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Tibet Water Resources Ltd.
西藏水資源有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1115)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021**

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Change %
	2021 (RMB'000)	2020 (RMB'000)	
Revenue	<u>223,336</u>	<u>222,986</u>	↑ 0.2%
Adjusted EBITDA*	<u>57,583</u>	<u>69,369</u>	↓ 17.0%
Profit for the period attributable to owners of the Company	<u>44,603</u>	<u>50,397</u>	↓ 11.5%
Earnings per share			
- Basic (RMB cents)	<u>1.78</u>	<u>2.01</u>	↓ 11.4%
- Diluted (RMB cents)	<u>1.69</u>	<u>2.01</u>	↓ 15.9%
		As at 30 June 2021 (RMB'000)	As at 31 December 2020 (RMB'000)
Total assets		<u>4,154,984</u>	<u>4,151,511</u>
Equity attributable to owners of the Company		<u>2,796,426</u>	<u>2,722,108</u>
* Adjusted EBITDA is not accounting measures under IFRS which should be read in conjunction with Note 4(b).			

INTERIM RESULTS

The board of directors (the “**Directors**”) (the “**Board**”) of Tibet Water Resources Ltd. (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2021. These interim results have been reviewed by the Company’s audit committee, comprising all of the independent non-executive Directors, one of whom chairs the committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2021	2020
		RMB’000	RMB’000
Revenue	5	223,336	222,986
Cost of sales		(134,689)	(121,270)
Gross profit		88,647	101,716
Selling and distribution costs		(28,961)	(39,388)
Administrative expenses		(30,818)	(33,114)
Allowance for expected credit loss (“ ECL ”) on financial assets		(26,892)	(10,088)
Other gains, net	6	18,046	10,534
Operating profit		22,022	29,660
Finance income, net		34,725	32,235
Share of result on investments accounted for using the equity method		(1,124)	(1,597)
Profit before income tax		53,623	60,298
Income tax expense	8	(9,020)	(9,901)
Profit for the period	7	44,603	50,397
Profit for the period attributable to:			
– Owners of the Company		44,603	50,397
– Non-controlling interests		—	—
		44,603	50,397
Earnings per share attributable to owners of the Company			
– basic (RMB cents)	9	1.78	2.01
– diluted (RMB cents)	9	1.69	2.01

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	44,603	50,397
Other comprehensive income/(loss):		
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Exchange differences on translation from functional currency to presentation currency	10,291	(5,525)
Other comprehensive income/(loss) for the period, net of tax	10,291	(5,525)
Total comprehensive income for the period	54,894	44,872
Total comprehensive income attributable to:		
– Owners of the Company	54,894	44,872
– Non-controlling interests	—	—
Total comprehensive income for the period	54,894	44,872

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited 30 June 2021 <i>RMB'000</i>	Audited 31 December 2020 <i>RMB'000</i>
Non-current assets			
Right-of-use assets		27,508	27,942
Property, plant and equipment (“PP&E”)		447,984	469,984
Investment properties		—	4,445
Intangible assets		33,257	44,285
Goodwill		721,139	721,139
Investments accounted for using the equity method	10	1,289,055	650,697
Deferred tax assets		4,007	4,277
Prepayments		8,158	6,067
Financial assets at fair value through other comprehensive income (“FVTOCI”)		—	174,482
Financial assets at fair value through profit or loss (“FVTPL”)		11,517	11,517
		2,542,625	2,114,835
Total non-current assets			
Current assets			
Trade receivables	11	208,169	283,274
Prepayments		166,496	79,678
Tax recoverable		—	627
Other financial assets at amortised cost		946,799	1,367,268
Inventories		57,385	60,266
Financial assets at FVTPL		180,811	180,811
Cash and cash equivalents		52,699	64,752
		1,612,359	2,036,676
Total current assets			
Current liabilities			
Trade and notes payables	12	263,903	324,150
Deferred revenue		2,374	2,374
Contract liabilities		70,831	16,854
Tax payable		33,308	28,588
Accruals and other payables		142,680	407,777
Bank borrowings		370,000	500,000
Lease liabilities		74	147
		883,170	1,279,890
Total current liabilities			

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)

