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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 2021 INTERIM RESULTS

HIGHLIGHTS OF 2021 INTERIM RESULTS

- Total revenue was RMB15,175 million, representing a year-on-year increase of 31.4%;
- Profit attributable to the owners of the parent was approximately RMB4,013 million, representing a year-on-year increase of 40.1%;
- Basic earnings per share were RMB0.36, representing a year-on-year increase of 33.3%.

The board of directors (the “**Board**” or the “**Directors**”) of Nongfu Spring Co., Ltd. (the “**Company**”) is pleased to announce the unaudited interim condensed consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended June 30, 2021 (the “**Reporting Period**”), together with the comparative figures for the corresponding period ended June 30, 2020.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021

| | Notes | 2021 RMB'000 (Unaudited) | 2020 RMB'000 (Unaudited) |
|---|-------|--------------------------------|--------------------------------|
| REVENUE | 4 | 15,174,757 | 11,544,593 |
| Cost of sales | | <u>(5,933,765)</u> | <u>(4,634,251)</u> |
| Gross profit | | 9,240,992 | 6,910,342 |
| Other income and gains, net | | 382,387 | 311,117 |
| Selling and distribution expenses | | (3,554,032) | (2,694,085) |
| Administrative expenses | | (662,882) | (698,620) |
| Other expenses | | (55,757) | (4,334) |
| Finance costs | | <u>(23,930)</u> | <u>(29,125)</u> |
| PROFIT BEFORE TAX | 5 | 5,326,778 | 3,795,295 |
| Income tax expense | 6 | <u>(1,313,860)</u> | <u>(930,797)</u> |
| PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT | | <u>4,012,918</u> | <u>2,864,498</u> |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | |
| Basic and diluted | 8 | <u>RMB0.36</u> | <u>RMB0.27</u> |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

| | 2021 RMB'000 (Unaudited) | 2020 RMB'000 (Unaudited) |
|---|---|--|
| PROFIT FOR THE PERIOD | <u>4,012,918</u> | <u>2,864,498</u> |
| OTHER COMPREHENSIVE INCOME | | |
| Other comprehensive income that may be reclassified to profit or loss in subsequent periods: | | |
| Exchange differences: | | |
| Exchange differences on translation of foreign operations | <u>(216)</u> | <u>426</u> |
| Net other comprehensive income that may be reclassified to profit or loss in subsequent periods | <u>(216)</u> | <u>426</u> |
| OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX | <u>(216)</u> | <u>426</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT | <u>4,012,702</u> | <u>2,864,924</u> |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2021

| | | 30 June 2021 | 31 December 2020 |
|---|--------------|-------------------------|-----------------------------|
| | <i>Notes</i> | RMB'000 | RMB'000 |
| | | (Unaudited) | (Audited) |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 12,566,428 | 12,591,585 |
| Right-of-use assets | | 675,204 | 694,565 |
| Intangible assets | | 53,409 | 57,885 |
| Deferred tax assets | | 414,283 | 314,633 |
| Other non-current assets | | 50,920 | 9,105 |
| Long-term time deposits | | 900,000 | – |
| Total non-current assets | | 14,660,244 | 13,667,773 |
| CURRENT ASSETS | | | |
| Inventories | | 1,545,858 | 1,805,454 |
| Trade and bills receivables | 9 | 452,085 | 357,564 |
| Prepayments, other receivables and other assets | | 691,180 | 909,741 |
| Financial assets at fair value through profit or loss | | 200,872 | – |
| Cash and cash equivalents | | 12,776,635 | 9,118,880 |
| Total current assets | | 15,666,630 | 12,191,639 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 10 | 1,247,472 | 881,800 |
| Other payables and accruals | | 6,700,059 | 3,322,040 |
| Contract liabilities | | 1,440,294 | 2,247,323 |
| Derivative financial instruments | | 434 | 7,331 |
| Interest-bearing borrowings | | 1,720,000 | 2,413,957 |
| Lease liabilities | | 55,487 | 14,068 |
| Tax payables | | 1,038,819 | 938,127 |
| Total current liabilities | | 12,202,565 | 9,824,646 |
| NET CURRENT ASSETS | | 3,464,065 | 2,366,993 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 18,124,309 | 16,034,766 |

