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)

(Stock Code: 9633)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2020

HIGHLIGHTS OF 2020 ANNUAL RESULTS

- Total revenue was RMB22,877 million, representing a year-on-year decrease of 4.8%;
- Profit attributable to the owners of the parent was RMB5,277 million, representing a year-on-year increase of 6.6%;
- Basic earnings per share were RMB0.48, representing a year-on-year increase of 4.3%;
- The distribution of a final dividend is recommended of RMB0.17 per ordinary share.

The board of directors (the "**Board**") of Nongfu Spring Co., Ltd (the "**Company**" or "**Nongfu Spring**") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended December 31, 2020 (the "**Reporting Period**") prepared in accordance with the International Financial Reporting Standards (the "**IFRS**"), together with the comparative figures for the corresponding period of 2019.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
Year ended December 31, 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	4	**22,877,297**	24,021,041
Cost of sales		**(9,368,970)**	(10,710,410)
Gross profit		**13,508,327**	13,310,631
Other income and gains	5	**640,941**	773,959
Selling and distribution expenses		**(5,510,507)**	(5,816,393)
Administrative expenses		**(1,324,448)**	(1,382,507)
Other expenses	5	**(249,097)**	(371,405)
Finance costs	7	**(78,963)**	(15,525)
PROFIT BEFORE TAX	6	**6,986,253**	6,498,760
Income tax expense	8	**(1,708,827)**	(1,544,516)
PROFIT FOR THE YEAR		**5,277,426**	4,954,244
Attributable to:			
Owners of the parent		**5,277,426**	4,948,568
Non-controlling interests		**–**	5,676
		5,277,426	4,954,244
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
For profit for the year	10	**RMB0.48**	RMB0.46

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended December 31, 2020

	2020 *RMB'000*	2019 *RMB'000*
Profit for the year	**5,277,426**	4,954,244
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	**(1,302)**	2,396
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	**(1,302)**	2,396
Other comprehensive (loss)/income for the year, net of tax	**(1,302)**	2,396
Total comprehensive income for the year	**5,276,124**	4,956,640
Attributable to:		
Owners of the parent	**5,276,124**	4,950,124
Non-controlling interests	**–**	6,516
	5,276,124	4,956,640

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2020

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**12,591,585**	12,314,346
Right-of-use assets		**694,565**	656,421
Intangible assets		**57,885**	59,841
Deferred tax assets		**314,633**	372,789
Other non-current assets		**9,105**	20,738
Total non-current assets		**13,667,773**	13,424,135
CURRENT ASSETS			
Inventories		**1,805,454**	1,762,103
Trade and bills receivables	*11*	**357,564**	306,003
Prepayments, other receivables and other assets		**909,741**	1,021,088
Structured deposits		**–**	200,000
Cash and cash equivalents		**9,118,880**	1,083,142
Total current assets		**12,191,639**	4,372,336
CURRENT LIABILITIES			
Trade and bills payables	*12*	**881,800**	791,462
Other payables and accruals		**3,322,040**	2,855,079
Contract liabilities		**2,247,323**	2,077,549
Derivative financial instruments		**7,331**	–
Interest-bearing borrowings		**2,413,957**	1,000,000
Lease liabilities		**14,068**	5,941
Tax payables		**938,127**	711,435
Total current liabilities		**9,824,646**	7,441,466
NET CURRENT ASSETS/(LIABILITIES)		**2,366,993**	(3,069,130)
TOTAL ASSETS LESS CURRENT LIABILITIES		**16,034,766**	10,355,005

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
As at December 31, 2020

	2020	2019
	RMB'000	*RMB'000*
NON-CURRENT LIABILITIES		
Deferred income	**267,272**	248,088
Deferred tax liabilities	**233,907**	194,628
Lease liabilities	**41,305**	30,421
Total non-current liabilities	**542,484**	473,137
NET ASSETS	**15,492,282**	9,881,868
EQUITY		
Equity attributable to owners of the parent		
Share capital	**1,124,647**	360,000
Reserves	**14,367,635**	9,521,868
Total equity	**15,492,282**	9,881,868

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which comprise standards and interpretations approved by the International Accounting Standards Board (the "**IASB**"), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee and the disclosure requirements of the Hong Kong Companies Ordinance. All IFRSs effective for the accounting period commencing from January 1, 2020, together with the relevant transitional provisions, had been early adopted by the Group in the preparation of the financial statements throughout the financial years ended December 31, 2020 and 2019.

The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended December 31, 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 are attributed to the owners 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. 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. ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 3	*Reference to the Conceptual Framework*[2]
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	*Interest Rate Benchmark Reform – Phase 2*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 17	*Insurance Contracts*[3]
Amendments to IFRS 17	*Insurance Contracts*[3,5]
Amendments to IAS 1	*Classification of Liabilities as Current or Non-current and Disclosure of Accounting Policies*[3]
Amendments to IAS 16	*Property, Plant and Equipment: Proceeds before Intended Use*[2]
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*[2]
Annual Improvements to IFRSs 2018-2020	*Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16 and IAS 41*[2]
Amendments to IAS 8	*Definition of Accounting Estimates*[3]