		Unaudited	Audited
		30 June	31 December
	<i>Note</i>	2021	2020
		RMB'000	RMB'000
Net current assets		729,189	756,786
Total assets less current liabilities		3,271,814	2,871,621
Non-current liabilities			
Bank borrowings		140,000	110,000
Other payables		16,000	16,000
Deferred revenue		14,955	16,142
Deferred tax liabilities		9,554	7,371
Convertible bonds-liability component	13	294,879	—
Total non-current liabilities		475,388	149,513
Net assets		2,796,426	2,722,108
Capital and reserves			
Share capital		21,368	21,363
Reserves		2,775,058	2,700,745
Total equity attributable to owners of the Company		2,796,426	2,722,108
Non-controlling interests		—	—
Total equity		2,796,426	2,722,108

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

Notes to the condensed consolidated financial statements

1 GENERAL INFORMATION

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 8 November 2010. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company is an investment holding company. The Group is engaged in production and sales of water products and beer products in the People's Republic of China (the "PRC"). The Group also provides lending services to third parties in Hong Kong Special Administrative Region with relevant license.

The Company's shares have been listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 30 June 2011.

The condensed consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated.

2 BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34") "Interim Financial Reporting" issued by the International Accounting Standards Board ("IASB") as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The condensed consolidated financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2020 and any public announcements made by the Company during the interim reporting period.

3 ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at revalued amounts or fair values, as appropriate.

3.1 New and amended standards adopted by the Group

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2020.

3 ACCOUNTING POLICIES (CONTINUED)

3.1 New and amended standards adopted by the Group (continued)

In the current interim period, the Group has applied the following amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the annual periods beginning on or after 1 January 2021 for the preparation of the Group's condensed consolidated financial statements:

Amendment to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2

The application of the amendments to IFRSs and the early application of the amendment in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

4 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the executive directors of the Company, being the chief operating decision maker ("CODM") that are used to make strategic decisions.

(a) Description of segments and principal activities

(i) Water business segment

The principal activities of the Group are manufacturing and selling a range of water products through wholesales in the PRC, selling raw materials and consumables to associates and third parties, leasing production lines and a plant to associates.

(ii) Beer business segment

The Group manufactures and sells a range of beer products mainly in the PRC through wholesales.

(b) Segment information disclosures

Sales between segments are based on the agreed terms between both segments. The revenue from external parties reported to the CODM is measured in a manner consistent with that in the condensed consolidated statement of profit or loss.

The amounts provided to the CODM with respect of total assets and total liabilities are measured in a manner consistent with that of the condensed consolidated financial statements.

4 SEGMENT INFORMATION (CONTINUED)

(b) Segment information disclosures (continued)

The segment information provided to the CODM for the reportable segments for the six months ended 30 June 2021 and as at 30 June 2021 is as follows:

	Unaudited				Total <i>RMB'000</i>
	Six months ended 30 June 2021				
	Water business segment <i>RMB'000</i>	Beer business segment <i>RMB'000</i>	Corporate and others <i>RMB'000</i>	Inter- segment elimination <i>RMB'000</i>	
Total segment revenue	53,912	169,424	—	—	223,336
Cost of sales	(33,946)	(100,743)	—	—	(134,689)
Gross profit	19,966	68,681	—	—	88,647
Share of result on investments accounted for using the equity method	(733)	—	(391)	—	(1,124)
Reversal of allowance for/ (allowance for) ECL on financial assets	(26,937)	45	—	—	(26,892)
Adjusted EBITDA*	(21,244)	88,502	(9,675)	—	57,583
Finance income	30,780	22,511	41	—	53,332
Finance costs	(475)	(6,782)	(11,350)	—	(18,607)
Depreciation and amortisation	(11,408)	(27,159)	(118)	—	(38,685)
Profit/(loss) before tax	(2,347)	77,072	(21,102)	—	53,623
Income tax (expenses)/credit	(2,581)	(6,787)	348	—	(9,020)
Profit/(loss) for the period	(4,928)	70,285	(20,754)	—	44,603

4 SEGMENT INFORMATION (CONTINUED)

(b) Segment information disclosures (continued)

	Unaudited		
	As at 30 June 2021		
	Water	Beer	
	business	business	
	segment	segment	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment total assets	3,983,797	1,751,255	5,735,052
– Investments accounted for using the equity method	1,274,261	—	1,274,261
Unallocated			
Financial assets at FVTPL			192,328
Deferred tax assets			4,007
Assets of corporate and others			21,269
Inter-segment elimination			(1,797,672)
Total assets			<u><u>4,154,984</u></u>
Segment total liabilities	1,525,576	483,658	2,009,234
Unallocated			
Deferred tax liabilities			9,554
Liabilities of corporate and others			325,020
Inter-segment elimination			(985,250)
Total liabilities			<u><u>1,358,558</u></u>