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

30 June 2021

| | 30 June 2021 <i>RMB'000</i> (Unaudited) | 31 December 2020 <i>RMB'000</i> (Audited) |
|--|--|--|
| NON-CURRENT LIABILITIES | | |
| Deferred income | 264,334 | 267,272 |
| Deferred tax liabilities | 237,377 | 233,907 |
| Lease liabilities | 29,513 | 41,305 |
| | <hr/> | <hr/> |
| Total non-current liabilities | 531,224 | 542,484 |
| | <hr/> | <hr/> |
| NET ASSETS | 17,593,085 | 15,492,282 |
| | <hr/> | <hr/> |
| EQUITY | | |
| Equity attributable to owners of the parent | | |
| Share capital | 1,124,647 | 1,124,647 |
| Reserves | 16,468,438 | 14,367,635 |
| | <hr/> | <hr/> |
| Total equity | 17,593,085 | 15,492,282 |
| | <hr/> | <hr/> |

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 June 2021 has been prepared in accordance with IAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2020.

2. CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of the following revised International Financial Reporting Standards ("IFRSs") for the first time for the current period's financial information.

Amendments to IFRS 9, IAS 39, IFRS 7,
IFRS 4 and IFRS 16

Interest Rate Benchmark Reform – Phase 2

The revised standards have had no significant financial effect on these financial statements.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organized 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.

| Six months ended 30 June 2021 | Water products RMB'000 (Unaudited) | Ready-to- drink tea products RMB'000 (Unaudited) | Functional drinks products RMB'000 (Unaudited) | Juice beverage products RMB'000 (Unaudited) | Other products RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
|---|---|--|--|---|---|---------------------------------|
| Segment revenue (note 4) | | | | | | |
| Sales to external customers | 8,918,806 | 2,182,351 | 2,003,599 | 1,224,154 | 845,847 | 15,174,757 |
| Segment results | 3,538,959 | 967,106 | 873,958 | 326,588 | 107,494 | 5,814,105 |
| <i>Reconciliation:</i> | | | | | | |
| Interest income | | | | | | 113,225 |
| Other unallocated income and gains | | | | | | 269,162 |
| Corporate and other unallocated expenses | | | | | | (845,784) |
| Finance costs | | | | | | (23,930) |
| Profit before tax | | | | | | <u>5,326,778</u> |
| Other segment information | | | | | | |
| Depreciation and amortization | <u>474,785</u> | <u>124,509</u> | <u>120,670</u> | <u>91,806</u> | <u>76,626</u> | <u>888,396</u> |
| Six months ended 30 June 2020 | Water products RMB'000 (Unaudited) | Ready-to- drink tea products RMB'000 (Unaudited) | Functional drinks products RMB'000 (Unaudited) | Juice beverage products RMB'000 (Unaudited) | Other products RMB'000 (Unaudited) | Total RMB'000 (Unaudited) |
| Segment revenue (note 4) | | | | | | |
| Sales to external customers | 7,101,829 | 1,599,505 | 1,447,569 | 941,861 | 453,829 | 11,544,593 |
| Segment results | 2,554,899 | 706,769 | 573,056 | 252,555 | 128,978 | 4,216,257 |
| <i>Reconciliation:</i> | | | | | | |
| Interest income | | | | | | 25,518 |
| Other unallocated income and gains | | | | | | 285,599 |
| Corporate and other unallocated expenses | | | | | | (702,954) |
| Finance costs | | | | | | (29,125) |
| Profit before tax | | | | | | <u>3,795,295</u> |
| Other segment information | | | | | | |
| Depreciation and amortization | <u>502,449</u> | <u>115,366</u> | <u>122,559</u> | <u>95,695</u> | <u>53,220</u> | <u>889,289</u> |

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 six months ended 30 June 2021 and 2020.

4. REVENUE

An analysis of revenue is as follows:

| | For the six months ended 30 June | |
|---------------------------------------|---|--------------------------|
| | 2021 | 2020 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| | (Unaudited) | (Unaudited) |
| Revenue from contracts with customers | | |
| Sales of goods | <u>15,174,757</u> | <u>11,544,593</u> |

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 IFRS 15 and is not required to disclose the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied or partially satisfied as of the end of the reporting period.