1 Effective for annual periods beginning on or after January 1, 2021

2 Effective for annual periods beginning on or after January 1, 2022

3 Effective for annual periods beginning on or after January 1, 2023

4 No mandatory effective date yet determined but available for adoption

5 As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before January 1, 2023

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. 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 the manufacture and sale of natural packaged drinking water;
- the functional drinks products segment engages in the manufacture and sale of functional beverages;
- the ready-to-drink tea products segment engages in the manufacture and sale of ready-to-drink tea beverages;
- the juice beverage products segment engages in the manufacture and sale of juice beverage products; and
- the other products segment engages in the manufacture 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 December 31, 2020	**Water products** *RMB'000*	**Functional drinks products** *RMB'000*	**Ready-to-drink tea products** *RMB'000*	**Juice beverage products** *RMB'000*	**Other products** *RMB'000*	**Total** *RMB'000*
Segment revenue *(note 4)*						
Sales to external customers	**13,966,133**	**2,791,821**	**3,087,631**	**1,977,227**	**1,054,485**	**22,877,297**
Segment results	**5,054,540**	**1,079,052**	**1,313,510**	**394,503**	**156,215**	**7,997,820**
Reconciliation:						
Interest income						**147,893**
Other unallocated income and gains						**493,048**
Corporate and other unallocated expenses						**(1,573,545)**
Finance costs						**(78,963)**
Profit before tax						**6,986,253**
Other segment information						
Depreciation and amortisation	**874,012**	**211,714**	**196,955**	**186,249**	**104,041**	**1,572,971**

Year ended 31 December, 2019	Water products *RMB'000*	Functional drinks products *RMB'000*	Ready-to-drink tea products *RMB'000*	Juice beverage products *RMB'000*	Other products *RMB'000*	Total *RMB'000*
Segment revenue *(note 4)*						
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 amortisation	887,861	272,341	194,956	208,772	50,222	1,614,152

Geographical information

Over 99% of the Group's revenue and operating profits are derived from customers based in Mainland China and over 99% of the Group's identifiable assets and liabilities were in Mainland China.

Information about major customers

No revenue from the Group's sales to a single customer amounted to 10% or more of the Group's total revenue for each of the years ended December 31, 2020 and 2019.

4. REVENUE

An analysis of revenue is as follows:

	2020 ***RMB'000***	2019 *RMB'000*
Revenue from contracts with customers		
Sales of goods	**22,877,297**	24,021,041

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 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 of more than one year, thus management has applied the practical expedient under IFRS 15 and is not required to disclose the aggregate amount of the transaction prices allocated to the performance obligations that are unsatisfied or partially satisfied as of the end of the reporting period.

5. OTHER INCOME AND GAINS, AND OTHER EXPENSES

	2020	2019
	RMB'000	*RMB'000*
Other income		
Government grants and subsidies		
related to income	**349,737**	353,657
related to assets	**45,597**	30,299
Interest income	**147,893**	216,933
Income from compensation	**19,180**	15,891
Sales of scraps	**56,043**	66,546
	618,450	683,326
Gains		
Fair value gains on financial assets at fair value through profit or loss	**–**	35,750
Fair value gains on derivative instruments	**3,759**	–
Gain on disposal of subsidiaries	**1,621**	1,580
Gain on disposal of items of property, plant and equipment	**–**	35,709
Others	**17,111**	17,594
	22,491	90,633
	640,941	773,959
Other expenses		
Foreign exchange loss, net	**(240,298)**	(6,569)
Donations	**(4,929)**	(362,109)
Loss on disposal of items of property, plant and equipment	**(2,361)**	–
Others	**(1,509)**	(2,727)
	(249,097)	(371,405)

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2020	2019
	RMB'000	*RMB'000*
Cost of inventories sold*	**9,368,970**	10,710,410
Depreciation of property, plant and equipment	**1,871,177**	1,663,650
Depreciation of right-of-use assets	**41,437**	57,753
Amortisation of intangible assets**	**12,834**	12,170
Employee benefit expenses (including directors' and chief executive's remuneration):		
Wages and salaries	**1,805,991**	1,705,110
Pension scheme contributions, social welfare and other welfare	**204,273**	329,714
Equity-settled share award expenses	**–**	156,894
Research and development costs	**133,633**	115,135
Expenses relating to short-term leases and leases of low-value assets	**160,825**	142,751
Impairment of trade receivables	**2,903**	5,254
Write-back of impairment of financial assets included in prepayments, other receivables and other assets	**(960)**	(9,872)
Fair value gains on derivative financial instruments	**3,759**	–
Fair value gains on financial assets at fair value through profit or loss	**–**	35,750
Auditor's remuneration	**5,377**	2,705
Listing expenses	**58,733**	6,729

* 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 years ended December 31, 2020 and 2019 is included in administrative expenses in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2020	2019
	RMB'000	*RMB'000*
Interest on interest-bearing borrowings	**76,089**	12,806
Interest on lease liabilities	**2,874**	2,719
	78,963	15,525

8. INCOME TAX

	2020	2019
	RMB'000	*RMB'000*
Current – PRC		
Charge for the year	**1,607,641**	1,528,953
Under/(over) provision in prior years	**3,752**	(1,454)
Current – Other jurisdiction	**–**	(308)
Deferred	**97,434**	17,325
Total	**1,708,827**	1,544,516

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 year. 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 January 1, 2011 to December 31, 2020. Accordingly, certain subsidiaries located in the Western region of the PRC are entitled to an income tax rate of 15% for the years ended December 31, 2019 and 2020.