4 SEGMENT INFORMATION (CONTINUED)

(b) Segment information disclosures (continued)

The segment information provided to the CODM for the reportable segments for the six months ended 30 June 2020 and as at 31 December 2020 is as follows:

	Unaudited				Total RMB'000
	Six months ended 30 June 2020				
	Water business segment RMB'000	Beer business segment RMB'000	Corporate and others RMB'000	Inter- segment elimination RMB'000	
Total segment revenue	83,349	138,482	1,155	—	222,986
Cost of sales	(39,064)	(82,206)	—	—	(121,270)
Gross profit	<u>44,285</u>	<u>56,276</u>	<u>1,155</u>	<u>—</u>	<u>101,716</u>
Share of result on investments accounted for using equity method	(551)	—	(1,046)	—	(1,597)
Allowance for ECL on financial assets	(9,771)	(317)	—	—	(10,088)
Adjusted EBITDA*	14,444	63,864	(8,939)	—	69,369
Finance income	35,833	18,132	—	—	53,965
Finance costs	(6,876)	(5,292)	(9,562)	—	(21,730)
Depreciation and amortisation	(14,122)	(26,972)	(212)	—	(41,306)
Profit/(loss) before tax	29,279	49,732	(18,713)	—	60,298
Income tax expenses	(6,008)	(3,891)	(2)	—	(9,901)
Profit/(loss) for the period	<u>23,271</u>	<u>45,841</u>	<u>(18,715)</u>	<u>—</u>	<u>50,397</u>

* Adjusted EBITDA is a key financial measure regularly monitored by CODM in managing the Group's performance. Adjusted EBITDA is calculated by excluding the following effects from the profit/(loss) for the period: (i) finance (cost)/income, net; (ii) depreciation and amortisation; and (iii) income tax expenses.

Adjusted EBITDA is not accounting measures under IFRS and should not be considered as an alternative to the profit/(loss) for the period as a measure of operational performance. Adjusted EBITDA does not have a standard calculation method and the Group's definition of adjusted EBITDA may not be comparable to that of other companies.

4 SEGMENT INFORMATION (CONTINUED)

(b) Segment information disclosures (continued)

	Audited		
	As at 31 December 2020		
	Water	Beer	
	business	business	
	segment	segment	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment total assets	3,519,945	2,415,281	5,935,226
– Investments accounted for using the equity method	650,697	—	650,697
Unallocated			
Financial assets at FVTPL			192,328
Financial assets at FVTOCI			174,482
Deferred tax assets			4,277
Assets of corporate and others			16,816
Inter-segment elimination			(2,171,618)
Total assets			<u><u>4,151,511</u></u>
Segment total liabilities	1,232,434	495,614	1,728,048
Unallocated			
Deferred tax liabilities			7,371
Liabilities of corporate and others			329,037
Inter-segment elimination			(635,053)
Total liabilities			<u><u>1,429,403</u></u>

5 REVENUE

Revenue from external customers are mainly derived from the sales of water products and beer products, interest income from lending services provided and lease of production line and equipment. The Group also sells raw materials and consumables to associates and third parties and leases production lines and a plant to associates. Breakdown of the revenue is as follows:

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Revenue from contracts with customers:		
<i>Recognised at a point in time</i>		
Sales of water products	50,531	79,037
Sales of beer products	164,554	138,482
Sales of raw materials and consumables	4,880	465
	219,965	217,984
Revenue from other sources:		
Rental income	3,371	3,847
Interest income from lending services provided	—	1,155
	3,371	5,002
	223,336	222,986

6 OTHER GAINS, NET

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Fair value changes on financial assets at FVTPL	—	6,370
Government grants (note)	17,972	3,718
Donation	—	(140)
Others	74	586
	18,046	10,534

note:

During the current interim period, the Group recognised government grants of RMB17,972,000 (six months ended 30 June 2020: RMB3,718,000) in respect of amortisation of deferred income and other form of government subsidies granted to the Group by the local government authorities in the PRC. These grants are generally made for business support and awarded to enterprises on a discretionary basis.

