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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, 2022**

### **HIGHLIGHTS OF 2022 ANNUAL RESULTS**

- Total revenue was RMB33,239 million, representing a year-on-year increase of 11.9%;
- Profit attributable to the owners of the parent was RMB8,495 million, representing a year-on-year increase of 18.6%;
- Basic earnings per share were RMB0.76, representing a year-on-year increase of 18.8%;
- The distribution of a final dividend is recommended of RMB0.68 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**” or “**we**”) for the year ended December 31, 2022 (the “**Reporting Period**”) prepared in accordance with the International Financial Reporting Standards (the “**IFRS**”) (this “**announcement**”), together with the comparative figures for the corresponding period of 2021.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS***Year ended December 31, 2022*

		<b>2022</b>	2021
	<i>Notes</i>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>REVENUE</b>	3	<b>33,239,187</b>	29,696,406
Cost of sales		<u>(14,143,776)</u>	<u>(12,040,188)</u>
Gross profit		<b>19,095,411</b>	17,656,218
Other income and gains	4	<b>1,709,159</b>	873,562
Selling and distribution expenses		<b>(7,820,691)</b>	(7,233,070)
Administrative expenses		<b>(1,835,125)</b>	(1,750,929)
Other expenses	4	<b>(22,394)</b>	(138,536)
Finance costs	6	<u><b>(76,028)</b></u>	<u>(52,945)</u>
<b>PROFIT BEFORE TAX</b>	5	<b>11,050,332</b>	9,354,300
Income tax expense	7	<u><b>(2,555,082)</b></u>	<u>(2,192,506)</u>
<b>PROFIT FOR THE YEAR</b>		<u><b>8,495,250</b></u>	<u>7,161,794</u>
Attributable to owners of the parent		<u><b>8,495,250</b></u>	<u>7,161,794</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>RMB0.76</b></u>	<u>RMB0.64</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2022

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Profit for the year	<u>8,495,250</u>	<u>7,161,794</u>
<b>OTHER COMPREHENSIVE INCOME</b>		
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>1,835</u>	<u>(543)</u>
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	<u>1,835</u>	<u>(543)</u>
Other comprehensive income/(loss) for the year, net of tax	<u>1,835</u>	<u>(543)</u>
Total comprehensive income for the year	<u>8,497,085</u>	<u>7,161,251</u>
Attributable to owners of the parent	<u>8,497,085</u>	<u>7,161,251</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2022

	<i>Notes</i>	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>15,397,585</b>	12,800,140
Right-of-use assets		<b>853,488</b>	724,242
Intangible assets		<b>58,077</b>	65,104
Deferred tax assets		<b>433,105</b>	293,090
Long-term bank deposits		<b>4,101,670</b>	1,121,461
Other non-current assets		<b>49,435</b>	56,405
		<hr/>	<hr/>
Total non-current assets		<b>20,893,360</b>	15,060,442
<b>CURRENT ASSETS</b>			
Inventories		<b>2,108,372</b>	1,809,230
Trade and bills receivables	<i>10</i>	<b>478,587</b>	476,276
Prepayments, other receivables and other assets		<b>560,307</b>	558,169
Financial assets at fair value through profit or loss		–	204,754
Pledged deposits		<b>3,059</b>	3,648
Cash and bank balances		<b>15,211,156</b>	14,783,577
		<hr/>	<hr/>
Total current assets		<b>18,361,481</b>	17,835,654
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	<i>11</i>	<b>1,425,069</b>	1,153,133
Other payables and accruals		<b>6,505,820</b>	4,487,638
Contract liabilities		<b>2,677,190</b>	2,350,952
Interest-bearing borrowings		<b>2,425,093</b>	2,500,108
Lease liabilities		<b>68,678</b>	46,721
Tax payables		<b>1,499,579</b>	1,050,359
		<hr/>	<hr/>
Total current liabilities		<b>14,601,429</b>	11,588,911
<b>NET CURRENT ASSETS</b>		<hr/> <b>3,760,052</b>	<hr/> 6,246,743
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<hr/> <b>24,653,412</b>	<hr/> 21,307,185

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)***As at December 31, 2022*

	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>NON-CURRENT LIABILITIES</b>		
Deferred income	<b>291,420</b>	264,550
Deferred tax liabilities	<b>246,737</b>	257,697
Lease liabilities	<b>31,179</b>	43,304
	<hr/>	<hr/>
Total non-current liabilities	<b>569,336</b>	565,551
	<hr/>	<hr/>
<b>NET ASSETS</b>	<b>24,084,076</b>	20,741,634
	<hr/>	<hr/>
<b>EQUITY</b>		
Equity attributable to owners of the parent		
Share capital	<b>1,124,647</b>	1,124,647
Reserves	<b>22,959,429</b>	19,616,987
	<hr/>	<hr/>
Total equity	<b>24,084,076</b>	20,741,634
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## NOTES TO THE FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT 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 Board 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, 2022. 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).