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% for the years ended December 31, 2019 and 2020.

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 years ended December 31, 2019 and 2020 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 year.

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.

9. DIVIDENDS

On August 12, 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 March 6, 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 August 14, 2020, cash dividends of RMB7,799,760,000 were declared out of historical retained profits of the Company as of December 31, 2019, which was paid in August 2020 to shareholders of the Company.

The proposed 2020 final dividend of RMB0.17 per ordinary share, equivalent to an aggregate of approximately RMB1,911,899,000 for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

10. 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 10,936,782,718 (2019: 10,800,000,000) in issue during the year, as adjusted retrospectively to reflect the approval of the issue of stock dividend on the basis of 20 shares 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 years ended December 31, 2020 and 2019.

The calculations of basic and diluted earnings per share are based on:

Earnings	**2020**	2019
	RMB'000	*RMB'000*
Profit attributable to ordinary equity holders of the parent	**5,277,426**	4,948,568

Shares	**Number of shares**	
	2020	2019
	'000	*'000*
Weighted average number of ordinary shares in issue during the year	**10,936,783**	10,800,000

11. TRADE AND BILLS RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**375,734**	325,644
Bills receivable	**4,374**	–
Impairment	**(22,544)**	(19,641)
	357,564	306,003

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 aforementioned 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 RMB2,348,000 (2019: RMB79,000 and RMB4,367,000), 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 the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2020	2019
	RMB'000	*RMB'000*
Within 90 days	**344,653**	295,990
91 to 180 days	**1,831**	2,396
181 to 365 days	**11,080**	7,617
	357,564	306,003

The movements in the loss allowance for impairment of trade receivables are as follows:

	2020	2019
	RMB'000	*RMB'000*
At beginning of year	**19,641**	14,387
Impairment losses, net	**2,903**	5,254
At end of year	**22,544**	19,641

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 year end using a provision matrix to measure expected credit losses for 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 year end 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. The Group also takes into account legal advice where appropriate, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs sooner.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

2020	**Expected credit loss rate**	**Gross carrying amount** *RMB'000*	**Expected credit losses** *RMB'000*
Within 90 days	**0.33%**	**341,398**	**1,119**
91 to 180 days	**5.10%**	**1,930**	**99**
181 to 365 days	**61.21%**	**28,560**	**17,480**
Over 365 days	**100.00%**	**3,846**	**3,846**
		375,734	**22,544**

2019	Expected credit loss rate	Gross carrying amount *RMB'000*	Expected credit losses *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

12. 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 the end of the year, based on the invoice date, is as follows:

	2020	2019
	RMB'000	*RMB'000*
Within 90 days	**815,897**	674,222
91-180 days	**13,131**	38,861
181-365 days	**16,785**	28,802
Over 1 year	**35,987**	49,577
	881,800	791,462

Included in the trade and bills payables are amounts due to fellow subsidiaries of RMB3,193,000 (2019: RMB102,000), which are repayable within 90 days.

At December 31, 2020, none (2019: RMB29,619,000) of the Group's bills payable were guaranteed by the ultimate holding company of the Group.

13. EVENTS AFTER THE REPORTING PERIOD

There was no material subsequent event after the year ended December 31, 2020.

Chairman's Statement

Dear shareholders:

In 2020, the COVID-19 outbreak caused a serious shock on the global economy and consumer market. During the epidemic, in view of the closure of some places for consumption, reduction in exercise and travel of people, and daily habit of wearing masks, all directly affected the consumption of beverage products. According to the China Beverage Industry Association, the total production volume of the national beverage industry fell by 7.97% as compared to 2019, of which the production volume of packaged drinking water fell by 10.44%. The beverage industry has withstood an unprecedented severe test.

The total revenue of the Group in 2020 was RMB22,877 million, representing a year-on-year decrease of 4.8% as compared to 2019. However, the Group maintained good profitability. The profit attributable to the owners of the parent in 2020 recorded an increase from RMB4,949 million in 2019 to RMB5,277 million (after deducting one-time non-operating profits and losses of RMB5,577 million). Meanwhile, our working capital remained stable, and cash flow from operating activities in 2020 increased by 12.8% to RMB8,429 million as compared to 2019.

In light of the Group's operations in 2020 and taking into account the earnings, overall financial condition and capital expenditures of the Group, the Board recommends the distribution of a final cash dividend per share of RMB0.17 for the year ended December 31, 2020 at the forthcoming annual general meeting of the Company (with total dividends of RMB1,912 million).

We will continue to promote the development of the dual-engine development approach underpinned by packaged drinking water and beverage, and continue to improve the household penetration rate of drinking water products, enabling more users recognize and choose Nongfu Spring through the promotion of healthy water knowledge and the improvement of service experience. On the other hand, based on research and development, we will launch high-quality beverage products that meet consumer needs. In terms of beverage promotion, we will continue to implement a multi-brand strategy, convey the connotation and spirit of the brand with high-quality content, and flexibly utilize various online and offline media tools and methods to further enhance consumers' recognition and preference of our beverage products.