7 PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging/(crediting):

	Unaudited	
	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials and consumables used	99,812	72,107
Transportation costs	11,861	14,998
Depreciation of PP&E	27,223	29,807
Depreciation of right-of-use assets	434	357
Depreciation of investment properties	—	117
Amortisation of intangible assets	11,028	11,025
Employee benefit expenses	28,797	30,806
Legal and other consulting service fee	2,360	4,174
Advertising and marketing expenditure	3,248	13,132
City construction tax and education surcharge	2,657	3,080
Electricity and other utility expenses	3,960	3,876
Short-term lease expenses	1,289	1,279
(Reversal of allowance for)/allowance for ECL on financial assets		
– Trade receivables	27,173	10,088
– Other financial assets at amortised cost	(281)	—

8 INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
PRC Enterprise Income Tax:		
– Current income tax	7,209	8,495
Deferred tax	1,811	1,406
Income tax expense	9,020	9,901

9 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share for the six months ended 30 June 2021 and 2020 is based on the following data:

	Unaudited	
	Six months ended 30 June	
	2021	2020
Profit attributable to owners of the Company (RMB'000)	44,603	50,397
Weighted average number of shares in issue ('000)	2,503,410	2,503,267
Basic earnings per share (RMB cents)	<u>1.78</u>	<u>2.01</u>

(b) Diluted earnings per share

Diluted earnings per share has been adjusted for the convertible bonds issued in March 2021. The calculation is based on the following data:

	Unaudited
	Six months
	ended 30 June
	2021
	RMB'000
Earnings	
Profit for the purpose of basic earnings per share	44,603
Effect of dilutive potential ordinary shares:	
Interest on convertible bonds, net of income tax	<u>6,481</u>
Profit for the purpose of diluted earnings per share	<u>51,084</u>

9 EARNINGS PER SHARE (CONTINUED)

(b) Diluted earnings per share (continued)

	Unaudited
	Six months
	ended 30 June
	2021
	'000
Number of Shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	2,503,410
Effect of dilutive potential ordinary shares:	
Convertible bonds	<u>512,400</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u><u>3,015,810</u></u>

No diluted earnings per share for the six months ended 30 June 2020 were presented as there were no potential ordinary shares in issue for the six months ended 30 June 2020.

10 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As at	
	30 June	31 December
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>Unaudited</i>	<i>Audited</i>
At the beginning of the period	650,697	698,283
Additions (note (a))	639,482	—
Share of result	(1,124)	(2,097)
Declaration of dividend	—	<u>(45,489)</u>
At the end of the period	<u><u>1,289,055</u></u>	<u><u>650,697</u></u>

10 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

note:

- (a) On 23 April 2021, the Group acquired 31% equity interests in Tibet Shannan Yalaxiangbu Industrial Ltd. (西藏山南雅拉香布實業有限公司) (“**Shannan Yalaxiangbu**”), a company incorporated in the PRC with other limited liability, at a consideration of RMB465,000,000. Prior to the acquisition, the Group already held 9% equity interests in Shannan Yalaxiangbu, which were accounted for as “financial assets at FVTOCI” in the condensed consolidated statement of financial position for financial reporting purposes. Upon completion of the acquisition, the Group held 40% equity interests in Shannan Yalaxiangbu, and transferred the aggregate fair value of approximately RMB174,482,000 to “Investments accounted for using the equity method” in the condensed consolidated statement of financial position in applying equity method to account for the Group’s investment in Shannan Yalaxiangbu. Goodwill arose on the acquisition of the shares in Shannan Yalaxiangbu.

11 TRADE RECEIVABLES

The credit period is generally 90 to 180 days. The aging analysis of trade receivables based on invoice dates is as follows:

	As at	
	30 June 2021 <i>RMB’000</i> <i>Unaudited</i>	31 December 2020 <i>RMB’000</i> <i>Audited</i>
Within 6 months	49,025	55,243
Over 6 months but within 1 year	24,803	65,205
Over 1 year but within 2 years	80,126	145,205
Over 2 years	140,623	76,856
	<u>294,577</u>	<u>342,509</u>
Less: allowance for ECL	<u>(86,408)</u>	<u>(59,235)</u>
	<u><u>208,169</u></u>	<u><u>283,274</u></u>

12 TRADE AND NOTES PAYABLES

	As at	
	30 June 2021 <i>RMB'000</i> <i>Unaudited</i>	31 December 2020 <i>RMB'000</i> <i>Audited</i>
Trade payables	76,403	82,360
Notes payables	187,500	241,790
	<u>263,903</u>	<u>324,150</u>

As at 30 June 2021 and 31 December 2020, the aging analysis of trade payables based on invoice dates is as follows:

	As at	
	30 June 2021 <i>RMB'000</i> <i>Unaudited</i>	31 December 2020 <i>RMB'000</i> <i>Audited</i>
Within 3 months	43,628	38,808
Over 3 months but within 6 months	9,759	1,671
Over 6 months but within 1 year	1,635	19,689
Over 1 year but within 2 years	13,414	14,885
Over 2 years	7,967	7,307
	<u>76,403</u>	<u>82,360</u>

As at 30 June 2021 and 31 December 2020, the Group's trade payables were all denominated in RMB and non-interest bearing.

