register, counterfoil of company debentures, minutes of shareholders' general meetings, resolutions of board meetings, resolutions of meetings of the board of supervisors and financial and accounting reports and to make proposals or enquires on the company's business operations;
- where a resolution passed by shareholders' general meetings or the board of directors violates the articles of association or infringe the lawful rights and interests of shareholders the right to institute an action in a people's court demanding the cessation of such unlawful infringement;
- the right to receive dividends based on the number of shares held; and;
- any other rights of shareholders specified in the company's articles of association.

The obligations of a shareholder include: to abide by the company's articles of association; to pay the subscription monies in respect of subscribed for; to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares subscribed for; not to abuse the shareholders' rights to prejudice the interests of the company or other shareholders thereof; not to abuse the independent status of the company as a legal person and a joint stock limited company to prejudice the interests of the creditor(s) of the company; and other obligations specified in the company's articles of association.

Shareholders' General Meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the Company Law. The shareholders' general meeting exercises the following powers:

- to decide on the company's operational policies and investment plans;
- to elect or remove the directors and supervisors who are not representatives of the employees;
- to decide on matters relevant to remuneration of directors and supervisors;
- to review and approve reports of the board of directors;

- to review and approve reports of the board of supervisors or supervisors;
- to review and approve annual financial budget and final accounts proposed by the company;
- to review and approve the company's proposals on profit distribution and recovery of loss;
- to decide on any increase or reduction of the registered capital of the company;
- to decide on the company's issuance of bonds;
- to decide on merger, division, dissolution and liquidation of the company and other matters;
- to amend the company's articles of association; and
- other powers as specified in the articles of association.

Annual general meetings shall be held once a year. An extraordinary general meeting shall be held within two months after the occurrence of any of the following circumstances:

- the number of directors is less than the number stipulated by the Company Law or less than two thirds of the number specified in the articles of association;
- the losses of the company which are not recovered reach one-third of the company's total paid up share capital;
- as requested by shareholders alone or in aggregate holding 10% or more of the shares of the Company;
- when deemed necessary by the board of directors;
- when proposed by the board of supervisors; or
- other circumstances as specified in the articles of associations.

Shareholders' general meetings shall be convened by the board of directors and presided over by the chairman of the board of directors.

The notice to convene an annual general meeting and an extraordinary general meeting shall be given 20 days and 15 days, respectively, before the date of such meeting pursuant to the Company Law. For the issuance of bearer share certificates, the time and venue of and matters to be considered at the meeting shall be announced 30 days before the meeting.

There is no specific provisions in the Company Law regarding the number of shareholders constituting a quorum in a general meeting. Shareholders alone or in aggregate holding more than 3% of the shares of the company may put forth interim proposals and submit the same in writing to the board of directors 10 days before a general meeting. The board of directors shall notify other shareholders within 2 days after receiving such proposals, and submit the interim proposals to the general meeting for review and approval if such proposals are within the scope of its duties and powers. The contents of the interim proposal shall be within the scope of the functions and powers of the general meeting of shareholders, with clear topics and specific matters for resolutions. The general meeting shall not make any resolution on any matter not listed in a notice as stipulated in either of the preceding two notices. Where holders of bearer shares intend to attend the shareholders' general assembly, they shall deposit their share certificates with the company for a period beginning from five days prior to the convening of the meeting to the end of the meeting.

Pursuant to the Company Law, shareholders present at a shareholders' general meeting have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights. An accumulative voting system may be adopted for the election of directors and supervisors at the general meeting pursuant to the provisions of the articles of association or a resolution of the general meeting. Under the accumulative voting system, each share shall be entitled to the number of votes equivalent to the number of directors or supervisors to be elected at the general meeting, and shareholders may consolidate their votes for one or more directors or supervisors when casting a vote.

Pursuant to the Company Law and the Mandatory Provisions, resolutions of the shareholders' general meeting shall be adopted by more than half of the voting rights held by the shareholders present at the meeting. However, resolutions of the shareholders' general meeting regarding the following matters shall be adopted by more than two-thirds of the voting rights held by the shareholders present at the meeting: (i) amendments to the articles of association; (ii) the increase or decrease of registered capital; (iii) the issue of any types of shares, warrants or other similar securities; (iv) the issue of debentures; (v) the merger, division, dissolution, liquidation or change in the form of the company; (vi) other matters considered by the shareholders' general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on the company and should be adopted by a special resolution.

Under the Company Law, meeting minutes shall be prepared in respect of decisions on matters discussed at the shareholders' general meeting. The chairman of the meeting and directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of Domestic Shares and holders of overseas listed and foreign invested shares are deemed to be different classes of shareholders for this purpose.

Directors

A company shall have a board of directors, which shall consist of 5 to 19 members. The term of office of the directors shall be provided for by the articles of association, but each term of office shall not exceed three years. The directors may hold consecutive terms by re-election upon the expiry of term.

Meetings of the board of directors shall be convened at least twice a year. A notice of meeting shall be given to all directors and supervisors at least ten days before the meeting. As for extraordinary meetings convened by the board of directors, the way of giving notice and the notice period may be otherwise determined.

Under the Company Law, the board of directors exercises the following functions and powers:

- to convene the general meeting and report on its work to the shareholders;
- to implement the resolution of the general meeting;
- to decide on the company's business plans and investment plans;
- to formulate the company's proposed annual financial budget and final accounts;
- to formulate the company's proposals for profit distribution and for recovery of losses;
- to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;
- to formulate plans for the merger, division, dissolution or change in the form of the company;
- to decide on the company's internal management structure;
- to appoint or dismiss the company's general manager, and based on the general manager's nomination, to appoint or dismiss deputy general managers and financial officers of the company and to decide on their remuneration;
- to formulate the company's basic management system; and
- other functions and powers as specified in the articles of association.

In addition, the Mandatory Provisions provide that the board of directors is also responsible for formulating the proposals for amendment of the articles of association of a company. Interim board meetings may be convened by shareholders representing more than 10% of the voting rights, more than one-third of the directors or the supervisory board. The chairman shall convene the meeting within ten days of receiving such proposal, and preside over the meeting. Meetings of the board of directors could be held only if more than half of the directors are present. Resolutions of the board of directors require the approval of more than half of all directors. If a director is unable to attend a board meeting, he/she may appoint another director by a written power of attorney specifying the scope of the authorization for another director to attend the meeting on his/her behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved of that liability.

Under the Company Law, the following persons may not act as a director of a company:

- persons without capacity or restricted capacity to undertake civil liabilities;
- persons who have committed the offense of corruption, bribery, taking of property, misappropriation of property or destruction of the order of socialist market economy, and have been sentenced to criminal punishment, where less than five years have elapsed since the date of completion of the sentence; or persons who have been deprived of their political rights due to criminal offense, where less than five years have elapsed since the date of the completion of implementation of this deprivation;
- persons who have been former directors, factory managers or general managers of a company or an enterprise that has been bankrupt and has been liquidated, and those persons are personally liable for the bankruptcy of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- persons who were legal representatives of a company or enterprise which had its business license revoked due to violation of the law and who are personally liable, and less than three years have elapsed since the date of the revocation of the business license; or
- persons who have a relatively large amount of debt due and outstanding; or
- other circumstances under which a person is disqualified from acting as a director of a company as set out in the Mandatory Provisions (which have been incorporated in the Articles of Association, a summary of which is set out in Appendix V).

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors exercises the following functions and powers (including but not limited to):

- to preside over general meetings and convene and preside over meetings of the board of directors;
- and to check on the implementation of the resolutions of the board of directors.

According to the Company Law, the legal representative of a company may be the chairman, any executive director (if the limited liability company does not have a board of directors) or the general manager. However, the Mandatory Provisions require that the legal representative of the company shall be the chairman.

The Special Regulations provide that a company's directors, supervisors, general managers and other senior management shall bear fiduciary duties and the obligation to act diligently. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions and power for their own benefit. The Mandatory Provisions (which have been incorporated into the Articles of Association, a summary of which is set out in Appendix V) contain further elaborations of such duties.

Supervisors

A company shall have a board of supervisors composed of not less than three members. The term of office of a supervisor shall be three years, and the supervisors may hold consecutive terms by re-election. The board of supervisors is made up of shareholders' representatives and an appropriate proportion of the company's staff representatives, which shall be no less than one-third. Directors and senior management shall not act as supervisors.

The board of supervisors exercises the following functions and powers:

- check the financial affairs of the company;
- supervise the directors and senior management in the performance of their duties, and to put forward proposals on the removal of any director or senior manager who violates laws, administrative regulations, the articles of association or any resolution of the shareholders' meeting;
- require the director or senior management to make corrections if his/her act is detrimental to the interests of the company;
- propose the convening of extraordinary general meetings, and to convene and preside over shareholders' meetings when the board of directors fails to exercise the function of convening and presiding over shareholders' meetings;
- put forward proposals at general meetings;
- initiate actions against directors or senior management; and
- other functions and duties as provided for by the articles of association.

The circumstances under which a person is disqualified from being a director described above apply mutatis mutandis to supervisors of a company.

General Manager and Senior Managers

A company shall have a general manager who shall be appointed or removed by the board of directors. The general manager is accountable to the board of directors and may exercise the following powers:

- manage the production, operation and management of the company and arrange for the implementation of resolutions of the board of directors;
- arrange for the implementation of the company's annual business and investment plans;
- formulate plans for the establishment of the company's internal management structure;
- formulate the basic administration system of the company;

- formulate the company's specific rules;
- recommend the appointment and dismissal of deputy general managers and financial officers;
- decide to appoint or dismiss other management personnel (other than those required to be appointed or dismissed by the board of directors);
- attend board meetings as a non-voting attendant; and
- other powers conferred by the board of directors or the company's articles of association.

Under the Company Law, the senior management of a company include the general manager, deputy general managers, financial officers, secretary of the board of directors of a listed company and other executives as specified in the articles of association of the company. The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to general managers and officers of the company. The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, general managers and other senior management of the company. Such persons shall be entitled to exercise their rights, apply for arbitration or initiate legal proceedings according to the articles of association of the company. The provisions of the Mandatory Provisions regarding the senior management of a company have been incorporated in the Articles of Association.

Duties of Directors, Supervisors and Senior Managers

Directors, supervisors, general managers and other senior management of a company are required under the Company Law to comply with the relevant laws, regulations and the company's articles of association, carry out their duties honestly and protect the interests of the company. Each director, supervisor, general manager and senior officer of a company is also under a duty of confidentiality to the company and is prohibited from divulging secret information of the company unless permitted by the relevant laws and regulations or by the shareholders.

Any director, supervisor, general manager and other senior management who contravenes any laws, regulations or the company's articles of association in the performance of his duties which results in any loss to the company shall be personally liable to the company.

The Special Regulations and the Mandatory Provisions provide that a director, supervisor, general manager and other senior management of a company owe fiduciary duties to the company and are required to perform their duties faithfully, protect the interests of the company and not to make use of their positions and power in the company for their own benefit.

Finance and Accounting

A company shall establish its financial and accounting systems according to the laws, administrative regulations and the regulations of the MOF of the State Council.

At the end of each financial year, a company shall prepare a financial report, which shall be audited and verified according to laws.

A company shall make available its financial statements for the inspection by the shareholders at least 20 days before the convening of the annual general meeting. A company established by the public subscription method must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory common reserve (except where such reserve has reached 50% of the company's registered capital). After a company has made an allocation to its statutory common reserve from its after-tax profit, subject to a resolution of the shareholders or the general meeting, the company may make an allocation to a discretionary common reserve from the after-tax profits. If the company's statutory surplus reserve is not enough to make up for the losses of the company for the previous year, the current year's profits shall first be used for making up the losses before the statutory surplus reserve is set aside according to the provisions of the preceding paragraph.

After the losses have been made up and surplus reserves have been set aside, the remaining profits after-tax shall be distributed to shareholders in proportion to the number of shares held by shareholders as in the case of a joint stock limited company, except as otherwise provided in the articles of association. The capital common reserve of a joint stock limited company is made up of the premium over the nominal value of the shares of the company in issue, and other amounts required by the MOF of the State Council to be allocated to the capital common reserve. The company's common reserves shall be used for making up losses, expanding the production and business scale or increasing the registered capital of the company, but the capital reserve fund shall not be used for making up the company's losses. Where the statutory surplus reserve is converted into registered capital, the balance of the statutory reserve shall not be less than 25% of the registered capital after such conversion.

Appointment and Dismissal of Accounting Firms

According to the Special Regulations, a company shall engage an independent PRC qualified accounting firm to audit the company's annual report and review other financial reports. Pursuant to the Company Law, the appointment or dismissal of accounting firms responsible for the auditing of the company shall be determined by shareholders' meeting, shareholders' general meeting or board of directors in accordance with the articles of association. The accounting firm is to be appointed for a term commencing from the conclusion of an annual general meeting and ending at the conclusion of the next annual general meeting. The accounting firm should be allowed to make representations when the shareholders' general meeting conducts a vote on the dismissal of the accounting firm. The company should provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accounting firm which it employs without any refusal, withholding and misrepresentation.

Distribution of Profits

The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of dividends to shareholders shall be made through a receiving agent.

According to the Guide to the Program for "Full Circulation" of H shares promulgated by CSDC on February 7, 2020, cash dividendsto domestic investors of H-share "full circulation" shall be distributed through CSDC. An H-share listedcompany shall transfer RMB cash dividends to the designated bank account of the Shenzhen subsidiary ofCSDC, who shall complete the clearing of cash dividends by distributing the cash dividends to investors through domestic securities companies.

Amendments to the Articles of Association

Any amendments to the company's articles of association must be made in accordance with the procedures set forth in the company's articles of association. In relation to matters involving the company's registration, its changes in registration shall be applied with the company registry.

Dissolution and Liquidation

A company may apply for the declaration of insolvency by reason of its inability to pay debts as they fall due. After the people's court has made a declaration of the company's insolvency, the shareholders, the relevant authorities and the relevant professionals shall form a liquidation committee to conduct the liquidation of the company.

Under the Company Law, a company shall be dissolved in any of the following events:

(1) the term of its operations set down in its articles of association has expired or events of dissolution specified in its articles of association have occurred;

(2) the shareholders in shareholders' general meeting have resolved to dissolve the company;

(3) the company is dissolved by reason of its merger or demerger;

(4) the company is subject to the revocation of business license, a closure order or elimination in accordance with laws; or

(5) in the event that the company encounters substantial difficulties in its operation and management, and its continuance shall cause a significant loss in the interest of shareholders, and where this cannot be resolved through other means, shareholders who hold more than 10% of the total shareholders' voting rights of the company may present a petition to the people's court for the dissolution of the company.

Where the company is dissolved in the circumstances described in (1), (2), (4) and (5) above, a liquidation committee must be formed within 15 days after the date of dissolution. Members of the liquidation committee shall be appointed by shareholders at the shareholders' general meeting. If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the people's court for its establishment. The liquidation committee shall notify the company's creditors within ten days after its establishment, and issue a public notice in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 45 days of the public notice if he has not received any notification.

The liquidation committee shall exercise the following functions and powers during the liquidation period:

- to take stock of the company's assets and to prepare a balance sheet and a property list;
- to notify creditors or issue public notices;
- to deal with any outstanding business of the company related to the liquidation;
- to pay any tax overdue;
- to settle the company's financial claims and liabilities;
- to handle the surplus assets of the company after its debts have been paid off; and
- to represent the company in civil lawsuits.

If the company's assets are sufficient to meet its liabilities, they shall be applied towards the payment of the liquidation expenses, wages owed to the employees and labor insurance expenses, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them. During the liquidation period, a company shall not engage in operating activities unrelated to the liquidation. If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it shall immediately apply to the people's court for a declaration for bankruptcy. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or relevant regulatory authorities for confirmation. Thereafter, the report shall be submitted to the company registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued. Members of the liquidation committee are required to discharge their duties honestly and perform their obligation according to laws. A member of liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his willful or material default.

Overseas Listing

According to the Special Regulations, the shares of a company shall only be listed overseas after obtaining approval from CSRC. A domestic company shall go through formalities of registration with the relevant exchange authority for the overseas listing within 15 business days after the completion of the overseas listing. The approval from the CSRC for overseas share issuance and listing is valid for 12 months.

Loss of H Shares Certificates

In the event H share certificates in registered form are either stolen or lost, shareholder may, in accordance with the relevant provisions set out in the Civil Procedure Law, apply to a people's court for a declaration that such certificates are no longer valid. Upon such declaration, the shareholder may apply to the company for the issue of replacement certificates. The Mandatory Provisions provide for a separate procedure regarding the loss of H share certificates.

"Full Circulation" of H Shares

Shareholders of domestic unlisted shares may determine by themselves through consultation the amount and proportion of shares, for which an application will be filed for circulation, provided that the requirements laid down in the relevant laws and regulations and set out in the policies for state-owned asset administration, foreign investment and industry regulation are met, and the corresponding H-share listed company may be entrusted to file the said application for "full circulation". To file an application for "Full Circulation", an H-share listed company shall file the application with the CSRC according to the administrative licensing procedures necessary for the "examination and approval of public issuance and listing (including additional issuance) of shares overseas by a joint stock company".

An H-share listed company may apply for "Full Circulation" separately or when applying for refinancing abroad. An unlisted domestic joint stock company may apply for "full circulation" when applying for an overseas initial public offering.

Merger and Demerger

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved.

If it merges by forming a new corporation, both companies will be dissolved. Where there is a demerger of a company, its assets shall be divided up accordingly and a balance sheet and a property list shall be prepared. The company shall notify its creditors within ten days of the date of the company's division resolution and shall publish an announcement in a newspaper within thirty days of the date of the company's demerger resolution. Debts of the company prior to demerger shall be assumed by the companies which exist after the division on a joint and several basis, except to the extent that prior to demerger, the company has otherwise reached a written agreement with its creditors in respect of the settlement of debts.

SECURITIES LAW AND OTHER RELEVANT REGULATIONS

The PRC has promulgated a number of regulations that relate to the issue and trading of shares and disclosure of information. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC.

The CSRC is the regulatory arm of the Securities Committee and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities related statistics and undertaking relevant research and analysis. In 1998, the State Council consolidated the two departments and the CSRC has since taken over the original functions of the Securities Commission.

On December 25, 1995, the State Council promulgated and implemented the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies(《國務院關於股份有限公司境內上市外資股的規定》). These regulations deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of domestic listed and foreign invested shares and disclosure of information of joint stock limited companies having domestic listed and foreign invested shares.