Generally, there is a presumption that a majority of voting rights results in control. 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 3	<i>Reference to the Conceptual Framework</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>
<i>Annual Improvements to IFRSs 2018-2020</i>	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

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 10 and IAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>
Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback</i> <sup>2</sup>
IFRS 17	<i>Insurance Contracts</i> <sup>1</sup>
Amendments to IFRS 17	<i>Insurance Contracts</i> <sup>1,5</sup>
Amendment to IFRS 17	<i>Initial Application of IFRS 17 and IFRS 9 – Comparative Information</i> <sup>6</sup>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current (the “2020 Amendments”)</i> <sup>2,4</sup>
Amendments to IAS 1	<i>Non-current Liabilities with Covenants (the “2022 Amendments”)</i> <sup>2</sup>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> <sup>1</sup>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i> <sup>1</sup>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> <sup>1</sup>

- 1 Effective for annual periods beginning on or after January 1, 2023
- 2 Effective for annual periods beginning on or after January 1, 2024
- 3 No mandatory effective date yet determined but available for adoption
- 4 As a consequence of the 2022 Amendments, the effective date of the 2020 Amendments was deferred to annual periods beginning on or after January 1, 2024
- 5 As a consequence of the amendments to IFRS 17 issued in June 2020, IFRS 4 was amended to extend the temporary exemption that permits insurers to apply IAS 39 rather than IFRS 9 for annual periods beginning before January 1, 2023
- 6 An entity that chooses to apply the transition option relating to the classification overlay set out in this amendment shall apply it on initial application of IFRS17

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, 2022	products	drink tea	drinks	beverage	products	
	RMB'000	products	products	products	RMB'000	RMB'000
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Segment revenue (note 3)</b>						
Sales to external customers	18,262,614	6,905,986	3,837,605	2,878,830	1,354,152	33,239,187
<b>Segment results</b>	<b>6,443,392</b>	<b>2,753,270</b>	<b>1,533,987</b>	<b>580,039</b>	<b>280,332</b>	<b>11,591,020</b>
<i>Reconciliation:</i>						
Interest income						623,360
Other unallocated income and gains						1,085,799
Corporate and other unallocated expenses						(2,173,819)
Finance costs						(76,028)
Profit before tax						<u>11,050,332</u>
Other segment information						
Depreciation and amortisation	<u>1,007,132</u>	<u>407,856</u>	<u>233,476</u>	<u>223,067</u>	<u>100,831</u>	<u>1,972,362</u>

Year ended December 31, 2021	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 (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>	6,575,332	1,832,376	1,594,995	503,257	225,746	10,731,706
<i>Reconciliation:</i>						
Interest income						330,656
Other unallocated income and gains						542,906
Corporate and other unallocated expenses						(2,198,023)
Finance costs						<u>(52,945)</u>
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>

### 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, 2022 and 2021.

## 3. REVENUE

An analysis of revenue is as follows:

	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
<i>Revenue from contracts with customers</i>		
Sale of goods	<u>33,239,187</u>	<u>29,696,406</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

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
<b>Other income</b>		
Government grants and subsidies		
related to income	412,529	324,271
related to assets	25,799	23,785
Interest income	623,360	330,656
Income from compensation	20,631	21,168
Sales of scraps	84,672	83,731
Others	87,495	48,067
	<u>1,254,486</u>	<u>831,678</u>
<b>Gains</b>		
Fair value gains on financial assets at fair value through profit or loss	2,289	4,754
Gain on disposal of derivative instruments	–	7,331
Foreign exchange gain, net	370,122	–
Others	82,262	29,799
	<u>454,673</u>	<u>41,884</u>
	<u>1,709,159</u>	<u>873,562</u>
<b>Other expenses</b>		
Foreign exchange loss, net	–	(116,619)
Loss on disposal of derivative instruments	(634)	–
Donations	(1,169)	(1,996)
Loss on disposal of items of property, plant and equipment	(14,456)	(9,803)
Others	(6,135)	(10,118)
	<u>(22,394)</u>	<u>(138,536)</u>

