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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 ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2021**

### **HIGHLIGHTS OF 2021 ANNUAL RESULTS**

- Total revenue was RMB29,696 million, representing a year-on-year increase of 29.8%;
- Profit attributable to the owners of the parent was RMB7,162 million, representing a year-on-year increase of 35.7%;
- Basic earnings per share were RMB0.64, representing a year-on-year increase of 33.3%;
- The distribution of a final dividend is recommended of RMB0.45 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, 2021 (the “**Reporting Period**”) prepared in accordance with the International Financial Reporting Standards (the “**IFRS**”), together with the comparative figures for the corresponding period of 2020.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS***Year ended December 31, 2021*

		<b>2021</b>	2020
	<i>Notes</i>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>REVENUE</b>	3	<b>29,696,406</b>	22,877,297
Cost of sales		<u>(12,040,188)</u>	<u>(9,368,970)</u>
Gross profit		<b>17,656,218</b>	13,508,327
Other income and gains	4	<b>873,562</b>	640,941
Selling and distribution expenses		<b>(7,233,070)</b>	(5,510,507)
Administrative expenses		<b>(1,750,929)</b>	(1,324,448)
Other expenses	4	<b>(138,536)</b>	(249,097)
Finance costs	6	<u><b>(52,945)</b></u>	<u>(78,963)</u>
<b>PROFIT BEFORE TAX</b>	5	<b>9,354,300</b>	6,986,253
Income tax expense	7	<u><b>(2,192,506)</b></u>	<u>(1,708,827)</u>
<b>PROFIT FOR THE YEAR</b>		<u><b>7,161,794</b></u>	<u>5,277,426</u>
Attributable to owners of the parent		<u><b>7,161,794</b></u>	<u>5,277,426</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic and diluted For profit for the year	9	<u><b>RMB0.64</b></u>	<u>RMB0.48</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2021

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Profit for the year	<u>7,161,794</u>	<u>5,277,426</u>
<b>OTHER COMPREHENSIVE LOSS</b>		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	<u>(543)</u>	<u>(1,302)</u>
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	<u>(543)</u>	<u>(1,302)</u>
Other comprehensive loss for the year, net of tax	<u>(543)</u>	<u>(1,302)</u>
Total comprehensive income for the year	<u>7,161,251</u>	<u>5,276,124</u>
Attributable to owners of the parent	<u>7,161,251</u>	<u>5,276,124</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at December 31, 2021*

	<i>Notes</i>	<b>2021</b>	2020
		<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>12,800,140</b>	12,591,585
Right-of-use assets		<b>724,242</b>	694,565
Intangible assets		<b>65,104</b>	57,885
Deferred tax assets		<b>293,090</b>	314,633
Long-term bank deposits		<b>1,121,461</b>	–
Other non-current assets		<b>56,405</b>	9,105
		<hr/>	<hr/>
Total non-current assets		<b>15,060,442</b>	13,667,773
<b>CURRENT ASSETS</b>			
Inventories		<b>1,809,230</b>	1,805,454
Trade and bills receivables	<i>10</i>	<b>476,276</b>	357,564
Prepayments, other receivables and other assets		<b>558,169</b>	909,741
Financial assets at fair value through profit or loss		<b>204,754</b>	–
Pledged deposits		<b>3,648</b>	–
Cash and bank balances		<b>14,783,577</b>	9,118,880
		<hr/>	<hr/>
Total current assets		<b>17,835,654</b>	12,191,639
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	<i>11</i>	<b>1,153,133</b>	881,800
Other payables and accruals		<b>4,487,638</b>	3,322,040
Contract liabilities		<b>2,350,952</b>	2,247,323
Derivative financial instruments		–	7,331
Interest-bearing borrowings		<b>2,500,108</b>	2,413,957
Lease liabilities		<b>46,721</b>	14,068
Tax payables		<b>1,050,359</b>	938,127
		<hr/>	<hr/>
Total current liabilities		<b>11,588,911</b>	9,824,646
<b>NET CURRENT ASSETS</b>			
		<b>6,246,743</b>	2,366,993
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>21,307,185</b>	16,034,766
		<hr/>	<hr/>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)***As at December 31, 2021*

	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>NON-CURRENT LIABILITIES</b>		
Deferred income	<b>264,550</b>	267,272
Deferred tax liabilities	<b>257,697</b>	233,907
Lease liabilities	<b>43,304</b>	41,305
	<hr/>	<hr/>
Total non-current liabilities	<b>565,551</b>	542,484
	<hr/>	<hr/>
<b>NET ASSETS</b>	<b>20,741,634</b>	15,492,282
	<hr/>	<hr/>
<b>EQUITY</b>		
Equity attributable to owners of the parent		
Share capital	<b>1,124,647</b>	1,124,647
Reserves	<b>19,616,987</b>	14,367,635
	<hr/>	<hr/>
Total equity	<b>20,741,634</b>	15,492,282
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## NOTES TO THE FINANCIAL STATEMENTS

### 1. SUMMARY OF MATERIAL ACCOUNTING POLICIES

#### 1.1 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.

The consolidated financial statements have been prepared under the historical cost convention, except for derivative financial instruments and wealth management products 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, 2021. 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.

