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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, 2023**

### **HIGHLIGHTS OF 2023 ANNUAL RESULTS**

- Total revenue was RMB42,667 million, representing a year-on-year increase of 28.4%;
- Profit attributable to the owners of the parent was RMB12,079 million, representing a year-on-year increase of 42.2%;
- Basic earnings per share were RMB1.07, representing a year-on-year increase of 40.8%;
- The distribution of a final dividend is recommended of RMB0.75 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 (the “**Group**”) for the year ended December 31, 2023 (the “**Reporting Period**”) prepared in accordance with the International Financial Reporting Standards (the “**IFRS**”), together with the comparative figures for the corresponding period of 2022.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS***Year ended December 31, 2023*

		<b>2023</b>	2022
	<i>Notes</i>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>REVENUE</b>	3	<b>42,667,221</b>	33,239,187
Cost of sales		<u>(17,260,392)</u>	<u>(14,143,776)</u>
Gross profit		<b>25,406,829</b>	19,095,411
Other income and gains	4	<b>1,841,454</b>	1,709,159
Selling and distribution expenses		<b>(9,283,999)</b>	(7,820,691)
Administrative expenses		<b>(2,162,401)</b>	(1,835,125)
Other expenses	4	<b>(13,946)</b>	(22,394)
Finance costs	6	<b>(99,735)</b>	(76,028)
<b>PROFIT BEFORE TAX</b>	5	<b>15,688,202</b>	11,050,332
Income tax expense	7	<b>(3,608,704)</b>	(2,555,082)
<b>PROFIT FOR THE YEAR</b>		<b><u>12,079,498</u></b>	<u>8,495,250</u>
Attributable to owners of the parent		<b><u>12,079,498</u></b>	<u>8,495,250</u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic and diluted For profit for the year	9	<b><u>RMB1.07</u></b>	<u>RMB0.76</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2023

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Profit for the year	<u>12,079,498</u>	<u>8,495,250</u>
<b>OTHER COMPREHENSIVE INCOME</b>		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	<u>(340)</u>	<u>1,835</u>
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	<u>(340)</u>	<u>1,835</u>
Other comprehensive (loss)/income for the year, net of tax	<u>(340)</u>	<u>1,835</u>
Total comprehensive income for the year	<u>12,079,158</u>	<u>8,497,085</u>
Attributable to owners of the parent	<u>12,079,158</u>	<u>8,497,085</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2023

		2023	2022
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		17,179,628	15,397,585
Right-of-use assets		946,979	853,488
Intangible assets		74,222	58,077
Deferred tax assets		921,333	433,105
Long-term bank deposits		1,510,722	4,101,670
Other non-current assets		42,831	49,435
		<u>20,675,715</u>	<u>20,893,360</u>
<b>CURRENT ASSETS</b>			
Inventories		3,091,729	2,108,372
Trade and bills receivables	10	547,021	478,587
Prepayments, other receivables and other assets		694,778	560,307
Pledged deposits		2,677	3,059
Cash and bank balances		24,125,210	15,211,156
		<u>28,461,415</u>	<u>18,361,481</u>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	11	1,770,098	1,425,069
Other payables and accruals		9,288,983	6,505,820
Contract liabilities		3,584,921	2,677,190
Interest-bearing borrowings		3,120,619	2,425,093
Lease liabilities		58,030	68,678
Tax payables		2,053,907	1,499,579
		<u>19,876,558</u>	<u>14,601,429</u>
<b>NET CURRENT ASSETS</b>		<u>8,584,857</u>	<u>3,760,052</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>29,260,572</u>	<u>24,653,412</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)***As at December 31, 2023*

	<b>2023</b>	2022
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>NON-CURRENT LIABILITIES</b>		
Deferred income	<b>303,061</b>	291,420
Deferred tax liabilities	<b>355,356</b>	246,737
Lease liabilities	<b>31,250</b>	31,179
	<hr/>	<hr/>
Total non-current liabilities	<b>689,667</b>	569,336
	<hr/>	<hr/>
<b>NET ASSETS</b>	<b>28,570,905</b>	24,084,076
	<hr/>	<hr/>
<b>EQUITY</b>		
Equity attributable to owners of the parent		
Share capital	<b>1,124,647</b>	1,124,647
Reserves	<b>27,446,258</b>	22,959,429
	<hr/>	<hr/>
Total equity	<b>28,570,905</b>	24,084,076
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## NOTES TO THE FINANCIAL STATEMENTS

### 1. SUMMARY OF MATERIAL ACCOUNTING POLICIES

#### 1.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRSs**”), which comprise standards and interpretations approved by the International Accounting Standards Board (the “**IASB**”), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention. 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, 2023. 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 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 the related assets (including goodwill), liabilities, any non-controlling interest and exchange fluctuation reserve; and recognises the fair value of any investment retained and 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 new and revised IFRSs for the first time for the current year's financial statements.

IFRS 17	<i>Insurance Contracts</i>
Amendments to IAS 1 and IFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i>
Amendments to IAS 8	<i>Definition of Accounting Estimates</i>
Amendments to IAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>
Amendments to IAS 12	<i>International Tax Reform – Pillar Two Model Rules</i>

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

Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>3</sup></i>
Amendments to IFRS 16	<i>Lease Liability in a Sale and Leaseback<sup>1</sup></i>
Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current<sup>1</sup></i>
Amendments to IAS 1	<i>Non-current Liabilities with Covenants<sup>1</sup></i>
Amendments to IAS 7 and IFRS 7	<i>Supplier Finance Arrangements<sup>1</sup></i>
Amendments to IAS 21	<i>Lack of Exchangeability<sup>2</sup></i>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2024

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2025

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

The Group is in the process of making an assessment of the impact of these revised IFRSs upon initial application. So far, the Group considers that these 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 segment.