5. PROFIT BEFORE TAX

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

| | For the six months ended 30 June | |
|---|-------------------------------------|-------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Cost of inventories sold* | 5,933,765 | 4,634,251 |
| Depreciation of property, plant and equipment | 964,391 | 910,152 |
| Depreciation of right-of-use assets | 31,118 | 19,430 |
| Amortisation of intangible assets** | 5,066 | 6,452 |
| Loss on disposal of items of property, plant and equipment | 2,447 | 906 |
| Employee benefit expenses (including directors' and chief executive's remuneration): | | |
| Wages and salaries | 1,081,196 | 833,924 |
| Pension scheme contributions, social welfare and other welfare | 179,278 | 104,944 |
| Research and development costs | 66,593 | 71,443 |
| Expenses relating to short-term leases and leases of low-value assets | 73,323 | 90,868 |
| Impairment of trade receivables | 6,244 | 14,406 |
| Write-back of impairment of financial assets included in prepayments, other receivables and other assets | (1,388) | (1,507) |
| Fair value gains on derivative financial instruments | 6,897 | – |
| Fair value gains on financial assets at fair value through profit or loss | 872 | – |
| Listing expenses | – | 22,566 |

* 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 reporting periods is included in administrative expenses in the interim condensed consolidated statement of profit or loss.

6. INCOME TAX

| | For the six months ended 30 June | |
|--|-------------------------------------|-------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Current – the People's Republic of China (the "PRC") | | |
| Charge for the period | 1,386,687 | 999,677 |
| Under provision in prior periods | 23,353 | 3,752 |
| Current – Other jurisdiction | – | 6 |
| Deferred | (96,180) | (72,638) |
| Total | 1,313,860 | 930,797 |

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 reporting periods. According to the Tax Relief Notice (Cai Shui [2020] no.23) 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 60% 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 2021 to 31 December 2030. Accordingly, certain subsidiaries located in the western region of the PRC are entitled to an income tax rate of 15% for the reporting 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 reporting 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 reporting 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 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.

7. DIVIDENDS

| | For the six months ended 30 June | |
|-----------------------------------|-------------------------------------|--------------------------------|
| | 2021 RMB’000 (Unaudited) | 2020 RMB’000 (Unaudited) |
| Dividends declared by the Company | <u>1,911,899</u> | <u>900,000</u> |

On 25 June 2021, the Company’s shareholders approved the 2020 profit distribution plan at an annual general meeting, pursuant to which a dividend of RMB0.17 for every share of the Company’s 11,246,466,400 shares, in an aggregate amount of RMB1,911,899,000, which was paid in July and August 2021 to shareholders of the Company.

The directors of the Company have determined that no dividend will be proposed in respect of the current interim period.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic and diluted earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 11,246,466,400 (30 June 2020: 10,800,000,000) during the six months ended 30 June 2021.

The Group had no potentially dilutive ordinary shares in issue during the periods.

9. TRADE AND BILLS RECEIVABLES

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:

| | 30 June 2021 RMB'000 (Unaudited) | 31 December 2020 RMB'000 (Audited) |
|-----------------|---|---|
| Within 90 days | 432,962 | 344,653 |
| 91 to 180 days | 5,706 | 1,831 |
| 181 to 365 days | 13,417 | 11,080 |
| | 452,085 | 357,564 |

10. 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 reporting period, based on the invoice date, is as follows:

| | 30 June 2021 RMB'000 (Unaudited) | 31 December 2020 RMB'000 (Audited) |
|----------------|---|---|
| Within 90 days | 1,165,449 | 815,897 |
| 91-180 days | 17,392 | 13,131 |
| 181-365 days | 18,048 | 16,785 |
| Over 1 year | 46,583 | 35,987 |
| | 1,247,472 | 881,800 |

11. EVENTS AFTER THE REPORTING PERIODS

The Group had no significant events after the reporting period up to the date of the approval of the unaudited interim condensed consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

The Board is pleased to present the unaudited interim condensed consolidated financial information of the Group for the six months ended June 30, 2021. The interim condensed consolidated financial information is unaudited, but has been reviewed by the audit committee of the Board (the “Audit Committee”) and Ernst & Young, the independent auditors of the Company, 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.