## 1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>
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The revised standards have had no significant financial effect on these financial statements.

## 1.3 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	<i>Reference to the Conceptual Framework<sup>1</sup></i>
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>3</sup></i>
IFRS 17	<i>Insurance Contracts<sup>2</sup></i>
Amendments to IFRS 17	<i>Insurance Contracts<sup>2,4</sup></i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current<sup>2</sup></i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies<sup>2</sup></i>
Amendments to IAS 8	<i>Definition of Accounting Estimates<sup>2</sup></i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction<sup>2</sup></i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use<sup>1</sup></i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract<sup>1</sup></i>
Annual Improvements to IFRSs 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16 and IAS 41 <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2022

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2023

<sup>3</sup> No mandatory effective date yet determined but available for adoption

<sup>4</sup> 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.

## 2. 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 ready-to-drink tea products segment engages in the manufacture and sale of ready-to-drink tea beverages;
- the functional drinks products segment engages in the manufacture and sale of functional 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	Water	Ready-to-	Functional	Juice	Other	Total
December 31, 2021	products	drink tea	drinks	beverage	products	
	RMB'000	products	products	products	products	RMB'000
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Segment revenue (note 3)</b>						
Sales to external customers	17,058,483	4,578,949	3,694,968	2,613,571	1,750,435	29,696,406
<b>Segment results</b>	<b>6,575,332</b>	<b>1,832,376</b>	<b>1,594,995</b>	<b>503,257</b>	<b>225,746</b>	<b>10,731,706</b>
<i>Reconciliation:</i>						
Interest income						330,656
Other unallocated income and gains						542,906
Corporate and other unallocated expenses						(2,198,023)
Finance costs						(52,945)
Profit before tax						<u>9,354,300</u>
Other segment information						
Depreciation and amortisation	<u>995,635</u>	<u>298,272</u>	<u>244,193</u>	<u>203,893</u>	<u>141,408</u>	<u>1,883,401</u>



Year ended December 31, 2020	Water products <i>RMB'000</i>	Ready-to- drink tea products <i>RMB'000</i>	Functional drinks products <i>RMB'000</i>	Juice beverage products <i>RMB'000</i>	Other products <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue</b> (note 3)						
Sales to external customers	13,966,133	3,087,631	2,791,821	1,977,227	1,054,485	22,877,297
<b>Segment results</b>	5,054,540	1,313,510	1,079,052	394,503	156,215	7,997,820
<i>Reconciliation:</i>						
Interest income						147,893
Other unallocated income and gains						493,048
Corporate and other unallocated expenses						(1,573,545)
Finance costs						<u>(78,963)</u>
Profit before tax						<u>6,986,253</u>
Other segment information						
Depreciation and amortisation	<u>874,012</u>	<u>196,955</u>	<u>211,714</u>	<u>186,249</u>	<u>104,041</u>	<u>1,572,971</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 of the years ended December 31, 2021 and 2020.

## 3. REVENUE

An analysis of revenue is as follows:

	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
<i>Revenue from contracts with customers</i>		
Sales of goods	<u>29,696,406</u>	<u>22,877,297</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 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.

#### 4. OTHER INCOME AND GAINS, AND OTHER EXPENSES

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>Other income</b>		
Government grants and subsidies		
related to income	324,271	349,737
related to assets	23,785	45,597
Interest income	330,656	147,893
Income from compensation	21,168	19,180
Sales of scraps	83,731	56,043
	<u>783,611</u>	<u>618,450</u>
<b>Gains</b>		
Fair value gains on financial assets at fair value through profit or loss	4,754	–
Fair value gains on derivative instruments	7,331	3,759
Gain on disposal of subsidiaries	–	1,621
Others	77,866	17,111
	<u>89,951</u>	<u>22,491</u>
	<u>873,562</u>	<u>640,941</u>
<b>Other expenses</b>		
Foreign exchange loss, net	(116,619)	(240,298)
Donations	(1,996)	(4,929)
Loss on disposal of items of property, plant and equipment	(9,803)	(2,361)
Others	(10,118)	(1,509)
	<u>(138,536)</u>	<u>(249,097)</u>

## 5. PROFIT BEFORE TAX

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Cost of inventories sold*	<b>12,040,188</b>	9,368,970
Depreciation of property, plant and equipment	<b>2,287,083</b>	1,871,177
Depreciation of right-of-use assets	<b>83,123</b>	41,437
Amortisation of intangible assets**	<b>7,980</b>	12,834
Employee benefit expenses (including directors' and chief executive's remuneration)		
Wages and salaries	<b>2,494,041</b>	1,805,991
Pension scheme contributions, social welfare and other welfare***	<b>387,496</b>	204,273
Research and development costs	<b>124,912</b>	133,633
Expenses relating to short-term leases and leases of low-value assets	<b>191,190</b>	160,825
Impairment of trade receivables	<b>11,401</b>	2,903
Write-back of impairment of financial assets included in prepayments, other receivables and other assets	<b>(2,654)</b>	(960)
Fair value gains on derivative financial instruments	<b>7,331</b>	3,759
Fair value gains on financial assets at fair value through profit or loss	<b>4,754</b>	–
Auditor's remuneration	<b>6,789</b>	5,377
Listing expenses	<b>–</b>	58,733
	<b>_____</b>	<b>_____</b>

\* 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, 2021 and 2020 is included in administrative expenses in the consolidated statement of profit or loss.