## 5. PROFIT BEFORE TAX

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

	<i>Note</i>	<b>2022</b> <b>RMB'000</b>	2021 <i>RMB'000</i>
Cost of inventories sold*		<b>14,143,776</b>	12,040,188
Depreciation of property, plant and equipment		<b>2,358,940</b>	2,287,083
Depreciation of right-of-use assets		<b>119,238</b>	83,123
Amortisation of intangible assets**		<b>8,747</b>	7,980
Employee benefit expenses (including directors' and chief executive's remuneration):			
Wages and salaries		<b>2,708,554</b>	2,494,041
Pension scheme contributions, social welfare and other welfare***		<b>450,640</b>	387,496
Equity-settled share-based payment expenses		<b>101,793</b>	–
Research and development costs****		<b>277,166</b>	124,912
Expenses relating to short-term leases and leases of low-value assets		<b>163,312</b>	191,190
Impairment of inventories		<b>16,372</b>	–
(Write-back of impairment)/impairment of trade receivables	<i>10</i>	<b>(3,434)</b>	11,401
Write-back of impairment of financial assets included in prepayments, other receivables and other assets		<b>(715)</b>	(2,654)
(Loss)/gain on disposal of derivative instruments		<b>(634)</b>	7,331
Fair value gains on financial assets at fair value through profit or loss		<b>2,289</b>	4,754
Auditor's remuneration		<b>6,566</b>	6,789

\* 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, 2022 and 2021 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.

\*\*\*\* 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. FINANCE COSTS

An analysis of finance costs is as follows:

	<b>2022</b> <b>RMB'000</b>	2021 <i>RMB'000</i>
Interest on interest-bearing borrowings	<b>70,628</b>	47,565
Interest on lease liabilities	<b>5,400</b>	5,380
	<b>76,028</b>	52,945

## 7. INCOME TAX

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Current – PRC		
Charge for the year	2,708,095	2,123,838
(Over)/under provision in prior years	(2,038)	23,259
Current – Other jurisdictions	–	76
Deferred	(150,975)	45,333
Total	<u>2,555,082</u>	<u>2,192,506</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 year. According to the Tax Relief Notice (Cai Shui [2020] No. 23) on the Grand Development of Western Region jointly issued by the Ministry of Finance, the State Administration of Taxation and National Development and Reform Commission, 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 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, 2021 and 2022. 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, 2021 and 2022 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 2022.

### **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 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, were paid in July and August 2021 to shareholders of the Company.

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

The proposed 2022 final dividend for the year of RMB0.68 per ordinary share, equivalent to an aggregate of approximately RMB7,647,597,000, 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 11,243,556,102 (2021: 11,246,466,400) in issue during the year.

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 year. 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.

## 10. TRADE AND BILLS RECEIVABLES

	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Trade receivables	508,524	506,807
Bills receivable	574	3,414
Impairment	(30,511)	(33,945)
	<u>478,587</u>	<u>476,276</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 ultimate holding company and fellow subsidiaries of RMB47,000 and RMB2,755,000 as at December 31, 2022 (2021: Nil and RMB1,229,000), 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>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
Within 90 days	<b>440,293</b>	432,186
91 to 180 days	<b>17,890</b>	16,036
181 to 365 days	<b>20,404</b>	28,054
	<b>478,587</b>	476,276

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

	<b>2022</b> <i>RMB'000</i>	2021 <i>RMB'000</i>
At beginning of year	<b>33,945</b>	22,544
(Write-back of impairment)/impairment losses, net	<b>(3,434)</b>	11,401
At end of year	<b>30,511</b>	33,945