The Securities Law came into force on July 1, 1999, and was revised for the first time on August 28, 2004, for the second time on October 27, 2005, for the third time on June 29, 2013, for the fourth time on August 31, 2014 and for the fifth time on December 28, 2019. This law is the first national securities law in China, which is divided into 14 chapters and 226 articles, regulating (including) the issuance and trading of securities, the acquisition of listed companies, stock exchanges, securities companies and the duties and responsibilities of the securities regulatory authority under the State Council. The Securities Law comprehensively regulates the activities of China's securities market. Article 224 of the Securities Law stipulates that a domestic enterprise shall comply with the relevant provisions of the State Council in issuing securities or listing its securities abroad directly or indirectly. Article 225 of the Securities Law stipulates that the specific measures for subscription and trading of shares of domestic companies in foreign currencies shall be separately formulated by the State Council. At present, the shares (including H shares) issued and traded abroad are still subject to the rules and regulations promulgated by the State Council and the CSRC.

ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The Arbitration Law of the People's Republic of China (《中華人民共和國仲裁法》) (the "**Arbitration Law**") passed by the NPCSC on August 31, 1994, became effective on September 1, 1995 and was amended on August 27, 2009 and September 1, 2017. It is applicable to contract disputes and other property disputes between natural person, legal person and other organizations, and the parties have entered into a written agreement to refer the matter to arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of the company and, in the case of the Listing Rules, shall also be in contracts between the company and each of its directors and supervisors, to the effect that any disputes or claims arising among the following parties will be referred to arbitration including between holders of H shares and the company, between holders of H Shares and the directors, supervisors, manager or other senior management of the company, and between holders of H shares and holders of Domestic Shares, with respect to any disputes or claims in relation to the companies affairs or as a result of rights or obligations arising under its articles of association, the Company Law or other relevant laws and administrative regulations. Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, must comply with the arbitration. Disputes in respect of the definition of shareholder and disputes in relation to our register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic or Trade Arbitration Commission in accordance with its rules or the Hong Kong International Arbitration Center in accordance with the Securities Arbitration Rules. Once a claimant refers to a dispute or claim to arbitration, the other party shall submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the Hong Kong International Arbitration Center, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Center.

Under the Arbitration Law and Civil Procedure Law, an arbitral award is final and binding on the parties.

MATERIAL DIFFERENCES BETWEEN CERTAIN ASPECTS OF CORPORATION LAW IN THE PRC AND HONG KONG

Hong Kong company law is primarily set out in the Companies Ordinance and the Companies (Winding Up and Miscellaneous Provisions) Ordinance, supplemented by common law and rules of equity that apply to Hong Kong. As a joint stock limited company incorporated in the PRC that is seeking a listing of shares on the Hong Kong Stock Exchange, we are governed by the Company Law and all other rules and regulations promulgated pursuant to the Company Law. Set out below is a summary of certain material differences between Hong Kong company law and the Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate Existence

Under Hong Kong company law, a company with share capital is incorporated by the Registrar of Companies in Hong Kong, which issues a certificate of incorporation to the Company upon its incorporation, and the company will acquire an independent corporate existence henceforth. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain pre-emptive provisions. A public company's articles of association do not contain such pre-emptive provisions.

Under the Company Law, a joint stock limited company may be incorporated by promotion or public subscription.

Share Capital

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, issue new shares of the company. The Company Law has no provisions on minimum registered capital of joint stock companies, except that laws, administrative regulations and State Council decisions have separate provisions on paid-in registered capital and the minimum registered capital of joint stock companies, in which case the company should follow such provisions. The Company's registered capital is the amount of its issued share capital. Any increase in the Company's registered capital must be approved at the general meeting and shall be approved by/filed with the relevant PRC governmental and regulatory authorities (if applicable).

The Companies Ordinance does not prescribe any minimum capital requirement for companies incorporated in Hong Kong.

Under the PRC Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws or administrative regulations). For non-monetary assets to be used as capital contributions, appraisals must be carried out to ensure there is no over-valuation or under-valuation of the assets. There is no such restriction on a company incorporated in Hong Kong.

Restrictions on Shareholding and Transfer of Shares

Generally, Domestic Shares, which are denominated and subscribed for in Renminbi, can be subscribed for and traded by PRC investors, qualified overseas institutional investors or qualified overseas strategic investors.

Overseas listed shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors. If the H shares are eligible securities under the Southbound Trading Link, they are also subscribed for and traded by PRC investors in accordance with the rules and limits of Shanghai-Hong Kong Stock Connect or Shenzhen-Hong Kong Stock Connect. When the application for "full circulation" has been approved by the CSRC, the domestic unlisted shares of the H-share listed company might be listed and circulated on the Hong Kong Stock Exchange.

Under the Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to a public offering of the company cannot be transferred within one year from the listing date of the shares on a stock exchange. Shares in a joint stock limited liability company held by its directors, supervisors and senior management and transferred each year during their term of office shall not exceed 25% of the total shares they held in a company, and the shares they held in a company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of a company's shares held by its directors, supervisors and senior management. There are no restrictions on shareholdings and transfers of shares under Hong Kong law apart from (i) the restriction on the Company to issue additional Shares within six months, and (ii) 12-month lockup on Controlling Shareholders' disposal of Shares, after the Global Offering.

Financial Assistance for Acquisition of Shares

The Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance similar to those under Hong Kong company law.

Notice of Shareholders' Meetings

Under the Company Law, notice of a shareholder's annual general meeting must be given not less than 20 days before the meeting. Whereas notice of an extraordinary general meeting must be given not less than 15 days before the meeting. If a company issues bearer shares, notice of a shareholder's general meeting must be given at least 30 days prior to the meeting.

For a company incorporated in Hong Kong with limited liability, the minimum period of notice of a general meeting is 14 days. Further, where a meeting involves consideration of a resolution requiring special notice, the company must also give its shareholders notice of the resolution at least 14 days before the meeting. The notice period for the annual shareholders' general meeting is 21 days.

Quorum for Shareholders' Meetings

The Company Law does not specify any quorum requirement for a shareholders' general meeting.

Under Hong Kong law, the quorum for a shareholders' meeting is two members, unless the articles of association of a company specifies otherwise or the company has only one member, in which case the quorum is one.

Voting at Shareholders' Meetings

Under the Company Law, the passing of any resolution requires more than one-half of the voting rights represented by our shareholders present in person or by proxy at a shareholders' meeting except in cases such as proposed amendments to our Articles of Association, increase or decrease of registered capital, merger, division, dissolution or transformation, which require more than two-thirds of the voting rights represented by shareholders present in person or by proxy at a shareholders' general meeting.

Under Hong Kong law, an ordinary resolution is passed by a simple majority of affirmative votes cast by shareholders present in person, or by proxy, at a general meeting, and a special resolution is passed by not less than three-fourths of affirmative votes casted by shareholders present in person, or by proxy, at a general meeting.

Variation of Class Rights

The Company Law makes no specific provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate requirements relating to other kinds of shares. The Mandatory Provisions contain detailed provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarized in "Appendix V – Summary of Articles of Association".

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the passing of a special resolution by the shareholders of the relevant class at a separate meeting sanctioning the variation, (ii) with the written consent of shareholders representing at least three-fourths of the total voting rights of shareholders of the relevant class, or (iii) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

As required by the Hong Kong Listing Rules and the Mandatory Provisions, we have adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed shares and domestic shares are defined in the Articles of Association as different classes. The special procedures for voting by a class of Shareholders shall not apply in the following circumstances: (i) where we issue, either separately or concurrently in any 12-month period, upon approval by special resolutions passed at a general meeting, domestic shares and H shares not more than 20% of each of the existing domestic shares and H shares, respectively; (ii) where the plan for the issue of domestic shares and H shares upon our establishment is fulfilled within 15 months following the date of approval by the securities regulatory authorities under the State Council; and (iii) with the approval of the securities regulatory authority under the State Council and with the consent of the HKEX, the Company's domestic shares may be transferred to foreign investors and listed on the overseas stock exchange, and all or part of the domestic shares of the Company may be converted into foreign shares, and the converted shares may be listed and traded on the overseas stock exchange.

Derivative Action By Minority Shareholders

Under Hong Kong company law, a shareholder may, with the leave of the Court, start a derivative action on behalf of a company for any misconduct committed by its directors against the company. For example, leave may be granted where the directors control a majority of votes at a general meeting, and could thereby prevent the company from suing the directors in its own name.

Pursuant to the Company Law, in the event where the directors and senior management of a joint stock limited company violate laws, administrative regulations or its articles of association, resulting in losses to the company, the shareholders individually or jointly holding 1% or more of the shares in the company for more than 180 consecutive days may request in writing the board of supervisors to initiate proceedings in the people's court. In the event that the board of supervisors violates as such, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the board of supervisors or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the court in their own name.

In addition, the Mandatory Provisions provide us with certain remedies against the Directors, Supervisors and senior management who breach their duties to the Company. In addition, as a condition to the listing of overseas listed foreign Shares on the Hong Kong Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking to observe the articles of association in favor of the company. This allows minority Shareholders to take action against our Directors and Supervisors in default.

Minority Shareholder Protection

Under the Companies Ordinance, a shareholder who alleges that the affairs of a company are conducted in a manner unfairly prejudicial to his interests may petition to the Court to make an appropriate order to give relief to the unfairly prejudicial conduct. Alternatively, pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, a shareholder may seek to wind up the company on the just and equitable ground. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated or registered in Hong Kong. The Company Law provides that any shareholders holding 10% or above of voting rights of all issued shares of a company may request a People's Court to dissolve the company to the extent that the operation or management of the company experiences any serious difficulties and its continuous existence would cause serious losses to them, and no other alternatives can resolve such difficulties.

The Company, as required by the Mandatory Provisions, has adopted in its Articles of Association minority Shareholder protection provisions similar to (though not as comprehensive as) those available under the Hong Kong law. These provisions state that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders, may not relieve a director or supervisor of his duty to act honestly in our best interests or may not approve the expropriation by a director or supervisor of our assets or the individual rights of other shareholders.

Directors

The Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits to directors and indemnification in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain certain requirements and restrictions on major disposals and specify the circumstances under which a director may receive compensation for loss of office.

Board of Supervisors

Under the Company Law, a joint stock limited company's directors and senior management are subject to the supervision of a board of supervisors. There is no mandatory requirement for the establishment of a board of supervisors for a company incorporated in Hong Kong.

The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the Company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Fiduciary Duties

In Hong Kong, directors owe fiduciary duties to the company, including the duty not to act in conflict with the company's interests. Furthermore, the Companies Ordinance has codified the directors' statutory duty of care. Under the Special Regulations, directors, supervisors, managers and other members of senior management of the company shall honestly and diligently perform their duties for the company.

Financial Disclosure

Under the Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report 20 days before its annual general meeting. In addition, a joint stock limited company of which the shares are publicly offered must publish its financial report. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its financial statements, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before such meeting. According to the PRC laws, a company shall prepare its financial accounting reports as at the end of each accounting year, and submit the same to accounting firms for auditing as required by law. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the CAS, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the CAS.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on Directors and Shareholders

The Company Law gives shareholders the right to inspect the company's articles of association, minutes of the general meetings and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors which is similar to the rights of shareholders of Hong Kong companies under the Companies Ordinance.

Receiving Agent

Under the Hong Kong law, dividends once declared by the board of directors will become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is three years. The Mandatory Provisions require that the relevant company shall appoint a receiving agent for shareholders who hold overseas listed foreign shares, and the receiving agent shall receive on behalf of such holders of shares dividends declared and other monies owed by the company in respect of its overseas listed foreign shares.

Corporate Reorganization

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to Section 237 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Section 673 and Division 2 of Part 13 of the Companies Ordinance, which requires the sanction of the court. In addition, subject to the shareholders' approval, an intra-group wholly-owned subsidiary company may also be amalgamated horizontally or vertically under the Companies Ordinance. Under PRC law, merger, division, dissolution or change to the status of a joint stock limited liability company has to be approved by shareholders in general meeting.

Mandatory Deductions

Under the Company Law, a joint stock limited liability company is required to make transfers equivalent to certain prescribed percentages of its after-tax profit to the statutory common reserve fund. There are no corresponding provisions under Hong Kong law.

Arbitration of Disputes

In Hong Kong, disputes between shareholders and a company or its directors, managers and other senior management may be resolved through the courts. The Mandatory Provisions provides that disputes between a holder of H shares and the Company, a holder of H shares and directors, supervisors, managers and other members of senior management of the Company or a holder of H shares and a holder of domestic shares, arising from the Articles of Association, the Company Law or other relevant laws and administrative regulations which concerns the affairs of the Company should, with certain exceptions, be referred to arbitration at either the HKIAC or the China International Economic and Trade Arbitration Commission. Such arbitration is final and conclusive.

The Securities Arbitration Rules of the HKIAC contain provisions allowing, upon application by any party, an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Hong Kong Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party, other than a PRC party or any of its witnesses or any arbitrator, is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules of the HKIAC, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

Remedies of a Company

Under the Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, the Hong Kong Listing Rules require listed companies' articles to provide for remedies of the company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management).

Dividends

The company has the power in certain circumstances to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of declared dividends) is six years, whereas under PRC laws, the relevant limitation period is three years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of shares until after the expiry of the applicable limitation period.

Closure of Register of Shareholders

The Companies Ordinance requires that the register of shareholders of a company must not be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year. Unless otherwise stipulated by laws, share transfers shall not be registered within 20 days prior to convening a shareholders' general meeting or 5 days before the base date of distribution of dividends.

This appendix contains the summary of the principal provisions of the Articles of Association adopted by the Company on March 6, 2020 and will become effective on the date that the H Shares are listed on the Hong Kong Stock Exchange. The main purpose of this appendix is to provide an overview of the Company's Articles of Association for potential investors, so it may not contain all the information that is important to potential investors.

SHARES AND REGISTERED CAPITAL

The Company shall issue ordinary shares at all times. With the approval from authorities authorised by the State Council, the Company may issue other classes of shares when needed.

All the shares issued by the Company shall have a nominal value, each share having a nominal value of RMB0.1.

The Company shall issue shares in an open, fair and just manner, and each share of the same class shall have equal rights.

All shares of the same class issued at the same time shall be issued under the same conditions and at the same price; the same price shall be paid for each share subscribed by any entities or individuals.

The domestic shares and overseas listed foreign shares issued by the company enjoy the same rights to distribution of dividends and distribution in any other form.

INCREASE, DECREASE AND REPURCHASE OF SHARES

(1) Increase of Capital

Pursuant to the requirements of laws, regulations and the listing rules of the stock exchange where the Company's shares are listed, the Company may, based on its business and development needs, authorize the increase of its capital in accordance with the relevant provisions of the Articles of Association.

The Company may increase its registered capital in the following ways:

(1) issue new shares to non-specified investors;

(2) by placing new shares to its existing Shareholders;

(3) issue bonus shares to existing shareholders;

(4) by issuing new shares to certain investors;

(5) by capitalising its capital reserves;

(6) by other ways permitted by the laws and administrative regulations.

The Company's increase of capital by issuing new shares shall, after being approved in accordance with the provisions of the Articles of Association and the stock listing rules of the stock exchange in which Company's shares are listed, be conducted in accordance with the procedures stipulated in the relevant laws and administrative regulations and the stock listing rules of the stock exchange in which Company's shares are listed.

(2) Decrease of Capital

The Company may reduce our registered capital according to the Articles of Association and shall be conducted in accordance with the procedures stipulated in the PRC Company Law, other relevant regulations and the Articles of Association.

In the event of reduction of registered capital, the Company shall prepare a balance sheet and a list of assets.

The company shall notify its creditors within 10 days from the date of resolution of reducing its registered capital, and make an announcement in a newspaper within 30 days. Within 30 days from the date of receiving the notice, or within 45 days from the date of announcement if the creditor fails to receive the notice, the creditor shall have the right to require the company to pay off its debts or provide corresponding guarantees.

(3) Repurchase of Shares

The Company may, through passing the procedures required by the Articles of Association and obtaining subject to the approval by reporting to the relevant competent authorities of the PRC, repurchase its issued shares through legal procedures under the following circumstances:

(1) cancelling shares for reducing the Company's registered capital;

(2) merging with other companies which hold shares in the Company;

(3) awarding shares for employee stock ownership plan or share incentive plan;

(4) acquiring shares held by Shareholders, who vote against any resolution proposed in any general meeting on the merger or division of the Company, upon their request;

(5) using shares for converting corporate bonds which are convertible into shares that issued by Company;

(6) for the need of protecting Company value and Shareholders' equity;

(7) other circumstances as permitted by laws, administrative regulations, the listing rules of the stock exchange where the Company's shares are listed and regulatory authorities.

The Company shall not purchase or sell its own shares except under the aforesaid circumstances.

Where the laws, administrative regulations, departmental rules, normative documents and relevant requirements of the Securities Regulatory Authorities in the place where the Company's shares are listed contain any other provisions in respect of the aforementioned share buy-back, such provisions shall prevail.

The Company may buy back its shares in one of the following manners with the approval from relevant national competent authorities:

(1) by making a pro rata general offer of buy-back to all shareholders;

(2) by repurchasing shares through public trading on a stock exchange;

(3) by repurchasing through an off-market agreement;

(4) by other means as permitted by relevant regulatory authorities.

Where the Company buys back its shares through an off-market agreement, it shall seek prior approval of the shareholders' general meeting in accordance with the Articles of Association. The Company may terminate or amend an agreement entered into in the aforementioned manner or waive any of its rights thereunder with prior approval of the shareholders' general meeting obtained in the same manner.

The agreement for the share buy-back referred to in the preceding paragraph includes but not limited to agreements assuming obligations of share buy-back and acquiring the rights of the shares bought back.

The Company shall not assign an agreement for repurchasing its own shares or any of its rights thereunder.

With regard to the redeemable shares that the Company has the right to redeem, if they are not bought back on the market or by way of tender, the purchase prices of these shares shall not exceed certain maximum price; if they are bought back by way of tender, the tenders shall be available and proposed to all shareholders in the same manner.

After the shares are bought back by the Company pursuant to the laws, the Company shall cancel such shares bought back within the period prescribed by laws, administrative regulations and the stock listing rules of the stock exchange in which Company's shares are listed, and shall apply to the original company registration authority for registration of the change in the registered capital.

The amount of the Company's registered capital shall be reduced by the aggregate nominal value of those cancelled shares.

Unless the Company is under liquidation, it shall comply with the following provisions in respect of the buy-back of its outstanding shares:

(I) where the Company buys back its shares at nominal value, the amount thereof shall be deducted from the book balance of the distributable profits of the Company and/or from the proceeds of a new issue of shares made for the buy-back of shares;

(II) where the Company buys back its shares at a price higher than nominal value, the portion corresponding to the nominal value shall be deducted from the book balance of the distributable profits of the Company and/or from the proceeds of a new issue of shares made for the buy-back of the old shares. The portion in excess of the nominal value shall be handled as follows:

(1) if the shares bought back were issued at nominal value, payment shall be deducted from the book balance of the distributable profits of the Company;

(2) if the shares bought back were issued at a price higher than their nominal value, payment shall be deducted from the book balance of the distributable profits of the Company and/or from the proceeds of a new issue of shares made for the buy-back of the old shares, provided that the amount deducted from the proceeds of the new issue of shares shall not be more than the aggregate of premiums received by the Company at the time of the issue of the shares bought back nor shall it be more than the amount of the Company's premium account (or capital common reserve account) at the time of such buy-back (including the premiums on the new issue of shares);

(III) payment by the Company for the following purposes shall be paid out of the Company's distributable profits:

(1) acquisition of rights to buy-back shares of the Company;

(2) modification of any agreement for repurchasing shares of the Company;

(3) release of any of the Company's obligations under any agreement for repurchasing its shares.