The credit period on trade payables is generally within 90 days.

As at 30 June 2021, the bank acceptance notes amounting to approximately RMB187,500,000 (31 December 2020: RMB241,790,000) were guaranteed by bank deposits of approximately RMB37,660,000 (31 December 2020: RMB48,543,000).

All bills issued by the Group are with a maturity period of less than 12 months.

13 CONVERTIBLE BONDS – LIABILITY COMPONENT

The Company issued 5% convertible bonds with principal amount of HK\$379,620,000 (equivalent to RMB317,702,000) (the “**Convertible Bonds**”) in March 2021. The Convertible Bonds are denominated in Hong Kong dollars, unsecured and with interest calculated semi-annually. The bonds entitle the holders to convert them into ordinary shares of the Company at any time between the date of issue of the bonds and the maturity date in March 2024 at a conversion price of HK\$0.74 per share (subject to anti-dilutive adjustments). The bonds can be early redeemed upon certain events at the option of the bondholders or the issuer. If the bonds have not been converted or redeemed, they will be redeemed in March 2024 at par value plus accrued interest.

At initial recognition, the fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is presented in equity heading “other reserve”. The early redemption option is considered as closely related to the host debt. The effective interest rate of the liability component is 7.69%.

The convertible bonds issued during the period have been split into the liability and equity components as follows:

	RMB’000
	Unaudited
Nominal value of convertible bonds issued during the period	317,702
Equity component	<u>(22,848)</u>
Liability component at the issuance date	294,854
Conversion of convertible bonds	(342)
Interest expenses	6,842
Interest paid/payable	(4,780)
Exchange alignment	<u>(1,695)</u>
Liability Component at 30 June 2021 (Unaudited)	<u><u>294,879</u></u>

14 DIVIDENDS

No dividends were paid, declared or proposed during the six months ended 30 June 2021 (six months ended 30 June 2020: Nil). The directors of the Company have determined that no dividend will be paid in respect of the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

15 SEASONALITY OF OPERATIONS

The sales of the Group for water products are subject to seasonal fluctuations while there is no obvious seasonality of operations for beer products. The peak demand period for water products is the second and third quarters of the year. This is due to the seasonal weather conditions.

In the financial year ended 31 December 2020, 58% (2019: 57%) of water products revenues accumulated in the second and third quarters of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2021, we continued our endeavors in the development of the water resource industry and beer industry in the Tibet Autonomous Region (“**Tibet**”) and supplying premium products and high-quality services to our customers.

In the first half of 2021, the overall economic environment in the PRC was still affected by the COVID-19 (Coronavirus) pandemic. Although the pandemic situation has improved recently, the Group still faces unusual challenges. The Group’s water business mainly conducts sales in Mainland China outside Tibet. The total revenue from sales channels including movie theaters, airlines, hotels, corporate customers and traditional retails accounted for over 50% of both total sales and total revenue of the Group’s water business. These sales channels were largely affected by the pandemic, which therefore affected the revenue of the Group’s water business. The Group’s beer business mainly conducts sales in Tibet and was less affected by the pandemic. In the first half of 2021, both revenue and profit of beer business recorded positive growth, and the scale of its banking facility in Tibet remained stable. Facing the challenges from the impact of the pandemic, the Group, on the one hand, explored more financing channels and methods, for example, the scale of the banking facility of the Group’s water business in Tibet decreased by RMB125 million, but the Group has successfully issued the Convertible Bonds in the first half of 2021; on the other hand, the Group actively negotiated with potential strategic cooperation partners, integrating the existing resources of the Group and bringing new revenue and cash flow for the Group’s water business and beer business. At present, these works are all ongoing. The management of the Group believes that despite the ongoing impact of the pandemic, we are able to adapt accordingly and deal with the challenges.

In the first half of 2021, our packaged water products were sold in the PRC and the Hong Kong SAR. The Group’s key sales channels, including movie theaters, hotels, airlines and large corporate customers, were adversely affected by the pandemic; E-commerce platforms and household consumers through JD.com remained relatively stable, and brought positive cash inflows.