We will open up multi-dimension information through the construction of information systems, realize the linkage between different departments, and accelerate responses to the market; by improving the system and procedures, we will enhance the standardization of corporate management, and strengthen risk prevention; by strengthening the promotion of corporate values, we will increase investment in the talent pool, providing guarantee for enterprise growth.

Finally, on behalf of the Board, I would like to extend my sincere gratitude to consumers for their trust and support to Nongfu Spring, partners for their assistance and support, investors for their recognition of Nongfu Spring, and special thanks to all staff of Nongfu Spring for their commitments and contributions.

MANAGEMENT DISCUSSION AND ANALYSIS

Macro and Industry Environment

In the first half of 2020, a concentrated outbreak of the COVID-19 epidemic caused a serious shock on the global economy and consumer market. According to the National Bureau of Statistics of China, total retail sales of consumer goods in China in 2020 reached RMB3,919.81 billion, representing a decrease of 3.9% as compared to 2019. In the second half of the year, China has achieved effective results in the overall planning of epidemic prevention and control and economic and social development, and the economy shows a trend featuring continuous recovery. The gross domestic product (GDP) of China for 2020 increased by 2.3% as compared to 2019, reaching a new level of RMB ten billion.

Since the outbreak of the epidemic, consumers have paid more attention to health. The epidemic has catalyzed the acceptance and popularity of digitalized and self-service-based consumption and an increasing number of consumers choose to shop online. The conversion rate of views and sales of online live-stream shopping and online promotion has also increased significantly.

Since the end of 2020, vaccination has been launched in China and some countries around the world, and the fight against the epidemic moves one step closer to victory. The International Olympic Games also announced that the Tokyo Olympics will be held in 2021, showing the world's confidence in defeating the COVID-19 epidemic. The Group will keep close attention to the macroeconomic environment, adjust its business strategies accordingly, and make every endeavor to enhance its competitiveness.

BUSINESS REVIEW

In 2020, the Group recorded annual revenue of RMB22,877 million, representing a decrease of 4.8% as compared to 2019. Such decrease has narrowed as compared to the decline of 6.2% in earnings as of June 30, 2020. The COVID-19 epidemic in the first half of 2020 and the floods caused by heavy rainfall across several provinces in China in July 2020 affected the delivery of our products to, and sales of our products in, some retail points of sale, and also caused temporary close of some retail points of sale. The COVID-19 epidemic has frustrated consumers' willingness to travel. In addition, under the influence of the epidemic, local governments have advocated the prevention and control measure of wearing masks in public places, which has partially restrained the sales of ready-to-drink products and has adversely affected results of operations of the Group throughout 2020 to some extent.

The proportion of revenue from packaged drinking water products to total revenue in 2020 was 61.0%, representing an increase as compared to 59.7% in 2019. The proportion of revenue from beverage product to total revenue decreased from 38.8% in 2019 to 37.3%. Such change was mainly due to the fact that packaged drinking water, as a consumption necessity, addresses consumers' basic drinking needs under the COVID-19 epidemic. The following table sets out the breakdown of the Group's revenue and the percentage of total revenue for each product category during the period indicated:

	Year Ended December 31,			
	2020		2019	
	RMB *(million)*	**Percentage of total revenue**	RMB *(million)*	Percentage of total revenue
Packaged drinking water products	**13,966**	**61.0%**	14,346	59.7%
Tea beverage products	**3,088**	**13.5%**	3,138	13.1%
Functional beverage products	**2,792**	**12.2%**	3,779	15.7%
Juice beverage products	**1,977**	**8.7%**	2,311	9.6%
Other products *(note)*	**1,054**	**4.6%**	447	1.9%
Total	**22,877**	**100.0%**	24,021	100.0%

Note:

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

Packaged drinking water products

The annual revenue of packaged drinking water products was RMB13,966 million, representing a decrease of 2.6% as compared to 2019, accounting for 61.0% of our total revenue in 2020.

The floods caused by heavy rainfall across several provinces in China in July 2020 affected the delivery of our products to, and sales of our products in, some retail points of sale, and also caused temporary close of some retail points of sale, which had a negative impact on the sales of packaged drinking water in the second half of the year.

After the outbreak of the epidemic in 2020, consumers tend to increase their purchase of medium – to large-size packaged drinking water products in case of mobility restrictions. The epidemic has also raised consumers' attention to healthy drinking water. We promote healthy drinking water knowledge to consumers through multiple online and offline platforms. The concept of Nongfu Spring with "Good Water Makes Good Soup" and "Good Rice is Only Cooked with Good Water" is gradually accepted and recognized by consumers. During the Chinese New Year in 2020, we continued our tradition of launching an anniversary edition of "Nongfu Spring" Chinese zodiac version of natural mineral water (glass bottled), supplemented by the "Golden Rat Back Home" advertising video, to convey the family love of renting.