(IV) after the aggregate nominal value of the cancelled shares has been deducted from the registered capital of the Company in accordance with the relevant requirements, the amount deducted from the distributable profits for payment for repurchasing shares at their nominal value shall be accounted for in the Company's premium account (or capital common reserve account).

Where the laws, administrative regulations, departmental rules, normative documents and relevant requirements of the Securities Regulatory Authorities in the place where the Company's shares are listed contain any other provisions in respect of the accounting treatment related to the aforementioned share buy-back, such provisions shall prevail.

FINANCIAL ASSISTANCE FOR PURCHASE OF THE COMPANY'S SHARES

The Company or any of its Subsidiaries shall not, by any means and at any time, provide any financial assistance to purchasers or potential purchasers of the Company's shares. The aforesaid purchasers of the Company's shares include persons directly or indirectly undertaking obligations due to purchase of the Company's shares.

The Company or its subsidiaries shall not, by any means and at any time, provide any financial assistance to the aforesaid obligors for the purpose of reducing or discharging their obligations.

The following acts shall not be prohibited:

(1) the Company provides the relevant financial assistance in the interests of the Company in good faith, and the primary purpose of the said financial assistance is not to purchase the Company's shares, or the said financial assistance is part of a master plan of the Company;

(2) the Company distributes its assets as dividends in accordance with the laws;

(3) the Company distributes dividends in the form of shares;

(4) the Company reduces its registered capital, repurchases its shares and adjusts the equity structure in accordance with the Articles of Association;

(5) the Company provides a loan for its normal business operations within its business scope (provided that such financial assistance shall not result in a reduction in the net assets of the Company, or in the event of such reduction, such financial assistance is provided out of the distributable profits of the Company);

(6) the Company provides the funding for employee stock ownership plan (provided that such financial assistance shall not result in a reduction in the net assets of the Company, or in the event of such reduction, such financial assistance is provided out of the distributable profits of the Company).

Financial assistance includes (but not limited to) the following ways:

(1) gift;

(2) guarantee (including the undertaking of liability or provisions of property by the guarantor in order to guarantee the performance of the obligation by the obligor), indemnity (excluding, however, indemnity arising from the Company's own fault) and termination or waiver of rights;

(3) providing of a loan or signing of a contract under which the obligations of the Company are to be fulfilled prior to the fulfillment of the obligations of the other party to the contract, and a change in the party to such loan or agreement as well as the assignment of rights under such loan or contract;

(4) financial assistance provided in any other form when the Company is insolvent or has no net assets or when such assistance would lead to a significant reduction in the Company's net assets.

The term undertake obligations shall include the undertaking of an obligation by the obligor by entering into a contract or making an arrangement (whether or not such contract or arrangement is enforceable and whether or not such obligation is assumed by the obligor individually or jointly with any other person), or by changing its financial position in any other way.

TRANSFER OF SHARES

The shares of the Company held by the promoters shall not be transferred within one year after the incorporation of the Company. Shares issued prior to any public offer of shares shall not be transferred within one year of the date on which the shares of the company are first listed and traded on a stock exchange.

The Directors, Supervisors and senior management of the Company shall report to the Company their shareholdings and changes thereof and shall not transfer more than 25% of the total number of their shares in the Company per annum during their terms of office. The shares held by them shall not be transferred within one year of the date on which the shares are first listed and traded on a stock exchange.

The aforesaid persons shall not transfer their shares in the Company within half a year after they terminate service with the Company.

SHARE CERTIFICATES AND REGISTER OF SHAREHOLDERS

(1) Share Certificates

The share certificates of the Company shall be in registered form.

Matters needed to be specified in Company shares shall pursuant to the PRC Company Law and to the rules of the stock exchange in which Company's shares are listed.

The share certificates shall be signed by the Chairman of the Board. Where the signatures of other senior management of the Company are required by the stock exchange where the Company's shares are listed, the share certificates shall also be signed by such other senior management. The share certificates shall become valid after the Company seal is affixed thereto or imprinted thereon. The affixing or imprinting of the Company seal to the share certificates shall be authorised by the Board. The signature of the Chairman of the Board or such other senior management of the Company on the share certificates may also be in printed form.

In case of paperless issuance and trading of the shares of the Company, provisions otherwise provided by the securities regulatory authorities in the place where the Company's shares are listed shall apply.

(2) Register of Shareholders

The Company shall establish a register of shareholders in accordance with certificates from the share registrar, and shall register therein the following particulars:

(1) the name (title), address (domicile), occupation or nature of each Shareholder;

(2) the class and number of shares held by each Shareholder;

(3) the amount paid or payable for the shares held by each Shareholder;

(4) the serial number of the share certificate held by each Shareholder;

(5) the date on which each shareholder is registered as a Shareholder;

(6) the date on which each shareholder ceases to be a Shareholder.

The shareholders' register is a sufficient evidence of the Shareholders' shareholdings in the Company unless there is evidence to the contrary.

The Company may keep overseas the register of shareholders of overseas listed foreign shares and entrust the administration thereof to an overseas agent in accordance with the understanding and agreement reached between the securities regulatory authorities of the State Council and the overseas Securities Regulatory Authorities. The original register of holders of overseas listed foreign shares listed on the Hong Kong Stock Exchange shall be kept in Hong Kong.

The Company shall keep at its domicile a copy of the register of shareholders of overseas listed foreign shares. The entrusted overseas agent shall always ensure that the original and copies of the register of holders of overseas listed foreign shares are consistent.

Where the original and copies of the register of shareholders of overseas listed foreign shares are inconsistent, the original shall prevail.

The Company shall keep a complete shareholders' register.

The shareholders' register shall include the following parts:

(1) the register(s) of shareholders kept at the Company's domicile other than those specified in items (2) and (3);

(2) the original register(s) of shareholders of overseas listed foreign shares kept in the place(s) of the overseas stock exchange(s) where the shares are listed;

(3) the register(s) of shareholders kept in other places as the Board may decide and consider necessary for listing purposes.

The various parts of the register of shareholders shall not overlap with each another. The transfer of shares registered in a certain part of the register of shareholders shall not, during the continuance of the registration of such shares, be registered in any other part of the register of shareholders.

Changes and corrections to each part of the register of shareholders shall be carried out in accordance with the laws of the places where each part is kept.

If the laws, administrative regulations, rules of department, normative documents of the PRC and rules of relevant stock exchanges or regulatory authorities in the place where the company's shares are listed provide for the period of suspension of share transfer registration, such provisions shall prevail.

When the Company convenes a general meeting, distributes dividends, commences liquidation or participates in other activities requiring the identification of shareholders, the convener of the Board or general meeting shall decide the record date. The shareholders whose names appear on the register of shareholders at the close of trading on the record date shall be entitled to the relevant rights.

Any party which raises objection to a register of shareholders and requests its name (or title) to be registered in the register of shareholders or requests that its name (or title) be deleted from the register of shareholders may apply to the court having jurisdiction to amend that register of shareholders.

If any shareholder in the register of shareholders or any person requesting to have his/her name (title) recorded in the register of shareholders loses his/her share certificates (i.e. "the Original Share Certificates"), the said shareholder or person may apply to the Company to issue replacement certificates in respect of the said shares (i.e. "**the Relevant Shares**").

After the Company reissues new shares in accordance with the provisions of the Articles of Association, the name (title) of a bona fide purchaser gaining possession of such new share certificate or the person who is subsequently entered in the register of shareholders as holder of such shares (if he/she is a bona fide purchaser) shall not be removed from the register of shareholders.

The Company shall not be liable for any damages suffered by any person arising from the cancellation of the Original Share Certificates or the issuance of a new replacement share certificate, unless the claimant can prove that the Company has committed a fraudulent act.

The Company shall have the right to issue share warrants to bearers. No new share warrant shall be issued to replace one that has been lost, unless the Company is reasonably satisfied that the original has been destroyed.

RIGHTS AND OBLIGATIONS OF SHAREHOLDERS

(1) Shareholders

A Shareholder is a person who lawfully holds shares of the Company and has his/her name (title) recorded in the register of shareholders.

A Shareholder shall enjoy the relevant rights and assume the relevant obligations in accordance with the class of shares he/she holds. Shareholders holding the same class of shares shall enjoy the same rights and assume the same obligations.

(2) Rights and Obligations of Shareholders

The ordinary Shareholders shall enjoy the following rights:

(1) the right to receive dividends and other profit distributions in proportion to their shareholdings;

(2) the right to request, convene, preside, attend or appoint proxies to attend general meetings lawfully and to exercise the corresponding voting rights;

(3) the right to supervise and manage the business operation of the company, to present proposals or to raise enquires;

(4) the right to transfer, gift or pledge shares in accordance with laws, administrative regulations, the listing rules of the stock exchange where our shares are listed and provisions of the Articles of Association;

(5) the right to obtain relevant information in accordance with the provisions of the Articles of Association, including:

1. the right to obtain the Articles of Association, subject to payment of reasonable cost;

2. the right to inspect and copy, subject to payment of a reasonable charge:

(1) the register of all the Shareholders;

(2) personal particulars of each of the Company's Directors, Supervisors and senior management members, including:

a present and former name and alias;

b principal address (domicile);

c nationality;

d primary and all other part-time occupations and duties;

e identification documents and the numbers thereof.

(3) reports showing the status of the Company's issued share capital;

(4) reports (breakdown by domestic and foreign shares) showing the aggregate nominal value, quantity, maximum and minimum prices paid in respect of each class of shares repurchased by the Company since the end of the last financial year and the aggregate amount incurred by the Company for this purpose;

(5) counterfoils of corporate bonds, resolutions of the Board of Directors, resolutions of the Board of Supervisors and financial accounting reports;

(6) the latest audited financial report of the Company and the reports of the Board of Directors, auditors and the Board of Supervisors;

(7) the annual report of last year that has been filed with the PRC Administration for Industry and Commerce or other competent authorities;

(8) Minutes of general meeting of shareholders (for shareholders' reference only), special resolutions of the company.

The company shall keep the above documents other than items (2) and (5) at the Company's address in Hong Kong, according to the requirements of the Hong Kong Listing Rules, for the public and H-share shareholders to inspect free of charge.

The company may refuse to provide the contents consulted and copied that involve the company's business secrets and inside information as well as the personal privacy of relevant personnel.

(6) in the event of the termination or liquidation of the Company, to participate in the distribution of remaining assets of the Company in accordance with the shareholdings;

(7) with respect to shareholders who vote against any resolution adopted at the shareholders' general meeting on the merger or division of the Company, the right to demand the Company to buy back their shares;

(8) Shareholders, who severally or jointly hold 3% or more of the shares of the Company, may submit ad hoc proposals in writing to the convener ten (10) days before the convening of the general meeting;

(9) other rights under laws, administrative regulations, departmental rules the listing rules of the stock exchange where the Company's shares are listed or the Articles of Association.

The Company shall not exercise any rights to freeze or otherwise prejudice any rights attached to the shares held by any person who directly or indirectly has interest in the Company solely for the reason that such person fails to disclose to the Company any such interests.

The ordinary Shareholders of the Company shall have the following obligations:

(1) to abide by laws, administrative regulations, the listing rules of the stock exchange where the Company's shares are listed and the Articles of Association;

(2) to pay capital contribution for the shares subscribed for in the prescribed method of subscription;

(3) not to abuse their shareholders' rights to jeopardize the interests of the Company or other shareholders; and not to abuse the status of the Company as an independent legal person and the limited liability of shareholders to jeopardize the interests of any creditors of the Company.

Where shareholders of the Company abuse their shareholders' rights and thereby causing loss to the Company or other shareholders, such shareholders shall be liable for indemnity in accordance with the law.

Where shareholders of the Company abuse the Company's status as an independent legal person and the limited liability of shareholders for the purposes of evading repayment of debts, thereby materially impairing the interests of the creditors of the Company, such shareholders shall be jointly and severally liable for the debts owed by the Company;

(4) to fulfill other obligations as stipulated by laws, administrative regulations the listing rules of the stock exchange where the Company's shares are listed and the Articles of Association.

Shareholders shall not be liable for further contribution to share capital other than the conditions agreed to as a subscriber of the shares at the time of subscription.

RESTRICTIONS ON THE CONTROLLING SHAREHOLDERS' RIGHTS

Except for the obligations required by the laws, administrative regulations or the listing rules of the stock exchanges in which the Company's shares are listed, the Controlling Shareholder shall not exercise its voting rights on the following issues to the detriment of all or part of the Shareholders:

(1) Exempting Directors and Supervisors from acting in good faith with the best interests of the Company;

(2) Approving Directors and Supervisors (for the benefit of themselves or others) to deprive the Company's property in any form, including (but not limited to) any opportunity that is beneficial to the Company;

(3) Approving Directors and Supervisors (for the benefit of themselves or others) to deprive other Shareholders' own rights, including (but not limited to) any distribution rights and voting rights, but does not include the reorganisation of the Company approved by the shareholders' general meeting in accordance with the Company's Articles of Association.

SHAREHOLDERS' GENERAL MEETING

General rules for the Shareholders' General Meeting

The general meeting is the authority of power of the Company, and shall exercise the following duties and powers in accordance with the law:

(1) to decide the Company's operational policies and investment plans;

(2) to elect and change the Directors and decide on the remunerations of Directors;

(3) to elect and change the Supervisors from the representatives of the shareholders and decide on the remunerations of Supervisors;

(4) to examine and approve reports of the Board of Directors;

(5) to examine and approve reports of the Supervisory Committee;

(6) to examine and approve the proposed annual financial budgets, final accounts of the Company;

(7) to examine and approve the profit distribution plans and loss recovery plans of the Company;

(8) to make resolutions on the increase or reduction of the registered capital of the Company;

(9) to make resolutions on the issuance of corporate bonds;

(10) to make resolutions on the merger, division, dissolution, liquidation or change in the form of the Company;

(11) to determine the Company's engagement, removal or discontinuance of engagement of accounting firms;

(12) to amend the Articles of Association and the rules of procedure of the general meeting, the Board of Directors and the Board of Supervisors;

(13) to consider and approve matters relating to the purchases, disposals of material assets (including but not limited to land, building, equipment, production line, equity), or provisions of guarantees, which are more than 30% of the latest audited total assets, within one year;

(14) To examine the transactions of which the percentage is not lower than 25% (including one-off transactions as well as series of transactions of which the percentage shall be calculated jointly) and all the related transactions of which the percentage is not lower than 5% (including one-off transactions as well as series of transactions of which the percentage shall be calculated jointly) with percentage rates of not less than 25% and 5% respectively in accordance with Rule 14.07 of the Hong Kong Listing Rules;

(15) to review the equity incentive plan;

(16) to consider the proposal of shareholders representing more than 3% of the voting shares of the Company;

(17) to consider other matters required to be resolved by the shareholders' general meeting pursuant to laws, regulations, the rules of securities regulatory authorities in the place where the Company's shares are listed and the Articles of Association.

"Within one year" refers to "within one financial year".

Where the company provides guarantee for the shareholders or actual controllers of the company, the resolution shall be made by the shareholders' meeting. When the general meeting of shareholders is deliberating the proposal to provide guarantee for the shareholder or the actual controller, the shareholder or the shareholder controlled by the actual controller shall not participate in the voting of the matters specified in the preceding paragraph. The vote shall be adopted by more than half of the voting rights held by other shareholders present at the meeting.

Unless the Company is under exceptional circumstances such as crisis, the Company shall not enter into contracts with a party (other than a Director, Supervisor, and senior management members) in relation to handover of the administration of all business or the important business of the Company to that party without the pre-approval of the general meeting.

The general meetings consist of annual general meetings and extraordinary general meetings. The general meetings shall be convened by the Board of Directors. The annual general meeting shall hold once every year within six months from the end of the previous accounting year.

The Company shall convene an extraordinary general meeting within two (2) months upon occurrence of the following events:

(1) when the number of Directors is less than the number stipulated in the Company Law or two-thirds of the number specified in the Articles of Association;

(2) when the unrecovered losses of the Company amount to one-third of the total amount of its paid-up share capital;

(3) at the request of shareholders who individually or collectively hold more than 10% of the company's shares;

(4) when deemed necessary by the Board;

(5) when proposed by the Supervisory Committee;

(6) when proposed by two or more independent non-executive Directors;

(7) any other circumstances stipulated by laws, administrative regulations, departmental regulations, the listing rules of the stock exchange where the Company's shares are listed or the Articles of Association.

Notices of the Shareholders' General Meeting

The convener will notify all shareholders of the time, place and deliberation matters of the annual general meeting 20 clear business days before the meeting is held, and the interim general meeting will notify all shareholders 15 days or 10 clear business days (whichever is longer) before the meeting is held.

The "working days" mentioned in the Articles of Association shall be subject to the statutory working days announced by the Hong Kong government.

Resolutions with regard to matters other than those specified in the preceding paragraph shall not be adopted at the shareholders' general meetings.

Notice of a general meeting shall satisfy the following requirements:

(1) be in writing;

(2) specific venue, date and time of the meeting;

(3) matters to be considered at the meeting;

(4) any information and explanations necessary to be made available to the Shareholders for such Shareholders to make sound decisions about the matters to be discussed. This principle includes (but not limited to) the provision of the specific terms and contract(s), if any, of the proposed transaction(s) and serious explanations about the reasons and effects when the Company proposes mergers, repurchase of shares, equity restructuring or other restructuring;

(5) in the event that any of the Directors, Supervisors, Manager and other senior management has material interests in matters to be discussed, the nature and extent of the interests shall be disclosed. If the matters to be discussed affect any Director, Supervisor, Manager and other senior management as a Shareholder in a manner different from the manner they affect other Shareholders of the same class, the difference shall be explained;

(6) the full text of any special resolution to be proposed for approval at the meeting;

(7) a prominent statement that all Shareholders are eligible for attending the general meeting and are entitled to appoint one or more proxies to attend and vote at such meeting on his/her behalf, and that such proxy does not need to be a Shareholders of the Company;

(8) the time and venue for lodging a proxy form for the meeting;

Except as otherwise stipulated in the Articles of Association, the notice of the general meeting shall be served on the Shareholders (whether or not such Shareholder is entitled to vote at the general meeting) by hand or postage prepaid mail. The address of the recipient shall be the registered address as shown in the register of shareholders. For holders of Domestic Shares, the notice of the general meeting may also be given by way of announcement.