\*\*\* There are no forfeited contributions that may be used by the Group as the employer to reduce the existing level of contributions.

## 6. FINANCE COSTS

An analysis of finance costs is as follows:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Interest on interest-bearing borrowings	<b>47,565</b>	76,089
Interest on lease liabilities	<b>5,380</b>	2,874
	<b>_____</b>	<b>_____</b>
	<b>52,945</b>	78,963
	<b>_____</b>	<b>_____</b>

## 7. INCOME TAX

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current – PRC		
Charge for the year	2,123,838	1,607,641
Under provision in prior years	23,259	3,752
Current – Other jurisdictions	76	–
Deferred	45,333	97,434
	<hr/>	<hr/>
Total	<b>2,192,506</b>	<b>1,708,827</b>

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, enterprises located in the western region of the PRC with over 70% of the principal revenue generated from the encouraged business activities were entitled to a preferential income tax rate of 15% for 10 years from January 1, 2011 to December 31, 2020. Pursuant to Tax Relief Notice (Cai Shui [2020] no.23) issued in April 2020, each of the relevant subsidiaries is subject to a preferential tax rate of 15% from January 1, 2021 to December 31, 2030, when the principal revenue from the encouraged business exceeds 60% of its total revenue in a fiscal year.

Certain of the Group’s PRC subsidiaries are accredited as “High and New Technology Enterprise” and were therefore entitled to a preferential income tax rate of 15% for the years end December 31, 2020 and 2021. Such qualifications are subject to review by the relevant tax authority in the PRC for every three years.

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, 2020 and 2021 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 in 2020.

### **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.

## 8. DIVIDENDS

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 amounting 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 were paid in August 2020 to shareholders of the Company.

On June 25, 2021, the Company's shareholders approved the 2020 profit distribution plan at an annual general meeting, pursuant to which cash dividends 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 were paid in July and August 2021 to shareholders of the Company.

The proposed 2021 final dividend for the year of RMB0.45 per ordinary share, equivalent to an aggregate of approximately RMB5,060,910,000, is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 9. 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 11,246,466,400 (2020: 10,936,782,718) 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 10 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, 2021 and 2020.

The calculation of basic and diluted earnings per share is based on:

<b>Earnings</b>	<b>2021</b>	2020
	<b>RMB'000</b>	<b>RMB'000</b>
Profit attributable to ordinary equity holders of the parent	<b>7,161,794</b>	<b>5,277,426</b>
<b>Shares</b>	<b>Number of shares</b>	
	<b>2021</b>	2020
	<b>'000</b>	<b>'000</b>
Weighted average number of ordinary shares in issue during the year	<b>11,246,466</b>	<b>10,936,783</b>

## 10. TRADE AND BILLS RECEIVABLES

	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
Trade receivables	<b>506,807</b>	375,734
Bills receivable	<b>3,414</b>	4,374
Impairment	<b>(33,945)</b>	(22,544)
	<b><u>476,276</u></b>	<u>357,564</u>

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 Group's fellow subsidiaries of RMB1,229,000 (2020: RMB2,348,000), 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:

	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 90 days	<b>432,186</b>	344,653
91 to 180 days	<b>16,036</b>	1,831
181 to 365 days	<b>28,054</b>	11,080
	<b><u>476,276</u></b>	<u>357,564</u>

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

	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
At beginning of year	<b>22,544</b>	19,641
Impairment losses, net	<b>11,401</b>	2,903
	<b><u>33,945</u></b>	<u>22,544</u>

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:

<b>2021</b>	<b>Expected credit loss rate</b>	<b>Gross carrying amount RMB'000</b>	<b>Expected credit losses RMB'000</b>
Within 90 days	<b>0.92%</b>	<b>432,775</b>	<b>4,003</b>
91 to 180 days	<b>14.18%</b>	<b>18,687</b>	<b>2,651</b>
181 to 365 days	<b>40.87%</b>	<b>47,445</b>	<b>19,391</b>
Over 365 days	<b>100.00%</b>	<b>7,900</b>	<b>7,900</b>
		<b>506,807</b>	<b>33,945</b>
<b>2020</b>	<b>Expected credit loss rate</b>	<b>Gross carrying amount RMB'000</b>	<b>Expected credit losses RMB'000</b>
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
		<b>375,734</b>	<b>22,544</b>

## 11. 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:

	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
Within 90 days	<b>1,001,840</b>	815,897
91 to 180 days	<b>82,956</b>	13,131
18 to 365 days	<b>25,544</b>	16,785
Over 1 year	<b>42,793</b>	35,987
	<b><u>1,153,133</u></b>	<u>881,800</u>

Included in the trade and bills payables are amounts due to the Group's fellow subsidiaries of RMB6,615,000 (2020: RMB3,193,000), which are repayable within 90 days.