ECONOMIC ENVIRONMENT

In the first half of 2021, due to continued consolidation of the effectiveness of COVID-19 prevention and control in China, the national economy saw a sustained and steady recovery, leading to gradual improvement in market sales, and the beverage industry also experienced further development. According to the National Bureau of Statistics, the gross domestic product in the first half of 2021 amounted to RMB53,216.7 billion, representing a year-on-year increase of 12.7%; the total retail sales of consumer goods amounted to RMB21,190.4 billion, representing a year-on-year increase of 23.0%; of which, the total retail sales of beverage consumer goods amounted to RMB135.4 billion, representing a year-on-year increase 29.2%.

BUSINESS REVIEW

During the Reporting Period, the Group recorded revenue of RMB15,175 million, representing an increase of 31.4% as compared with RMB11,545 million in the corresponding period of 2020. The following table sets forth a breakdown of our revenue from each product category and their percentage of total revenue for the periods indicated:

| Product Category | Six Months Ended June 30 | | | | | |
|----------------------------------|--------------------------|--------------------------------|--------------------------|--------------------------------|-------------------------|------------|
| | 2021 | Percentage of total revenue | 2020 | Percentage of total revenue | Change | |
| | Revenue (RMB million) | | Revenue (RMB million) | | Amount (RMB million) | Percentage |
| Packaged drinking water products | 8,919 | 58.8% | 7,102 | 61.5% | 1,817 | 25.6% |
| Tea beverage products | 2,182 | 14.4% | 1,600 | 13.9% | 582 | 36.4% |
| Functional beverage products | 2,004 | 13.2% | 1,448 | 12.5% | 556 | 38.4% |
| Juice beverage products | 1,224 | 8.1% | 942 | 8.2% | 282 | 29.9% |
| Other products (Note) | 846 | 5.5% | 453 | 3.9% | 393 | 86.8% |
| Total | 15,175 | 100% | 11,545 | 100% | 3,630 | 31.4% |

Note: Other products primarily include other beverage products such as soda water beverage, sparkling flavored beverage, coffee beverage, and plantbased yogurt products, and agricultural products such as fresh fruits.

Packaged drinking water products

During the Reporting Period, revenue of the Group's packaged drinking water products was RMB8,919 million, representing an increase of 25.6% as compared with the corresponding period of 2020.

During the Chinese New Year of 2021, we continued our tradition of launching an anniversary edition of zodiac version of natural mineral water (glass bottled) in Chinese year of "Ox", and presented the Chinese New Year short advertisement film titled "Geng Yun (《耕雲》)" to celebrate the Chinese New Year together with consumers. "Geng Yun (《耕雲》)" features a bull as its central figure. By showing the bull working diligently to disperse the haze and bring back the sunlight, it conveys to the audience the wish of "conquering the pandemic, restoring the prosperity". During the Reporting Period, we launched new products like "Nongfu Spring drinking natural spring water (for tea brewing) (農夫山泉泡茶武夷山泉水)" and "Nongfu Spring Changbai Snow (農夫山泉長白雪)" natural snowy mountain mineral water, further enriching the drinking water product line. Among them, "Nongfu Spring drinking natural spring water (for tea brewing) (農夫山泉泡茶武夷山泉水)" is originated from Wuyi Mountain, a new water source in Fujian. "Nongfu Spring Changbai Snow (農夫山泉長白雪)" natural snowy mountain mineral water is originated from the artesian springs in the primeval forest of Changbai Mountain in Jilin. The label design of this product displays the image of animals in Changbai Mountain in hollow form on the bottle, supplemented by the water source ecology, so that consumers can intuitively feel the epitome of water source and ecology, and further convey "what kind of water source gives birth to what kind of life" to consumers.

Tea beverage products

During the Reporting Period, revenue from tea beverage products of the Group amounted to RMB2,182 million, representing an increase of 36.4% as compared with the corresponding period of 2020.

The "Tea π" brand launched the "Our Graduation Songs" original song solicitation contest in cooperation with China's well-known music streaming platform "QQ Music" and involved, in music festivals on campus of colleges across the country, so as to interact with more young consumers. This year marks the 10th anniversary of the launch of "Oriental Leaf (東方樹葉)", one of our tea beverage products. As done with Oriental Aesthetics Advertising when "Oriental Leaf (東方樹葉)" was first launched in 2011, the promotional video for the 10th anniversary of the launch of "Oriental Leaf (東方樹葉)" used scene reappearance method to reproduce the happenings at important moments that people have captured the fragrance of tea during thousands of years. On the tenth anniversary of "Oriental Leaf (東方樹葉)", we launched two new flavors of products, namely "Ganpu Tea (青柑普洱)" and "Brown Rice Tea (玄米茶)". We have been insisting on using technology to reproduce the natural flavors for ten years. Through exploration, research and innovation of tea culture and tea products, we are striving to make more people to love "Oriental Leaf (東方樹葉)".