Year ended	Water	Ready-to-	Functional	Juice	Other	Total
December 31, 2023	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	20,262,256	12,658,888	4,901,553	3,533,612	1,310,912	42,667,221
<b>Segment results</b>	7,347,163	5,622,266	2,067,738	945,632	396,208	16,379,007
<i>Reconciliation:</i>						
Interest income						991,247
Other unallocated income and gains						850,207
Corporate and other unallocated expenses						(2,432,524)
Finance costs						(99,735)
Profit before tax						<u>15,688,202</u>
Other segment information						
Depreciation and amortisation	<u>983,720</u>	<u>641,571</u>	<u>257,651</u>	<u>226,668</u>	<u>81,428</u>	<u>2,191,038</u>

Year ended December 31, 2022	Water products <i>RMB'000</i>	Ready-to- drink tea products <i>RMB'000</i>	Functional drinks products <i>RMB'000</i>	Juice beverage products <i>RMB'000</i>	Other products <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Segment revenue</b> (note 3)						
Sales to external customers	18,262,614	6,905,986	3,837,605	2,878,830	1,354,152	33,239,187
<b>Segment results</b>	6,443,392	2,753,270	1,533,987	580,039	280,332	11,591,020
<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						<u>(76,028)</u>
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>

### Geographical information

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

### 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, 2023 and 2022.

## 3. REVENUE

An analysis of revenue is as follows:

	<b>2023</b> <i>RMB'000</i>	2022 <i>RMB'000</i>
<i>Revenue from contracts with customers</i>		
Sale of goods	<u>42,667,221</u>	<u>33,239,187</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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
<b>Other income</b>		
Interest income	991,247	623,360
Government grants and subsidies		
related to income	505,897	412,529
related to assets	20,505	25,799
Sales of scraps	103,729	84,672
Income from compensation	29,361	20,631
Others	121,036	87,495
	<u>1,771,775</u>	<u>1,254,486</u>
<b>Gains</b>		
Foreign exchange gain, net	46,023	370,122
Fair value gains on financial assets at fair value through profit or loss	–	2,289
Others	23,656	82,262
	<u>69,679</u>	<u>454,673</u>
	<u>1,841,454</u>	<u>1,709,159</u>
<b>Other expenses</b>		
Loss on disposal of items of property, plant and equipment	(5,265)	(14,456)
Loss on disposal of subsidiaries	(3,245)	–
Donations	(1,021)	(1,169)
Loss on disposal of items of intangible assets	(199)	–
Loss on disposal of derivative instruments	–	(634)
Others	(4,216)	(6,135)
	<u>(13,946)</u>	<u>(22,394)</u>

## 5. PROFIT BEFORE TAX

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

	<i>Notes</i>	<b>2023</b> <b>RMB'000</b>	2022 <i>RMB'000</i>
Cost of inventories sold*		<b>17,260,392</b>	14,143,776
Depreciation of property, plant and equipment		<b>2,522,236</b>	2,358,940
Depreciation of right-of-use assets		<b>97,774</b>	119,238
Amortisation of intangible assets**		<b>11,432</b>	8,747
Employee benefit expenses (including directors' and chief executive's remuneration):			
Wages and salaries		<b>4,175,692</b>	2,708,554
Pension scheme contributions, social welfare and other welfare***		<b>729,693</b>	450,640
Equity-settled share-based payment expenses		<b>25,857</b>	101,793
Research and development costs****		<b>349,148</b>	277,166
Expenses relating to short-term leases, variable leases and leases of low-value assets		<b>192,665</b>	163,312
Impairment of inventories		–	16,372
Impairment/(write-back of impairment) of trade receivables	<i>10</i>	<b>4,169</b>	(3,434)
Impairment/(write-back of impairment) of financial assets included in prepayments, other receivables and other assets		<b>2,158</b>	(715)
Loss on disposal of derivative instruments		–	634
Fair value gains on financial assets at fair value through profit or loss		–	(2,289)
Auditor's remuneration		<b>6,241</b>	6,566

\* Cost of inventories sold include expenses relating to depreciation of property, plant and equipment, depreciation of right-of-use assets and staff costs, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

\*\* The amortisation of intangible assets for the years ended December 31, 2023 and 2022 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>2023</b> <b>RMB'000</b>	2022 <i>RMB'000</i>
Interest on interest-bearing borrowings	<b>95,776</b>	70,628
Interest on lease liabilities	<b>3,959</b>	5,400
	<b>99,735</b>	76,028

## 7. INCOME TAX

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Current – PRC		
Charge for the year	3,986,699	2,708,095
Underprovision/(overprovision) in prior years	1,614	(2,038)
Deferred	<u>(379,609)</u>	<u>(150,975)</u>
Total	<u>3,608,704</u>	<u>2,555,082</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, 2022 and 2023. 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, 2022 and 2023 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 2023.

## 8. DIVIDENDS

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 paid in July 2022.

On May 16, 2023, the Company's shareholders approved 2022 final dividend of RMB0.68 for every share of the Company's 11,246,466,400 shares, in an aggregate amount of RMB7,647,597,000. 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 paid in August 2023.