The announcement referred above shall be published in one or more newspapers designated by the Securities Regulatory Authorities of the State Council 15 days or 10 clear business days (whichever is longer) prior to the convening of extraordinary Shareholders' general meetings, 20 clear business days prior to the convening of Shareholders' annual general meetings. Once such an announcement is made, all holders of the Domestic Shares shall be deemed to have received the relevant notice of the general meeting.

Convening of Shareholders' General Meeting

Any Shareholder entitled to attend and vote at the general meeting shall have the right to appoint one or several persons (who may not be Shareholders) to act as his or her proxy to attend and vote at the meeting on his or her behalf.

The proxy(ies) so appointed by the Shareholder(s) may, pursuant to the instructions of the Shareholder(s), exercise the following rights:

(1) the Shareholders' right to speak at the general meeting;

(2) the right to demand a poll by himself/herself or jointly with others;

(3) the right to exercise voting rights by a show of hands or by a poll, provided that where more than one proxy is appointed, the proxies may only exercise such voting rights by a poll.

The appointment of a proxy shall be in writing and signed by the appointing Shareholder or his/her attorney duly authorised in writing; where the appointing Shareholder is a legal person, such appointment shall be affixed with its seal or signed by its Director or attorney duly authorised.

The instrument of proxy shall be lodged at the address of the Company or at other places specified in the notice of meeting at least twenty-four (24) hours prior to the relevant meeting at which the proxy is authorized to vote, or within twenty-four (24) hours prior to the specified time of voting. Where the instrument of proxy is signed by a person authorized by the appointing shareholder, the power of attorney or other documents authorizing such person to sign the instrument of proxy shall be notarized. The notarized power of attorney or other authorization documents, together with the instrument of proxy, shall be lodged at the address of the Company or at other places specified in the notice of meeting.

Where the appointing shareholder is a legal person, its legal representative or the person authorized by the resolution of its board of directors or other governing bodies may attend the shareholders' general meetings of the Company as a representative of such appointing shareholder.

Any blank instrument of proxy or proxy form issued to a shareholder by the board of directors for the shareholder to appoint a proxy shall allow the shareholder to freely instruct the proxy to cast vote for, against or abstain from voting and enable the shareholder to give separate instructions on each matter to be voted at the meeting.

Such instrument of proxy shall contain a statement that in the absence of instructions from the shareholders, his proxy may vote at his discretion.

Where the appointing shareholder has deceased, lost capacity, revocated the appointment or the signed instrument of authorization prior to the voting, or the relevant shares have been transferred prior to the voting, a vote given in accordance with the terms of instrument of proxy shall remain valid as long as the Company did not receive a written notice of such event prior to the commencement of the relevant meeting.

Resolutions of Shareholders' General Meetings

Resolutions of the general meeting include ordinary resolutions and special resolutions.

Ordinary resolution at a general meeting shall be adopted by more than one half of the voting rights held by Shareholders (including their proxies) attending the general meeting.

Special resolution at a general meeting shall be adopted by more than two-thirds of the voting rights held by Shareholders (including their proxies) attending the general meeting.

Shareholders (including their proxies) who vote at a general meeting shall exercise their voting rights according to the number of voting shares they represent, with one vote for each share. However, the shares held by the company itself do not have voting rights, and such shares are not included in the total number of shares with voting rights attending the general meeting of shareholders.

The following matters shall be resolved by way of ordinary resolutions at a general meeting:

(1) work reports of the Board and the Supervisory Committee;

(2) profit distribution plan and loss recovery plan formulated by the Board;

(3) elect and replace of Directors and supervisors who are not employee-supervisors, and remuneration and payment methods thereof.

(4) annual financial budget report, final accounts report of the Company;

(5) annual report of the Company;

(6) to determine the Company's appointments, dismissals or discontinuance of appointment of accountancy firms;

(7) matters other than those requiring approval by special resolutions in accordance with laws, administrative regulations, the listing rules of the stock exchange where the Company's shares are listed or the Articles of Association;

The following matters shall be resolved by way of special resolutions at a general meeting:

(1) the increase or reduction of the Company's registered capital and the issuance of any class of shares, warrants and other similar securities;

(2) issuance of corporate bonds;

(3) division, merger, dissolution and liquidation of the Company or change in the form of the Company;

(4) amendments to the Articles of Association;

(5) the consideration and approval of matters relating to the Company's purchases or disposals of material assets (including but not limited to land, building, equipment, production line, equity) or the provision of guarantees within one (1) year, which are more than 30% of the latest audited total assets of the Company;

(6) other matters stipulated by laws, administrative regulations, the listing rules of the stock exchange where the Company's shares are listed or the Company's Articles of Association, and the general meeting of shareholders adopting ordinary resolutions that are considered to have a significant impact on the Company, requiring approval by special resolutions;

"Within one year" refers to "within one financial year".

When any shareholders' general meeting considers matters related to related-party transactions, if the applicable laws and regulations or the listing rules of the stock exchange where the Company's shares are listed require, the related shareholder shall not vote and the number of voting shares that he represents shall not be counted as part of the total number of valid votes.

Voting at general meetings shall be conducted by a show of hands, only when the chairman of the meeting make the decision on the principle of good faith, and on purely procedural or administrative matters. Other matters shall be voted by way of polls.

If the chairman of the meeting decides to vote on a show of hands, the general meeting shall vote on a show of hands unless a vote is demanded by the following persons before or after the show of hands:

(1) chairman of the meeting;

(2) at least two voting shareholders or agents of voting shareholders;

(3) one or more shareholders (including shareholder's agent) holding more than 10% (including 10%) of the voting shares at the meeting shall be calculated separately or jointly.

If the chairman of the meeting decides to vote on a show of hands, unless a poll is proposed, the chairman of the meeting shall, on the basis of the result of the show of hands, announce the adoption of the proposal and record it in the minutes of the meeting as the final basis, without proving the number or proportion of votes for or against the resolution passed at the meeting.

The demand for a poll can be withdrawn by the proposer.

If the matter required to be voted by way of a poll relates to election of chairman or adjournment of meeting, a poll shall be conducted immediately; in respect of other matters required to be voted by way of a poll, the chairman may decide the time of a poll, and the meeting may proceed to consider other matters. The voting results shall still be deemed as resolutions passed at the said meeting.

When voting by a poll, Shareholders (including their proxies) entitled to two or more votes need not cast all their votes for or against in the same way.

When the number of votes against and in favour are equal, the chairman of the meeting shall be entitled to an additional vote.

Where relevant laws and regulations and the Listing Rules requires any shareholder to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

SPECIAL PROCEDURES FOR VOTING OF CLASS SHAREHOLDERS

Shareholders holding different classes of shares shall be class Shareholders.

Class Shareholders shall enjoy the rights and assume the obligations in accordance with laws, administrative regulations, the listing rules of the stock exchange where the Company's shares are listed and the Articles of Association.

The Company shall not proceed to change or abrogate the rights of class Shareholders unless such proposed change or abrogation has been approved by way of a special resolution at a general meeting and by a separate shareholder meeting convened by the class Shareholders so affected in accordance with the Articles of Association.

With the approval of the securities regulatory authority under the State Council and with the consent of the stock exchange of Hong Kong, the conversion of all or partial of the domestic investment shares into overseas listed foreign investment shares for listing and trading on overseas stock exchange(s) by domestic shareholders of the Company shall not be deemed as the Company's intention to vary or abrogate the rights of class shareholders.

The following circumstances shall be deemed as change or abrogation of the rights of a certain class shareholder:

(1) to increase or decrease the number of shares of such class, or to increase or decrease the number of shares of a class' voting rights, distribution rights or other privileges equal or superior to those of the shares of such class;

(2) to change all or part of the shares of such class into shares of another class or to change all or part of the shares of another class into shares of that class or to grant relevant conversion rights;

(3) to cancel or reduce rights to accrued dividends or cumulative dividends attached to shares of the said class;

(4) to reduce or cancel rights attached to the shares of the said class to preferentially receive dividends or to receive distributions of assets in a liquidation of the Company;

(5) to add, cancel or reduce share conversion rights, options, voting rights, transfer rights, pre-emptive placing rights, or rights to acquire securities of the Company attached to the shares of the said class;

(6) to cancel or reduce rights to receive Company payables in a particular currency attached to the shares of the said class;

(7) to create a new class of shares with voting rights, distribution rights or other privileges equal or superior to those of the shares of the said class;

(8) to restrict the transfer or ownership of the shares of the said class or to impose additional restrictions;

(9) to issue rights to subscribe for, or to convert into, shares of the said class or another class;

(10) to increase the rights and privileges of the shares of another class;

(11) to restructure the Company in such a way to cause Shareholders of different classes to undertake liabilities disproportionately during the restructuring;

(12) to amend or cancel provisions in this chapter.

Shareholders of the affected class, whether or not with the rights to vote at general meetings originally, shall have the right to vote at shareholders' class meetings in respect of matters referred to in this Article items (2) to (8) and (11) to (12) above, except that interested shareholders shall not vote at such shareholders' class meetings.

The term interested shareholders in the preceding paragraph shall mean:

(1) in case of a buy-back of shares by the Company by way of a general offer to all Shareholders in equal proportion or by way of open market transactions on a stock exchange where our shares are listed in accordance with the Articles of Association, the controlling shareholders as defined in the Articles of Association shall be the "interested shareholders";

(2) in case of a buy-back of shares by the Company by an agreement outside the stock exchange where our shares are listed in accordance with Articles of Association, holders of shares in relation to such agreement shall be the "interested shareholders";

(3) in case of a proposed restructuring of the Company, Shareholders who assume a relatively lower proportion of obligation than the obligations imposed on the other Shareholders of that class or who have an interest in the proposed restructuring that is different from the general interests in such proposed restructuring of the other Shareholders of that class shall be the "interested shareholders".

Resolution of a shareholders' class meeting shall be passed only by two-thirds or more of the total voting rights being held by the Shareholders of that class, who are entitled to do so, present and vote at the shareholders' class meeting in accordance with the Articles of Association.

When the Company is to convene a shareholders' class meeting, it shall issue a written notice fifteen (15) days or ten (10) clear working days (whichever is longer) prior to the date of such meeting informing all the shareholders who are registered as holders of that class in the register of shareholders of the matters to be considered at the meeting as well as the date and place of the meeting.

In the event that the number of the voting shares represented by the shareholders intending to attend the meeting is more than one half of the total number of voting shares of that class, the Company may convene a shareholders' class meeting. Otherwise, the Company shall within five (5) days notify the shareholders once again, by way of public announcement, of the matters to be considered at the meeting and the date and place of the meeting. Upon notification by public announcement, the Company may then proceed to convene the shareholders' class meeting.

If provisions otherwise provided by the listing rules of the stock exchange in the place where the Company's shares are listed, these provisions shall apply.

The notice of a shareholders' class meeting shall be sent to the Shareholders entitled to vote at such meeting only.

The procedure of a shareholders' class meeting shall, to the extent possible, be identical with the procedure of a general meeting. Provisions of the Articles of Association relevant to procedure for the holding of a general meeting shall be applicable to a shareholders' class meeting, unless otherwise stipulated in the Articles of Association.

Except for other classes of Shareholders, domestic shareholders and foreign shareholders of listed shares are treated as different classes of shareholders.

In the following circumstances, the special procedures for voting by class shareholders shall not apply:

(1) with the approval by a special resolution at the general meeting, the Company issues Domestic Shares or overseas listed foreign shares alone or at the same time at each interval of 12 months and the number of the proposed Domestic Shares and overseas listed foreign shares does not exceed 20% of the respective outstanding shares of such class.

(2) the Company has made the plans to issue Domestic Shares or overseas listed foreign shares at the time of incorporation and the implementation of such plan has been completed within 15 months from the date of approval by the securities regulatory authorities of the State Council.

(3) transfer of shares held by holders of Domestic shares to overseas investors or Domestic Shares to be converted into foreign shares listed overseas under the approval by the securities regulatory authority of the State Council and Hong Kong Stock Exchange, and are dealt with on overseas stock exchanges.

DIRECTORS AND BOARD OF DIRECTORS

(1) Directors

The Company shall set aside a period of time before the relevant meeting is held on the nomination of candidates by shareholders to be Directors. Within such period, shareholders may give written notice to the Company on the nomination of candidates to be Directors, and the candidates may give written notice to the Company on their willingness to accept the nomination. The said period shall be at least seven (7) days, and the starting date shall not be earlier than the first date of the notice of the relevant meeting and the deadline for such period shall be no later than seven (7) days before the date of the relevant meeting.

Directors shall be elected and replaced at the general meeting and serve a term of three (3) years for each session. A director may serve consecutive terms if re-elected upon the expiry of his/her term.

The term of office of the Directors shall be counted from the date of appointment until the expiration of the term of the current Board of Directors. When the Directors' term expires and re-election not be held in time, or where the resignation of a director during his term of office causes the number of board members to be less than the quorum, the original Directors shall still perform their duties as Directors in accordance with laws, administrative regulations, departmental rules, the listing rules of the stock exchange where the Company's shares are listed and the Company's Articles of Association before the re-elected Directors take office.

Before the expiration of any Director's term of office, subject to the relevant laws and administrative regulations, the general meeting of shareholders may remove such Director by ordinary resolution. The removal may not affect any claim of the Director for damages that may be made pursuant to any contract.

The Directors need not hold any of our shares.

(2) Board of Directors

The Company shall have a board of directors which shall be accountable and report to the general meeting. The board of directors shall consist of nine directors, including five executive directors, one non-executive director and three independent non-executive directors. The board of directors shall have a chairman. The chairman of the board shall be elected and removed by more than half of all directors, with a term of office of three years and may be re-elected.

The Board of Directors shall be accountable to the general meeting and exercise the following powers and duties:

(1) to convene a general meeting and submit a work report to such meeting;

(2) to implement the resolutions of a general meeting;

(3) to decide on the operation plan and investment scheme of the Company;

(4) to prepare the draft annual budget and final accounts of the Company;

(5) to prepare the profit distribution plan and loss recovery plan of the Company;

(6) to prepare the plan for the Company to increase or reduce its registered capital, issuance of bonds or other securities and listing plans;

(7) to prepare plans for the merger, divisions, dissolution and changes of the form of the Company;

(8) to decide on the establishment of the internal management organisations of the Company;

(9) to appoint or dismiss the general manager, the secretary to the Board and the company secretary; to appoint or dismiss the senior management including the deputy general managers and the chief financial officer of the Company in accordance with the nominations made by general manager, and to decide on their remunerations;

(10) to establish a basic management system of the Company;

(11) to prepare plans to amend the Articles of Association;

(12) to authorize the chairman of the Board of Directors to exercise part of the functions and powers of the Board of Directors;

(13) to consider and approve (1) all share transactions with a percentage rate of less than 5% and the consideration includes shares to be issued and listed (including one-off transactions and series of transactions that need to be combined to calculate the percentage rate), and (2) disclosed transactions with a percentage rate of more than 5% but less than 25% (including one-off transactions and series of transactions that need to be combined to calculate the percentage rate), and (3) partial-exempt related transactions and non-exempt related

transactions with a percentage rate (excluding profit ratio) higher than 0.1% and lower than 5% calculated in accordance with the provisions of Rule 14.07 of the Hong Kong listing rules (including one-off transactions and series of transactions that need to be combined to calculate the percentage rate);

(14) to formulate the Company's equity incentive plan;

(15) to propose the amount of Directors' remuneration and the scheme of payment method, and report to the general meeting for decision;

(16) to manage the information disclosure of the Company;

(17) to make the proposal of engaging or replacing an accounting firm to the general meeting;

(18) to decide on such major matters and administrative affairs other than those ought to be decided by the general meeting as specified in the laws, administrative regulations, rules and regulations of the competent authorities and these Articles of Association and enter into other important agreements;

(19) to exercise other powers and duties conferred by relevant laws, administrative regulations, departmental regulations, the listing rules of the stock exchange where our shares are listed, the Articles of Association.

The board meeting can be held only when there are more than one half of the Directors attending the meeting.

Resolutions relating to the above, with the exception of items (6), (7) and (11) which shall be approved by not less than two-thirds of the Directors, shall be approved by not less than half of the Directors.

When the number of votes against and in favour are equal, the chairman of the Board of Directors shall be entitled to an additional vote.

Should the foregoing exercise of such functions and powers by the Board, or any transaction or arrangement of the Company be considered and reviewed by a general meeting according to the listing rules of the stock exchange(s) of the place(s) where the Company's shares are listed, such shall be submitted to the general meeting for consideration and review.

When the Board of Directors disposes assets, if the sum of the expected value of the fixed assets to be disposed of, and the amount or value of the cost received from the fixed assets of the Company disposed of within the four months immediately preceding this suggestion for disposal exceeds 33% of the value of fixed assets of the Company indicated on the latest audited balance sheet submitted at the general meeting. A disposition of fixed assets includes certain acts of transfer of interests in assets but does not include the provision of fixed assets as security.

The validity of the transactions with respect to the disposal of fixed assets of the Company shall not be affected by the violation of the above restrictions contained in the Articles of Association.

SECRETARY OF THE BOARD

The Company has one secretary of the Board, which is appointed or dismissed by the Board of Directors. The secretary of the Board is considered as the senior management of the Company.

Directors or other senior management officers may concurrently act as the secretary to the Board. The accountant of the accounting firm engaged by the Company or the management personnel of controlling shareholders shall not concurrently serve as the secretary of the Board of the Company.

Where the secretary to the Board concurrently act as a director, for an act which is required to be made by a director and the secretary to the Board separately, the person who concurrently acts as a director and the secretary to the Board may not perform the act in dual capacity.

GENERAL MANAGER

The Company has one general manager, which is appointed or removed by the Board of Directors. The Company has a number of deputy general managers, who are appointed or dismissed by the Board of Directors.

The general manager of the Company is accountable to the Board of Directors and shall exercise the following powers and duties:

(1) being in charge of managing the Company's production and operation, organise the implementation of resolutions of the Board of Directors and report work to the Board of Directors;

(2) organising the implementation of annual operating plans and investment programmes of the Company;

(3) making inner management organisation establish plan;

(4) making basic management system;

(5) formulating detailed rules of the Company;

(6) recommending to the Board of Directors for appointment or removal of the deputy general managers and chief financial officer;

(7) deciding to appoint or remove officers of the Company other than those to be appointed or removed by the Board of Directors;

(8) drafting employee's wages, benefits, rewards and punishment and decide to appoint or remove the employee;

(9) other powers and duties prescribed by the Articles of Association and delegated by the Board of Directors;

SUPERVISORY COMMITTEE

The Company shall establish a Supervisory Committee.

The Supervisory Committee consists of three members. The Supervisory Committee shall have a chairman. The term of office of a Supervisor is three years. Upon expiration of the term of office, the Supervisors can be re-elected and re-appointed.

The Supervisory Committee shall have one chairman, which shall be appointed or dismissed by the votes of two thirds (two thirds inclusive) or more of the members of the Supervisory Committee.

The Supervisors shall be the representatives of shareholders and employees of the Company.

