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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 2022 INTERIM RESULTS

HIGHLIGHTS OF 2022 INTERIM RESULTS

- Total revenue was RMB16,599 million, representing a year-on-year increase of 9.4%;
- Profit attributable to the owners of the parent was approximately RMB4,608 million, representing a year-on-year increase of 14.8%;
- Basic earnings per share were RMB0.41, representing a year-on-year increase of 13.9%.

The board (the “**Board**”) of directors (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**” or “**we**”) for the six months ended June 30, 2022 (the “**Reporting Period**”) prepared in accordance with the International Financial Reporting Standards (the “**IFRSs**”) (this “**announcement**”), together with the comparative figures for the corresponding period ended June 30, 2021.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS*For the six months ended June 30, 2022*

	<i>Notes</i>	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
REVENUE	4	16,598,761	15,174,757
Cost of sales		<u>(6,761,083)</u>	<u>(5,933,765)</u>
Gross profit		9,837,678	9,240,992
Other income and gains, net		751,368	382,387
Selling and distribution expenses		(3,611,520)	(3,554,032)
Administrative expenses		(876,351)	(662,882)
Other expenses		(9,579)	(55,757)
Finance costs		<u>(22,341)</u>	<u>(23,930)</u>
PROFIT BEFORE TAX	5	6,069,255	5,326,778
Income tax expense	6	<u>(1,460,930)</u>	<u>(1,313,860)</u>
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT		<u>4,608,325</u>	<u>4,012,918</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted			
For profit for the period	8	<u>RMB0.41</u>	<u>RMB0.36</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended June 30, 2022

	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
PROFIT FOR THE PERIOD	<u>4,608,325</u>	<u>4,012,918</u>
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	<u>937</u>	<u>(216)</u>
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	<u>937</u>	<u>(216)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<u>937</u>	<u>(216)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>4,609,262</u>	<u>4,012,702</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at June 30, 2022

	<i>Notes</i>	June 30, 2022	December 31, 2021
		RMB'000	RMB'000
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		13,794,981	12,800,140
Right-of-use assets		768,775	724,242
Intangible assets		62,183	65,104
Deferred tax assets		372,720	293,090
Long-term bank deposits		1,943,455	1,121,461
Other non-current assets		83,219	56,405
		<hr/>	<hr/>
Total non-current assets		17,025,333	15,060,442
CURRENT ASSETS			
Inventories		1,722,489	1,809,230
Trade and bills receivables	9	645,382	476,276
Prepayments, other receivables and other assets		398,046	558,169
Financial assets at fair value through profit or loss		–	204,754
Pledged deposits		2,931	3,648
Cash and bank balances		18,712,379	14,783,577
		<hr/>	<hr/>
Total current assets		21,481,227	17,835,654
CURRENT LIABILITIES			
Trade and bills payables	10	1,599,154	1,153,133
Other payables and accruals		10,727,253	4,487,638
Contract liabilities		1,440,978	2,350,952
Derivative financial instruments		1,106	–
Interest-bearing borrowings		2,836,616	2,500,108
Lease liabilities		46,776	46,721
Tax payables		1,184,052	1,050,359
		<hr/>	<hr/>
Total current liabilities		17,835,935	11,588,911
NET CURRENT ASSETS		<hr/> 3,645,292	<hr/> 6,246,743
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 20,670,625	<hr/> 21,307,185

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

As at June 30, 2022

	June 30, 2022	December 31, 2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
NON-CURRENT LIABILITIES		
Deferred income	280,438	264,550
Deferred tax liabilities	191,708	257,697
Lease liabilities	32,444	43,304
	<hr/>	<hr/>
Total non-current liabilities	504,590	565,551
	<hr/>	<hr/>
NET ASSETS	20,166,035	20,741,634
	<hr/>	<hr/>
EQUITY		
Equity attributable to owners of the parent		
Share capital	1,124,647	1,124,647
Reserves	19,041,388	19,616,987
	<hr/>	<hr/>
Total equity	20,166,035	20,741,634
	<hr/>	<hr/>

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended June 30, 2022 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 December 31, 2021.