## CHAIRMAN'S STATEMENT

Dear shareholders,

In 2021, the epidemic prevention and control strategy and economic development strategy in the PRC continued to promote the stability and development of the consumption order. The operation of the Group has also improved, and Nongfu Spring has witnessed new growth with the sincere unity and efforts of our employees, distributors and partners.

The Group recorded a total revenue of RMB29,696 million in 2021, representing an increase of 29.8% as compared to 2020. The profitability of the Group also kept improving. Profit attributable to the owners of the parent in 2021 recorded further increase from RMB5,277 million in 2020 to RMB7,162 million (RMB7,269 million after deducting one-time non-operating gains and losses). Meanwhile, the working capital level of the Group remained stable, and cash flow from operating activities in 2021 increased by 35.2% as compared to 2020, to RMB11,400 million.

In light of the Group's operations in 2021 and taking into account earnings, overall financial condition and capital expenditures of the Group, the Board will recommend the distribution of a cash dividend of RMB0.45 per share for the year ended December 31, 2021 at the forthcoming annual general meeting of the Company (amounting to a total dividend of approximately RMB5,061 million).

In 2021, Nongfu Spring celebrated its 25th anniversary. From a sole water source of Thousand-Island Lake to eleven major water sources all over the country, from a sole drinking water product to a multi-category and multi-brand beverage enterprise, through years of enduring great hardships in pioneer work, after weathering rain and shine, we have never changed our commitment to natural and healthy products. In the future, we will continue to implement the strategy of dual growth engines with packaged drinking water and beverages, achieve breakthroughs in innovation, and launch more high-quality products to meet the expectations of consumers.

The development of Nongfu Spring is inseparable from the efforts and commitment of our employees. In order to bring forth the innovation and passion of employees and further enhance the Company's capability in attracting talents, the Group will implement the Employee Share Incentive Scheme to achieve long-term sustainable development of the Company.

On behalf of Nongfu Spring, I would like to extend my sincere gratitude to the long-term support from all sectors of society, and the commitments and contributions from every employee of Nongfu Spring. Let us stay on original intent and forge ahead together!

**Zhong Shanshan**

*Chairman*

Hangzhou, the People's Republic of China

March 28, 2022

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Macro and Industry Environment**

The global COVID-19 pandemic is still ongoing. Under the steady progress in epidemic prevention and control and economic development strategies in China, the production and operation of Chinese enterprises and the order of people's lives were stable as a whole in 2021. In addition, the government has also implemented a series of policies and measures to expand and support consumption, and the consumption in China has grown further and showed strong potential and resilience. The gross domestic product (GDP) of China for 2021 exceeded RMB114 trillion, representing a year-on-year increase of 8.1%; the total retail sales of consumer goods exceeded RMB44 trillion, representing a year-on-year increase of 12.5%.

The beverage industry in China has also resumed growth in 2021, with national beverage production exceeding 183 million tonnes, representing a year-on-year increase of 12%. In 2021, the operating revenue of the beverage manufacturing industry in China showed a year-on-year increase of 13.5%, of which, bottled (canned) drinking water manufacturing showed a year-on-year increase of 12%, tea beverages and other soft drinks manufacturing showed a year-on-year increase of 12%, fruit and vegetable juice and fruit and vegetable juice beverage manufacturing showed a year-on-year increase of nearly 14%, carbonated beverage manufacturing showed a year-on-year increase of 19%, dairy beverage and plant protein beverage manufacturing showed a year-on-year increase of nearly 11%, and solid beverage manufacturing showed a year-on-year increase of nearly 15%.

The consumer' expectations for beverage choices and taste have become increasingly diversified, and their requirements for the healthiness of product ingredients and the resonance of brand values are increasing as well. Various brands are competing to launch new products in an increasingly fierce market environment, bringing forth more intense industry competition. In addition to the promotion of optimization and innovation of products, it also facilitates the continuous expansion of the beverage market, with both opportunities and challenges.

## BUSINESS REVIEW

Under the normalization of epidemic prevention and control, our employees, distributors and partners have become more sincere, united and working more closely. In 2021, the Group recorded annual revenue of RMB29,696 million, representing an increase of 29.8% as compared to 2020. Among which, the proportion of revenue from packaged drinking water products to total revenue was 57.4% and the proportion of revenue from beverage product to total revenue was 40.4%. 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,			
	2021		2020	
	<i>RMB</i>	Percentage	<i>RMB</i>	Percentage
	<i>(million)</i>	of total	<i>(million)</i>	of total
		revenue		revenue
Packaged drinking water products	<b>17,058</b>	<b>57.4%</b>	13,966	61.0%
Tea beverage products	<b>4,579</b>	<b>15.4%</b>	3,088	13.5%
Functional beverage products	<b>3,695</b>	<b>12.4%</b>	2,792	12.2%
Juice beverage products	<b>2,614</b>	<b>8.8%</b>	1,977	8.7%
Other products ( <i>note</i> )	<b>1,750</b>	<b>6.0%</b>	1,054	4.6%
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<b>29,696</b>	<b>100.0%</b>	22,877	100.0%
	<hr/>	<hr/>	<hr/>	<hr/>

*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 revenue of packaged drinking water products in 2021 was RMB17,058 million, representing an increase of 22.1% as compared to 2020 and accounting for 57.4% of our total revenue for the year.