The proposed 2023 final dividend for the year of RMB0.75 per ordinary share, equivalent to an aggregate of approximately RMB8,434,850,000, 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 amount 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 11,243,908,441 (2022: 11,243,556,102) 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

	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Trade receivables	578,001	508,524
Bills receivable	3,700	574
Impairment	(34,680)	(30,511)
	<u>547,021</u>	<u>478,587</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 fellow subsidiaries of RMB1,682,000 (2022: RMB47,000 from the ultimate holding company and RMB2,755,000 from fellow subsidiaries), 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>2023</b> <i>RMB'000</i>	2022 <i>RMB'000</i>
Within 90 days	<b>506,235</b>	440,293
91 to 180 days	<b>28,158</b>	17,890
181 to 365 days	<b>12,628</b>	20,404
	<b>547,021</b>	478,587

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

	<b>2023</b> <i>RMB'000</i>	2022 <i>RMB'000</i>
At beginning of year	<b>30,511</b>	33,945
Impairment/(write-back of impairment) losses, net	<b>4,169</b>	(3,434)
At end of year	<b>34,680</b>	30,511

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>2023</b>	<b>Expected credit loss rate</b>	<b>Gross carrying amount RMB'000</b>	<b>Expected credit losses RMB'000</b>
Within 90 days	3.52%	520,886	18,352
91 to 180 days	13.64%	32,605	4,447
181 to 365 days	44.36%	22,698	10,069
Over 365 days	100.00%	1,812	1,812
		<b>578,001</b>	<b>34,680</b>
<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>

#### 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>2023 RMB'000</b>	<b>2022 RMB'000</b>
Within 90 days	<b>1,598,162</b>	1,355,022
91 to 180 days	<b>130,883</b>	39,266
181 to 365 days	<b>28,910</b>	11,055
Over 1 year	<b>12,143</b>	19,726
	<b>1,770,098</b>	<b>1,425,069</b>

Included in the trade and bills payables are amounts due to the ultimate holding company and fellow subsidiaries of RMB1,517,000 (2022: Nil) and RMB23,263,000 (2022: RMB14,763,000), which are unsecured, interest-free and repayable within 90 days.

## CHAIRMAN'S STATEMENT

Dear shareholders,

2023 is the year of economic recovery and development after the transition of three years of the COVID-19 pandemic prevention and control, and Nongfu Spring has maintained solid growth with the sincere unity and efforts of our employees, distributors and partners. Besides the tremendous efforts from all staff members, the best contributing factor to Company's greater-than-expected performance in 2023 is our persistence in technological innovation and long-termism.

The Group recorded a total revenue of RMB42,667 million in 2023, representing an increase of 28.4% as compared to 2022. The profitability of the Group also kept improving. Profit attributable to the owners of the parent recorded an increase from RMB8,495 million in 2022 to RMB12,079 million in 2023 (RMB12,065 million after deducting one-time non-operating gains and losses). Meanwhile, the working capital position of the Group remained stable, and cash flow from operating activities in 2023 increased by 43.7% as compared to 2022, to RMB17,305 million.

In light of the Group's operations in 2023, the Board will recommend the distribution of a final cash dividend of RMB0.75 per share for the year ended December 31, 2023 at the forthcoming 2023 annual general meeting of the Company (amounting to a total dividend of approximately RMB8,435 million).

In 2023, Nongfu Spring continued to maintain its industry leading position in packaged drinking water and achieved rapid growth in tea beverages, further solidifying the dual-engine pattern of packaged drinking water and beverages. In addition, we have successfully completed the reappointment of the Board, the Supervisory Committee and senior management team, which has further strengthened the Group's talent pool. In the future, we will continue to adhere to the principle of natural health, continuously improve product quality, explore product innovation, always insist on providing consumers with good products and continuously enhance our ability to provide services to consumers, thereby improving the Group's overall competitiveness and investment returns.

Last but not least, I would like to take this opportunity to extend my sincere gratitude to every employee on behalf of Nongfu Spring for their dedication and contribution. The Company can hardly have a prosperous future without the efforts of our employees. I would also like to thank all our distributors and partners for their trust in and support for Nongfu Spring. In 2024, let's join hands with each other, help each other, weather the storm together, and make steady and sustainable development.

**Zhong Shanshan**

*Chairman*

Hangzhou, the People's Republic of China  
March 26, 2024

## MANAGEMENT DISCUSSION AND ANALYSIS

### Macro and Industry Environment

In 2023, under the persistent influence of the COVID-19 pandemic, exacerbated geopolitical conflicts and the complex and changing international situation, the global economy as a whole showed a weak recovery trend. China withstood the downward pressure brought by multiple intertwined domestic and international factors, leading to an overall improvement in economic activity, with GDP exceeding RMB126 trillion, representing a year-on-year increase of 5.2%. Market dynamics and consumption potential have been gradually released, and household consumption has resumed its growth trend, with full-year total retail sales of consumer goods for 2023 reaching a record high of RMB47.15 trillion, representing a year-on-year increase of 7.2%. The contribution of final consumption expenditure to the economic growth reached 82.5%, with consumption once again becoming the key driver of economic growth and enhancing its foundational effect on economic development.

In 2023, the food and beverage industry in China experienced a modest rebound in demand, and the accumulated national output of beverage amounted to 175 million tons, representing an accumulated increase of 4.1%. According to the industry data, in terms of the growth and market share of each category of beverages, other than the positive growth from carbonated drinks, other categories have all seen negative growth. Beverages categorised as “non-top three” beverages, represented by tea beverages, protein beverages and special-purpose beverages, have increased their market share. Nutritional and functional products are more likely to receive positive market feedback.

The food and beverage industry further continued to develop towards higher standards of quality and safety. A series of relevant standards and regulations for beverage industry such as the “Food Safety Standard Management Measures” newly revised in 2023 and the 2022 edition of “Food Safety National Standard for Beverages” (GB 7101-2022) were implemented, which provided guidelines for food and beverage companies to strengthen their systematic and scientific management of food safety. At the same time, the growing consumer awareness of food safety and nutritional health is driving the beverage industry to innovate and evolve, with a view to meeting consumers’ demands for healthier ingredients and improved quality.