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 December 31, 2021, 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 3	<i>Reference to the Conceptual Framework</i>
Amendment to IFRS 16	<i>COVID-19-Related Rent Concessions beyond June 30, 2021</i>
Amendments to IAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Annual Improvements to IFRSs 2018-2020	<i>Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41</i>

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 ready-to-drink tea products segment engages in manufacturing and sale of ready-to-drink tea beverages;
- the functional drinks products segment engages in manufacturing and sale of functional 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 June 30, 2022	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	9,349,003	3,306,901	2,022,878	1,274,767	645,212	16,598,761
Segment results	3,646,290	1,456,289	849,197	328,312	81,857	6,361,945
<i>Reconciliation:</i>						
Interest income						258,091
Other unallocated income and gains						493,277
Corporate and other unallocated expenses						(1,021,717)
Finance costs						(22,341)
Profit before tax						<u>6,069,255</u>
Other segment information						
Depreciation and amortization	<u>480,570</u>	<u>182,922</u>	<u>117,816</u>	<u>90,518</u>	<u>54,206</u>	<u>926,032</u>
Six months ended June 30, 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>

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 June 30, 2022 and 2021.

4. REVENUE

An analysis of revenue is as follows:

	For the six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
<i>Revenue from contracts with customers</i>		
Sales of goods	<u>16,598,761</u>	<u>15,174,757</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.

5. PROFIT BEFORE TAX

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

	For the six months ended June 30,	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold*	6,761,083	5,933,765
Depreciation of property, plant and equipment	1,060,254	964,391
Depreciation of right-of-use assets	49,210	31,118
Amortisation of intangible assets**	4,289	5,066
Loss on disposal of items of property, plant and equipment	4,597	2,447
Employee benefit expenses (including directors' and chief executive's remuneration):		
Wages and salaries	1,259,321	1,081,196
Pension scheme contributions, social welfare and other welfare***	221,473	179,278
Equity-settled share-based payment expenses	71,575	–
Research and development costs****	107,863	75,562
Expenses relating to short-term leases and leases of low-value assets	64,840	73,323
Provision of inventories	18,093	–
Impairment of trade receivables	7,043	6,244
Impairment/(write-back of impairment) of financial assets included in prepayments, other receivables and other assets	1,399	(1,388)
Fair value gains on financial assets at fair value through profit or loss	(2,289)	(872)
Fair value loss/(gains) on derivative financial instruments	1,437	(6,897)

* 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.

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

**** Research and development costs 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.

6. INCOME TAX

	For the six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Current – the People’s Republic of China (the “PRC”)		
Charge for the period	1,606,306	1,386,687
Under-provision in prior periods	243	23,353
Deferred	(145,619)	(96,180)
Total	<u>1,460,930</u>	<u>1,313,860</u>

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 period. 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 and the State Administration of Taxation, enterprises located in the western region of the PRC with over 60% 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, 2021 to December 31, 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 accredited as “High and New Technology Enterprise” and were therefore entitled to a preferential income tax rate of 15% during the reporting periods. 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 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 period.

7. DIVIDENDS

	For the six months ended June 30,	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
Dividends declared by the Company	5,060,910	1,911,899

On June 14, 2022, the Company's shareholders approved 2021 final dividend of RMB0.45 for every share of the Company's 11,246,466,400 shares, in an aggregate amount of RMB5,060,910,000, which was included in "other payables and accruals".

Except for dividend attributable to the shares held by the trustee in relation to employee share incentive scheme that would be paid by the trustee to the relevant employees no earlier than the unlocking date, the rest of the dividend was subsequently paid in July 2022.

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 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 11,244,681,558 (June 30, 2021: 11,246,466,400).

The impact of shares granted to employees in relation to employee share incentive scheme was included in the computation of dilutive earnings per share for the period ended June 30, 2022. A calculation was done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the period) based on the monetary value of the subscription rights.