Functional beverage products

During the Reporting Period, revenue from functional beverage products of the Group amounted to RMB2,004 million, representing an increase of 38.4% as compared with the corresponding period of 2020.

“Scream (尖叫)” beverage launched new isotonic series “等渗”. This series is specially designed for scientific replenishing water after sports. Its osmotic pressure is in the range of 250-340 mOsmol/L, which is similar to the osmotic pressure of human body fluids. It can quickly replenish the water, electrolytes and energy lost after sports. The new products launched this time included two flavors, sea salt grapefruit flavor (sugar-containing) and sea salt green orange flavor (sugar-free), which are separately suitable for people after high-intensity exercise and people after light exercise and aerobic sports. By simultaneously promoting the slogan “Scream for win, win to scream (尖叫就赢，赢就尖叫)”, “Scream (尖叫)” aims at the cohort who love sports. At the same time, “Vitamin Water” joined hands with the “Strawberry Music Festival” to bring vitamins and energy to music lovers.

Juice beverage products

During the Reporting Period, revenue from juice beverage products of the Group amounted to RMB1,224 million, representing an increase of 29.9% as compared with the corresponding period of 2020.

In the future, we will continue to consolidate the competitiveness of “Farmer’s Orchard (農夫果園)” and “Water Soluble C100 (水溶C100)” in light of the trend of increasing health awareness and leveraging on the existing channel advantages, and continue to develop “17.5°” and Nongfu Spring (農夫山泉) NFC juice series Non-concentrated pure juice, insist on in-depth cooperation with high-quality orchards, and guide consumers to build up the consumption consciousness of drinking healthy juice.

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. During the Reporting Period, revenue from other products of the Group amounted to RMB846 million, representing an increase of 86.8% as compared with the corresponding period of 2020.

During the Reporting Period, soda beverage products continued to maintain strong sales growth. At the same time, we launched sparkling soda water beverages with flavors including peach (拂曉白桃), mojito (莫吉托), Orange (日向夏橘) and Dekopon Emblic (春見油柑). The product is produced in an aseptic production process, with water drawn from high-quality natural sources and 0 sugar, 0 calories, 0 fat, and 0 potassium sorbate.

Outlook

We will continue to implement the strategy promoting the development of dual engines of drinking water and beverages. While enhancing and elevating the competitiveness of our existing products, we will keep developing and enriching new product offerings, and strive to achieve steady advancement in product development, consumer communication, channel expansion, IT modernization and internal talent pool building information.

In the first half of the year, China's economy continued to recover steadily, and our operation basically returned to normal. However, many uncertainties remain for the second half of the year. Since July 2021, local virus outbreak caused by imported Delta variants has spread to many provinces, and the movement of people has been noticeably restricted. Typhoons and floods in summer have had temporary impacts on our logistics and sales in certain areas. In addition, the purchase price of polyethylene terephthalate ("PET") raw materials has shown a clear upward trend. It is expected that these unfavorable factors will not cause material adverse impacts on our long-term business development. We will pay close attention to the relevant situations and keep solidifying and elevating our own competitiveness, so as to effectively cope with the complex and volatile market conditions.

FINANCIAL REVIEW

Revenue and Gross Profit

The Group recorded revenue of RMB15,175 million during the Reporting Period, representing an increase of 31.4% as compared with RMB11,545 million for the corresponding period in 2020. Gross profit amounted to RMB9,241 million, representing an increase of 33.7% as compared with RMB6,910 million for the corresponding period in 2020. Gross profit margin increased by 1.0% to 60.9% from 59.9% in the corresponding period of last year, primarily due to increase in sales of products, changes in the product mix and the effective control of PET cost.

Selling and Distribution Expenses

Selling and distribution expenses of the Group amounted to RMB3,554 million during the Reporting Period, amounting to 23.4% of the total revenue, the percentage is essentially the same as the corresponding period in 2020.