The ratio of the employee representative Supervisor(s) shall be no less than one-third. The employee representative Supervisor(s) shall be elected by the staff and workers congress, the representative staff and workers congress or other forms of democratic election.

The Supervisory Committee shall be accountable to the general meeting, and exercise the following duties and powers:

(1) to review the financial position of the Company;

(2) to supervise the performance of Directors and senior management members in fulfilling their duties to the Company, and propose dismissal of Directors and senior management members that have violated laws, administrative regulations, the listing rules of the stock exchange where the Company's shares are listed, the Articles of Association or resolutions of the general meeting;

(3) to demand rectification by Directors and senior management members of the Company when the acts of such persons are prejudicial to the Company's interest;

(4) to review financial information such as financial reports, business reports, and profit distribution plans as proposed by the Board to the general meetings, and to engage certified public accountants and practising auditors to assist with further examination in the name of the Company if there are any queries;

(5) to propose the convening of an extraordinary general meeting;

(6) to negotiate with Directors on behalf of the Company or initiate litigations against Directors;

(7) to conduct investigation in case of any abnormality found in the operation of the Company; and if necessary, to retain at the expense of the Company such agencies as certified accounting firm and law firm to assist its work;

(8) other duties and powers conferred by laws, administrative regulations and the Articles of Association.

Supervisors may present at meetings of the Board of Directors.

Resolution of the Board of Supervisors shall require approval from two-thirds of the Supervisors.

BORROWING POWER

The Company shall not, directly or indirectly, provide loans or loan guarantees to directors, supervisors and senior managers of the Company or its controlling shareholders, or to the related parties thereof.

The preceding paragraph does not apply to the following circumstances:

(1) where the Company provides loans to its subsidiaries or provides loan guarantees for its subsidiaries;

(2) where the Company, in accordance with the contracts of appointment as proved by the general meeting of shareholders, provides loans, loan guarantees or other funds for directors, supervisors and senior managers for payments made on behalf of the Company or for payments or expenses incurred in the performance of their duties; and

(3) where the scope of the Company's normal business operations include provision of loans and loan guarantees, the Company may provide loans and loan guarantees for its directors, supervisors and senior managers and to their related parties; however, such provision of loans or loan guarantees shall be under normal business conditions.

FINANCE AND ACCOUNTING SYSTEM

The Company shall establish its financial and accounting system in accordance with relevant laws and administrative regulations, the listing rules of the stock exchange where our shares are listed and PRC accounting standards formulated by the competent financial authorities under the State Council.

The Company shall prepare a financial report at the end of each financial year, and such financial report shall be audited in compliance with laws.

Any financial report shall be prepared in accordance with the PRC accounting standards and regulations, and also in accordance with either international accounting standards or those of the place outside the PRC where the Company's shares are listed. If there are significant discrepancies in the above two standards financial reports, the notes shall be added in the financial report. As to the distribution of after-tax profits of the Company in a financial year, the after-tax profits indicated on the two financial reports, whichever is lower shall prevail.

The interim results or financial information published or disclosed by the Company shall be prepared in accordance with the PRC accounting standards and regulations at the same time as well as international accounting standards or the accounting standards of the overseas area in which the shares are listed.

The financial report of the Company shall be kept at the Company and shall be made available to the Shareholders twenty (20) days before the annual general meeting is held. Each Shareholder shall have the right to obtain the financial report mentioned in this chapter.

The Company shall deliver the report of the Board, together with the balance sheet (including each document required to be attached thereto in accordance with the laws and administrative regulations of the PRC or others), profit and loss account or income and expenditure statement, or the summary of financial reports to each holder of overseas-listed foreign shares at least 21 days before the annual general meeting by postage-paid mail or other means (including through posting at the Company website and/or newspapers) permitted by the laws, administrative regulations, departmental rules, normative documents and the listing rules of the stock exchange where the Company's shares are listed, at the recipient's address as registered in the shareholders register.

The Company shall publish two financial reports in each financial year; the interim financial report shall be published within sixty (60) days after the end of the first six months of a financial year; the annual financial report shall be published within one hundred and twenty (120) days after the end of the financial year.

PROFIT DISTRIBUTION

The Company may distribute dividends in one of the following forms (or in more than two forms simultaneously):

(1) Cash;

(2) Shares;

(3) other methods permitted by laws, administrative regulations, departmental rules and the regulatory rules of the place(s) of listing.

The Company shall pay cash dividends and other payments in RMB to domestic shareholders. Such payments made by the Company to holders of foreign shares shall be denominated and declared in Renminbi and paid in foreign currency or in RMB. Such currencies required for the Company's payment of cash dividends and other payments to the holders of foreign shares shall be handled pursuant to the relevant provisions of the State administration of foreign exchange.

DISSOLUTION AND LIQUIDATION OF THE COMPANY

The Company shall be dissolved and liquidated according to laws in any of the following circumstances:

(1) the term of business of the Company stipulated in the Articles of Association has expired or occurrence of any other trigger for dissolution stipulated in the Articles of Association;

(2) the resolution of general meeting has resolved to dissolve the Company;

(3) merger or division of the Company requires a dissolution;

(4) if the Company gets into serious trouble in operations and management and continuation may incur material losses of the interests of the Shareholders, and no solution can be found through any other means, the Shareholders holding 10% or more of the total voting rights of the Company may request the People's Court to dissolve the Company;

(5) the Company is declared bankrupt in accordance with the law because it is unable to pay its debts as they fall due;

(6) the business licence is revoked in accordance with the law and administrative regulations or the Company is ordered to close or is cancelled.

Where the Company is dissolved under the circumstances set out in items (1), (2), (4) and (6), the Company shall establish a liquidation committee to start liquidation within fifteen (15) days from the date the cause of dissolution occurred. The composition of the liquidation committee shall be determined by the directors or the general meeting. If a liquidation group fails to be established within the limited time for liquidation, the creditor may apply to the People's Court for appointing relevant personnel to form a liquidation group for liquidation.

In the event that the Company is dissolved in accordance with the provisions set forth in (5) above, the people's court shall organise the shareholders, related agencies and professional to form the liquidation team pursuant to relevant provisions of the law.

Where the Board resolves to liquidate the Company for any reason other than bankruptcy, the Board shall include a statement in its notice convening a general meeting to the effect that, after making full inquiry into the affairs of the Company, the Board is of the opinion that the Company shall be able to pay its debts in full within twelve months from the commencement of the liquidation.

The Board shall lose its powers immediately after the resolution for liquidation is passed at the general meeting.

The liquidation committee shall act in accordance with instructions of the general meeting and make a report at least once every year to the general meeting on the committee's income and expenses, the business of the Company and the progress of the liquidation; and present a final report to the general meeting upon completion of the liquidation.

The liquidation committee shall notify all creditors within ten (10) days after its establishment and shall publish announcements in newspapers within sixty (60) days.

Upon liquidation for the purpose of company dissolution, after the liquidation committee has sorted out the assets of the Company and prepared a balance sheet and a property inventory, if it discovers that the Company's assets are insufficient to repay its debts in full, it shall immediately apply to the People's Court to declare the Company bankrupt.

Following a ruling by the People's Court that the Company is declared bankrupt, the liquidation committee shall hand over all matters relating to the liquidation to the People's Court.

After completion of liquidation of the Company, the liquidation committee shall prepare a liquidation report, a statement of revenue and expenditure and financial account books in respect of the liquidation period and, after verification thereof by an accountant registered in China, submit the same to the general meeting or the People's Court. Within thirty (30) days from the date of confirmation of the aforementioned documents by the general meeting or the People's Court, the liquidation committee shall deliver the same to the Company registration authority, apply for cancellation of the Company's registration and publicly announce the Company's dissolution.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Company may amend the Articles of Association pursuant to laws, administrative regulations, the listing rules of the stock exchange where the Company's shares are listed and the Articles of Association.

The amendment of the Articles of Association shall be subject to relevant decision-making procedures and go through necessary formalities in accordance with the provisions of relevant laws, administrative regulations and the Articles of Association. If an amendment to these Articles of Association involves a registered particular of the Company, registration of the change shall be carried out in accordance with the law.

FURTHER INFORMATION ABOUT THE COMPANY

Incorporation

The predecessor of the Company, Zhejiang Thousand-Island Lake Yangshengtang Drinking Water Company Limited (浙江千島湖養生堂飲用水有限公司), was established on September 26, 1996 in Zhejiang, the PRC under the name of Xin'an River Yangshengtang Drinking Water Company Limited (新安江養生堂飲用水有限公司). The Company was established in Zhejiang, the PRC as a joint stock limited company on June 27, 2001 by way of restructuring of Zhejiang Thousand-Island Lake Yangshengtang Drinking Water Company Limited under the name of Nongfu Spring Co., Ltd. (農夫山泉股份有限公司).

The Company has established a place of business in Hong Kong at Room F, 6/F, CNT Tower, 338 Hennessy Road, Wanchai, Hong Kong. The Company was registered as a non-Hong Kong company in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) and the Companies (Non-Hong Kong Companies) Regulation (Chapter 622J of the Laws of Hong Kong) on January 20, 2020, with Ms. Han Linyou of Room 7804, Wing On Lodge, No.72-82 Blue Pool Road, Happy Valley, Hong Kong appointed as the Hong Kong authorised representative of the Company for acceptance of the service of process and any notices required to be served on the Company in Hong Kong.

The Company has applied for the Conversion of Domestic Shares into H Shares, which involves 1,303,252,410 Shares held by Yangshengtang and 3,284,947,590 Shares held by other individual Shareholders. The Conversion of Domestic Shares into H shares has been approved by the CSRC on 24 July 2020 and is still subject to approval by the Hong Kong Stock Exchange.

As the Company was incorporated in the PRC, its operations are subject to the relevant laws and regulations of the PRC. A summary of the relevant aspects of laws and regulations of the PRC and the Articles of Association is set out in Appendix IV and V, respectively.

Changes in the Share Capital of the Company

On March 6, 2020, the registered share capital of the Company was increased from RMB360,000,000 to RMB1,080,000,000 by way of conversion of undistributed profits into share capital according to the then existing shareholding structure.

As approved by the CSRC on July 24, 2020 and our Shareholders' general meeting held on August 14, 2020, the ordinary shares of the Company were splited on a one-for-ten basis, and the par value of the Shares was changed from RMB1.00 per Share to RMB0.1 per Share. Immediately after the share split, the registered share capital of the Company became RMB1,080,000,000 divided into 10,800,000,000 Shares of par value RMB0.1 each, all of which were fully paid up.

Save as disclosed above, there has been no alteration in the share capital of the Company within two years immediately preceding the date of this prospectus.

Resolutions Passed by Our Shareholders' General Meeting in Relation to the Global Offering

At the extraordinary general meeting of the Shareholders held on March 6, 2020, the following resolutions, among other things, were duly passed:

(i) the issue by the Company of H Shares with a nominal value of RMB0.1 each and such H Shares be listed on the Hong Kong Stock Exchange;

(ii) the number of H shares to be issued shall be up to 1,200 million, and the grant of the Over-allotment Option in respect of no more than 15% of the number of H Shares issued pursuant to the Global Offering;

(iii) subjects to the CSRC's approval, upon completion of the Global Offering, 4,588,200,000 Domestic Shares in aggregate held by Mr. Zhong Shanshan, Yangshengtang and other individual Shareholders will be converted into H Shares on a one-for-one basis;

(iv) authorization of the Board or its authorized individual to handle all matters relating to, among other things, the Global Offering, the issue and listing of H Shares on the Hong Kong Stock Exchange; and

(v) subject to the completion of the Global Offering, the conditional adoption of the revised Articles of Association, which shall become effective on the Listing Date.

Subsidiaries

The following tables show the details of our subsidiaries as of the Latest Practicable Date, all of which were the Company's wholly-owned subsidiaries.

No.	Name	Date of establishment	Place of incorporation	Nature of Business	Registered Capital (RMB0'000) / Issued shares
1	Nongfu Spring Hangzhou Thousand-Island Lake Drinking Water Company Limited (農夫山泉杭州千島湖飲用水有限公司)	August 3, 1999	PRC	Production and sales of packaged drinking water and beverage	17,100
2	Nongfu Spring (Jiande) Xin'an River Drinking Water Company Limited (農夫山泉(建德)新安江飲用水有限公司)	December 10, 2014	PRC	Production and sales of packaged drinking water and beverage	3,000
3	Nongfu Spring Zhejiang Thousand-Island Lake Company Limited (農夫山泉浙江千島湖有限公司)	July 23, 2003	PRC	Production and sales of packaged drinking water and beverage	11,180
4	Nongfu Spring (Jiande) Xin'an River Beverage Products Company Limited (農夫山泉(建德)新安江飲品有限公司)	May 22, 2019	PRC	No substantial operation	2,000
5	Nongfu Spring (Chun'an Tea Garden) Company Limited (農夫山泉(淳安茶園)有限公司)	December 26, 2006	PRC	Production and sales of packaged drinking water and beverage	6,500

No.	Name	Date of establishment	Place of incorporation	Nature of Business	Registered Capital (RMB0'000) / Issued shares
6	Nongfu Zhejiang Drinking Water	December 15, 1998	PRC	Production and sales of packaged drinking water and beverage	3,320
7	Nongfu Spring (Jiande) Xin'an River Beverage Company Limited (農夫山泉(建德)新安江飲料有限公司)	November 9, 2006	PRC	Production and sales of packaged drinking water and beverage	19,000
8	Nongfu Spring (Chun'an Tea Garden) Beverage Company Limited (農夫山泉(淳安茶園)飲料有限公司)	October 25, 2018	PRC	Production and sales of packaged drinking water, beverage and packaging materials	2,000
9	Nongfu Spring (Chun'an Pingshan) Company Limited (農夫山泉(淳安坪山)有限公司)	December 26, 2006	PRC	Sales of packaged drinking water and beverage	3,000
10	Hangzhou Nongfu Spring Food Sales Company Limited (杭州農夫山泉食品銷售有限公司)	April 9, 2013	PRC	Sales of packaged drinking water and beverage	200
11	Hangzhou Huizi Investment Company Limited (杭州會子投資有限公司)	August 25, 2016	PRC	Industrial investment	10,000
12	Nongfu Industrial Development	January 20, 2006	PRC	Industrial investment	5,000
13	Nongfu Spring (Anji) Food Sales Company Limited (農夫山泉(安吉)食品銷售有限公司)	November 22, 2018	PRC	Sales of packaged drinking water and beverage	100
14	Anji Smart Life	December 12, 2017	PRC	Sales of packaged drinking water, beverage and food	10,000
15	Nongfu Spring Shaanxi Taibai Mountain Beverage Company Limited (農夫山泉陝西太白山飲料有限公司)	September 2, 2011	PRC	Production and sales of packaged drinking water and beverage	6,000
16	Nongfu Spring (Shaanxi) Honghe Village Beverage Company Limited (農夫山泉(陝西)紅河谷飲料有限公司)	July 12, 2019	PRC	Production and sales of packaged drinking water and beverage	3,000
17	Nongfu Spring Sichuan Beverage Products Company Limited (農夫山泉四川飲品有限公司)	December 31, 2014	PRC	Production and sales of packaged drinking water and beverage	1,000

No.	Name	Date of establishment	Place of incorporation	Nature of Business	Registered Capital (RMB0'000) / Issued shares
18	Nongfu Spring Sichuan Emei Mountain Beverage Company Limited (農夫山泉四川峨眉山飲料有限公司)	November 27, 2008	PRC	Production and sales of packaged drinking water and beverage	2,000
19	Nongfu Spring Hubei Danjiangkou Company Limited (農夫山泉湖北丹江口有限公司)	August 18, 2003	PRC	Production and sales of packaged drinking water and beverage	7,800
20	Nongfu Spring Hubei DanJiangKou (Xincheng) Beverage Company Limited (農夫山泉湖北丹江口(新城)飲料有限公司)	June 29, 2009	PRC	Production and sales of packaged drinking water and beverage	11,600
21	Nongfu Spring Hubei DanJiangKou (Junzhou) Beverage Company Limited (農夫山泉湖北丹江口(均州)飲料有限公司)	July 11, 2017	PRC	Production and sales of packaged drinking water and beverage	5,000
22	Nongfu Spring Hubei DanJiangKou Sales Company Limited (農夫山泉湖北丹江口銷售有限公司)	November 21, 2018	PRC	Sales of packaged drinking water, beverage and packaging materials	100
23	Nongfu Spring Jilin Changbai Mountain Company Limited (農夫山泉吉林長白山有限公司)	June 26, 2001	PRC	Production and sales of packaged drinking water and beverage	10,800
24	Nongfu Spring Fusong Changbai Mountain Beverage Co., Ltd. (農夫山泉撫松長白山飲料有限公司)	February 4, 2010	PRC	Production and sale of packaged drinking water and beverage	2,000
25	Nongfu Spring Fusong Changbai Mountain Natural Mineral Water Company Limited (農夫山泉撫松長白山天然礦泉水有限公司)	February 4, 2010	PRC	Production and sales of packaged drinking water and beverage	23,600
26	Nongfu Spring Linjiang Changbai Mountain Drinking Water Company Limited (農夫山泉臨江長白山飲用水有限公司)	January 16, 2017	PRC	Production and sales of packaged drinking water and beverage	1,000
27	Nongfu Spring (Jingyu) Packaging Company Limited (農夫山泉(靖宇)包裝有限公司)	December 20, 2013	PRC	Production and sales of packaging materials	3,000
28	Nongfu Spring (Fusong) Packaging Company Limited (農夫山泉(撫松)包裝有限公司)	July 29, 2014	PRC	Production and sales of packaging materials	1,000
29	Nongfu Spring Fusong Mineral Water Development Company Limited (農夫山泉撫松礦泉水開發有限公司)	October 10, 2016	PRC	Sales of packaged drinking water and beverage	500

No.	Name	Date of establishment	Place of incorporation	Nature of Business	Registered Capital (RMB0'000) / Issued shares
30	Nongfu Spring Linjiang Changbai Mountain Drinking Water Development Company Limited (農夫山泉臨江長白山飲用水開發有限公司)	January 16, 2017	PRC	Water taking and processing	1,000
31	Nongfu Spring Greater Khingan Range Mineral Water Development Company Limited (農夫山泉大興安嶺礦泉水開發有限公司)	August 11, 2015	PRC	Water taking and processing	200
32	Nongfu Spring Greater Khingan Range Mineral Water Company Limited (農夫山泉大興安嶺礦泉水有限公司)	February 20, 2019	PRC	Production and sales of packaged drinking water and packaging materials	200
33	Nongfu Spring Wuling Mountain Chengde Drinking Water Company Limited (農夫山泉霧靈山承德飲用水有限公司)	March 29, 2016	PRC	Production and sales of packaged drinking water and packaging materials	1,000
34	Nongfu Spring Guangdong Wanlv Lake Company Limited (農夫山泉廣東萬綠湖有限公司)	April 7, 2004	PRC	Production and sales of packaged drinking water and beverage	5,000
35	Nongfu Spring Guangdong Wanlv Lake Beverage Company Limited (農夫山泉廣東萬綠湖飲料有限公司)	December 8, 2016	PRC	Production and sales of packaged drinking water and beverage	1,500
36	Nongfu Spring Manas County Beverage Company Limited (農夫山泉瑪納斯縣飲料有限公司)	October 21, 2014	PRC	Sales of packaged drinking water and beverage	100
37	Xinjiang Nongfu Base Manas Food Company Limited (新疆農夫基地瑪納斯食品有限公司)	February 9, 2006	PRC	Production and sales of packaged drinking water and beverage	2,500
38	Yili Nongfu Spring Fruit Industry Company Limited (伊犁農夫山泉果業有限公司)	June 8, 2015	PRC	Production and sales of fruit products	1,000
39	Nongfu Spring (Guizhou) Wuling Mountain Beverage Company Limited (農夫山泉(貴州)武陵山飲料有限公司)	October 23, 2012	PRC	Production and sales of packaged drinking water and beverage	5,000
40	Nongfu Spring Guizhou Fanjing Mountain Drinking Water Company Limited (農夫山泉貴州梵淨山飲用水有限公司)	April 24, 2014	PRC	Production and sales of packaged drinking water and beverage	2,000