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:

	June 30, 2022 RMB'000 (Unaudited)	December 31, 2021 RMB'000 (Audited)
Within 90 days	572,054	432,186
91 to 180 days	35,434	16,036
181 to 365 days	37,894	28,054
	645,382	476,276

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:

	June 30, 2022 RMB'000 (Unaudited)	December 31, 2021 RMB'000 (Audited)
Within 90 days	1,455,316	1,001,840
91-180 days	58,429	82,956
181-365 days	35,369	25,544
Over 1 year	50,040	42,793
	<u>1,599,154</u>	<u>1,153,133</u>

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, 2022. 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

Since the beginning of this year, we have witnessed a complex and volatile international environment, frequent and scattered domestic pandemic outbreaks, and the steady operation of the economy impacted by unexpected circumstances. During the second quarter in particular, the downward pressure on the economy increased significantly due to the domestic pandemic. Thanks to the overall improvement of pandemic prevention and control, supported by a series of policy measures to stabilize the economy, the gross domestic product (GDP) of China in the first half of 2022 reached RMB56,264.2 billion, representing a year-on-year increase of 2.5%.

According to the data from Ministry of Industry and Information Technology, from January to June 2022, the output of beverage manufacturing enterprises above designated size in China decreased by 1.5% year-on-year to 90,662,000 tonnes. The output of beverages in June was 18,280,000 tonnes, representing a year-on-year decrease of 2.8%. Furthermore, international oil prices experienced a rapid rise in the first half of this year, with wide-range fluctuations at a high level. Complicated geopolitical conflicts brought volatility and uncertainty to the changes in crude oil price. The most important raw material for our product packaging, PET, is a downstream product of crude oil. The rising trend and uncertainty in crude oil price imposed pressures on our production cost control. However, the promotion of health awareness of consumers under the pandemic has also brought new growth space for natural and healthy products.

BUSINESS REVIEW

In the first half of 2022, the Group recorded a revenue of RMB16,599 million, representing an increase of 9.4% as compared with the corresponding period of last year, of which the revenue from packaged drinking water products increased by 4.8% as compared with that in the first half of last year, accounting for 56.3% of the total revenue. The revenue from beverage products increased by 18.8% as compared with the same period of last year, accounting for 43.0% of the total revenue. 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,					
	2022		2021		Change	
	Revenue (RMB million)	Percentage of total revenue	Revenue (RMB million)	Percentage of total revenue	Amount (RMB million)	Percentage
Packaged drinking water products	9,349	56.3%	8,919	58.8%	430	4.8%
Tea beverage products	3,307	19.9%	2,182	14.4%	1,125	51.6%
Functional beverage products	2,023	12.2%	2,004	13.2%	19	0.9%
Juice beverage products	1,275	7.7%	1,224	8.1%	51	4.2%
Other products (<i>Note</i>)	645	3.9%	846	5.5%	-201	-23.8%
Total	16,599	100.0%	15,175	100%	1,424	9.4%

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

Packaged drinking water products

The sales of packaged drinking water generally maintained good momentum in the first quarter of 2022, but was impacted by the COVID-19 pandemic in the second quarter. During the Reporting Period, revenue from packaged drinking water products of the Group was RMB9,349 million, representing an increase of only 4.8% as compared with the same period of last year, accounting for 56.3% of the total revenue.

During the Chinese New Year of 2022, we continued our tradition of launching an anniversary edition of zodiac version of natural mineral water (glass bottled) in Chinese year of “Tiger”. We also launched an animation advertisement called as “Golden Tigers Dream Big” (《太空的團圓》) which was produced jointly with China Space Foundation, and a documentary “a Lunch of Family Reunion” (《意外的團圓飯》) which was cooperated with famous swimmers, conveying best wishes to consumers that “As long as we have a home in our heart, reunion can be achieved no matter how far we are.” (「只要心裏有家，再遠都能團圓」). Our “Changbai Snow” (「長白雪」) launched a limited edition for the Chinese year of “Tiger” and continued to published two commercials in documentary style, “Every Snowfall is an Unexpected Surprise” (《每一場雪都有意想不到的驚喜》) and “Mothers in Changbai Mountain” (《長白山的母親們》), conveying the product characteristics of “Changbai Snow” sourcing from natural jokul mineral water on the Changbai Mountain and the brand value of “The quality of the water source defines the quality of life” (「什麼樣的水源孕育什麼樣