In 2023, regulations such as the “Food Operation Licensing and Record-filing Management Measures” and the “Quality&Safety Supervision and Management Measures for the Marketing of Edible Agricultural Products” came into effect in the field of food sales, aiming to further tighten the quality and safety supervision in the food circulation field, implement the primary responsibility of enterprises and optimise the business environment. In industry competition, enterprises with well-established marketing channels and strict control over the quality of products at the sales terminal will further strengthen their competitive advantages.

## BUSINESS REVIEW

In 2023, after the transition of the COVID-19 pandemic prevention and control, economic recovery and development took place, and people's lives and consumption gradually returned to normal. The Group recorded annual revenue of RMB42,667 million, representing an increase of 28.4% as compared to 2022. Among which, the proportion of revenue from packaged drinking water products to total revenue was 47.5% and the proportion of revenue from beverage product to total revenue was 51.7%. 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	Year Ended December 31,			
	2023		2022	
	RMB (million)	Percentage of total revenue	RMB (million)	Percentage of total revenue
Packaged drinking water products	20,262	47.5%	18,263	54.9%
Tea beverage products	12,659	29.7%	6,906	20.8%
Functional beverage products	4,902	11.5%	3,838	11.5%
Juice beverage products	3,533	8.3%	2,879	8.7%
Other products (note)	1,311	3.0%	1,353	4.1%
Total	<u>42,667</u>	<u>100.0%</u>	<u>33,239</u>	<u>100.0%</u>

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

### Packaged drinking water products

The revenue from packaged drinking water products of the Group in 2023 was RMB20,262 million, representing an increase of 10.9% as compared to 2022 and accounting for 47.5% of our total revenue for the year.

In 2023, we stepped up the promotion on Nongfu Spring's high-quality water sources, and have since released four advertisements themed with our four water sources, namely Changbai Mountains, Mount Emei, Mount Taibai and Wanlv Lake. By demonstrating the natural environment, species ecology and climate and hydrology of each water source, we publicise to consumers the high-quality natural water sources and the differentiation of products of Nongfu Spring, thereby conveying the brand philosophy that "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)". At the meantime, we have invited consumers and partners to visit the high-quality water sources of Nongfu Spring throughout the country for the "Source-tracking (尋源)" mission. With the ongoing roll-out of diversified and multi-community "Source-tracking (尋源)" campaigns, we aim to make more people to better understand the essence of "Every Drop of Nongfu Spring Has Its Source (每一滴農夫山泉都有一個美麗的水源)", to constantly strengthen the natural and healthy consumer perception of Nongfu Spring, and to make "Source-tracking (尋源)" a unique promotion approach of Nongfu Spring.

During the Reporting Period, we have also released an advertisement centered on our water pipelines, named “The Closer To Source, The Better Water We Gain (《越源頭，越天然》)”, for the first time zooming in on our water intake pipelines and telling the story that in order to get better water from the natural source, we have always been “Making one metre forward, only to be safer and more natural (向前一米，只為更安全、更天然)”. Through showcasing the environment of the pipelines and the difficulties and obstacles encountered during their construction, Nongfu Spring has revealed to consumers the great efforts for providing them with drinking water products of superior quality. In turn, the consumers would further identify with the differentiation of Nongfu Spring’s products, and further appreciate the strength of Nongfu Spring’s unrepeatable strategic layout of the nationwide water sources, which has been created through decades of persistence.

During the Chinese New Year of 2023, we continued our tradition of launching an anniversary edition of zodiac version of natural mineral water (glass bottled) in Chinese year of “Rabbit” and released an animated advertisement called “To Reunite With You Through the Winter (《穿越寒冬，與你團圓》)”, conveying the best wishes to consumers that “Going Home for Reunion (回家團圓)”. During the Reporting Period, our Nongfu Spring drinking natural water (suitable for infants and young children) also co-branded with Disney and launched the “Rabbit Year Series (兔年系列)” limited edition and the “Princess Series (公主系列)” edition of IP-characterized bottles, together with the advertisement named “The Next 12 Months (接下來的十二個月)”, conveying to consumers the brand’s concept of “Born with Love, Accompanied by Nature (天生有愛，天然相伴)”.

Besides, in the second half of 2023, we listened attentively to consumers’ suggestions and needs and restored the upgraded 4L “handle bottle” edition of natural water product of Nongfu Spring, which is ergonomically designed with a more comfortable grip and a more practical spout to meet the different needs of different consumers. In the meantime, we also strengthened the 4L handle-bottle natural water product’s positioning for cooking purpose by virtue of being “More Convenient for Cooking (煮飯燒菜更方便)” in a series of promotion activities, such as “Presenting Old Friends with New Products (新品贈老友)”, with a view to further extending the usage scenarios of our water products.

## **Tea beverage products**

In 2023, the Group promoted the Chinese tea culture by introducing new products on the basis of current achievements, and achieved continuous growth, recording RMB12,659 million of revenue for the year, which indicated an increase of 83.3% as compared to 2022 and accounted for 29.7% of the total revenue for the year.

During the Reporting Period, “Oriental Leaf (東方樹葉)” reintroduced “Longjing Spring Tea (龍井新茶)” for the spring season, a premium selection that captures the essence of freshly brewed Longjing tea, and received acclaim from tea aficionados. The brand continued to diversify its tea portfolio in May with the “Black Oolong Tea (黑烏龍)”, a robust flavor profile derived from the esteemed Oolong Tea of Northern Fujian. To meet various consumer needs in different scenarios, “Oriental Leaf (東方樹葉)” also launched the 900ml party can for two signature products, jasmine tea and citrus pu’er. In a novel promotional approach for 2023, the brand debuted a series of short films highlighting the twenty-four solar terms, weaving together the timeless ancient Chinese wisdom of agricultural cycles with the art

of tea drinking. This initiative not only showcases the tranquil lifestyle and peaceful state of mind that a cup of Chinese tea offers across the seasons but also aims to engage younger generations in the rich cultural heritage of tea by considering their habits, reinforcing the identity of “Oriental Leaf – a Representative of Chinese Tea (東方樹葉中國茶)”.