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 “Golden Cows Plow Cloud (《耕雲》)” with the moral of “conquering the pandemic, restoring the prosperity” to celebrate the Chinese New Year together with consumers. 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)” Wuyi Mountain, a new water source in Fujian and “Nongfu Spring Changbai Snow natural Jokul mineral water (農夫山泉長白雪天然雪山礦泉水)” (“Changbai Snow”) originated from the artesian springs in the primeval forest of Changbai Mountain in Jilin, further enriching the drinking water product line. The label design of Changbai Snow 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. We also correspondingly launched two sophisticated advertising films, “The First Snowflake in Changbai Mountain (《長白山的第一場雪》)” and “Nest-jumping Mergansers (《秋沙鴨跳巢》)”, further conveying the product characteristics of “Changbai Snow” with the soft snowflake flavor in Changbai Mountain and the brand value of “what kind of water source gives birth to what kind of life” to the consumers.

## **Tea beverage products**

The revenue from our tea beverage products in 2021 was RMB4,579 million, representing an increase of 48.3% as compared to 2020, accounting for 15.4% of the total revenue for the year.

In mid-2021, “Tea  $\pi$ ” in cups became available in some convenience stores for simultaneous online and offline sales. Facing the changes in the catalyst habits and the confident and diverse aesthetics of Generation Z, “Tea  $\pi$ ” has found a new spiritual core of “infinite possibilities, self-contained faction”. During the first half of 2021, the “Tea  $\pi$ ” 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 camp of colleges across the country, so as to interact with more young consumers. In August 2021, “Tea  $\pi$ ” cooperated with mainstream fashion magazines to create the theme event of “Tea  $\pi$  New Generation”, which created the emotional resonance between “Tea  $\pi$ ” and the Generation Z.

2021 was 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. During the first half of 2021, we launched two new flavors of products, named “Ganpu Tea (青柑普洱)” and “Brown Rice Tea (玄米茶)”. Persevering for ten years as if it were one day, we use technology to restore the natural original taste. During the Mid-Autumn Festival, we further launched the first seasonal limited product “Osmanthus Oolong (桂花烏龍)”, which connects the unique Chinese oriental sentiments and combines the needs and scenarios of consumers to drink warm tea in autumn and winter. 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)”.

In September 2021, the Company launched the rejuvenated “Mix Milk Tea” (打奶茶) product. This product inherits the classic product concept of “mixing good-tasting milk tea (好味道的奶茶打出來)”, matching with new flavors and packaging, including three flavors of black tea milk tea, oolong milk tea and jasmine green tea. In December, a new flavor of cocoa milk tea limited to winter was launched. The “Mix Milk Tea” (打奶茶) product is extracted from high-quality tea leaves, without adding milk powder, tea powder, or flavor, bringing brand new experience in tasting high-quality milk tea for consumers with its high-quality raw materials, advanced technology and low-sugar formula. The product received praise and welcome from numerous consumers once launched in the market.

### **Functional beverage products**

The revenue from our functional beverage products in 2021 was RMB3,695 million, representing an increase of 32.3% as compared to 2020, accounting for 12.4% of the total revenue for the year.

In 2021, “Scream (尖叫)” beverage launched new “isotonic 等滲” series, the first kind of sports drink featuring the concept of isotonic in China. 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 of human body. 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 suitable for people after high-intensity exercise and people after light exercise and aerobic sports respectively. By simultaneously promoting the slogan “Scream for win, win to scream (尖叫就贏，贏就尖叫)”, through the launch of “Football Dance (足球戰舞)” advertising video and the “Athlete’s Sweat (運動員流汗篇)” promotional video in cooperation with hot championship-winning athletes of the Chinese Swimming Association, and the launch of “Isotonic screaming and sweating course (等滲尖叫暴汗課程)” in cooperation with “KEEP”, the top one sports social platform in China, “Scream (尖叫)” received attention and recognition among the cohort who love sports.

At the same time, “Vitamin Water” joined hands with the “Strawberry Music Festival” and “Strawberry MDSK Music Festival” to bring vitamins and energy to music lovers, further raising the popularity of the brand among young consumers.

## **Juice beverage products**

The revenue from our juice beverage products in 2021 was RMB2,614 million, representing an increase of 32.2% as compared to 2020, accounting for 8.8% of the total revenue for the year.