的生命」) to consumers. Our Nongfu Spring drinking natural water (suitable for infants and young children) launched limited-edition IP bottles co-branded with Disney’s classic “Animal Series”, conveying the brand concept of “Born with Love, accompanied by Nature” (「天生有愛，天然相伴」) to consumers.

Tea beverage products

Our tea beverage products were further recognised by consumers. During the Reporting Period, we recorded a revenue of RMB3,307 million, representing an increase of 51.6% as compared with the same period of last year, accounting for 19.9% of the total revenue.

We have launched two new flavors of “Tea π” (「茶π」) – Citrus Pu’er Lemon Tea and Green Grape Oolong Tea, and simultaneously conducted the “New Taste, New Tea Pai!” (「新口味，新茶派！」) activity for trying out. By launching the 900ml-sized package of “Tea π” series of Grapefruit Jasmine Tea and Yuzu Green Tea, the product matrix of “Tea π” was further enriched to meet the different needs of consumers and broaden the consumption scenes.

During the Reporting Period, we continued to release the brand advertisement of “Oriental Leaf” (「東方樹葉」) to strengthen the product advantages of “Oriental Leaf” with “zero sugar, zero calory, zero fat, zero essence, zero preservative” (「0糖0卡0脂0香精0防腐劑」), enabling consumers to deeply perceive the charm of Chinese tea. In the spring of 2022, we timely launched the spring limited product “Longjing Spring Tea” (「龍井新茶」). In combination with the promotion themed “Spring starts with a cup of spring tea” (「春天，從一杯新茶開始」), we endeavored to transmit Chinese tea culture to more and more consumers who love “Oriental Leaf”.

In March 2022, we launched brand-new series of carbonated tea product, “Sparkling Tea Drink” (「汽茶」), inheriting the classic slogan of “Full of ‘sparkle’” (「底「汽」十足」) and breaking through the inherent boundaries of tea and carbonated beverages. Through the three innovative flavors of passion fruit oolong, citrus pu’er and wampee jasmine, it emphasises the concept of real tea and low sugar, with an aim to provide consumers with a refreshing and low-burden drinking experience.

Functional beverage products

Impacted by the COVID-19 pandemic, consumers lessened their outdoor activities and the demand for functional beverage products declined. During the Reporting Period, revenue from functional beverage products of the Group amounted to RMB2,023 million, which was almost equal to that of the same period of last year, accounting for 12.2% of the total revenue.

During the Reporting Period, “Scream” (「尖叫」) beverage and Ultraman launched co-branded bottles, and conducted brand activities themed “Scream Energy, Guardian of Light” (「尖叫能量，光之守護」). “Vitamin Water” (「維他命水」) continued the route of trendy functional beverages, by joining hands with the Strawberry Music Festival to launch the Douyin trials “Vitamin Water Sends You to Strawberry” (「維他命水送你上草莓」), providing “music vitamins” (「音樂維他命」) for young music lovers.

Juice beverage products

During the Reporting Period, revenue from juice beverage products of the Group amounted to RMB1,275 million, representing an increase of 4.2% as compared with the corresponding period of last year, accounting for 7.7% of the total revenue.

During the Chinese New Year in 2022, we carried out the combined display and co-branding activities of NFC juice and 17.5° Fresh Fruits, to demonstrate the high-end positioning of NFC juice that good juice is produced from agricultural source, thus enabling consumers to perceive that “Good Fruit Juice is Grown” (“好果汁是種出來的”).