From August to September 2020, we joined hands with China UnionPay to launch the "Children in the Mountains" activity. We printed more than 30 poems written by children from remote mountain areas on 100 million bottles of packaged drinking water of Nongfu Spring. Most of the children who wrote these poems have never been out of the mountains, and a large number of them are left behind. They feel the world and family affection with the most unaffected hearts, and write these emotions into poems, which are full of imagination of nature and the desire to be accompanied by their families. Through the bottles of Nongfu Spring, these poems aroused the public attention to the literature and art education of left-behind children in mountainous areas and the companionship of family members, raising an astonishing surge of online searches. Our activities have received nearly 400 million accesses and exposures. More than 100 media and official accounts took the initiative to report on this event. Impressed by this charity, celebrities including Zhu Yilong, Tan Songyun, Huang Junjie, Yuan Bingyan, Yao Chen volunteered to record videos to encourage these children by reading poems, enabling more people to see the talent of the children in the mountains.

Tea beverage products

The annual revenue from our tea beverage products was RMB3,088 million, representing a decrease of 1.6% as compared to 2019, accounting for 13.5% of total revenue in 2020. In April 2020, we cooperated with the brand ambassador Kwon Ji-yong (GD) for Tea π (茶π) once again, which was the first endorsement of GD after his comeback. We launched three cup Tea π products on our e-commerce platform, being lemon tea, mango jasmine tea, and passion fruit oolong tea, in combination with online promotion activities such as "Tea π fantasy" (茶π奇妙π對), enriching the "tea π" product series and attracting more new consumer groups. In the winter of 2020, we carried out the promotion of Oriental Leaf (東方樹葉) warm tea, proving accurate access to more than 2 million target consumers.

Functional beverage products

The annual revenue from our functional beverage products was RMB2,792 million, representing a decrease of 26.1% as compared to 2019, accounting for 12.2% of total revenue in 2020. During the COVID-19 outbreak, schools, sports facilities and other places for consumption were closed, which had a material impact on the consumption demand for functional beverage products, such as Scream and Vitamin Water. In the second half of the year, the sales of functional beverages recovered to a certain extent.

Juice beverage products

The annual revenue from our juice beverage products was RMB1,977 million, representing a decrease of 14.5% as compared to 2019, accounting for 8.7% of total revenue in 2020. Our fruit juice beverage products include Water Soluble C100 (水溶C100) series, medium concentration juice Farmer's Orchard (農夫果園) series, and not-from-concentrate pure juice NFC juice series and 17.5° juice series. We adhere to the source-based strategy of "Good Fruit Juice is Grown" (「好果汁是種出來的」), and conduct in-depth cooperation with high-quality orchards to ensure fruit quality, and continue to accumulate brand trust in the pure juice market. However, the COVID-19 epidemic has caused a negative impact on the sales of juice beverage.

Other products

Other products primarily include other beverage products such as soda water beverage, sparkling flavored beverage, coffee beverage and plant-based yogurt products, and agricultural products such as fresh fruits. In 2020, revenue from other products increased by 135.8% to RMB1,054 million as compared with that in 2019, accounted for 4.6% of our total revenue in 2020.

The "SODA" series soda natural water beverage is made from premium natural water from Nongfu Spring's high-quality natural water source, demonstrating its distinguishable competitive advantage in the soda water market. New flavor "Summer Sunny Tangerine" was launched in 2020. In May 2020, we launched new products of "TOT" sparkling flavored beverage, with three flavors including, lemon black tea flavor, grapefruit green tea flavor and rice wine flavor. In June 2020, we launched new cup coffee beverage "Tan Bing" ("**炭仌**"), in which "Tan Bing Coconut Coffee (炭仌椰咖)" brought a new coffee flavor by replacing milk with coconut milk. We also continued to promote our agricultural products, including 17.5° fresh oranges, 17.5° fresh apples and rice from northeast China. In 2020, we launched agricultural product series including 17.5°lane late navel orange, Newhall navel orange, golden crown apple, Xinjiang hanging tree apricots and Tunisian soft seed pomegranates.

Information system construction

In 2020, the Group continued to upgrade our marketing information system to match the Company's strategic development and layout, so as to strengthen the foundation of digital marketing. We have achieved the reusability and high scalability of information system functions by upgrading our application structure, data structure, and technical structure. We have further built a unified marketing digital platform for manufacturers, distributors and end stores to manage our distributor network and sales team in real time on the Nongfu Cooperative Partner System (NCP system). Through this system, we have been able to effectively improve our sales efficiency and strictly control operational risks. In the future, we will continue to improve the level of information in our end stores to maximize the effectiveness of digital marketing.

Research & Development

In 2020, the Group launched several innovative products, which includes "SODA" series soda natural water beverage, where the problem of poor sweetness in the industry for "0" sugar products in general have been solved through technical innovation, and the new flavor "Summer Sunny Tangerine" led the industry trend in terms of flavor; "TOT" sparkling flavored beverage, where we innovatively applied aseptic carbonic acid production line, without adding preservatives, through in-depth technical research, thus exploring a technological method for perfect integration of carbonic acid and natural raw materials; and cup coffee "Tan Bing Coconut Coffee (炭仌椰咖)", where coconut milk is applied to replace milk, creating a perfect combination of natural coffee aroma and coconut aroma.

In future, we will continue to update and launch high quality, healthier and innovative products in accordance with market changes, so as to meet consumers' demand towards continuous upgrading of product quality.