“Tea π (茶π)” further developed the brand’s artistic and narrative expressions. Introducing the campaign known as “Welcome to the Wonderful World of Tea π (Welcome茶派美好世界)” in 2023, the brand engaged a diverse group of global illustrators, art enthusiasts and consumers in a creative label design collaboration. The best designs were selected for the “Tea π Yearbook 2023: Wonderful World Illustrations (《茶π年鑒2023：美好世界插畫集》)” set to be released at the end of the year. This initiative not only accentuates the brand’s unique style but also serves to enhance the connection with younger consumers.

“Mix Milk Tea (打奶茶)” organized campus flash mob activities in the graduation season in June and scenario-based warm drink promotion activities in the warm drink season, highlighting the concept of “premium-quality milk and tea, free of milk powder and tea powder (真牛乳、真茶葉、0乳粉、0茶粉)” and “low sugar formula, less burden (低糖輕負擔)”.

### **Functional beverage products**

The revenue from our functional beverage products in 2023 was RMB4,902 million, representing an increase of 27.7% as compared to 2022, accounting for 11.5% of the total revenue for the year.

During the Reporting Period, “Scream (尖叫)” beverage collaborated with the Chinese University Basketball League (CUBAL) to further cultivate the expertise connotation of “Isotonic Scream (等滲尖叫)” in the sports field.

“Victory (力量帝)” Vitamin Water improved the perception of the functions of vitamin water by launching the prune and peach flavor and the mixed pomelo flavor, and staging promotion activities themed “New Flavor, New Vitality (新口味，新活力)”, and reached out to the trendy circles by sponsoring the V-Break Dance Battle (VBD國際街舞大賽) and releasing signature crossover with BOSE, to present the dynamic vitamin to younger generations.

### **Juice beverage products**

The revenue from our juice beverage products in 2023 was RMB3,533 million, representing an increase of 22.7% as compared to 2022, accounting for 8.3% of the total revenue for the year.

During the Reporting Period, “17.5°” juice launched the seasonal fresh orange juice and recorded higher achievement in ensuring freshness. With the brand philosophy of “Infinitely close to nature (無限接近自然)”, “17.5°” fresh orange juice thoroughly adopted the navel oranges harvested in the production season of 2023, completed the extraction and bottling of juice immediately at the place of origin with the 36-hour integrated procedures of picking, extraction and bottling, and delivered the product via cold-chain logistics, bringing extreme freshness to consumers.

The “NFC” series launched the 100% NFC blended guava juice in 900ml large-sized bottle, which diversified the portfolio, satisfied consumer demands and was highly favored and recognized by the market.

Promoting the “VC Supporting” campaign throughout the year, “Water Soluble C100 (水溶C100)” enhanced the perception of “Daily Vitamin C Replenishment for Adults (滿足成人每日所需維生素C)” among consumers. In collaboration with The Little Prince, the French literature IP, the brand launched about 30,000,000 crossover editions and staged the theme based activity of “The Little Prince on Journey of VC Discovery (小王子VC探索之旅)”, thus reinforcing the emotional bond with younger generations.

## **Other products**

Other products primarily include other beverage products such as soda water beverage, sparkling flavored beverage, lemon juice beverages and coffee beverage, and agricultural products such as fresh fruits. In 2023, we continued our strategy of prioritising operation efficiency and focusing on resources, the revenue from other products was RMB1,311 million, representing a slight decrease of 3.1% as compared to 2022, accounting for 3.0% of the total revenue for the year.

During the Reporting Period, “TANBING (炭欠)” launched the 250ml mini-bottled coffee, offering sugar-free Americano and mellow Latte to meet consumers’ demands for high-value-for-money coffee, and worked with Sam’s Club to launch the exclusive jasmine tea coffee.

The all-new “Lemonade (大檸檬)” series was launched in April 2023 with two offerings, fresh lemonade carbonate and low-temperature blended fruit juice beverage. These creative products adopt fresh lemon juice, retain the lemon peel oil in the process of juice extraction from the whole fruit, and maintain the flavor and fragrance that is close to that of a real lemon. After being launched, the products were promoted in various forms of online and offline marketing activities that focused on campus and key channels.

## **R&D and Innovation**

With a firm commitment to the concept of providing natural and healthy products, the Group pursued creativity and innovation relentlessly, further improved the security and quality standard through multi-dimensional explorations and attempts in respect of upstream materials and craftsmanship, and developed products that better satisfy consumer demands and provide greater health value.

Based on the current accomplishment, we developed new products to enrich and diversify the product matrix in 2023. “Oriental Leaf (東方樹葉)” launched a brand-new flavor, the “Black Oolong Tea (黑烏龍)”, which selects the premium oolong tea of Northern Fujian, maintains the “5 zeros” standard (0 sugar, 0 fat, 0 calories, 0 artificial flavors and 0 preservatives) for sugar-free tea beverage products and features strong and lingering taste and texture, the “mixed and fascinating flora fragrances” that are quite distinctive from the oolong tea beverages previously launched, indulging consumers in the charm of China’s oolong tea. With two new flavors, the prune and peach flavor and the mixed pomelo flavor, “Victory (力量帝)” Vitamin Water satisfies the demands accurately, improves consumers’ perception of the functions

of vitamin and other nutrition elements and reinforced the influence of such elements in facilitating physical function development. The “TANBING (炭灸)” ready-to-drink coffee series offers three new PET bottled varieties: sugar-free Americano, aromatic Latte and jasmine tea coffee, all made from premium Arabica beans for a rich and classic coffee experience, and presented in a portable “power bank” bottle design. The brand-new “Lemonade (大檸檬)” series highlights the creativity of adopting fresh lemon juice, retaining the lemon peel oil in the process of juice extraction from the whole fruit, and maintaining the flavor and fragrance that is close to that of a real lemon.