Other products

Other products primarily include other beverage products such as soda water beverage, sparkling flavored beverage and coffee beverage, as well as agricultural products such as fresh fruits etc. Amid the pandemic, we adopted a strategy of assigning priority to operational efficiency and further aggregating resources, which led to a decrease of sales in other products. During the Reporting Period, the Group’s other products recorded a revenue of RMB645 million, representing a decrease of 23.8% as compared with the same period of last year, accounting for 3.9% of the total revenue.

Outlook

In the second half of the year, affected by external factors such as the Ukraine crisis and U.S. Fed’s interest rate hike, the international environment remains complex and grave, and pressures on cost control will further increase. The COVID-19 pandemic outbreaks recurred from time to time; summer rainfall increased in some regions in China; other regions experienced sustained high temperature; some selected areas even had to restrict power supply – all of the above factors have brought challenges to our business and development. But at the same time, the growing health awareness of people has highlighted the advantages of our long-established brands and products. We will always adhere to the philosophy of nature and health, continuously adopt a pragmatic attitude, dynamically adjust the Company’s operations, and pro-actively cope with various challenges and opportunities.

FINANCIAL REVIEW

Revenue and Gross Profit

During the Reporting Period, the Group recorded a revenue of RMB16,599 million, representing an increase of 9.4% as compared with RMB15,175 million in the first half of last year; and the gross profit was RMB9,838 million, representing an increase of 6.5% as compared with RMB9,241 million in the first half of last year. During the Reporting Period, the Group’s gross profit margin decreased from 60.9% in the corresponding period of last year by 1.6% to 59.3%, which was mainly due to the increase in the Group’s PET procurement costs as a result of changes in international crude oil prices.

Selling and Distribution Expenses

During the Reporting Period, the selling and distribution expenses of the Group amounted to RMB3,612 million, representing an increase of 1.6% as compared with RMB3,554 million in the first half of last year. During the Reporting Period, the selling and distribution expenses of the Group accounted for 21.8% of the total revenue, representing a decrease of 1.6% as compared with 23.4% in the first half of last year. Affected by the COVID-19 pandemic, the investment in advertising expenses decreased during the Reporting Period.

Administrative Expenses

During the Reporting Period, the administrative expenses of the Group amounted to RMB876 million, representing an increase of 32.1% as compared with RMB663 million in the first half of last year. The proportion of administrative expenses to total revenue also increased to 5.3% from 4.4% in the first half of last year. During the Reporting Period, the Group implemented the share incentive scheme, and the research and development expenses also increased.

Other Income and Gains

During the Reporting Period, other income and gains of the Group amounted to RMB751 million, representing an increase of 96.6% as compared with RMB382 million in the first half of last year, and accounting for 4.5% of the total revenue, which was mainly due to the exchange gains caused by the foreign currencies from the initial public offering proceeds and the interest income from time deposits. During the Reporting Period, exchange gains amounted to approximately RMB204 million. As of June 30, 2022, the Group held HK\$1,466 million, US\$443 million and a small amount of other foreign currencies, representing a slight decrease as compared with the HK\$1,485 million, US\$491 million and a small amount of other foreign currencies held in December 31, 2021.

Finance Costs

During the Reporting Period, the finance costs of the Group slightly decreased from RMB24 million in the corresponding period of last year to RMB22 million.

Profit for the Period

As a result of the aforementioned changes, profit of the Group during the Reporting Period was increased by 14.8% from RMB4,013 million in the first half of last year to RMB4,608 million.

Dividends

The Board resolved not to declare an interim dividend for the six months ended June 30, 2022.

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

As of June 30, 2022, the sum of long-term bank deposits, pledged deposits, cash and bank balances of the Group amounted to RMB20,659 million, representing an increase of 29.9% as compared with RMB15,909 million as of December 31, 2021. The total credit facility of the Group was RMB12,855 million and interest-bearing borrowings amounted to RMB2,837 million as of June 30, 2022, representing an increase of 13.5% as compared with RMB2,500 million as of December 31, 2021, with due repayment of a total amount of RMB2,250 million as of June 30, 2022. All of the borrowings are denominated in RMB. Among the total borrowings as of June 30, 2022, the borrowings of RMB100 million were charged at a fixed interest rate (not including discounted bank acceptances). The Group does not have any interest rate hedging policy.