We adhere to the source-focused strategy that “Good Juice is Grown” (“好果汁是種出來的”). In 2021, “Nongfu Spring (農夫山泉) NFC juice” and “Nongfu Spring (農夫山泉) 17.5° Fresh Fruit” carried out full-year joint promotion and origin tracing to strengthen the origin advantage of Nongfu Spring Juice. The “Farmer’s Orchard (農夫果園)” juice brand, which has a history of 18 years, has carried out themed promotion in combination with the festival scene through the large-package “Double Wedding Banquet (雙聯喜宴裝)” to help sales in peak seasons and continue to achieve brand promotion and growth. The “Water-soluble C100 (水溶C100)” beverage has launched in a fashionable grapefruit juice-flavored pocket size in 2021 to meet the personalized and portable needs of young consumers and broaden consumption scenarios.

## **Other products**

Other products primarily include other beverage products such as soda water beverage, sparkling flavored beverage, coffee beverage plant-based yogurts and others, as well as agricultural products such as fresh fruits etc. In 2021, revenue from other products increased by 66.0% to RMB1,750 million as compared to 2020, accounted for 6.0% of our total revenue in 2021.

In 2021, the Group launched brand new sparkling soda water beverages. 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. Using the advertising slogan of “Adding Soda for Summer (給夏天打打“汽”)”, Nongfu Spring sparkling soda water beverages emphasizes the brand’s spiritual value of bringing happiness and positivity to consumers.

In addition, the soda water products continue the brand proposition of “nice water, nice SODA (好水好SODA)”, and continue to deepen the concept of the brand’s natural good water source. Nongfu Spring fresh fruit “17.5°” series, “Tan Bing (炭灸)” coffee, “Northeast fragrant rice (東北香米)” rice and other products have also developed well in 2021.

## **Research & Development and Innovation**

The Group always strives for innovation and seeks breakthroughs. Our R&D team focuses on natural products and their processing technology, food safety and quality, and continues to develop products that are suitable for consumers' needs.

In 2021, we launched various brand new innovative product series, including “Nongfu Spring drinking natural spring water (for tea brewing) (農夫山泉泡茶武夷山泉水)”, “Changbai Snow (長白雪)”, three new flavors of “Oriental Leaf (東方樹葉)” (Ganpu Tea (青柑普洱)”, “Brown Rice Tea (玄米茶)”, “Osmanthus Oolong (桂花烏龍)”, “Mix Milk Tea” (打奶茶), “Scream (尖叫)” of the new isotonic (等滲) series and sparkling soda water beverages. Among which, We pioneered a new category of “isotonic” (等滲) professional sports drinks in China. Scientific formulas and crafts enable us to establish product industry standards and set a new benchmark for sports hydration. Isotonic beverage refers to beverages with osmotic pressure similar to the osmotic pressure of plasma, scientific ratio of water, electrolytes and nutrients. Its osmotic pressure is in the range of 250-340mOsmol/L, which is approximate to the osmotic pressure of human body fluids, allowing the human body to replenish water in a more efficient manner. Our sparkling soda water beverages series has also realized technology innovation, achieving a 9-month shelf life without adding preservatives.

## **Information system buildup**

In 2021, to support the strategic development and goals of the Group, we continued to upgrade our digitized marketing system, and launched the production scheduling system and warehouse management system online. Meanwhile, by optimizing the frameworks for application, technology and data, we have achieved high reusability and scalability in terms of information system functions.

The Group continued the construction of private domain traffic and aimed at longer-term consumption and customer flow. We have upgraded the new retail operation platform, further optimized the platform, reshaped the consumer experience, integrated platform data, empowered business through data statistics, analysis, and label management, and explored the potential of new retail business.

## **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**

With the normalization of epidemic prevention and control, through the sincere unity and efforts of the employees, distributors and partners, the Group recorded a revenue of RMB29,696 million in 2021, representing an increase of 29.8% as compared with RMB22,877 million in 2020. In 2021, gross profit of the Group was RMB17,656 million, representing an increase of 30.7% as compared with RMB13,508 million in 2020. In 2021, gross profit margin of the Group was 59.5%, essentially maintaining at the level of 59.0% in 2020.

### **Selling and Distribution Expenses**

In 2021, sales and distribution expenses of the Group were RMB7,233 million, representing an increase of 31.2% as compared with RMB5,511 million in 2020. In 2021, sales and distribution expenses of the Group accounted for 24.4% of the total revenue, essentially maintaining at the level of 24.1% in 2020.

### **Administrative Expenses**

In 2021, administrative expenses of the Group were RMB1,751 million, representing an increase of 32.3% as compared with RMB1,324 million in 2020. In 2021, administrative expenses of the Group accounted for 5.9% of our total revenue, essentially maintaining at the level of 5.8% in 2020.

### **Other Expenses**

Other expenses of the Group in 2021 were RMB139 million, accounting for 0.5% of the total revenue, mainly representing the exchange losses caused by the foreign currencies obtained from funds raising. In 2021, the exchange losses of the Group were RMB117 million. As of December 31, 2021, the Group held HK\$1,485 million, US\$491 million and a small amount of other foreign currencies, representing a slight decrease as compared with the HK\$1,537 million, US\$563 million and a small amount of other foreign currencies held in December 31, 2020.