### **Information system buildup**

In 2023, to bolster and secure the Company’s strategic business development and deployment, we upgraded the marketing system to facilitate a seamless marketing integration between the brand and channel partners, unifying the system, data and platform across the entire channel marketing supply chain. We refined the application, technical and data architectures, and further established the data analysis platform, the consumer marketing platform, and the intelligent service algorithms for terminal channels. This integration has enabled a highly efficient, automated and intelligent marketing system operation, boosting labor efficiency and productivity and also ensuring stringent risk management in operations.

In the meantime, we advanced the digital and intelligent level of the supply chain in 2023 by integrating digitalization and automation, coordinating warehousing, transportation, production, quality assurance, financial process and other links. Therefore, we ensured that the entire order lifecycle is visible, traceable and analyzable, from order placement to dispatching, delivery and signing for receipt confirmation, completed the construction of an end-to-end information system for order fulfillment, and achieved a closed-loop system for logistics, information and capital flows. By introducing intelligent equipment, we built the automated guided vehicle system (AGV) to enable the development of intelligent warehousing management. Through digitalization, we achieved automated, intelligent and efficient operation of the supply system and thus further improved the order fulfillment rate, thereby enhancing customer satisfaction.

## **FINANCIAL REVIEW**

The following financial results are extracted from the audited 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 RMB42,667 million in 2023, representing an increase of 28.4% as compared with RMB33,239 million in 2022. In 2023, gross profit of the Group was RMB25,407 million, representing an increase of 33.1% as compared with RMB19,095 million in 2022. During the Reporting Period, the Group’s gross profit margin increased by 2.1 percentage points from 57.4% in the corresponding period of last year to 59.5%, which was mainly due to the procurement costs of paper cartons, labels and some raw materials decreased as compared with the same period of last year.

## **Selling and Distribution Expenses**

In 2023, sales and distribution expenses of the Group were RMB9,284 million, representing an increase of 18.7% as compared with RMB7,821 million in 2022. Sales and distribution expenses accounted for 21.8% of the total revenue, representing a decrease of 1.7 percentage points as compared with 23.5% in 2022. This is mainly due to impact of optimization of cost of supply chain.

## **Administrative Expenses**

In 2023, administrative expenses of the Group were RMB2,162 million, representing an increase of 17.8% as compared with RMB1,835 million in 2022. Administrative expenses accounted for 5.1% of the total revenue, maintained at a similar level as compared with 5.5% in 2022.

## **Other Income and Gains**

In 2023, other income and gains of the Group amounted to RMB1,841 million, accounting for 4.3% of our total revenue, representing an increase of 7.7% as compared with RMB1,709 million in 2022, which was mainly due to the increase in the interest income from term deposits.

## **Finance Costs**

During the Reporting Period, the discount amount of bank acceptance bills used by the Group increased, and the finance costs increased from RMB76 million in 2022 to RMB100 million in 2023.

## **Profit for the Year**

As a result of the aforementioned changes, profit of the Group for the year increased by 42.2% from RMB8,495 million in 2022 to RMB12,079 million in 2023.

## **Dividends**

Having accounted for the Group's overall performance in 2023, including but not limited to, the Group's surplus, overall financial condition and capital expenditures, the Board proposed to declare a final cash dividend of RMB0.75 per share (inclusive of tax, amounting to a total dividend of approximately RMB8,435 million) for the year ended December 31, 2023 at the forthcoming 2023 annual general meeting of the Company.

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

As of December 31, 2023, the sum of long-term bank deposits, pledged deposits, cash and bank balances of the Group amounted to RMB25,639 million, representing an increase of 32.7% as compared with RMB19,316 million as of December 31, 2022. The total credit facility of the Group was RMB15,990 million and interest-bearing borrowings amounted to RMB3,121 million as of December 31, 2023, representing an increase of 28.7% as compared

with RMB2,425 million as of December 31, 2022, with due repayment of a total amount of RMB13,472 million as of December 31, 2023. All of the borrowings are denominated in RMB. Among the total borrowings as of December 31, 2023, the borrowings of RMB100 million were charged at a fixed interest rate (not including discount of bank acceptance bills). The Group does not have any interest rate hedging policy.

### **Inventories**

Inventories of the Group increased by 46.7% from RMB2,108 million as at December 31, 2022 to RMB3,092 million as at December 31, 2023. Due to an increase in raw materials inventory at the end of the period as a result of production stocking, inventory turnover days increased from 50.5 days as at December 31, 2022 to 55.0 days as at December 31, 2023.

### **Trade and Bills Receivables**

Trade and bills receivables of the Group increased from RMB479 million as of December 31, 2022 to RMB547 million as of December 31, 2023. The turnover days of trade and bills receivables decreased from 5.2 days as at December 31, 2022 to 4.4 days as at December 31, 2023.

### **Trade and Bills Payables**

Trade and bills payables of the Group increased from RMB1,425 million as of December 31, 2022 to RMB1,770 million as of December 31, 2023. The turnover days of trade and bills payables increased from 33.3 days as at December 31, 2022 to 33.8 days as at December 31, 2023.

### **Gearing Ratio**

As at December 31, 2023, the gearing ratio of the Group (equaling (interest-bearing borrowings + lease liabilities)/equity) was 11.2% (during the Reporting Period, the Group has no minority equity), representing an increase as compared with the gearing ratio of the Group as at December 31, 2022 being 10.5%, 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**

Save as disclosed in this announcement, there have been no material events of the Group from December 31, 2023 until the date of this announcement.