Inventories

During the Reporting Period, we focused on our key items and improved operational efficiency. Inventories of the Group decreased from RMB1,809 million as at December 31, 2021 to RMB1,722 million as at June 30, 2022. Inventory turnover days decreased from 54.8 days in 2021 to 47.7 days in the first half of 2022.

Trade and Bills Receivables

Trade and bills receivables of the Group increased from RMB476 million as at December 31, 2021 to RMB645 million as at June 30, 2022. Trade and bills receivables turnover days increased from 5.1 days in 2021 to 6.2 days in the first half of 2022.

Trade and Bills Payables

Trade and bills payables of the Group increased from RMB1,153 million as at December 31, 2021 to RMB1,599 million as at June 30, 2022. Trade and bills payables turnover days increased from 30.8 days in 2021 to 37.1 days in the first half of 2022.

Gearing Ratio

As at June 30, 2022, the gearing ratio of the Group (equaling (interest-bearing borrowings + lease liabilities)/equity) was 14.5% (there was no minority shareholders in the Group during the Reporting Period), representing an increase as compared with the gearing ratio of the Group as at December 31, 2021 being 12.5%, mainly due to our increased use of bills receivable financing.

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

There have been no material events of the Group from June 30, 2022 until the date of this announcement.

FOREIGN EXCHANGE RISK

As of June 30, 2022, the Group held HK\$1,466 million, US\$443 million and a small amount of other foreign currencies. As of the date of this announcement, the exchange rates of the U.S. dollar and the Hong Kong dollar have both increased, but we still 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 June 30, 2022, the Group did not have any material contingent liabilities.

CAPITAL EXPENDITURE AND CAPITAL COMMITMENTS

Our capital expenditures amounted to approximately RMB3,378 million as at June 30, 2022, mainly used for construction of production plants and purchase of production equipment.

PLEDGE OF ASSETS

As at June 30, 2022, bank deposit of RMB2.9 million (December 31, 2021: RMB3.6 million) 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 subsidiaries, associates and joint ventures during the Reporting Period.

FUTURE PLAN FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at the date of this announcement, save for the “Future Plans and Use of Proceeds” disclosed in the prospectus issued by the Company on August 25, 2020 (the “**Prospectus**”), the Group did not have any existing plan for acquiring other material investments or capital assets.

HUMAN RESOURCES AND EMOLUMENT POLICY

As at June 30, 2022, the total number of employees of the Group exceeded 20,000. During the Reporting Period, the total employee benefit expenses (including directors' remuneration) amounted to RMB1,552 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 who play an important role in the Group's business performance and future development. For details, please refer to the relevant content of the 2021 annual report of the Company. As of June 30, 2022, the Awards granted in the Grant correspond to 6,636,400 H Shares of the Company, accounting for 0.059% of the total issued shares of the Company and 0.1318% of the issued H Shares of the Company. Among them, 2,610,000 incentive shares have met the conditions for the First Tranche Vesting and belonged to the corresponding incentive objects, while the remaining 44,184 incentive shares that did not meet the vesting conditions have become confiscated shares and been sold out completely by the trustee under the instruction of the Company at the market price in the open market. The proceeds from the disposal of the confiscated shares, after repaying the self-owned capital contribution paid by the incentive objects when subscribing for the granted shares, will be retained by the trustee and incorporated into the trust fund pool for further purchase of incentive shares during the implementation of the Employee Share Incentive Scheme in the future. Pursuant to the provisions of the Employee Share Incentive Scheme, the grant price under the grant is 30% of the average closing price of the Company's H Shares in the 120 Hong Kong trading days before the grant date, being HK\$13.22 per incentive share. The 108 Scheme Participants in the Grant include Mr. Liu Xiyue and Mr. Rao Minghong, the supervisors of the Company ("**Supervisors**"). The number of H Shares of the Company underlying the Awards granted to each of them is 99,000. The number of H Shares of the Company underlying the Awards granted to 1 employee of Yangshengtang Group is 39,600. Such employee made significant contributions to the construction of the information system of the Group during the participation in the connected transaction project where Yangshengtang Group provided IT services to the Group. The remaining 105 Scheme Participants are all employees of the Group, excluding the Directors, Supervisors, other connected persons of the Company and shareholders registered in the register of members of the Company on the day before the listing of the Company's H Shares (being September 7, 2020).