No.	Name	Date of establishment	Place of incorporation	Nature of Business	Registered Capital (RMB0'000) / Issued shares
41	Nongfu Spring Tianjin Beverage Company Limited (農夫山泉(天津)飲料有限公司)	June 12, 2014	PRC	N/A - Under preparation	2,000
42	Xinfeng Nongfu Spring Beverage Company Limited (信豐農夫山泉飲料有限公司)	August 2, 2017	PRC	Production and sales of beverage and packaging materials	3,000
43	Anyuan Nongfu Base Fruit Industry Company Limited (安遠農夫基地果業有限公司)	November 29, 2006	PRC	Production and sales of fruit products	3,000
44	Xinfeng Youguo Agriculture Base Development Company Limited (信豐優果農業基地開發有限公司)	August 2, 2017	PRC	Production and sales of fruit products	3,000
45	Xinfeng Nongfu Spring Fruit Industry Company Limited (信豐農夫山泉果業有限公司)	July 27, 2015	PRC	Production and sales of beverage and fruit products	1,000
46	Nongfu Spring (Fujian Wuyi Mountain) Drinking Water Company Limited (農夫山泉(福建武夷山)飲用水有限公司)	August 29, 2017	PRC	N/A - Under preparation	5,000
47	Beijing Nongfu Spring Drinking Water Company Limited (北京農夫山泉飲用水有限公司)	October 20, 2010	PRC	No substantial operation	100
48	Shanghai Nongfu Spring Drinking Water Company Limited (上海農夫山泉飲用水有限公司)	September 4, 1997	PRC	Sales of packaged drinking water and beverage	100
49	Shanghai Nongfu Spring Supply Chain Technology Company Limited (上海農夫山泉供應鏈科技有限公司)	May 16, 2019	PRC	Supply chain management	5,000
50	Creswell Group Limited	October 13, 2016	New Zealand	No substantial operation	2,000,000 shares
51	Creswell NZ Limited	October 17, 2016	New Zealand	Production and sales of packaged drinking water – Under preparation	2,000,000 shares
52	Nongfu Spring Hong Kong	July 17, 2014	Hong Kong	Sales of packaged drinking water and beverage – Under preparation	HKD26,353,899
53	Nong Fu Spring USA INC.	December 31, 2012	U.S.	Goods procurement	1,000,000 shares

The following subsidiaries of the Company were incorporated within two years immediately preceding the date of this prospectus:

Name of Subsidiary	Place of Incorporation	Date of Incorporation
Nongfu Spring (Shaanxi) Honghe Village Beverage Company Limited	PRC	July 12, 2019
Nongfu Spring Greater Khingan Range Mineral Water Company Limited	PRC	February 20, 2019
Shanghai Nongfu Spring Supply Chain Technology Company Limited	PRC	May 16, 2019
Nongfu Spring (Jiande) Xin'an River Beverage Products Company Limited	PRC	May 22, 2019
Nongfu Spring (Anji) Food Sales Company Limited	PRC	November 22, 2018
Nongfu Spring Hubei DanJiangKou Sales Company Limited	PRC	November 21, 2018
Nongfu Spring (Chun'an Tea Garden) Beverage Company Limited	PRC	October 25, 2018

Details of the changes in the share capital of the Company's subsidiaries within the two years immediately preceding the date of this prospectus are set out below:

(a) the registered capital of Zhejiang Nongfu Industrial Development, a wholly-owned subsidiary of the Company, was increased from RMB40,000,000 to RMB50,000,000 on December 14, 2018 by way of capital injection by the Company; and

(b) the registered capital of Nongfu Spring Hong Kong, a wholly-owned subsidiary of the Company, was increased from HKD10,000 to HKD26,353,899 on December 3, 2019 by way of conversion of debts and profits into share capital.

Save as set out above, there has been no alteration in the share capital of the subsidiaries of the Company within two years immediately preceding the date of this prospectus.

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, no person is directly or indirectly interested in 10% or more of the issued voting shares of the subsidiaries of the Company.

FURTHER INFORMATION ABOUT THE BUSINESS

Summary of Material Contracts

The Group has entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this prospectus that are or may be material:

(i) the Hong Kong Underwriting Agreement;

(ii) the non-competition undertaking entered into by Mr. Zhong Shanshan (鍾睒睒) and Yangshengtang in favor of the Company on August 14, 2020, details of which are set out in the section headed "Relationship with the Controlling Shareholders – Non-competition Undertaking".

(iii) a cornerstone investment agreement dated August 20, 2020, entered into among the Company, FIL Investment Management (Hong Kong) Limited, China International Capital Corporation Hong Kong Securities Limited and Morgan Stanley Asia Limited, pursuant to which FIL Investment Management (Hong Kong) Limited (as agent and professional fiduciary for certain funds and accounts) agreed to subscribe for such number of the H Shares at the Offer Price which may be purchased with an amount of US$100 million at the high end of the Offer Price range set out in this prospectus;

(iv) a cornerstone investment agreement dated August 20, 2020, entered into among the Company, Coatue PE Asia 37 LLC, China International Capital Corporation Hong Kong Securities Limited and Morgan Stanley Asia Limited, pursuant to which Coatue PE Asia 37 LLC agreed to subscribe for such number of the H Shares at the Offer Price which may be purchased with an amount of US$80 million at the high end of the Offer Price range set out in this prospectus;

(v) a cornerstone investment agreement dated August 20, 2020, entered into among the Company, GIC Private Limited, China International Capital Corporation Hong Kong Securities Limited, Morgan Stanley Asia Limited and Citigroup Global Markets Asia Limited, pursuant to which GIC Private Limited agreed to subscribe for such number of the H Shares at the Offer Price which may be purchased with an amount of US$70 million at the high end of the Offer Price range set out in this prospectus;

(vi) a cornerstone investment agreement dated August 20, 2020, entered into among the Company, China Structural Reform Fund Corporation Limited (中國國有企業結構調整基金股份有限公司), CCT-CITIC Agriculture Fund (LP) (誠通中信農業結構調整投資基金(有限合夥)), China International Capital Corporation Hong Kong Securities Limited, Morgan Stanley Asia Limited and Citigroup Global Markets Asia Limited, pursuant to which China Structural Reform Fund Corporation Limited and CCT-CITIC Agriculture Fund (LP) severally and jointly agreed to subscribe for such number of the H Shares at the Offer Price which may be purchased with the respective amounts of US$42 million and US$8 million at the high end of the Offer Price range set out in this prospectus; and

(vii) a cornerstone investment agreement dated August 20, 2020, entered into among the Company, ORIX Asia Consumer Trend Investment Limited, ORIX Asia Capital Limited, China International Capital Corporation Hong Kong Securities Limited and Morgan Stanley Asia Limited, pursuant to which ORIX Asia Consumer Trend Investment Limited agreed to subscribe for such number of the H Shares at the Offer Price which may be purchased with an amount of US$20 million at the high end of the Offer Price range set out in this prospectus and ORIX Asia Capital Limited agreed to be the guarantor of ORIX Asia Consumer Trend Investment Limited in relation to its subscription of the Offer Shares.

Water-taking Permits and Mining Permits

As of the Latest Practicable Date, the Group and the third-party water supply companies of the Group had the following water-taking permits and mining permits:

Water source	No. of permit	Permit	Owner of permit	Water-taking location	Expiration Date	Approved maximum extractable volume (0,000' m^3/year)
Thousand-island Lake, Zhejiang Province (浙江千島湖)	Qu Shui (Zhe) Zi [2015] No. 012	Water-taking permit	The Company	Xin'an River Reservoir	October 17, 2020	570
	Qu Shui (Zhe Jian) Zi [2018] No. 002	Water-taking permit	The Company	Xin'an River Reservoir, Xin'an River	January 7, 2023	98.3, 152.6
	Qu Shui (Zhe Jian) Zi [2019] No. 016	Water-taking permit	The Company	Xin'an River Reservoir	January 7, 2023	467.76
	Qu Shui (Zhe Chun Shui) Zi [2018] No. 055	Water-taking permit	The Company	Water area of the tap water plant in Thousand-island Lake	December 5, 2023	485
	Qu Shui (Zhe Chun Shui) Zi [2018] No. 056	Water-taking permit	The Company	Water area of the south island of Maozhuyuan in Shilin Town	December 9, 2023	545

Water source	No. of permit	Permit	Owner of permit	Water-taking location	Expiration Date	Approved maximum extractable volume (0,000' m^3/year)
Mount Changbai, Jilin Province (吉林長白山)	C2200002010068120068113	Mining permit	The Company	Mineral water conservation area of Jingyu County in Jilin Province Name of the mine: Nongfu Spring Jilin Changbaishan Co., Ltd.	January 2023	9.12
	Qu Shui (Ji) Zi [2017] No. 12	Water-taking permit	The Company	Cuocao Spring in Jingyu County (Jiulong Spring)	July 14, 2022	121.73
	Qu Shui (Jing Shui) Zi [2017] No. 11	Water-taking permit	The Company	Cuocao Spring in Jingyu County (Shenlong Spring) 126º 45'23"E 42º 17'34"N	December 20, 2021	142
	Qu Shui (Ji) Zi [2014] No. 3	Water-taking permit	The Company	Moya Spring, 4 km west of Qingshuihe Forest Farm in Lushuihe Town	July 27, 2025	127.2
	C2200002014088110135131	Mining permit	The Company	Banjiehe Mineral Spring Conservation Area in Lushuihe Town, Fusong County; Name of the mine: Moya Spring of Lushui River in Fusong County, Jilin Province	August 12, 2044	63.6
	Qu Shui (Fu Shui Zi) Zi [2011] No. 3	Water-taking permit	Third party	Banjie River, Lushuihe Town	May 17, 2021	195
	Qu Shui (Ji) Zi [2019] No. 00004	Water-taking permit	Third party	Upstream and midstream of Qidaogou River	December 5, 2024	1,460

Water source	No. of permit	Permit	Owner of permit	Water-taking location	Expiration Date	Approved maximum extractable volume (0,000' m^3/year)
Danjiangkou, Hubei Province (湖北丹江口)	Qu Shui (Guo Chang) Zi [2017] No. 11008	Water-taking permit	The Company	About 0.5 km from the upstream of the left dam bank of Danjiangkou Reservoir in Danjiangkou City, Hubei Province	August 20, 2022	144.3
	Qu Shui (Guo Chang) Zi 2020 No. 11002	Water-taking permit	The Company	0.5 km upstream of the left dam bank of Danjiangkou Reservoir in Danjiangkou City, Hubei Province	March 31, 2025	300.6
	Qu Shui (Guo Chang) Zi [2015] No. 11001	Water-taking permit	Third party	133.5 m above sea level of the right fourth dam section of Danjiangkou Reservoir in Danjiangkou City, Shiyan City, Hubei Province	January 31, 2025	542
Wanlv Lake, Guangdong Province (廣東萬綠湖)	Qu Shui (Yue He Yuan) Zi (2019) No. 00009	Water-taking permit	The Company	Water source project of Xinfengjiang Reservoir in Heyuan City	December 30, 2022	750
	Qu Shui (Yue He Yuan) Zi (2019) No. 00002	Water-taking permit	The Company	Xinfengjiang Reservoir	May 4, 2021	176

Water source	No. of permit	Permit	Owner of permit	Water-taking location	Expiration Date	Approved maximum extractable volume (0,000' m^3/year)
Manas of Mount Tianshan, Xinjiang Uygur Autonomous Region (新疆天山瑪納斯)	Qu Shui (Ma Shui) Zi [2018] No. 000000-02S	Water-taking permit	Third party	500 m east of Shihuyaozi Village, Hankkazitan Township 86º 05'31.98" 44º 06'38.97"	June 5, 2028	166
	Qu Shui (Ma Shui) Zi [2018] No. 000000-03S	Water-taking permit	Third party	South of a residential cluster of Shihuyaozi Village, Hankkazitan Township 86º 05'15.77" 44º 06'31.13"	June 5, 2028	20
	Qu Shui (Ma Shui) Zi [2018] No. 000000-04S	Water-taking permit	Third party	North part of the Manas River Water Plant of Shihuyaozi Village, Hankkazitan Township 86º 05'13.52" 44º 06'26.71"	June 5, 2028	170
	Qu Shui (Ma Shui) Zi [2018] No. 000000-05S	Water-taking permit	Third party	South part of the Manas River Water Plant of Shihuyaozi Village, Hankkazitan Township 86º 05'10.42" 44º 06'22.02"	June 5, 2028	190
	Qu Shui (Ma Shui) Zi [2018] No. 000000-06S	Water-taking permit	Third party	500 m south of Shihuyaozi Village, Hankkazitan Township 86º 05'04.60" 44º 06'13.19"	June 5, 2028	85

Water source	No. of permit	Permit	Owner of permit	Water-taking location	Expiration Date	Approved maximum extractable volume (0,000' m^3/year)
	Qu Shui (Ma Shui) Zi [2018] No. 000000-07S	Water-taking permit	Third party	1 km southwest of Shihuyaozi Village, Hankkazitan Township 86º 04'57.6" 44º 06'06.65"	June 5, 2028	85
	Qu Shui (Ma Shui) Zi [2018] No. 000000-08S	Water-taking permit	Third party	Wuzhou Commercial Concrete Materials Well in Shihuyaozi Village, Hankkazitan Township 86º 04'25.5" 44º 05'15.70"	June 5, 2028	75
	Qu Shui (Ma Shui) Zi [2018] No. 000000-09S	Water-taking permit	Third party	1 km south of Shihuyaozi Village, Hankkazitan Township 86º 05'10.34" 44º 06'3.06"	June 5, 2028	70
	Qu Shui (Ma Shui) Zi [2018] No. 000000-10S	Water-taking permit	Third party	South of the opposite to the Manas River Water Plant of Shihuyaozi Village, Hankkazitan Township 86º 05'17.70" 44º 06'16.75"	June 5, 2028	65
	Qu Shui (Ma Shui) Zi [2018] No. 000000-11S	Water-taking permit	Third party	Shihuyaozi Village, Hankkazitan 86º 05'25.52" 44º 06'28.22"	June 5, 2028	130

Water source	No. of permit	Permit	Owner of permit	Water-taking location	Expiration Date	Approved maximum extractable volume (0,000' m^3/year)
Mount Emei, Sichuan Province (四川峨眉山)	Qu Shui (E Ban) Zi [2016] No. a518108	Water-taking permit	The Company	Dagou, Lingou and Liugou of Huangmao Village, Gaoqiao Town, Emeishan City	June 30, 2021	73.52, 5.68
	Qu Shui (E Ban) Zi [2018] No. 7	Water-taking permit	The Company	Group 2 and Group 4, Huangmao Village, Gaoqiao Town, Emeishan City	December 9, 2022	240
	Qu Shui (E Ban) Zi [2018] No. a518106	Water-taking permit	The Company	Lingou of Group 9, Huangmao Village, Gaoqiao Town, Emeishan City	June 19, 2023	120
Mount Taibai, Shaanxi Province (陝西太白山)	Qu Shui (Mei Xian) Zi [2016] No. 10048	Water-taking permit	The Company	East estuary of Tangyu River, Bawang River; the Company's courtyards in Tangyukou and Honghegu	May 3, 2023	661.3
Mount Wuling, Guizhou Province (貴州武陵山)	Qu Shui (Bi Shui Shen) Zi [2018] No. 003	Water-taking permit	The Company	Qigushui, Hejia Group, Zhaigui Village, Dengta Office, Bijiang District	March 24, 2023	86
	Qu Shui (Bi Shui Shen) Zi [2018] No. 005	Water-taking permit	The Company	Huangladong, Dengta Office, Bijiang District	May 29, 2023	122
	Qu Shui (Jiang Shui) Zi [2020] No. 001	Water-taking permit	The Company	Guanzhuang, Taiping Town, Jiangkou County, Wupoling, Shantang Village, Taiping Town	June 23, 2025	71.37
Mount Wuling, Hebei Province (河北霧靈山)	Qu Shui (Xing Long) Zi [2016] No. 02030166	Water-taking permit	The Company	Taxigou Village and Dongmeisi Village, Wulingshan Town, Xinglong County	December 13, 2021	82.8, 49.2

Water source	No. of permit	Permit	Owner of permit	Water-taking location	Expiration Date	Approved maximum extractable volume (0,000' m^3/year)
Greater Khingan, Heilongjiang Province (黑龍江大興安嶺)	Qu Shui (Mo Shui) Zi [2018] No. 001	Water-taking permit	The Company	Xilinji Town Industrial Park	June 8, 2021	50.44
	C2300002019088110148396	Mining permit	The Company	No. 35, Building 4, Qiao 18, Xilinji Town, Mohe County, Da Hinggan Ling Prefecture, Heilongjiang Province; Name of the mine: Nongfu Spring Greater Khingan Range Mineral Water Development Company Limited's Mohe Natural Mineral Water Source Area in Da Hinggan Ling Prefecture, Heilongjiang Province	August 6, 2024	50.6

Intellectual Property

As at the Latest Practicable Date, the following intellectual property rights are material to the Group's business:

Trademarks

As at the Latest Practicable Date, the Group had registered the following trademarks which are material to its business:

No.	Trademark	Class	Registered Owner	Place of Registration	Registration Number	Expiry Date
1.	农夫山泉 NONGFU SPRING	32	the Company	PRC	7864253	December 27, 2030

No.	Trademark	Class	Registered Owner	Place of Registration	Registration Number	Expiry Date
2.		32	the Company	PRC	7858059	December 20, 2030
3.	农夫山泉	32	the Company	PRC	16374821	April 13, 2026
4.	茶π	30	the Company	PRC	36836877	November 20, 2029
5.	东方树叶	30	the Company	PRC	9395593	June 27, 2022
6.		32	the Company	PRC	3375008	April 27, 2024
7.	尖叫	32	the Company	PRC	35777785	September 6, 2029
8		32	the Company	PRC	22716770	February 20, 2028
9.	农夫果园	32	the Company	PRC	7186587	July 20, 2030
10.	水溶 C100	32	the Company	PRC	8240176	April 6, 2024
11.	17.5°	32	the Company	PRC	22209811	January 27, 2029