## **FOREIGN EXCHANGE RISK**

As of December 31, 2023, the Group held HK\$1,536 million, US\$462 million and a small amount of other foreign currencies. In 2023, exchange gains amounted to approximately RMB46 million. As of the date of this announcement, 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, 2023, the Group did not have any significant contingent liabilities.

## **CAPITAL COMMITMENTS**

Capital commitments of the Group amounted to approximately RMB4,437 million as at December 31, 2023, mainly used for construction of production plants and purchase of production equipment.

## **PLEDGE OF ASSETS**

As at December 31, 2023, no assets of the Group were pledged by the Group.

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

On December 31, 2023, the Company entered into an investment agreement (the “**Investment Agreement**”) with the People’s Government of Jiande City, Zhejiang Province in relation to the “Nongfu Spring Jiande Drinking Water and Beverage Comprehensive Industrial Base Project” (the “**Project**”). Pursuant to the Investment Agreement, the Company has agreed to acquire the use right of approximately 1,000 mu (畝), of industrial land by way of bid invitation, auction or listing (招拍掛) and has committed to invest a total investment amount of RMB5 billion for the Project, which will be implemented in two phases and multiple stages and is expected to complete the entire investment within 5 years after the full delivery of project sites. As the highest applicable percentage ratio calculated in accordance with the Listing Rules in respect of the investment amount of the Project under the Investment Agreement is more than 5% but less than 25%, the entry into of the Investment Agreement constitutes a discloseable transaction and is subject to the reporting and announcement requirements, but exempt from the shareholders’ approval requirement under Chapter 14 of the Listing Rules. For details of the investment, please refer to the announcement of the Company dated January 1, 2024 regarding discloseable transaction – entry into the Investment Agreement with the People’s Government of Jiande City.

Save as disclosed above, as of December 31, 2023 and up to the date of this announcement, the Group did not have any significant investments held, or any material acquisition or disposal of any relevant subsidiaries, associates and joint ventures.

## 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, 2023, the Group has gradually utilised 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 “**Hong Kong 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, 2023, the Group has utilised approximately HK\$4,900 million of the proceeds for the intended purposes set out in the prospectus issued by the Company, accounting for 52.26% of all raised funds, and the remaining unutilised proceeds is approximately HK\$4,477 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 up to December 31, 2023 (HK\$ million)	Unutilised net amount up to December 31, 2023 (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	1,438	437	December 31, 2024
Strengthening fundamental capabilities	938	212	726	December 31, 2024
Repaying loans	938	938	0	N/A
Working capital and other general corporate purposes	938	938	0	N/A
Total	<u>9,377</u>	<u>4,900</u>	<u>4,477</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 the PRC, Hong Kong and other relevant jurisdictions. During the year ended December 31, 2023 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 2023, the Group did not have any material non-compliance with such laws and regulations.

## **HUMAN RESOURCES AND EMOLUMENT POLICY**

As at December 31, 2023, the total number of employees of the Group (including the Company and its subsidiaries) exceeded 20,000. In 2023, the total employee benefit expenses (including directors' remuneration) amounted to RMB4,931 million. We have formulated internal systems such as the Remuneration Management Measures, Performance Management Measures and Long-term Incentive Management System to implement the remuneration management system of equal pay for equal work, ensure the standardization of remuneration and performance management, and continue to build up a competitive remuneration system in industry, so as to provide the necessary safeguards for the attraction and retention of high-quality talents.

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. During the Reporting Period, the increase in employees' remuneration and bonuses was in line with the growth of our business performance, and such increase was higher than the industry level, ranking employees' monetary income among the top level in the industry with competitiveness.

In order to improve the Company's incentive mechanism, retain key employees and promote sustainable growth of the Company's performance, as considered and approved in the extraordinary general meeting held on January 14, 2022, the Company has adopted the employee share incentive scheme in 2022 to incentivize management personnel and core technical experts who play an important role in the Group's business performance and future development. According to the employee share incentive scheme, the maximum number of H shares that the trustee can acquire and hold from time to time under the employee share

incentive scheme throughout the duration of the employee share incentive scheme shall not exceed 5% of the total issued share capital of the Company as at the date of adoption, and without the approval by a special resolution at the general meeting, the total number of H shares of the Company obtained by any scheme participant through the employee share incentive scheme shall not exceed 1% of the total share capital of the Company.

In March 2022, 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. Pursuant to the provisions of the employee share incentive scheme, the grant price under the grant of the awards 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. Xiang Xiansong and Ms. Han Linyou, the directors of the Company, Mr. Rao Minghong and Mr. Liu Xiyue, the supervisors of the Company, in which, the awards granted to Mr. Xiang Xiansong correspond to 108,000 H shares of the Company, the awards granted to Ms. Han Linyou correspond to 90,800 H shares of the Company, the awards granted to each of Mr. Rao Minghong and Mr. Liu Xiyue correspond to 99,000 H shares of the Company; and 1 employee of Yangshengtang Group, the awards granted correspond to 39,600 H shares of the Company (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 and was re-designated to the Group in 2023). The remaining 103 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). The employee share incentive scheme is valid for 10 years, and as of the date of this announcement, the validity period of the employee share incentive scheme has about 7 years left. In April 2022, among the incentive shares under the grant, 2,610,000 incentive shares have met the conditions for the first tranche vesting and belonged to the corresponding scheme participants, while the remaining 44,184 incentive shares that did not meet the vesting conditions have become forfeit shares. For details, please refer to the relevant content in the 2021 and 2022 annual reports of the Company.