FINANCIAL REVIEW

The following financial results are extracted from the financial report of the Group prepared in accordance with the IFRS during the Reporting Period:

Revenue and Gross Profit

Due to the impact of the COVID-19 outbreak, the Group recorded a revenue of RMB22,877 million in 2020, representing a decrease of 4.8% as compared with RMB24,021 million in 2019. In 2020, gross profit of the Group was RMB13,508 million, representing an increase of 1.5% as compared with RMB13,311 million in 2019. Benefiting from the decline in the purchase price of polyethylene terephthalate, the gross profit margin of the Group increased by 3.6% to 59.0% in 2020 from 55.4% in the same period last year. Such slight increase in gross profit margin of the Company was also promoted by the social security relief policy implemented by the Chinese government.

Selling and Distribution Expenses

In 2020, sales and distribution expenses of the Group were RMB5,511 million, representing a decrease of 5.2% as compared with RMB5,816 million in 2019. In 2020, sales and distribution expenses of the Group accounted for 24.1% of the total revenue, essentially maintaining at the level in 2019.

Administrative Expenses

In 2020, administrative expenses of the Group were RMB1,324 million, representing a decrease of 4.3% as compared with RMB1,383 million in 2019. In 2020, administrative expenses of the Group accounted for 5.8% of our total revenue, essentially maintaining at the level in 2019.

Other Expenses

Other expenses of the Group in 2020 were RMB249 million, accounting for 1.1% of the total revenue, which decreased by 32.9% from RMB371 million in 2019. In 2020, the other expenses of the Group were mainly due to the exchange losses of RMB240 million caused by the significant depreciation of foreign currencies obtained from funds raising in the fourth quarter. As of December 31, 2020, the Group held HK$1,537 million, US$563 million and a small amount of other foreign currencies.

Finance Costs

The finance costs of the Group increased from RMB16 million in 2019 to RMB79 million in 2020, mainly due to the increase in interest expenses on interest-bearing borrowings as we obtained interest-bearing borrowings of RMB2,414 million in 2020.

Profit for the Year

As a result of the foregoing, profit of the Group for the year increased by 6.5% from RMB4,954 million in 2019 to RMB5,277 million in 2020.

Dividends

Having accounted for, including but not limited to, the Group's overall performance, surplus, overall financial condition, capital expenditures in 2020, the Board proposed to declare a final cash dividend of RMB0.17 per share (amounting to a total dividend of approximately RMB1,912 million) for the year ended December 31, 2020 at the forthcoming 2020 annual general meeting of the Company.

Cash and Borrowings

Benefiting from the initial public offering in September 2020, as of December 31, 2020, the total cash and bank balances of the Group amounted to RMB9,119 million, representing an increase of 742% as compare with RMB1,083 million on December 31, 2019. The total credit facility of the Group was RMB13,000 million and interest-bearing borrowings amounted to RMB2,414 million as of December 31, 2020, representing an increase of 141% as compare with RMB1,000 million as of December 31, 2019, with due repayment of a total amount of RMB2,850 million. All of the borrowings are denominated in RMB. Among the total borrowings as of December 31, 2020, the borrowings of RMB1,300 million were charged at a fixed interest rate, and the remaining were charged at a floating interest rate. The Group does not have any interest rate hedging policy.

Inventories

Inventories of the Group increased by 2.4% from RMB1,762 million as at December 31, 2019 to RMB1,805 million as at December 31, 2020. Due to the lower production volume caused by the COVID-19 outbreak, inventory turnover days increased from 62.5 days as at December 31, 2019 to 69.5 days as at December 31, 2020.

Trade and Bills Receivables

Trade and bills receivables of the Group increased from RMB306 million as of December 31, 2019 to RMB358 million as of December 31, 2020. The turnover days of trade receivables and bills receivable increased from 4.0 days on December 31, 2019 to 5.3 days in 2020.

Trade and Bills Payables

Trade and bills payables of the Group increased from RMB791 million as at December 31, 2019 to RMB882 million as at December 31, 2020. The turnover days of trade payables and bills payable increased from 27.7 days on December 31, 2019 to 32.6 days in 2020.

Gearing Ratio

As at December 31, 2020, the gearing ratio of the Group (equaling (interest-bearing borrowings + lease liabilities)/equity) was 15.9% (during the Reporting Period, the Group has no minority equity). As at December 31, 2019, the gearing ratio of the Group was 10.5%. The increase in the gearing ratio is mainly due to an increase in the interest-bearing borrowings of RMB1,414 million in 2020, which outpaced the equity in the same period.

Treasury Policy

The Group adopts a prudent financial management approach for its treasury policy to ensure that the Group's liquidity structure comprising assets, liabilities and other commitments is able to always meet its capital requirements.

FOREIGN EXCHANGE RISK

As of December 31, 2020, the Group held HKD1,537 million, USD563 million and a small amount of other foreign currencies. As of the date of this announcement, the exchange rates of the U.S. dollar and the Hong Kong dollar have both rebounded, and we need to monitor the further trends in the foreign exchange market. The Group will closely monitor our foreign exchange risks and will utilize appropriate financial tools for hedging purposes when necessary to help reduce foreign exchange risks.

CONTINGENT LIABILITIES

As of December 31, 2020, the Group did not have any significant contingent liabilities.

CAPITAL COMMITMENTS

Capital commitments of the Group amounted to approximately RMB1,102 million as of December 31, 2020, mainly used for construction of production plants and purchase of production equipment.