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>2022</b>	<b>Expected credit loss rate</b>	<b>Gross carrying amount RMB'000</b>	<b>Expected credit losses RMB'000</b>
Within 90 days	1.19%	445,036	5,317
91 to 180 days	11.06%	20,114	2,225
181 to 365 days	45.47%	37,421	17,016
Over 365 days	100.00%	5,953	5,953
		<b>508,524</b>	<b>30,511</b>
<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	0.92%	432,775	4,003
91 to 180 days	14.18%	18,687	2,651
181 to 365 days	40.87%	47,445	19,391
Over 365 days	100.00%	7,900	7,900
		<b>506,807</b>	<b>33,945</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>2022 RMB'000</b>	<b>2021 RMB'000</b>
Within 90 days	1,355,022	1,001,840
91 to 180 days	39,266	82,956
181 to 365 days	11,055	25,544
Over 1 year	19,726	42,793
	<b>1,425,069</b>	<b>1,153,133</b>

Included in the trade and bills payables are amounts due to the Group's fellow subsidiaries of RMB14,763,000 (2021: RMB6,615,000), which are repayable within 90 days.

## CHAIRMAN'S STATEMENT

Dear shareholders,

In 2022, Nongfu Spring continued to make progress while maintaining stability in spite of suffering hardships from the world environment and the COVID-19 pandemic. We respect nature, adhere to the concept of providing natural and healthy products, and constantly attempt to optimize our products. In view of this, we have been seeking after and developing new high-quality water sources. Owing to our construction and preparation for more than one year, our new production base located in Daming Mountain, Guangxi was completed and put into operation this year, increasing the number of our water sources to 12 across the country.

We insist on choosing distributors and partners that share the same values with us, and work together to strengthen channel construction and development of sales outlets. During the COVID-19 pandemic period, our employees and partners strove to overcome the difficulties and ensured the smooth flow of logistics and the supply of products with hard work and diligence. In particular, our Shanghai team brought into full play the responsibility, courage, teamwork and dedication of Nongfu Spring staff with practical actions in fighting against the COVID-19 pandemic.

Furthermore, we continued the development of information technology to match the business development and layout of our Group. We have not only further upgraded the digital marketing system, but also effectively optimized the production and logistics management and enhanced our supply efficiency by applying information technology, such as warehousing and logistics system, during the Reporting Period.

Depending on our team effort, the Group recorded a total revenue of RMB33,239 million in 2022, representing an increase of 11.9% as compared to 2021. The profitability of the Group also kept improving. Profit attributable to the owners of the parent in 2022 recorded further increase from RMB7,162 million in 2021 to RMB8,495 million (RMB8,295 million after deducting one-time non-operating gains and losses).

In light of the Group's operations in 2022, the Board will recommend the distribution of a cash dividend of RMB0.68 per share for the year ended December 31, 2022 at the forthcoming annual general meeting of the Company (amounting to a total dividend of approximately RMB7,647.6 million).

In the future, we will further strengthen the development and reserve of high-quality water resources and talent resources while continuing to deepen the exploration into R&D, brand, information, channels and other aspects, so as to ensure the long-term sustainable development of the Company.

As the term of office of the seventh session of the Board of Directors and the Supervisory Committee of the Company expired in March of this year, the Board has announced the replacement and adjustment plan for the new session of the Board of Directors, the Supervisory Committee and the senior management. For details, please refer to the Company's announcement published on the website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.nongfuspring.com](http://www.nongfuspring.com)) on March 3, 2023. This list of candidates not only considers the stability and sustainability of the Company's operations, but also fully takes into account the Company's future development needs. The appointment of the new Directors and Supervisors is still subject to approval by the General Meeting of Shareholders. Before that, all the current Directors and the Supervisory Committee of Nongfu Spring shall remain in office and will make every effort to assist the new management team in making preparations for taking over. Besides, the outgoing Executive Directors, except one who retires due to age, will continue to serve in the Company.

Last but not least, I would like to extend my sincere gratitude to every employee again for their commitments and contributions over the past year. In the future, all of our Nongfu Spring staff will go all out as always to repay all sectors of society for their long-term support and love to Nongfu Spring with better products and services!

**Zhong Shanshan**  
*Chairman*

Hangzhou, the People's Republic of China  
March 28, 2023

## MANAGEMENT DISCUSSION AND ANALYSIS

### Macro and Industry Environment

In 2022, the world economy suffered increasing downside risks due to the volatile geopolitical situation, while China's economy witnessed repeated impacts by multiple unexpected factors such as frequent and scattered pandemic outbreaks and extreme heat weather, so the development environment has become further complex. Despite so many unexpected situations, China's GDP still hit a new high to reach RMB121 trillion in 2022. However, the consumer market suffered greater impact from the pandemic, especially the consumption involving crowding and contacting of consumers was highly weakened. The total retail sales of consumer goods in China reached RMB44 trillion, representing a decrease of 0.2% as compared to last year. This situation improved somewhat in December, during which the total retail sales of consumer goods declined by 1.8% on a year-on-year basis, down by 4.1 percentage points as compared to that in November. As the pandemic prevention and control come to a new stage, we'll usher in the restoration of a normal production and living order, the accelerated expansion of offline consumption scenarios, and the gradual recovery of the consumer market.