USE OF PROCEEDS FROM THE LISTING

From September 8, 2020 (the “**Listing Date**”) to June 30, 2022, the Group has gradually used the proceeds from the initial public offering for the intended purposes set out in the Prospectus.

The sum of initial public offering proceeds from the listing of the shares of the Company on the Main Board of the Stock Exchange of Hong Kong Limited (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, 2022, the Group has utilised approximately HK\$4,803 million of the proceeds for the intended purposes set out in the Prospectus issued by the Company, accounting for 51.22% of all raised funds, and the remaining unutilised proceeds are approximately HK\$4,574 million. The balance of the proceeds from the Listing will continue to be utilised according to the purposes and proportions disclosed in the Prospectus. The details are set out below:

	Net proceeds from the Listing available <i>(HK\$ million)</i>	Actual net amount utilised as at June 30, 2022 <i>(HK\$ million)</i>	Unutilised net amount as at June 30, 2022 <i>(HK\$ million)</i>	Expected timeline for utilising unutilised net amount <i>(Note 1)</i>
Brand building	2,344	990	1,354	December 31, 2024
Purchasing sales equipment	2,344	371	1,973	December 31, 2024
Purchasing production facilities and building new factories	1,875	1,355	520	December 31, 2024
Strengthening fundamental capabilities	938	212	726	December 31, 2024
Repaying loans	938	938	–	N/A
Working capital and other general corporate purposes	938	938	–	N/A
Total	9,377	4,803 <i>(Note 2)</i>	4,574 <i>(Note 2)</i>	December 31, 2024

Notes:

- During the Reporting Period, the operating environment of the Group was affected by the COVID-19 pandemic, and the business growth slowed down. Taking into account the unpredictable conditions and market changes, the Group has decided to extend the expected timetable for fully utilising the proceeds from the Listing from December 31, 2023 as set out in the 2021 annual report of the Company to December 31, 2024. The Directors consider that the extension of the above expected timetable is a financially prudent initiative, will not have any material adverse impact on the existing business and operations of the Group, and is in the best interests of the Company and its shareholders as a whole.
- There may be a difference between the total and the sum of the sub-items due to rounding.

INTERIM DIVIDEND

The Board resolved not to declare an interim dividend for the six months ended June 30, 2022.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules (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, 2022, and confirmed 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, 2022 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 CG CODE

The Company is committed to the best practices on corporate governance, and has complied with the code provisions of the CG Code since the January 1, 2022 and up to the date of this announcement, save for the deviation from the code provision C.2.1 under Part 2 of the CG Code disclosed below.

Pursuant to code provision C.2.1 under Part 2 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 growth and business expansion of the Group since the Company’s establishment in 1996. The Board is of the view that vesting both roles of chairman and general manager in Mr. Zhong Shanshan is beneficial to the management of the Company.

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 consider that the Board has a fairly strong independence element in its composition.

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 CODE OF CONDUCT REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) under Appendix 10 to the 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 announcement is published on the website of the Stock Exchange (<http://www.hkexnews.hk>) and the website of the Company (<http://www.nongfuspring.com>), and the interim report for the six months ended June 30, 2022 of the Company will be published on the aforementioned websites and dispatched to the shareholders of the Company in due course.

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

Hong Kong, August 24, 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.