## **Finance Costs**

In 2021, the borrowing rate of the Group decreased slightly. The finance costs decreased from RMB79 million in 2020 to RMB53 million in 2021.

## **Profit for the Year**

As a result of the aforementioned changes, profit of the Group for the year increased by 35.7% from RMB5,277 million in 2020 to RMB7,162 million in 2021.

## **Dividends**

Having accounted for, including but not limited to, the Group's overall performance, surplus, overall financial condition, capital expenditures in 2021, the Board proposed to declare a final cash dividend of RMB0.45 per share (inclusive of tax, amounting to a total dividend of approximately RMB5,061 million) for the year ended December 31, 2021 at the forthcoming annual general meeting of the Company.

## **Balances of Long-term Bank Deposits, Pledged Deposits and Cash and Bank Balances and Borrowings**

As of December 31, 2021, the sum of long-term bank deposits, pledged deposits and cash and bank balances of the Group amounted to RMB15,909 million, representing an increase of 74.5% as compared with RMB9,119 million as of December 31, 2020. The total credit facility of the Group was RMB11,545 million and interest-bearing borrowings amounted to RMB2,500 million as of December 31, 2021, representing an increase of 3.6% as compared with RMB2,414 million as of December 31, 2020, with due repayment of a total amount of RMB2,914 million. All of the borrowings are denominated in RMB. Among the total borrowings as of December 31, 2021, the borrowings of RMB200 million were charged at a fixed interest rate (not including discounted bank acceptances). The Group does not have any interest rate hedging policy.

## **Inventories**

Inventories of the Group increased by 0.2% from RMB1,805 million as at December 31, 2020 to RMB1,809 million as at December 31, 2021. Due to inventory turnover driven by growth in sales, inventory turnover days decreased from 69.5 days in 2020 to 54.8 days in 2021.

### **Trade and Bills Receivables**

Trade and bills receivables of the Group increased from RMB358 million as of December 31, 2020 to RMB476 million as of December 31, 2021. The turnover days of trade receivables and bills receivable decreased from 5.3 days in 2020 to 5.1 days in 2021.

### **Trade and Bills Payables**

Trade and bills payables of the Group increased from RMB882 million as of December 31, 2020 to RMB1,153 million as of December 31, 2021. The turnover days of trade payables and bills payable decreased from 32.6 days in 2020 to 30.8 days in 2021.

### **Gearing Ratio**

As at December 31, 2021, the gearing ratio of the Group (equaling (interest-bearing borrowings + lease liabilities)/equity) was 12.5% (during the Reporting Period, the Group has no minority equity), representing a decrease as compared with the gearing ratio of the Group as at December 31, 2020 being 15.9%, mainly due to the growth in interest-bearing borrowings of the Group in 2021 lower than that of 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.

### **MATERIAL EVENTS AFTER THE REPORTING PERIOD**

As approved in the extraordinary general meeting held in January 14, 2022, the Company has adopted an employee share incentive scheme (the “**Employee Share Incentive Scheme**”). For details of the Employee Share Incentive Scheme, please refer to “Management Discussion and Analysis – Human Resources and Remuneration Policy” in this announcement.

The Board of the Company has granted a proposal (the “**Grant Proposal**”) through the 2021 Employee Share Incentive Scheme as at March 28, 2022. As of the date of this announcement, the Company has not yet granted any Awards according to the Grant Proposal. The details of the awards granted to the employees under the Grant Proposal will be published in the 2021 annual report of the Company, which is expected to be announced by the end of April 2022.

## **FOREIGN EXCHANGE RISK**

As of December 31, 2021, the Group held HK\$1,485 million, US\$491 million and a small amount of other foreign currencies. As of the date of this report, the exchange rates of the U.S. dollar and the Hong Kong dollar have both dropped, 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, 2021, the Group did not have any significant contingent liabilities.

## **CAPITAL COMMITMENTS**

Capital commitments of the Group amounted to approximately RMB2,146 million as of December 31, 2021, mainly used for construction of production plants and purchase of production equipment.

## **PLEDGE OF ASSETS**

As at December 31, 2021, bank deposits of RMB3.6 million (December 31, 2020: nil) were pledged by the Group.

## **SIGNIFICANT INVESTMENT, MATERIAL ACQUISITION AND DISPOSAL**

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 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.

## USE OF PROCEEDS FROM THE LISTING

From September 8, 2020 (the “**Listing Date**”) to December 31, 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 December 31, 2021, the Group has utilised approximately HK\$4,394 million of the proceeds for the intended purposes set out in the Prospectus issued by the Company, accounting for 46.85% of all raised funds, and the remaining unutilised proceeds is approximately HK\$4,983 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, 2021 (HK\$ million)	Unutilised net amount for the year ended December 31, 2021 (HK\$ million)	Expected timeline for utilising unutilised net amount
Brand building	2,344	978	1,366	December 31, 2023
Purchasing sales equipment	2,344	371	1,973	December 31, 2023
Purchasing production facilities and building new factories	1,875	994	881	December 31, 2022
Strengthening fundamental capabilities	938	187	751	December 31, 2023
Repaying loans	938	938	–	N/A
Working capital and other general corporate purposes	938	927	11	March 31, 2022
Total	<u>9,377</u>	<u>4,394</u>	<u>4,983</u>	

*Note:* Due to rounding, there may be difference between the sum of the individual sub-values and the total amount.