The conflict between Russia and Ukraine has continuously brought uncertainty to the global energy market. As the price of crude oil rose in 2022, the price of raw materials such as PET, a downstream product of crude oil, also soared. This has increased the cost pressure of drinking water and beverage enterprises that use PET as the main raw materials for product packaging.

The Interim Measures for Supervision and Management of the Quality and Safety of Food-related Products, which was newly promulgated, has become effective since March 2023, aiming to further urge enterprises to fulfill their corporate responsibilities and improve their risk prevention and control capabilities. Consumers are increasingly concerned about health. Under the fierce competition of the industry, enterprises that insist on selecting healthy raw materials and strictly control product quality will further strengthen and exert their competitive advantages.

## BUSINESS REVIEW

In 2022, The Group's business experienced fluctuations and challenges along with changes in the pandemic in different quarters. The Group recorded annual revenue of RMB33,239 million, representing an increase of 11.9% as compared to 2021. Among which, the proportion of revenue from packaged drinking water products to total revenue was 54.9% and the proportion of revenue from beverage product to total revenue was 43.9%. 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:

Product Category	Year Ended December 31,			
	2022		2021	
	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue
Packaged drinking water products	18,263	54.9%	17,058	57.4%
Tea beverage products	6,906	20.8%	4,579	15.4%
Functional beverage products	3,838	11.5%	3,695	12.4%
Juice beverage products	2,879	8.7%	2,614	8.8%
Other products (note)	1,353	4.1%	1,750	6.0%
Total	<u>33,239</u>	<u>100.0%</u>	<u>29,696</u>	<u>100.0%</u>

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

### Packaged drinking water products

The revenue of our packaged drinking water products in 2022 was RMB18,263 million, representing an increase of 7.1% as compared to 2021 and accounting for 54.9% of our total revenue for the year. Sales in the packaged drinking water in the ready-to-drink channel suffered impact during the pandemic in 2022 due to the lockdown policy. In order to promote the sales of medium-to-large-size packaged drinking water, we launched the products with the new capacity specifications such as 4.5L and 6L, further improving the capacity specification matrix of our packaged drinking water.

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)". Later, we continued to publish 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 (長白雪)" 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. “Changbai Snow” has further approached the consumers through new packaging such as the limited edition for the Chinese year of “Tiger”, the cub series, etc. Due to its outstanding packaging design and advertising creativity, “Changbai Snow” has won several awards, including the German Red Dot Design Award, Pentawards Award for Packaging Design, ROI Festival for Advertising Creativity, etc.

## Tea beverage products

Our tea beverage products were constantly recognized and favored by consumers. The revenue from our tea beverage products in 2022 was RMB6,906 million, representing an increase of 50.8% as compared to 2021, accounting for 20.8% of the total revenue for the year.

During the Reporting Period, we have launched two new flavors of “Tea π (茶π)” – “Citrus Pu’er Lemon Tea (柑普檸檬茶)” and “Green Grape Oolong Tea (青提烏龍茶)”, and simultaneously conducted the “New Flavor, New Tea π (新口味，新茶派)” activity for trying out. By launching the 900 ml-sized package of “Tea π” series of “Grapefruit Jasmine Tea (西柚茉莉花茶)” and “Grapefruit Green Tea (柚子綠茶)”, the product matrix of “Tea π” was further enriched to meet the different needs of consumers and broaden the consumption scenarios. In the second half of 2022, we also launched music activities in cooperation with China’s well-known music streaming platform “QQ Music” and held “Campus Roadshow (校園路演)” to deeply interact with young consumers and spread the new spiritual core of “infinite possibilities, self-contained faction (無限可能，自成一派)”. The innovative favors of “Tea π” combined with the imaginative illustrated bottle packaging have gained wide attention and recognition in the market.