PLEDGE OF ASSETS

As at December 31, 2020, the Group did not pledge any group assets.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL

In March 2020, Zhejiang Nongfu Industrial Development Company Limited (浙江農夫實業發展有限公司), a wholly-owned subsidiary of the Company, 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 Zhejiang Yangshengtang Natural Medicine Research Company Limited (浙江養生堂天然藥物研究所有限公司) 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.

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 Co., Ltd. (養生堂有限公司, "**Yangshengtang**"), a controlling shareholder of the Company, at a total consideration of RMB1. Such consideration was determined after arm's length negotiation with reference to the net asset value of Nongfu GKR Forest Products as of December 31, 2019 (which was negative) and was fully settled on March 12, 2020.

The foregoing was disclosed in "History and Corporate Structure" in the prospectus (the "**Prospectus**") of the Company dated August 25, 2020. Except for these, the Group did not have any significant investments held, or any material acquisition or disposal of any relevant subsidiaries, associates and joint ventures during the period under review.

FUTURE PLAN FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As of the date of this announcement, save for the "Future Plans and Use of Proceeds" disclosed in the Prospectus, the Group did not have any existing plan for acquiring other material investments or capital assets.

USE OF PROCEEDS FROM THE LISTING

From September 8, 2020 (the "**Listing Date**") to December 31, 2020, the Group has gradually used the proceeds from the initial public offering for the intended purposes set out in the Prospectus.

The sum of IPO proceeds from the listing of the shares of the Company on the Main Board of the Stock Exchange and the net proceeds from the full exercise of the over-allotment option (after deducting underwriting fees and other related expenses) is approximately HK$9,377 million. As of December 31, 2020, the Group has utilised approximately HK$840 million of the proceeds for the intended purposes set out in the Prospectus issued by the Company, accounting for 9.0% of all raised funds, and the remaining unutilised proceeds is approximately HK$8,537 million. The balance of the proceeds from the Listing will continue to be unutilised according to the purposes and proportions disclosed in the Prospectus. See the table below for details:

	Net proceeds from the Listing available *(HK$ million)*	Actual net amount utilised for the year ended December 31, 2020 *(HK$ million)*	Unutilised net amount for the year ended December 31, 2020 *(HK$ million)*	Expected timeline for utilising unutilised net amount
Brand building	2,344	77	2,267	December 31, 2023
Purchasing sales equipment	2,344	27	2,317	December 31, 2023
Purchasing production facilities and building new factories	1,875	109	1,766	December 31, 2022
Strengthening fundamental capabilities	938	21	917	December 31, 2023
Repaying loans	938	340	598	December 31, 2021
Working capital and other general corporate purposes	938	266	672	December 31, 2021
Total	9,377	840	8,537	

GOING CONCERN

On the basis of current financial projections and facilities available, the Group has adequate financial resources to continue its operation in the foreseeable future. Accordingly, the financial statements are prepared on a going concern basis.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are carried out in the PRC, while the Shares of the Company are listed on the Hong Kong Stock Exchange. The businesses operated by the Group are subject to the laws of relevant jurisdiction in the PRC and Hong Kong. During the year ended December 31, 2020 and as of the date of this announcement, the Group has complied with relevant laws and regulations that have a significant impact on the Group in the applicable jurisdictions. Specifically, as a manufacturer of packaged water and beverages, the Group's operations are subject to the applicable food safety and environmental protection laws and regulations in the PRC. In 2020, the Group did not have any material non-compliance with such laws and regulations.

HUMAN RESOURCES AND REMUNERATION POLICY

As at December 31, 2020, the total number of employees of the Group was 19,079. In 2020, the Group strengthened corporate culture training and grassroots management training. According to the development needs of employees at different stages and positions, the Group has designed and developed differentiated learning programs. Combining theoretical learning with practical operations, the Group has built a compressive training system to ensure the overall training effect of employees. Through the implementation and promotion of training plans at multiple levels, the training system has been continuously improved. We always firmly believe that the long-term growth of the Group depends on the professional knowledge, ability and development of employees. The remuneration and benefit level of the employees of the Group are determined with reference to the market and personal qualifications and abilities, and incentive mechanisms such as performance-based bonuses have been established. Performance-based bonuses will be issued based on the revenue and profit goals achieved by the Group, the performance of the organization where employees belong to, and individual performance appraisal, and organizations and employees that have made outstanding contributions to the Group's business will be recognised and encouraged. The overall salary policy is competitive.

In 2020, the total employee benefit expenses (including directors' remuneration) amounted to RMB2,010 million. The Group does not have an employee share option plan.

IMPACT OF THE COVID-19 OUTBREAK

The COVID-19 epidemic has affected the retail industry in various degrees. Special channels, catering channels and traditional channels were also significantly affected, and most stores were temporarily closed. Modern channels, including supermarkets and hypermarkets, were affected less significantly, compared to other channels. The epidemic has catalyzed the acceptance and popularity of digitalized and self-service-based consumption. The conversion rate of views and sales of online live-stream shopping and online promotion has also increased significantly. Meanwhile, under the influence of the epidemic, local governments have advocated the implementation of prevention and control measures for wearing masks in public places, which has partially restrained the sales of ready-to-drink packaged products.