No.	Trademark	Class	Registered Owner	Place of Registration	Registration Number	Expiry Date
12.	17.5°	31	the Company	PRC	19956482	February 6, 2029
13.	炭仌	32	the Company	PRC	36443887	October 13, 2029
14.	炭仌 TANBING	30	the Company	PRC	41384777	August 13, 2030

As at the Latest Practicable Date, the Group had applied for registration of the following trademarks which are material to its business:

No	Trademark	Class	Registered Owner	Place of Registration	Application Number	Application Date
1.	农夫果园	32	the Company	PRC	40635004	August 27, 2019

Domain Names

As at the Latest Practicable Date, the Group had registered the following domain name which is material to its business:

No.	Domain Name	Registered Owner	Expiry Date
1	nongfuspring.com	the Company	July 4, 2025

Patents

As at the Latest Practicable Date, the Group had registered the following patents which are material to its business:

No.	Patent Name	Applicant	Place of Registration	Application/Grant Number	Date of Application
1	Tea drink and production method thereof	the Company	PRC	ZL201110115712.4	April 29, 2011
2	Automatic film cutting equipment	the Company	PRC	ZL201110229069.8	August 11, 2011

No.	Patent Name	Applicant	Place of Registration	Application/Grant Number	Date of Application
3	Tea drink and manufacture method thereof	the Company	PRC	ZL201310132185.7	April 16, 2013
4	Fruit vegetables disinfection system	the Company	PRC	ZL201720252992.6	March 16, 2017
5	Packaging box	the Company	PRC	ZL201720227645.8	March 10, 2017
6	Drink packing apparatus and drink vending machine	the Company	PRC	ZL201821798199.7	November 2, 2018
7	Bottle	the Company	PRC	ZL201430366828.X	September 29, 2014
8	Processed citrus fruit juice or concentrated juice, their preparation method and products containing them	Nongfu Spring (Chun'an Tea Garden) Beverage Company Limited	PRC	ZL201080004379.3	January 11, 2010
9	Device and method for processing fruit and vegetables containing high anthocyanin content	the Nongfu Industrial Development	PRC	ZL201210398997.1	October 19, 2012
10	Vending Machine	the Company	PRC	ZL201930594240.2	October 30, 2019

As at the Latest Practicable Date, the Group had applied for registration the following patents which are material to its business:

No.	Patent Name	Applicant	Place of Registration	Application Number	Date of Application
1	Pretreatment method of oranges	the Company	PRC	201611230934.X	December 28, 2016
2	Empty bottle recovery device, vending machine and control method of empty bottle recovery device	the Company	PRC	201811600845.9	December 26, 2018
3	Coffee making equipment	the Company	PRC	201910125074.0	February 20, 2019

DISCLOSURE OF INTERESTS

Disclosure of Interests of Directors, Supervisors and Chief Executive of the Company

Immediately following the completion of the Global Offering and Conversion of Domestic Shares into H Shares (assuming the Over-allotment Option is not exercised), the interests and/or short positions (as applicable) of the Directors, Supervisors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and any interests and/or short positions (as applicable) in shares, underlying Shares or debentures of any of the Company's associated corporations (within the meaning of Part XV of the SFO) which (1) will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions (as applicable) which they are taken or deemed to have under such provisions of the SFO), (2) will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or (3) will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, in each case once the Shares are listed on the Stock Exchange, will be as follows:

Interests/Short Positions in the Shares

Name of Director, Supervisor or Chief Executive	Nature of Interest	Class of Shares	Number of Shares Held or Interested	Approximate Percentage of Shareholding in the Relevant Class of Shares	Approximate Percentage of Shareholding in the Total Issued Share Capital
Mr. Zhong Shanshan [(1)]	Interest held by controlled corporations	Domestic Shares	6,211,800,000	100%	55.5208%
	Interest held by controlled corporations	H Shares	1,303,252,410	26.1885%	11.6484%
	Beneficial owner	H Shares	1,929,249,240	38.7677%	17.2435%
Mr. Guo Zhen	Beneficial owner	H Shares	2,799,030	0.0562%	0.0250%
Mr. Zhou Li	Beneficial owner	H Shares	13,995,090	0.2812%	0.1251%
Ms. Zhou Zhenhua	Beneficial owner	H Shares	13,995,090	0.2812%	0.1251%
Mr. Liao Yuan	Beneficial owner	H Shares	5,598,030	0.1125%	0.0500%
Ms. Qiu Hongying	Beneficial owner	H Shares	20,992,620	0.4218%	0.1876%

Note:

(1) As of the Latest Practicable Date, Mr. Zhong Shanshan directly held 98.3800% equity interest in Yangshengtang and indirectly held 1.6200% equity interest in Yangshengtang through Hangzhou Youfu (wholly owned by Mr. Zhong Shanshan). Therefore, Mr. Zhong Shanshan was deemed to be interested in the Shares held by Yangshengtang.

Long Position in Shares of Associated Corporations

Name of Director, Supervisor or Chief Executive	Name of Associated Corporations	Number of Shares	Nature of Interest	Approximate Percentage
Mr. Zhong Shanshan	Yangshengtang [(1)]	N/A	Beneficial owner	98.3800%
		N/A	Interest held by controlled corporations	1.6200%
	Yangshengtang Pharmaceutical Co., Ltd. (養生堂藥業有限公司) [(2)]	N/A	Beneficial owner	2.4671%
		N/A	Interest held by controlled corporations	97.5329%
	Beijing Wantai Biological Pharmaceutical Enterprise Co., Ltd. (北京萬泰生物藥業股份有限公司) [(3)]	78,800,518	Beneficial owner	18.1736%
		247,075,000	Interest held by controlled corporations	56.9822%
	Duoer (Beijing) Female Daily Necessities Co., Ltd. (朵而(北京)女性生活用品有限公司)[(4)]	N/A	Interest held by controlled corporations	97.5000%
	Zhejiang Xinyuan Property Co., Ltd. (浙江新元置業有限公司)[(5)]	N/A	Interest held by controlled corporations	50.0000%
	Xiamen Youmaike Medical Instruments Co., Ltd. (廈門優邁科醫學儀器有限公司) [(6)]	N/A	Interest held by controlled corporations	63.5000%
	Beijing Tairun Innovation Technology Incubator Co., Ltd.(北京泰潤創新科技孵化器有限公司) [(7)]	N/A	Interest held by controlled corporations	60.0000%
	J & W Beijing Biotech Co., Ltd. (捷和泰(北京)生物科技有限公司) [(8)]	N/A	Interest held by controlled corporations	40.0000%
	Zhejiang Ruide Agricultural Technology Co., Ltd. (浙江瑞德農業科技有限公司) [(9)]	N/A	Interest held by controlled corporations	95.0000%
	Anjilingzhi Business Information Consulting Center (Limited Partnership) (安吉領知商務信息咨詢中心(有限合夥))[(10)]	N/A	Interest held by controlled corporations	86.6700%

Note:

(1) Yangshengtang, our Controlling Shareholder, is a limited liability company incorporated in the PRC and did not issue any share. As of the Latest Practicable Date, Mr. Zhong Shanshan directly held 98.3800% and indirectly held 1.6200% equity interest in Yangshengtang through Hangzhou Youfu (wholly owned by Mr. Zhong Shanshan), respectively.

(2) Yangshengtang Pharmaceutical Co., Ltd. (養生堂藥業有限公司), a non-wholly-owned subsidiary of Yangshengtang, is a limited liability company incorporated in the PRC and did not issue any share. As at the Latest Practicable Date, Mr. Zhong Shanshan directly held 2.4671% equity interest and indirectly held 97.5329% equity interest in Yangshengtang Pharmaceutical Co., Ltd. through Yangshengtang.

(3) Beijing Wantai Biological Pharmaceutical Enterprise Co., Ltd. (北京萬泰生物藥業股份有限公司), a non-wholly-owned subsidiary of Yangshengtang, is a joint stock company incorporated in the PRC with limited liabilities with 43.6 million shares issued as at the Latest Practicable Date. As at the Latest Practicable Date, Mr. Zhong Shanshan directly held 18.1736% equity interest and indirectly held 56.9822% equity interest in Beijing Wantai Biological Pharmaceutical Enterprise Co., Ltd. through Yangshengtang.

(4) Duoer (Beijing) Female Daily Necessities Co., Ltd. (朵而(北京)女性生活用品有限公司), a non-wholly-owned subsidiary of Yangshengtang, is a company incorporated in the PRC with limited liability and did not issue any share. As at the Latest Practicable Date, Mr. Zhong Shanshan indirectly held 97.5000% interest in Duoer (Beijing) Female Daily Necessities Co., Ltd. through Yangshengtang.

(5) Zhejiang Xinyuan Property Co., Ltd. (浙江新元置業有限公司), a non-wholly-owned subsidiary of Yangshengtang, is a company incorporated in the PRC with limited liability and did not issue any share. As at the Latest Practicable Date, Mr. Zhong Shanshan indirectly held 50.0000% interest in Zhejiang Xinyuan Property Co., Ltd. through Yangshengtang.

(6) Xiamen Youmaike Medical Instruments Co., Ltd. (廈門優邁科醫學儀器有限公司), a non-wholly-owned subsidiary of Beijing Wantai Biological Pharmaceutical Enterprise Co., Ltd., is a company incorporated in the PRC with limited liabilities and did not issue any share. As at the Latest Practicable Date, Mr. Zhong Shanshan indirectly held 63.5000% interest in Xiamen Youmaike Medical Instruments Co., Ltd. through Beijing Wantai Biological Pharmaceutical Enterprise Co., Ltd.

(7) Beijing Tairun Innovation Technology Incubator Co., Ltd. (北京泰潤創新科技孵化器有限公司), a non-wholly-owned subsidiary of Beijing Wantai Biological Pharmaceutical Enterprise Co., Ltd., is a company incorporated in the PRC with limited liabilities and did not issue any share. As at the Latest Practicable Date, Mr. Zhong Shanshan indirectly held 60.0000% interest in Beijing Tairun Innovation Technology Incubator Co., Ltd. through Beijing Wantai Biological Pharmaceutical Enterprise Co., Ltd.

(8) J & W Beijing Biotech Co., Ltd. (捷和泰(北京)生物科技有限公司), a non-wholly-owned subsidiary of Beijing Wantai Biological Pharmaceutical Enterprise Co., Ltd., is a company incorporated in the PRC with limited liabilities and did not issue any share. As at the Latest Practicable Date, Mr. Zhong Shanshan indirectly held 40.0000% interest in J & W Beijing Biotech Co., Ltd. through Beijing Wantai Biological Pharmaceutical Enterprise Co., Ltd.

(9) Zhejiang Ruide Agricultural Technology Co., Ltd. (浙江瑞德農業科技有限公司), a non-wholly-owned subsidiary of Hangzhou Jiaozi Tea Co., Ltd. (a wholly-owned subsidiary of Yangshengtang), is a company incorporated in the PRC with limited liabilities and did not issue any share. As at the Latest Practicable Date, Mr. Zhong Shanshan indirectly held 95.0000% interest in Zhejiang Ruide Agricultural Technology Co. Ltd. through Hangzhou Jiaozi Tea Co., Ltd.

(10) Anjilingzhi Business Information Consulting Center (Limited Partnership) (安吉領知商務信息咨詢中心(有限合夥)), a non-wholly-owned subsidiary of Hangzhou Jiaozi Tea Co., Ltd., is a limited partnership incorporated in the PRC and did not issue any share. As at the Latest Practicable Date, Mr. Zhong Shanshan indirectly held 86.6700% interest in Anjilingzhi Business Information Consulting Center (Limited Partnership) through Hangzhou Jiaozi Tea Co., Ltd.

Save as disclosed above, none of the Directors, Supervisors or the chief executive of the Company will, immediately following the completion of the Global Offering and Conversion of Domestic Shares into H Shares, have an interest and/or short position (as applicable) in the Shares, underlying Shares or debentures of the Company or any interests and/or short positions (as applicable) in the shares, underlying Shares or debentures of the Company's associated corporations (within the meaning of Part XV of the SFO) which (i) will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), (ii) will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or (iii) will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, in each case once the Shares are listed on the Stock Exchange.

Disclosure of Interests of Substantial Shareholders

For information on the persons who will, immediately following the completion of the Global Offering and Conversion of Domestic Shares into H Shares, have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will directly and/or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of the Company or of any member of the Group, see "Substantial Shareholders."

FURTHER INFORMATION ABOUT DIRECTORS AND SUPERVISORS

Particulars of the Service Contracts

Pursuant to Rules 19A.54 and 19A.55 of the Hong Kong Listing Rules, we will enter into a contract with each of our Directors and Supervisors in respect of, among other things (i) compliance of relevant laws and regulations, (ii) observance of the Articles of Association, and (iii) provisions on arbitration.

Save as disclosed above, none of the Directors or Supervisors has entered into any service contracts as a director or supervisor with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

Remuneration of Directors and Supervisors

For details of the remuneration of Directors and Supervisors, see "Directors, Supervisors and Senior Management – Remuneration of the Directors, Supervisors and Senior Management" and Note 9 to "Appendix I – Accountants' Report".

Agency Fees or Commissions Received

The Underwriters will receive an underwriting commission in connection with the Underwriting Agreements, as detailed in "Underwriting – Total Commission and Expenses". Save in connection with the Underwriting Agreements, no commissions, discounts, brokerages or other special terms have been granted by the Group to any person (including the Directors, promoters and experts referred to in "Other Information – Qualifications and Consents of Experts" below) in connection with the issue or sale of any capital or security of the Company or any member of the Group within the two years immediately preceding the date of this prospectus.

Within the two years immediately preceding the date of this prospectus, no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription for any share in or debentures of the Company.

Personal Guarantees

The Directors have not provided personal guarantees in favour of lenders in connection with banking facilities granted to the Group.

Disclaimers

(i) Save as disclosed in the section headed "History and Corporate Structure," none of the Directors nor any of the experts referred to in "Other Information – Qualifications and Consents of Experts" below has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by, or leased to, any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

(ii) Save in connection with the Underwriting Agreements, none of the Directors nor any of the experts referred to in "Other Information – Qualifications and Consents of Experts" below, is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group.

(iii) Neither the Controlling Shareholders nor the Directors are interested in any business apart from the Group's business which competes or is likely to compete, directly or indirectly, with the business of the Group.

(iv) No cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to any promoter of the Company nor is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the Global Offering or related transactions as mentioned.

(v) So far as is known to the Directors, none of the Directors or their associates or any Shareholders who are expected to be interested in 5 or more of the issued share capital ofthe Company has any interest in the five largest suppliers of the Group.

OTHER INFORMATION

Estate Duty

The Directors have been advised that no material liability for estate duty is likely to fall on the Group.

Litigation

As of the Latest Practicable Date, the Company was not engaged in any outstanding litigation or arbitration which may have material adverse effect on the Global Offering and, so far as the Directors are aware, no material litigation or claim was pending or threatened by or against the Company.

The Joint Sponsors

Each of the Joint Sponsors satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Joint Sponsors will receive an aggregate fee of HKD 7.8 million for acting as the sponsors for the Listing.

Compliance Adviser

The Company has appointed Somerley Capital Limited as the compliance adviser upon the Listing in compliance with Rules 3A.19 and 19A.05 of the Listing Rules.

Preliminary Expenses

The Company did not incur any preliminary expense for the purpose of the Hong Kong Listing Rules.

Promoters

The Company has no promoter for the purpose of the Hong Kong Listing Rules.

Qualifications and Consents of Experts

The qualifications of the experts which have given opinions or advice which are contained in, or referred to in, this prospectus are as follows:

Name of Expert	Qualifications
China International Capital Corporation Hong Kong Securities Limited	A corporation licensed to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 5 (advising on futures contracts) and type 6 (advising on corporate finance) regulated activities under the SFO
Morgan Stanley Asia Limited	Licensed under the SFO to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 5 (advising on futures contracts), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities
Ernst & Young	Certified Public Accountants
Jingtian & Gongcheng	PRC Legal Advisor
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant

Each of the experts listed above has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or opinion and/or references to its name included herein in the form and context in which they respectively appear.

Binding Effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided in Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

Miscellaneous

(i) Save as disclosed in "– Changes in the Share Capital of the Company" and "– Subsidiaries" above, within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or has been agreed to be issued fully or partly paid either for cash or for a consideration other than cash.

(ii) No share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

(iii) No founder, management or deferred shares of the Company or any of its subsidiaries have been issued or have been agreed to be issued.

(iv) None of the equity and debt securities of the Company or its subsidiaries is presently listed or dealt in on any other stock exchange nor is any listing or permission to deal being or proposed to be sought.

(v) The Company has no outstanding convertible debt securities or debentures.

(vi) None of the experts listed under "– Qualifications and Consents of Experts":

  (a) is interested beneficially or non-beneficially in any shares in any member of the Group; or

  (b) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group save in connection with the Underwriting Agreements.

(vii) The English text of this prospectus and the Application Forms shall prevail over their respective Chinese text.

(viii) There has not been any interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the 12 months preceding the date of this prospectus.

(ix) The Company currently does not intend to apply for the status of a sino-foreign investment joint stock limited liability company and does not expect to be subject to the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》)[(1)].

Note:

(1) The Foreign Investment Law of the PRC has become effective on January 1, 2020, and the Sino-foreign Joint Venture Law of the PRC was abolished on the same date.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

(i) a copy of each of the **WHITE**, **YELLOW** and **GREEN** Application Forms;

(ii) a copy of each of the material contracts referred to in "Appendix VI – Statutory and General Information"; and

(iii) the written consents referred to in "Appendix VI – Statutory and General Information".

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Freshfields Bruckhaus Deringer at 55th Floor, One Island East, Taikoo Place, Quarry bay, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(i) the Articles of Association;

(ii) the Accountants' Report and the report on the unaudited pro forma financial information prepared by Ernst & Young, the texts of which are set out in "Appendix I – Accountants' Report" and "Appendix II – Unaudited Pro Forma Financial Information", respectively;

(iii) the audited consolidated financial statements of the Group for the years ended 31 December 2017, 2018 and 2019 and five months ended 31 May 2020;

(iv) the legal opinion from Jingtian & Gongcheng, the Company's PRC Legal Advisor, in respect of certain aspects of the Company;

(v) F&S Report;

(vi) the PRC Company Law, the Mandatory Provisions and the Special Regulations together with their unofficial English translations;

(vii) the service contracts referred to in "Appendix VI – Statutory and General Information";

(viii) the material contracts referred to in "Appendix VI – Statutory and General Information"; and

(ix) the written consents referred to in "Appendix VI – Statutory and General Information".