“Oriental Leaf (東方樹葉)” launched two seasonal limited products in 2022: In spring, it launched the spring limited product “Longjing Spring Tea (龍井新茶)”. In combination with the promotion theme of “Spring starts with a cup of spring tea (春天，從一杯新茶開始)”, it endeavors to transmit and promote Chinese tea culture; During the Mid-Autumn Festival, it further launched the second autumn and winter limited product “Osmanthus Oolong (桂花烏龍)”. In combination of the promotion theme of “Warm Hands and Warm Hearts (暖手暖心)”, it delivers the warm tea drinking experience to consumers, and enables more people to fall in love with Chinese tea through multi-scenario exploration. During the Reporting Period, we continued to release the brand advertisement of “Oriental Leaf” to strengthen its product advantages of “zero sugar, zero calorie, 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 March 2022, we launched a 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 emphasizes 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 pandemic, consumers lessened their outdoor activities, but attention has been paid to vitamin beverage products. The revenue from our functional beverage products in 2022 was RMB3,838 million, representing an increase of 3.9% as compared to 2021, accounting for 11.5% of the total revenue for the year.

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, and launched the Douyin trials “Vitamin Water Sends You to Strawberry (維他命水送你上草莓)” by joining hands with Modern Sky and Strawberry Music Festival, providing “Music Vitamins (音樂維他命)” for young music lovers. It has also launched the first “V-Break Dance Battle (VBD)”, and organized professional break dance competitions in seven cities and provinces, providing “Vitality Vitamins (活力維他命)” for young lovers of street dance.

## Juice beverage products

“Nongfu Spring” NFC juice was further favored by consumers. The revenue from our juice beverage products in 2022 was RMB2,879 million, representing an increase of 10.1% as compared to 2021, accounting for 8.7% of the total revenue for the year.

During the Reporting Period, we completely renovated and upgraded the “Farmer’s Orchard (農夫果園)”, which has a history of 19 years. In October and November 2022, “Farmer’s Orchard” launched five new and upgraded 30% mixed juice beverages with new logo and new packaging, subject to the brand concept of “shake before drinking, mix fruits with good flavors (喝前搖一搖，混合水果好味道)”. These products select high-quality raw materials, with intense fruit flavor and sophisticated taste, and continue to provide consumers and the market with better-quality juice beverages.

“Nongfu Spring” NFC Juice series further adheres to the brand concept of that “Good Fruit Juice is Grown” (好果汁是種出來的). We carried out NFC juice and 17.5° fresh fruit combination display and joint brand promotion activities to demonstrate the high-end positioning of NFC juice from the agricultural source, and emphasize its characteristics of “Not From Concentrate (非濃縮還原)”, “No Water, No Sugar, No Additives (不加水、不加糖、不加任何添加劑)”, allowing our fresh juice products to be further recognized and favored by consumers.

## 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 during the Reporting Period, which led to a decrease of sales in other products. In 2022, revenue from other products decreased by 22.7% to RMB1,353 million as compared to 2021, accounted for 4.1% of our total revenue in 2022.

## **R&D and Innovation**

The Group always adheres to the concept of providing natural and healthy products. Through R&D and innovation from different aspects, such as safety, quality, raw materials and technology, the Group continues to develop products that are suitable for consumer needs, and bring value to consumers.

In 2022, we launched a variety of innovative products. “Tea π (茶π)” launched the two new flavors of “Green Grape Oolong Tea (青提烏龍茶)” and “Citrus Pu’er Lemon Tea (柑普檸檬茶)” to further enrich its product lines. The whole product lines of “Farmer’s Orchard” were renovated and upgraded. Farmer’s Orchard selects high-quality fruits from the origin, and develops scientific proportion and technology of various fruits through in-depth research, so as to present products with intense and rich fruit flavor and improved quality. The “Yirgacheffe Selected Pure Black Coffee (耶加雪菲甄選純黑咖啡)” of “TANBING (炭灸)” has innovatively debuted ready-to-drink (“RTD”) coffee, made of coffee beans from Yirgacheffe, a high-quality coffee production region. Inheriting the standards of “TANBING (炭灸)” series products, it selects raw beans from the country of origin, self-develops the baking curve, and conducts self-baking and self-extraction. With all the coffee flavors 100% from the coffee beans themselves, the coffee deeply restores the characteristic flavors of Yirgacheffe berries and citrus, setting a new benchmark for RTD coffee in China.