Administrative Expenses

Administrative expenses of the Group amounted to RMB663 million during the Reporting Period, amounting to 4.4% of the total revenue, representing a decrease of 5.2% as compared with the corresponding period in 2020, mainly because there was no reoccurrence of listing expense during the Reporting Period.

Other Expenses

Other expenses of the Group amounted to RMB56 million during the Reporting Period, amounting to 0.4% of the total revenue. Of which, the loss of exchange due to the depreciation of foreign currency was approximately RMB52 million (As at December 31, 2020, the Group held HK\$1,537 million, US\$563 million and a small amount of other currencies; As at June 30, 2021, the Group held HK\$1,536 million, US\$518 million and a small amount of other currencies).

Finance Costs

Due to the decrease in borrowings, finance costs of the Group slightly decreased from RMB29 million in the first half of 2020 to RMB24 million during the Reporting Period.

Profit for the Period

Profit of the Group was RMB4,013 million during the Reporting Period, representing an increase of 40.1% as compared with RMB2,864 million for the corresponding period in 2020.

Dividends

The Board resolved not to declare an interim dividend for the six months ended June 30, 2021.

Cash and Borrowings

As at June 30, 2021, the total cash and bank balances of the Group amounted to RMB12,777 million, representing an increase of 40.1% as compared to RMB9,119 million as at December 31, 2020. As at June 30, 2021, the interest bearing total borrowings of the Group amounted to RMB1,720 million. All of the interest bearing borrowings are denominated in RMB. The interest bearing total borrowings increased by 28.7% as compared to RMB2,414 million as at December 31, 2020. The Group does not have any interest rate hedging policy.

Inventories

The increase in sales volume ensured a healthy inventory turnover. As at June 30, 2021, inventories of the Group amounted to RMB1,546 million, representing a decrease of 14.3% as compared to RMB1,805 million as at December 31, 2020. Inventory turnover days decreased from 69.5 days as at December 31, 2020 to 51.5 days as at June 30, 2021.

Trade and Bills Receivables

As at June 30, 2021, trade and bills receivables amounted to RMB452 million, representing an increase of RMB94 million as compared to RMB358 million as at December 31, 2020. Trade and bills receivables turnover days decreased from 5.3 days as at December 31, 2020 to 4.9 days in the first half of 2021.

Trade and Bills Payables

As at June 30, 2021, trade and bills payables amounted to RMB1,247 million, representing an increase of RMB365 million as compared to RMB882 million as at December 31, 2020. Trade and bills payables turnover days increased from 32.6 days as at December 31, 2020 to 32.7 days as at June 30, 2021.

Gearing Ratio

As at June 30, 2021, the gearing ratio of the Group (equaling (interest-bearing borrowings + lease liabilities)/equity) was 10.3% (there was no minority shareholders in the Group during the Reporting Period). As at December 31, 2020, the gearing ratio of the Group was 15.9%.

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 at June 30, 2021, the Group held HK\$1,536 million, US\$518 million and a small amount of other foreign currencies. The exchange loss arising from the depreciation of foreign currencies during the Reporting Period was approximately RMB52 million. The Group will continue to monitor foreign exchange market movements and closely monitor our foreign exchange exposure and will use appropriate financial instruments for hedging purposes when necessary to help reduce foreign exchange risk.

CONTINGENT LIABILITIES

As of June 30, 2021, the Group did not have any material contingent liabilities.

CAPITAL EXPENDITURE AND CAPITAL COMMITMENTS

Our capital expenditures amounted to approximately RMB1,108 million during the Reporting Period, mainly used for construction of production plants and purchase of production equipment.

PLEDGE OF ASSETS

As at June 30, 2021, the Group did not pledge any of its assets.

SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL

The Group did not have any significant investments held, or any material acquisition or disposal of any subsidiaries, associates and joint ventures during the Reporting Period.

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.

HUMAN RESOURCES AND EMOLUMENT POLICY

As of June 30, 2021, the Group had a total of 20,773 employees. The Group always believes that our long-term growth depends on the expertise, experience and development of our employees. We proactively optimize the talent selection and cultivation system in order to improve the general competitiveness of our employees and their sense of belongings to the Group. The remuneration and benefits for employees of the Group are determined with reference to the market standards as well as individual qualification and experience, performance bonus and other incentive systems are established. Performance bonuses are paid based on the Group’s revenue and profit targets, as well as the performance of the organisation in which the employee works and the performance of the individual employee, and to recognise and encourage outstanding contributions to the Group’s business. Our overall remuneration policy is competitive.