## 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 primarily 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, 2021 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 2021, the Group did not have any material non-compliance with such laws and regulations.

## **HUMAN RESOURCES AND REMUNERATION POLICY**

As at December 31, 2021, the total number of employees of the Group exceeded 20,000. In 2021, the total employee benefit expenses (including directors' remuneration) amounted to RMB2,882 million. 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.

In order to improve the Company's incentive mechanism, retain key employees and promote sustainable growth of the Company's performance, as approved in the extraordinary general meeting held in January 14, 2022, the Company has adopted the Employee Share Incentive Scheme to incentivize management personnel and core technical experts, including (i) the Directors, Supervisors and employees of the Group; and (ii) certain number of employees of Yangshengtang Group who make significant contributions to the Group in the projects and cooperations between the Group and Yangshengtang Group, who play an important role in the Group's business performance and future development. The Directors believe that including the participants as mentioned above in the Scheme will help stimulate their innovation and passion, and encourage them to devote more efforts in providing services to the Group, which is in the interests of the Company and Shareholders as a whole. The Employee Share Incentive Scheme will be effective for ten (10) years starting from the adoption date. According to the Employee Share Incentive Scheme, the Board shall entrust a qualified agent to act as the trustee under the Employee Share Incentive Scheme, with the H Shares of the Company it acquired through Hong Kong Stock Connect instructed by the Board as the source of award shares. The maximum number of H Shares that the Trustee can acquire and hold from time to time under the Employee Share Incentive Scheme throughout the duration of the Employee

Share Incentive Scheme shall not exceed 5% of the total issued share capital of the Company as at the Adoption Date of the Employee Share Incentive Scheme. Since the Employee Share Incentive Scheme involves no issuance of new shares or granting of option for any new securities of the Company, it does not constitute a share option scheme as defined and regulated under Chapter 17 of the Listing Rules. For details of the Employee Share Incentive Scheme, please refer to the announcement of the Company dated December 13, 2021 published on the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the website of the Company ([www.nongfuspring.com](http://www.nongfuspring.com)).

The Board of the Company has granted a proposal through the 2021 Employee Share Incentive Scheme as at March 28, 2022. As of the date of this announcement, the Company has not yet granted any Awards according to the Grant Proposal. The details of the awards granted to the employees under the Grant Proposal will be published in the 2021 annual report of the Company, which is expected to be announced by the end of April 2022.

## OUTLOOK

The third year of since the outbreak of the COVID-19 pandemic sees the ongoing spread of Delta and Omicron viruses across the world, and possible emergence of new variants, which have brought more uncertainties to the duration of the pandemic. Since 2022, some cities in the PRC have also faced the test of new outbreaks. Under the general national policy of normalised pandemic prevention and control, some areas are also dynamically adjusting pandemic prevention measures and efforts in a timely manner. In addition, the outbreak of the Russian-Ukrainian war has made the international political and economic situation more complicated, reflected by the significant increase in the purchase price of raw materials such as PET, which is linked to the international oil price, and the rising prices of packaging materials and energy. All the above has exerted pressure of increasing costs on the manufacturer of packaged drinking water and beverages. We will continue to adopt a prudent approach, pay close attention to the impact of and changes in all aspects, dynamically adjust the Company's operations and take proactive responses.

## DIVIDENDS

Relevant resolution has been passed at a meeting of the Board held on March 28, 2022, and the Board proposed the distribution of a final dividend (the “**Final Dividend**”) of RMB0.45 (tax inclusive) per share for the year ended December 31, 2021, with a total amount of approximately RMB5,061 million. If such profit distribution plan is reviewed and approved by shareholders at the 2021 annual general meeting to be held on Tuesday, June 14, 2022, the Final Dividend will be distributed no later than August 31, 2022 to shareholders whose names appear on the register of members of the Company on Thursday, June 23, 2022.

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

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 Thursday, June 9, 2022 to Tuesday, June 14, 2022 (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 Wednesday, June 8, 2022.

The register of members of the Company will be closed from Saturday, June 18, 2022 to Thursday, June 23, 2022 (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 Friday, June 17, 2022.

## **PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

During the year ended December 31, 2021, 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, 2021 and up to the publication 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, 2021.

## **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, 2021 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 year ended December 31, 2021, the Company had complied with the code provisions as set out in the CG Code, save for the deviations from the code provision C.2.1 under Section II of the CG Code disclosed below.

Pursuant to code provision C.2.1 under Section II of 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 year ended December 31, 2021.

### **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 2021 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  
**Nongfu Spring Co., Ltd.**  
**Zhong Shanshan**  
*Chairman*

Hong Kong, March 28, 2022

*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.*