## **Information system buildup**

To match the strategic business development and layout of the Group, we strengthened our marketing system and product supply chain system, further upgraded our digital marketing system, and launched the order management system and the warehousing and logistics system online in 2022, so as to enhance the operation efficiency of our production and logistics, facilitate digital transformation of our factories, and achieve efficient, automated and intelligent operation.

Meanwhile, we continued to upgrade and optimize the new retail operation platform, open up online and offline operation procedures for membership, supply chain and service, and further tap the potential of new retail business.

In addition to this, we have also launched the digital construction of human resources, built a HR base platform, and facilitated the transformation of HR sharing and operation through effective integration of personnel, technologies and processes.

## **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**

The Group recorded a revenue of RMB33,239 million in 2022, representing an increase of 11.9% as compared with RMB29,696 million in 2021. In 2022, gross profit of the Group was RMB19,095 million, representing an increase of 8.2% as compared with RMB17,656 million in 2021. During the Reporting Period, the Group's gross profit margin decreased by 2.1% from 59.5% in the corresponding period of last year to 57.4%, 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**

In 2022, sales and distribution expenses of the Group were RMB7,821 million, representing an increase of 8.1% as compared with RMB7,233 million in 2021; sales and distribution expenses of the Group accounted for 23.5% of the total revenue, representing a decrease of 0.9% as compared with 24.4% in 2021. This is mainly because the investment in advertising expenses decreased due to the impact of the COVID-19 pandemic during the Reporting Period.

### **Administrative Expenses**

In 2022, administrative expenses of the Group were RMB1,835 million, representing an increase of 4.8% as compared with RMB1,751 million in 2021. Administrative expenses accounted for 5.5% of our total revenue, representing a decrease of 0.4% as compared with 5.9% in 2021, and the proportion essentially maintained at the level.

### **Other Income and Gains**

In 2022, other income and gains of the Group amounted to RMB1,709 million, accounting for 5.1% of our total revenue, which was mainly due to the interest income from time deposits and the exchange gains caused by the foreign currencies from the unutilised initial public offering proceeds. In 2022, the exchange gains amounted to approximately RMB370 million. As of December 31, 2022, the Group held HK\$1,469 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 discount amount of bank acceptance bills used by the Group increased, and the finance costs increased from RMB53 million in 2021 to RMB76 million in 2022.

## **Profit for the Year**

As a result of the aforementioned changes, profit of the Group for the year increased by 18.6% from RMB7,162 million in 2021 to RMB8,495 million in 2022.

## **Dividends**

Having accounted for, including but not limited to, the Group's overall performance, surplus, overall financial condition, capital expenditures in 2022, the Board proposed to declare a final cash dividend of RMB0.68 per share (inclusive of tax, amounting to a total dividend of approximately RMB7,647.6 million) for the year ended December 31, 2022 at the forthcoming annual general meeting of the Company.

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

As of December 31, 2022, the sum of long-term bank deposits, pledged deposits, cash and bank balances of the Group amounted to RMB19,316 million, representing an increase of 21.4% as compared with RMB15,909 million as of December 31, 2021. The total credit facility of the Group was RMB12,710 million and interest-bearing borrowings amounted to RMB2,425 million as of December 31, 2022, representing a decrease of 3.0% as compared with RMB2,500 million as of December 31, 2021, with due repayment of a total amount of RMB6,563 million as of December 31, 2022. All of the borrowings are denominated in RMB. Among the total borrowings as of December 31, 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**

Inventories of the Group increased by 16.5% from RMB1,809 million as at December 31, 2021 to RMB2,108 million as at December 31, 2022. Due to inventory turnover driven by growth in sales, inventory turnover days decreased from 54.8 days as at December 31, 2021 to 50.5 days as at December 31, 2022.

## **Trade and Bills Receivables**

Trade and bills receivables of the Group increased from RMB476 million as of December 31, 2021 to RMB479 million as of December 31, 2022. The turnover days of trade and bills receivables slightly increased from 5.1 days as at December 31, 2021 to 5.2 days as at December 31, 2022.

## **Trade and Bills Payables**

Trade and bills payables of the Group increased from RMB1,153 million as of December 31, 2021 to RMB1,425 million as of December 31, 2022. The turnover days of trade and bills payables increased from 30.8 days as at December 31, 2021 to 33.3 days as at December 31, 2022.