The total employee benefits expenses (including Directors’ emoluments) amounted to RMB1,260 million during the Reporting Period. The Group does not have any share option scheme for employees.

EVENTS AFTER THE REPORTING PERIOD

Dividends Payment

At the shareholders’ general meeting (the “General Meeting”) of the Company held on June 25, 2021, it was resolved by the shareholders of the Company that final dividend of RMB0.17 (including tax) per share for the year ended 31 December 2020 is declared and paid. As at the date of this announcement, these final dividends have been paid in full in cash.

USE OF PROCEEDS FROM THE LISTING

From the Listing Date to June 30, 2021, 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 June 30, 2021, the Company has utilised approximately HK\$3,060 million of the proceeds for the intended purposes set out in the Prospectus, accounting for 32.6% of all raised funds, and the remaining unutilised proceeds are approximately HK\$6,317 million and have been deposited in licensed banks in Hong Kong or mainland China as short-term

deposits. The balance of the proceeds from the Listing will continue to be unutilised according to the purposes and proportions disclosed in the Prospectus. The actual use of proceeds from the Listing Date to June 30, 2021 is set out below.

| | Net proceeds from the Listing available (HK\$ million) | Actual net amount utilised as at June 30, 2021 (HK\$ million) | Unutilised net amount as at June 30, 2021 (HK\$ million) | Expected timeline for utilising unutilised net amount |
|--|--|--|---|---|
| Brand building | 2,344 | 580 | 1,764 | December 31, 2023 |
| Purchasing sales equipment | 2,344 | 165 | 2,179 | December 31, 2023 |
| Purchasing production facilities and building new factories | 1,875 | 546 | 1,329 | December 31, 2022 |
| Strengthening fundamental capabilities | 938 | 28 | 910 | December 31, 2023 |
| Repaying loans | 938 | 915 | 23 | December 31, 2021 |
| Working capital and other general corporate purposes | 938 | 826 | 112 | December 31, 2021 |
| Total | <u>9,377</u> | <u>3,060</u> | <u>6,317</u> | |

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended June 30, 2021.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Reporting Period, none of the Company and its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

AUDIT COMMITTEE

The Company established the Audit Committee with written terms of reference in compliance with the Rule 3.21 of the Listing Rules and the CG Code. As at the date of this announcement, the Audit Committee comprises two independent non-executive Directors (Mr. Stanley Yi Chang and Mr. Yang, Lei Bob) and one non-executive Director (Mr. Zhong Shu Zi) of the Company. Mr. Stanley Yi Chang is the chairman of the Audit Committee.

The Audit Committee has reviewed the Company's unaudited condensed consolidated interim results for the six months ended June 30, 2021, and confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made. The interim results for the six months ended June 30, 2021 are unaudited, but have been reviewed by Ernst & Young, the independent auditors of the Company, 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.

COMPLIANCE WITH THE CORPORATE GOVERNANCE

The Company is committed to the best practices on corporate governance, and has complied with the code provisions of the CG Code since the 1 January, 2021 and up to the date of this interim results announcement, except for the following deviation.

Pursuant to code provision A.2.1, 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 ("Mr. Zhong") is the chairman of the Board and general manager of the Company. As the founder of the Group, Mr. Zhong 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. The Board believes that Mr. Zhong has been mainstay to the business expansion of the Group since the establishment of the Group in 1996. Therefore, vesting both roles of chairman and general manager in Mr. Zhong is beneficial to the management of the Company. The Board believes 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), one non-executive Director and three independent non-executive Directors. Therefore, the Board has a fairly strong independence element in its composition.

The Board will continue to review and monitor the practices of the Company for the purpose of complying with the CG Code and maintaining a high standard of corporate governance practices of the Company.

COMPLIANCE WITH CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") under Appendix 10 to the Hong Kong Listing Rules to work out the Regulations on Securities Transactions by Directors, Supervisors and Related Employees. All Directors and Supervisors have confirmed, following specific enquiry by the Company, that they have complied with the requirements for securities transactions of directors and supervisors set out in the Model Code during the Reporting Period.

DISCLOSURE OF INFORMATION

This interim results 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 2021 interim report for the six months ended June 30, 2021 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, 25 August, 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.