In April 2023, among the incentive shares under the grant, 1,708,200 incentive shares have met the conditions for the second tranche vesting and belonged to the corresponding scheme participants, while the remaining 285,048 incentive shares that did not meet the vesting conditions have become forfeit shares. In addition, 102,760 incentive shares have become forfeit shares due to the resignation and demotion of relevant employees. The Company had instructed the trustee to sell the forfeit shares at the market price in the open market. The proceeds from the disposal of the forfeit shares, after repaying the self-owned capital contribution paid by the employees 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. During the Reporting Period, the Company did not grant any new award.

Particulars of the interests of the directors and supervisors, connected entity participants and other employee participants in the award shares granted and vested are set out below:

Name of scheme participants	Date of grant	Price of grant (HKD)	Number of award shares granted (shares)	Vested date	Share price prior to vesting date during the Reporting Period (HKD) (note 1)	Remaining vesting date	Number of award shares unvested as at January 1, 2023 (shares)	Number of shares vested during the Reporting Period (shares)	Number of shares forfeited during the Reporting Period (shares)	Number of award shares unvested as at December 31, 2023 (shares)
Xiang Xiansong (director)	March 29, 2022	13.22	108,000	April 29, 2022 and April 28, 2023	42.20	Last trading day in April 2024 (note 2)	64,800	32,400	0	32,400
Han Linyou (director)	March 29, 2022	13.22	90,800	April 29, 2022 and April 28, 2023	42.20	Last trading day in April 2024 (note 2)	54,568	27,200	0	27,368
Rao Minghong (supervisor)	March 29, 2022	13.22	99,000	April 29, 2022 and April 28, 2023	42.20	Last trading day in April 2024 (note 2)	59,400	29,800	0	29,600
Liu Xiyue (supervisor)	March 29, 2022	13.22	99,000	April 29, 2022 and April 28, 2023	42.20	Last trading day in April 2024 (note 2)	59,400	26,800	2,970	29,630
Connected entity participants (note 3)	March 29, 2022	13.22	39,600	April 29, 2022 and April 28, 2023	42.20	Last trading day in April 2024 (note 2)	23,800	10,600	1,188	12,012
Other employee participants in aggregate	March 29, 2022	13.22	6,200,000	April 29, 2022 and April 28, 2023	42.20	Last trading day in April 2024 (note 2)	3,720,248	1,581,400	383,650	1,755,198

Notes:

- (1) The closing price of the Company's shares immediately prior to April 28, 2023, i.e. on April 27, 2023.
- (2) Any day other than a day on which the securities on the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Hong Kong Stock Exchange are authorized or required by law to close trading.
- (3) The employee was originally an employee of Yangshengtang Group and was re-designated to the Group in 2023.

## **OUTLOOK**

The global situation in 2024 will remain complex and uncertain, and the focus will remain on recovery and development. The domestic consumer market is expected to maintain its steady and positive recovery, and the food and beverage industry is facing numerous opportunities. Recently, the Group has been influenced by public opinions and is also facing challenges. We will strengthen our brand building, flexibly adapt to market changes, consistently adhere to the concept of healthy and natural products, and continuously improve our products and services to better meet our consumers' needs.

## **DIVIDENDS**

Relevant resolution has been passed at a meeting of the Board held on March 26, 2024, and the Board proposed the distribution of a final dividend (the “**Final Dividend**”) of RMB0.75 (tax inclusive) per share for the year ended December 31, 2023, with a total amount of approximately RMB8,435 million. If such profit distribution plan is reviewed and approved by shareholders at the 2023 annual general meeting to be held on Tuesday, May 21, 2024, the Final Dividend will be distributed no later than August 28, 2024 to shareholders whose names appear on the register of members of the Company on Saturday, May 25, 2024.

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 16, 2024 to Tuesday, May 21, 2024 (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 Tuesday, May 14, 2024.

The register of members of the Company will be closed from Saturday, May 25, 2024 to Thursday, May 30, 2024 (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 24, 2024.

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

During the year ended December 31, 2023, none of the Company and its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

## **AUDIT COMMITTEE**

As approved by the resolution of the Board on May 16, 2023, Mr. Zhong Shu Zi ceased to act as a member of the audit committee of the Company. As of December 31, 2023 and up to the date of this announcement, the audit committee of the Company currently consists of three directors: including three independent non-executive directors being Mr. Stanley Yi Chang, Mr. Yang, Lei Bob and Mr. Lu Yuan. 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, 2023.

## **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, 2023 as set out in this results announcement have been agreed by the Company's independent auditor, Ernst & Young, based on the amounts set out in the Group's consolidated financial statements for the year.

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

## **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE (THE "CG CODE") SET OUT IN APPENDIX C1 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, 2023, 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 the code provision C.2.1 under Section II of the CG Code, the roles of chairman of the board and chief executive officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Mr. Zhong Shanshan is the chairman of the Board and general manager of the Company. As the founder of the Group, Mr. Zhong Shanshan has extensive experience in the drinking water and soft beverage industry and is responsible for the overall management of the Company's business strategies and operations. He has played a key role in 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 four executive directors (including Mr. Zhong Shanshan), two non-executive directors 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 C3 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, 2023.

### **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 2023 annual report of the Company will be dispatched to the shareholders of the Company (if they so require) and published on the aforementioned websites in due course.

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

Hangzhou, the PRC  
March 26, 2024

*As at the date of this announcement, the board of directors of the Company comprises Mr. Zhong Shanshan, Ms. Wu Limin, Mr. Xiang Xiansong and Ms. Han Linyou as executive directors; Mr. Zhong Shu Zi and Ms. Xue Lian as non-executive directors; Mr. Stanley Yi Chang, Mr. Yang, Lei Bob and Mr. Lu Yuan as independent non-executive directors.*