In this prospectus, unless the context otherwise requires, the following terms and expressions have the meanings set forth below.

"Accountants' Report"	the report on the financial information regarding the Company for the years ended December 31, 2017, 2018 and 2019 and the five months ended May 31, 2020, which has been audited by the Reporting Accountant, is set out in "Appendix I – Accountants' Report"
"Anji Smart Life"	Nongfu Spring (Anji) Smart Life Company Limited (農夫山泉(安吉)智能生活有限公司), a limited liability company established under the laws of the PRC on December 12, 2017, which was a wholly-owned subsidiary of the Company as of the Latest Practicable Date
"Application Form(s)"	**WHITE** Application Form(s), **YELLOW** Application Form(s) and **GREEN** Applications Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
"Articles of Association" or "Articles"	the articles of association of the Company, as amended, which shall become effective on the Listing Date and a summary of which is set out in Appendix V to this prospectus
"Board"	the board of Directors
"Business Day" or "business day"	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
"CAGR"	compound annual growth rate
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation

"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"China" or "PRC"	the People's Republic of China, excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan
"Companies (Winding up and Miscellaneous Provisions) Ordinance"	the Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company"	Nongfu Spring Co., Ltd. (農夫山泉股份有限公司), a joint stock company with limited liabilities established under the laws of the PRC on September 26, 1996
"Company Law" or "PRC Company Law"	Company Law of the People's Republic of China (中華人民共和國公司法), as amended, supplemented or otherwise modified from time to time
"Controlling Shareholder(s)"	has the meaning ascribed under the Listing Rules and in this prospectus and refers to Mr. Zhong Shanshan and Yangshengtang
"Conversion of Domestic Shares into H Shares"	The conversion of 4,588,200,000 Domestic Shares in aggregate held by Yangshengtang, Mr. Zhong Shanshan and other individual Shareholders into H Shares on a one-for-one basis upon the completion of Global Offering. Such conversion of Domestic Shares into H Shares has been approved by the CSRC on 24 July 2020 and an application for H Shares to be listed on the Hong Kong Stock Exchange has been made to the Listing Committee
"CSDC"	China Securities Depository and Clearing Corporation Limited
"CSDC (Hong Kong)"	China Securities Depository and Clearing (Hong Kong) Company Limited
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Director(s)"	director(s) of the Company

"Domestic Shares"	ordinary Shares in the share capital of the Company with a nominal value of RMB0.1 each, which are subscribed for and paid up in Renminbi
"EIT Law"	Enterprise Income Tax Law of the People's Republic of China (中華人民共和國企業所得稅法), as amended, supplemented or otherwise modified from time to time
"Eligible Employee"	an employee or a past employee of the Group who is not a connected person of the Company and satisfies the following criteria: (a) remains to be an employee as of the date of the prospectus or was a past employee of the Group; (b) is not a core connected person of the Company or an existing shareholder of the Company or its close associates; (c) is not any person whose acquisition of securities will be financed directly or indirectly by a core connected person; (d) is not any person who is accustomed to take instructions from a core connected person in relation to the acquisition, disposal, voting or other disposition of securities of the Company registered in his/her name or otherwise held by him/her; (e) is outside the U.S. and not a U.S. person (as defined in Rule 902 of Regulation S)
"Employee Reserved Shares"	the International Offer Shares being offered to the Eligible Employees pursuant to the International Employee Preferential Offering
"Exchange Participant(s)"	a person: (a) who, in accordance with the Hong Kong Listing Rules, may trade on or through the Hong Kong Stock Exchange; and (b) whose name is entered in a list, register or roll kept by the Hong Kong Stock Exchange as a person who may trade on or through the Hong Kong Stock Exchange
"Extreme Conditions"	extreme conditions caused by a super typhoon as announced by the government of Hong Kong
"F&S Report"	the industry report we commissioned Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. to prepare on the global and PRC soft beverage market
"GDP"	gross domestic product
"Global Offering"	the Hong Kong Public Offering and the International Offering
"**GREEN** Application Form(s)"	the application form(s) to be completed by the **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited

"Group", "the Group", "we" or "us"	the Company and its subsidiaries (or the Company and any one or more of its subsidiaries, as the content may require), or where the context so requires, in respect of the periods before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of the Company at the relevant time
"H Share(s)"	overseas listed foreign Shares in the share capital of the Company with a nominal value of RMB0.1 each, which are to be traded in HK dollars and are to be listed on the Hong Kong Stock Exchange
"H Share Registrar"	Computershare Hong Kong Investor Services Limited
"Hangzhou Youfu"	Hangzhou Youfu Enterprise Management Company Limited (杭州友福企業管理有限公司), a limited liability company established under the laws of the PRC on December 14, 2009, which is a shareholder of Yangshengtang and wholly owned by Mr. Zhong Shanshan as of the Latest Practicable Date
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules" or "Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
"Hong Kong Offer Shares"	the 27,176,400 H Shares initially offered by the Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to reallocation as described in "Structure of the Global Offering")

"Hong Kong Public Offering"	the offering of the Hong Kong Offer Shares for subscription by the public in Hong Kong (subject to adjustment as described in "Structure of the Global Offering") at the Offer Price (plus brokerage, SFC transaction levies and Hong Kong Stock Exchange trading fees), on and subject to the terms and conditions described in this prospectus and on the Application Forms as further described in "Structure of the Global Offering – Hong Kong Public Offering"
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering listed in "Underwriting – Hong Kong Underwriters"
"Hong Kong Underwriting Agreement"	the underwriting agreement dated August 24, 2020 relating to the Hong Kong Public Offering and entered into by, among others, the Company and the Hong Kong Underwriters, as further described in "Underwriting – Underwriting Arrangements and Expenses"
"IFRS(s)"	International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by the International Accounting Standards Board
"independent third party(ies)"	party(ies) who are not connected persons of the Company as far as our Directors are aware after having made all reasonable enquiries
"International Employee Preferential Offering"	the preferential offering of the Employee Reserved Shares to the Eligible Employees for subscription at the Offer Price on a preferential basis, as further described in "Structure of the Global Offering" in this prospectus
"International Offer Shares"	the 361,055,400 H Shares initially offered by the Company for subscription pursuant to the International Offering (subject to reallocation as described in "Structure of the Global Offering") together with, where relevant, any additional H Shares which may be issued by the Company pursuant to the exercise of the Over-allotment Option

"International Offering"	the offering of the International Offer Shares by the International Underwriters at the Offer Price outside the United States in offshore transactions in accordance with Regulation S and in the United States to QIBs in reliance on Rule 144A or any other available exemption from the registration requirements under the U.S. Securities Act, as further described in "Structure of the Global Offering"
"International Underwriters"	the group of international underwriters, led by the Joint Global Coordinators, which are expected to enter into the International Underwriting Agreement to underwrite the International Offering
"International Underwriting Agreement"	the underwriting agreement expected to be entered into on or around August 28, 2020 by, among others, the Company and the International Underwriters in respect of the International Offering, as further described in "Underwriting – The International Offering"
"Joint Bookrunners"	China International Capital Corporation Hong Kong Securities Limited, Morgan Stanley Asia Limited (in relation to the Hong Kong Public Offering only), Morgan Stanley & Co. International plc (in relation to the International Offering only), Citigroup Global Markets Asia Limited (in relation to the Hong Kong Public Offering only), Citigroup Global Markets Limited (in relation to the International Offering only) and CLSA Limited
"Joint Global Coordinators"	China International Capital Corporation Hong Kong Securities Limited, Morgan Stanley Asia Limited and Citigroup Global Markets Asia Limited
"Joint Lead Managers"	China International Capital Corporation Hong Kong Securities Limited, Morgan Stanley Asia Limited (in relation to the Hong Kong Public Offering only), Morgan Stanley & Co. International plc (in relation to the International Offering only), Citigroup Global Markets Asia Limited (in relation to the Hong Kong Public Offering only), Citigroup Global Markets Limited (in relation to the International Offering only) and CLSA Limited
"Joint Sponsors"	China International Capital Corporation Hong Kong Securities Limited and Morgan Stanley Asia Limited (in alphabetical order)

"Land Management Law"	Land Management Law of the People's Republic of China (中華人民共和國土地管理法), as amended, supplemented or otherwise modified from time to time
"Latest Practicable Date"	August 15, 2020, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
"Listing"	listing of the H Shares on the Main Board of the Hong Kong Stock Exchange
"Listing Committee"	the Listing Committee of the Hong Kong Stock Exchange
"Listing Date"	the date, expected to be on or around Tuesday, September 8, 2020, on which our H Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
"Macau"	the Macao Special Administrative Region of the PRC
"Main Board"	the stock market (excluding the option market) operated by the Hong Kong Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Hong Kong Stock Exchange
"Mandatory Provisions"	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (《到境外上市公司章程必備條款》), as amended, supplemented or otherwise modified from time to time, for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas (including Hong Kong), which were promulgated by the former Securities Commission of the State Council (國務院證券委員會) and the former State Commission for Restructuring the Economic Systems (國家經濟體制改革委員會) on August 27, 1994
"MEE"	Ministry of Ecology and Environment of the PRC (中華人民共和國生態環境部)
"Ministry of Finance" or "MOF"	Ministry of Finance of the PRC (中華人民共和國財政部)
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"National Bureau of Statistics"	National Bureau of Statistics of the PRC (中華人民共和國統計局)

"NDRC"	National Development and Reform Commission of the PRC (中華人民共和國國家發展與改革委員會)
"Nongfu Spring Hong Kong"	Nongfu Spring Drinking Water Hong Kong Company Limited (農夫山泉飲用水香港有限公司), a limited liability company established on July 17, 2014 in Hong Kong, which was a wholly-owned subsidiary of the Company as of the Latest Practicable Date
"Nongfu Industrial Development"	Zhejiang Nongfu Industrial Development Company Limited (浙江農夫實業發展有限公司), a limited liability company established under the laws of the PRC on January 20, 2006, which was a wholly-owned subsidiary of the Company as of the Latest Practicable Date
"Nongfu Zhejiang Drinking Water"	Zhejiang Nongfu Spring Drinking Water Company Limited (浙江農夫山泉飲用水有限公司), a limited liability company established under the laws of the PRC on December 15, 1998, which was a wholly-owned subsidiary of the Company as of the Latest Practicable Date
"NPC"	National People's Congress of the PRC (中華人民共和國全國人民代表大會)
"Offer Price"	final price per Offer Share in Hong Kong dollars (exclusive of brokerage fee of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%) of not more than HK$21.50 and expected to be not less than HK$19.50, at which Hong Kong Offer Shares are to be subscribed and which will be determined in the manner as further described in "Structure of the Global Offering"
"Offer Share(s)"	Hong Kong Offer Shares and the International Offer Shares, together with, where relevant, any additional H Shares which may be issued by the Company pursuant to the exercise of the Over-allotment Option
"Over-allotment Option"	option expected to be granted by the Company to the International Underwriters, exercisable by the Joint Global Coordinators (on behalf of the International Underwriters) pursuant to the International Underwriting Agreement, pursuant to which the Company may be required to allot and issue up to an aggregate of 58,234,600 additional H Shares at the Offer Price to, among other things, cover over-allocations in the International Offering, if any, further details of which are described in "Structure of the Global Offering"

"PBOC"	People's Bank of China (中國人民銀行), the central bank of the PRC
"PRC GAAP"	accounting principles generally accepted in the PRC issued by the MOF
"PRC Legal Advisor"	Jingtian & Gongcheng
"Price Determination Date"	date, expected to be on or around Friday, August 28, 2020, but no later than Tuesday, September 1, 2020, on which the Offer Price is fixed for the purpose of the Global Offering
"prospectus"	this prospectus being issued in connection with the Hong Kong Public Offering
"province"	a province or, where the context requires, a provincial level autonomous region or municipality, under the direct supervision of the central government of the PRC
"QIB" or "Qualified Institutional Buyer"	a qualified institutional buyer within the meaning of Rule 144A under the U.S. Securities Act
"Rainbow Fish Technology"	Zhejiang Rainbow Fish Technology Company Limited (浙江彩虹魚科技有限公司), a limited liability company established under the laws of the PRC on April 10, 2003, which was a wholly-owned subsidiary of Yangshengtang as of the Latest Practicable Date
"Regulation S"	Regulation S under the U.S. Securities Act
"Reporting Accountant"	Ernst & Young
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Rule 144A"	Rule 144A under the U.S. Securities Act
"SAFE"	State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAT"	State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
"Securities and Futures Ordinance" or "SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

"Securities Law"	Securities Law of the People's Republic of China (中華人民共和國證券法), as amended, supplemented or otherwise modified from time to time
"SFC"	the Securities and Futures Commission of Hong Kong
"Shanghai-Hong Kong Stock Connect"	a securities trading and clearing links program developed by the Hong Kong Stock Exchange, Shanghai Stock Exchange, HKSCC and China Securities Depository and Clearing Corporation Limited for mutual market access between Hong Kong and Shanghai
"Share(s)"	ordinary shares in the share capital of the Company with a nominal value of RMB0.1 each
"Shareholder(s)"	holder(s) of the Shares
"Shenzhen-Hong Kong Stock Connect"	a securities trading and clearing links program developed by the Hong Kong Stock Exchange, Shenzhen Stock Exchange, HKSCC and China Securities Depository and Clearing Corporation Limited for mutual market access between Hong Kong and Shenzhen
"Special Regulations"	the Special Regulations of the State Council on Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), promulgated by the State Council on August 4, 1994
"Stabilizing Manager"	Morgan Stanley Asia Limited
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"subsidiary(ies)"	has the meaning ascribed to it in Schedule 1 of the Companies Ordinance
"Supervisor(s)"	member(s) of Supervisory Committee
"Supervisory Committee"	supervisory committee of the Company
"SZSE"	Shenzhen Stock Exchange
"Takeovers Code"	the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time

"Track Record Period"	three years ended December 31, 2017, 2018 and 2019 and five months ended May 31, 2020
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"U.S. person"	a U.S. person, as defined of Rule 902 of Regulation S
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"VAT"	value added tax
"**WHITE** Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant's own name
"**White Form eIPO**"	the application for Hong Kong Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website of **White Form eIPO** at **www.eipo.com.hk**
"**White Form eIPO** Service Provider"	Computershare Hong Kong Investor Services Limited
"Yangshengtang"	Yangshengtang Co., Ltd. (養生堂有限公司), a limited liability company established under the laws of the PRC on March 12, 1993, which was a Controlling Shareholder and wholly owned by Mr. Zhong Shanshan (including 98.3800% direct interest and 1.6200% indirect interest through Hangzhou Youfu, which is wholly owned by Mr. Zhong Shanshan) as of the Latest Practicable Date
"Yangshengtang Group"	Yangshengtang and its subsidiaries
"**YELLOW** Application Form(s)"	the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS

"YST Natural Medicine Research"	Zhejiang Yangshengtang Natural Medicine Research Company Limited (浙江養生堂天然藥物研究所有限公司), a limited liability company established under the laws of the PRC on October 28, 1999, which was a wholly-owned subsidiary of Yangshengtang as of the Latest Practicable Date
"%"	percent

In this prospectus, the terms "associate(s)," "close associate(s)," "connected person(s)," "connected transaction(s)," "controlling shareholder(s)," and "substantial shareholder(s)" have the meanings given to such terms in the Hong Kong Listing Rules, unless the context otherwise requires.

In this prospectus, should there be any discrepancy between the Chinese names of the entities or enterprises established in China and its English translation, the Chinese names shall prevail.

This glossary contains definitions of certain terms used in this prospectus in connection with us and our business. Some of these may not correspond to standard industry definitions.

"app"	a mobile application, which is an application designed to run on smartphones, tablets, or other mobile devices
"aseptic cold filling technology"	a technology that allows cold filling of products in a bacteria-free condition without the exposure of products to high temperature for a long time, or the need of addition of preservatives
"beverage product(s)"	our beverage products, which, for the purpose of this prospectus, include tea beverage, functional beverage and juice beverage
"calcium"	a chemical element which is one of the essential mineral nutrients in human body
"COVID-19"	the contagious respiratory illness caused by a newly identified coronavirus
"electrolyte"	cation and anion in the human body, which is a nutrient essential for the human body
"HDPE"	high-density polyethylene, mainly used for production of plastic products for injection moulding, blow moulding and extrusion
"Huoshenshan Hospital"	a specialty hospital located in Caidian District, Wuhan, China which was constructed after the COVID-19 outbreak and designed to treat COVID-19 patients
"ISO9001 Quality Management System"	an internationally accepted quality management system implemented by the International Organization for Standardization
"ISO14001 Environmental Management System"	an internationally accepted environmental management system implemented by the International Organization for Standardization
"ISO22000 Food Safety Management System"	an internationally accepted food safety management system implemented by the International Organization for Standardization
"JD.COM"	a large-scale online shopping platform primarily operated in the PRC

"Leishenshan Hospital"	a specialty hospital located in Jiangxia District, Wuhan, China which was constructed after the COVID-19 outbreak and designed to treat COVID-19 patients
"Log6 sterilization standard"	a sterilisation standard reaching 10^6 or above calculated by dividing the number of original germs by the number of surviving germs
"magnesium"	a chemical element which is one of the essential mineral nutrients in human body
"metasilicate"	a substance that can be is easily absorbed by the human body and effectively maintain the electrolyte balance and physiological functions of human body
"NetEase Cloud Music"	an internet music platform launched by NetEase, Inc.
"polypeptide"	a natural substance between amino acids and proteins
"potassium"	a chemical element which is one of the essential mineral nutrients in human body
"PDCA cycle"	an iterative quality management approach for quality-related works based on the plan–do–check–act steps to ensure achievement of reliability goals and hence facilitate continuous improvement in quality
"PET"	polyethylene terephthalate, which can be used for blow moulding of plastic bottles
"R&D"	research and development
"SKU"	acronym for minimum stock keeping unit, a unique identifier for each distinct product and service that can be purchased
"smart retail equipment"	vending machines that incorporate advance technologies such as touch display, Internet connectivity, sensors and mobile payment
"sodium"	a chemical element which is one of the essential mineral nutrients in human body
"soluble dietary fiber"	a plant-derived food that cannot be completely broken down by human digestive enzymes and can dissolve in water, and is a nutrient essential for the human body

"soybean peptide"	soy protein hydrolysates derived from soy protein through protease activity and upon special process, which is a nutrient essential for the human body
"taurine"	aminoethanesulfonic acid, which is an organic acid widely distributed in animal tissues and is a nutrient essential for the human body
"ton"	a unit of mass equal to 1,000 kilograms
"Vitamin B Complex"	a general term for Vitamin B and is a nutrient essential for metabolism of the human body
"WeChat"	a leading Chinese mobile application with text messaging and voice messaging services running on smartphones
"Western Development Strategy"	a policy adopted for the western regions in China in order to improve economic and social development status in such regions
"WHO"	World Health Organization

农夫山泉
NONGFU SPRING