## **Gearing Ratio**

As at December 31, 2022, the gearing ratio of the Group (equaling (interest-bearing borrowings + lease liabilities)/equity) was 10.5% (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, 2021 being 12.5%, mainly due to the growth in interest-bearing borrowings of the Group in 2022 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**

There have been no material events of the Group from December 31, 2022 until the date of this report.

## **FOREIGN EXCHANGE RISK**

As of December 31, 2022, the Group held HK\$1,469 million, US\$443 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 against RMB have both increased, 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 instruments for hedging purposes when necessary to help reduce foreign exchange risks.

## **CONTINGENT LIABILITIES**

As of December 31, 2022, the Group did not have any significant contingent liabilities.

## **CAPITAL COMMITMENTS**

Capital commitments of the Group amounted to approximately RMB1,542 million as at December 31, 2022, mainly used for construction of production plants and purchase of production equipment.

## **PLEDGE OF ASSETS**

As at December 31, 2022, no assets of the Group 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 at the Latest Practicable Date, 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, 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 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, 2022, the Group has utilised approximately HK\$4,896 million of the proceeds for the intended purposes set out in the Prospectus issued by the Company, accounting for 52.2% of all raised funds, and the remaining unutilised proceeds is approximately HK\$4,481 million. The balance of the proceeds from the Listing will continue to be utilised 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, 2022 (HK\$ million)	Unutilised net amount for the year ended December 31, 2022 (HK\$ million)	Expected timeline for utilising unutilised net amount
Brand building	2,344	1,003	1,341	December 31, 2024
Purchasing sales equipment	2,344	371	1,973	December 31, 2024
Purchasing production facilities and building new factories	1,875	1,434	441	December 31, 2024
Strengthening fundamental capabilities	838	212	626	December 31, 2024
Repaying loans	938	938	–	N/A
Working capital and other general corporate purposes	938	938	–	N/A
Total	<u>9,377</u>	<u>4,896</u>	<u>4,481</u>	December 31, 2024

## 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, 2022 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 2022, the Group did not have any material non-compliance with such laws and regulations.

## **HUMAN RESOURCES AND EMOLUMENT POLICY**

As at December 31, 2022, the total number of employees of the Group exceeded 20,000. In 2022, the total employee benefit expenses (including directors' remuneration) amounted to RMB3,261 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 of the Employee Share Incentive Scheme, please refer to the relevant content of the 2021 annual report of the Company.

During the Reporting Period, the Awards granted by the Company according to the Employee Share Incentive Scheme 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 employee was transferred to the Group in 2023). 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).

## **Outlook**

In 2023, with the optimized implementation of epidemic prevention and control policies, the consumer market is expected to recover and the consumption scenes are also recovering in an orderly manner. We will continue to provide healthy and natural products, explore and develop more innovative and high-quality products to meet the changing needs of consumers, and continue to expand sales channels and expand market share. However, we should also note that the epidemic may recur again, and we will strengthen our attention and actively respond to it. After the epidemic, public consumption psychology and patterns may also change. We will strengthen our understanding and research of consumer needs, continuously improve our products and services, flexibly adapt to market changes and better meet consumer needs.

## **DIVIDENDS**

Relevant resolution has been passed at a meeting of the Board held on March 28, 2023, and the Board proposed the distribution of a final dividend (the “**Final Dividend**”) of RMB0.68 (tax inclusive) per share for the year ended December 31, 2022, with a total amount of approximately RMB7,647.6 million. If such profit distribution plan is reviewed and approved by shareholders at the 2022 annual general meeting to be held on Tuesday, May 16, 2023, the Final Dividend will be distributed on August 30, 2023 to shareholders whose names appear on the register of members of the Company on Saturday, May 20, 2023.

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. Historical declarations of dividends of the Company may not reflect our future 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, May 11, 2023 to Tuesday, May 16, 2023 (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, May 10, 2023.

The register of members of the Company will be closed from Saturday, May 20, 2023 to Thursday, May 25, 2023 (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, May 19, 2023.

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

During the year ended December 31, 2022, none of the Company and its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

## **AUDIT COMMITTEE**

As of December 31, 2022 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 director 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, 2022.

## **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, 2022 as set out in this 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 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, 2022, 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 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 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, 2022.

## 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 2022 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, 2023

*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.*