During the outbreak of the epidemic, we increased the supply of packaged drinking water products in modern channels. We have set up unmanned convenient water supply points in various residential areas. Consumers could take our products after paying via mobile phones. This measure partially offset the impact of the decline in sales of our products at retail points of sale. After the outbreak, consumers purchased more medium – to large-sized packaged drinking water products in case of mobility restrictions. The epidemic has also raised consumers' attention to healthy drinking water.

The Group and its distributors has been implementing the delivery policy of "Payment before delivery". However, during the COVID-19 epidemic, we have granted a temporary credit term to some distributors to help them out of cash flow difficulties due to the epidemic. Although the aforementioned temporary credit term measures have been suspended as the epidemic has been controlled. After this incident, the distributors increase their confidence in us and strengthen cooperative relationship with us.

DIVIDENDS

Relevant resolution has been passed at a meeting of the Board held on March 25, 2021, and the Board proposed the distribution of a final dividend (the "**Final Dividend**") of RMB0.17 (tax inclusive) per share for the year ended December 31, 2020, with a total amount of RMB1,912 million. If such profit distribution plan is reviewed and approved by shareholders at the 2020 annual general meeting to be held on Friday, June 25, 2021, the Final Dividend will be distributed no later than August 31, 2021 to shareholders whose names appear on the register of members of the Company on Friday, July 2, 2021.

The Company will not be liable for any claim arising from any delay in, or inaccurate determination of the status of the shareholders or any disputes over the mechanism of withholding.

The Board is not aware of any shareholders who have waived or agreed to waive any dividend.

DIVIDEND POLICY

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

The allocations to the statutory common reserve are currently determined to be 10% of the Company's after-tax profit attributable to equity holders of the Company for the fiscal year determined in accordance with PRC accounting rules and regulations. When the accumulated allocations to the statutory common reserve reach 50% of the registered capital of the Company, it will no longer be required to make allowances for allocation to the statutory common reserve.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, June 22, 2021 to Friday, June 25, 2021 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify to attend the annual general meeting and to vote at the meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, June 21, 2021.

The register of members of the Company will be closed from Friday, July 2, 2021 to Wednesday, July 7, 2021 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify to receive the Final Dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Wednesday, June 30, 2021.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

From the Listing Date to December 31, 2020, none of the Company and its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

AUDIT COMMITTEE

As at December 31, 2020 and up to the date of this announcement, the audit committee of the Company currently consists of three directors: including two independent non-executive directors being Mr. Stanley Yi Chang, Mr. Yang, Lei Bob and one non-executive directors being Mr. Zhong Shu Zi. Mr. Stanley Yi Chang currently serves as the chairman of the audit committee. The primary responsibilities of the audit committee are to inspect, review and supervise financial information and reporting process for financial information of the Company. The audit committee has reviewed the consolidated annual results of the Group for the year ended December 31, 2020.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended December 31, 2020 as set out in this results announcement have been agreed by the Company's independent auditor, Ernst & Young, based on the amounts set out in the Group's consolidated financial statements for the year.

The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this results announcement.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE (THE "CG CODE") SET OUT IN APPENDIX 14 TO THE LISTING RULES

The Company has adopted all code provisions of the CG Code as the code of corporate governance of the Company. During the period from the Listing Date to December 31, 2020, the Company had complied with the code provisions as set out in the CG Code, save for the deviations from the code provision A.2.1 under the CG Code disclosed below.

Pursuant to code provision A.2.1 under the CG Code, the roles of chairman of the board and chief executive officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Mr. Zhong Shanshan is the chairman of the Board and general manager of the Company. As the founder of the Group, Mr. Zhong Shanshan has extensive experience in the drinking water and soft beverage industry and is responsible for the overall management of the Company's business strategies and operations. He has been mainstay to the business expansion of the Group since our establishment in 1996. The Board believes that vesting both roles of chairman and general manager in Mr. Zhong Shanshan is beneficial to the management of the Company.

In addition, 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 believe that the composition of the senior management and the Board has a fairly strong independence element.

The Board shall review the structure from time to time to ensure that the structure facilitates the execution of the business strategies of the Group and maximizes effectiveness of its operation.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS (THE "MODEL CODE") SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Board has adopted the Model Code as the code of practice for directors and supervisors in respect of their trading in the listed securities of the Company. After making specific enquires with the directors and supervisors, all of them confirmed that they had complied with the requirements for securities trading of directors and supervisors set out in the Model Code during the period from the Listing Date to December 31, 2020.

DISCLOSURE OF INFORMATION

This announcement is published on the website of the Hong Kong Stock Exchange (http://www.hkexnews.hk) and the website of the Company (http://www.nongfuspring.com), and the 2020 annual report of the Company will be dispatched to the Shareholders of the Company and published on the aforementioned websites in due course.

On behalf of the Board of Directors
Nongfu Spring Co., Ltd.
Zhong Shanshan
Chairman

Hong Kong, March 25, 2021

As at the date of this announcement, the board of directors of the Company comprises Mr. Zhong Shanshan, Mr. Guo Zhen, Mr. Zhou Li, Ms. Zhou Zhenhua and Mr. Liao Yuan as executive directors; Mr. Zhong Shu Zi as a non-executive director; Mr. Stanley Yi Chang, Mr. Yang, Lei Bob and Mr. Lu Yuan as independent non-executive directors.