Our beer products are mainly sold in Tibet through supermarkets, convenience stores, restaurants and entertainment outlets. In the first half of 2021, revenue of our beer products sold within Tibet was 99.7% (outside Tibet was 0.3%). In the past two years, we have continuously launched new premium beer products with different flavors and packages, such as 6° Highland Barley Beer, Highland Barley Puree Beer, etc., to meet the changing tastes of the consumers. Despite the pessimistic sentiment of the overall economic environment, our beer business still maintained growth and a stable significant market share in Tibet in the first half of 2021.

With the recent improvement of the COVID-19 pandemic situation including mass vaccination programs in the PRC, our overall water and beer business will gradually recover and improve to a normal level, especially with our beer business experiencing significant growth in the first half of 2021.

FINANCIAL REVIEW

Revenue analysis

In the first half of 2021, due to the reasons mentioned in the “Business Review” section above, the total revenue of the Group amounted to RMB223 million, representing an increase of 0.2% in comparison with the first half of 2020.

The revenue generated from our water business segment was RMB54 million, representing a decrease of 35.3% in comparison with the first half of 2020. As mentioned above, due to the impact of the COVID-19 pandemic on the important sales channels of the water business segment, the sales of water products have dropped, and the average selling price has dropped due to changes in the customer structure.

For beer business segment, the year over year change is as follow:

	The first half of 2021	The first half of 2020	% change
Volume (hectoliter)	224,193	193,050	↑ 16.1%
Revenue (RMB'000)	169,424	138,482	↑ 22.3%
Adjusted EBITDA* (RMB'000)	88,502	63,864	↑ 38.6%

* Adjusted EBITDA is not accounting measures under IFRSs which should be read in conjunction with Note 4b.

As the pandemic slowed down, the sales of beer products in Tibet increased, and also the adjusted EBITDA increased accordingly.

In the first half of 2021, the overall gross profit margin of the Group was 39.7%, which decreased by 5.9 percentage points when compared to the first half of 2020. The gross profit margin of the water business segment was 37.0%, which decreased by 16.1 percentage points when compared to the first half of 2020, mainly due to the increase in the fixed cost allocated due to the decrease in sales volume leading to the increase in the average cost, and as mentioned above, the change in the customer structure leading to the decrease in the average selling price. The gross profit margin of the beer business segment was 40.5% in the first half of 2021, which was in line with the same period of last year.

Selling and distribution costs and administrative expenses

In the first half of 2021, the selling and distribution costs decreased by 26.5% to RMB29 million from RMB39 million in the first half of 2020, mainly due to the decrease in water sales, the corresponding reduction in transportation costs and promotion fees. The administrative expenses decreased by 6.9% from RMB33 million in the first half of 2020 to RMB31 million in the first half of 2021, mainly due to the decrease in staff expenses when compared with the first half of 2020.

Allowance for ECL on financial assets

Allowance for ECL on financial assets mainly included the allowance for ECL on trade receivables. The allowance for ECL on trade receivables was RMB27 million in the first half of 2021 (the allowance for ECL on trade receivables in the first half of 2020: RMB10 million). The increase was due to the slowdown in the collection of trade receivables from customers that have been more affected by the pandemic.

Other gains, net

Other gains, net increased from net gains of RMB11 million in the first half of 2020 to RMB18 million in the first half of 2021, which was mainly due to (i) the increase in government grants of RMB14 million (since the work of the local government was affected by the pandemic, the approval of the government subsidy that should have been received in December 2020 was actually received in June 2021, and therefore, recognised in the first half of 2021); offset by (ii) the decrease in fair value changes on financial assets at FVTPL of RMB6 million; and (iii) the decrease in other gains of RMB1 million.

Finance income, net

In the first half of 2021, the Group incurred finance costs of approximately RMB18 million and gained finance income of RMB53 million. Finance costs decreased by RMB3 million compared with the first half of 2020 mainly due to (i) the decrease of RMB5 million in interest costs on borrowings from banks; and (ii) the repayment of borrowings to third parties leading to the decrease of RMB6 million in related interest costs, which were offset by (iii) the issuance of the Convertible Bonds by the Company leading to the increase of RMB7 million in related interest costs and (iv) the increase in other finance cost of RMB1 million. Finance income decreased by RMB1 million mainly due to the reduction in principal of loan to third parties.

Share of result on investments accounted for using the equity method

The share of result on investments accounted for using the equity method was mainly the share of result of Tibet Highland Natural Water Limited (“**Highland Natural Water**”) whose ultimate controlling shareholder is China Petroleum & Chemical Corporation (“**Sinopec**”). The sales volume of Highland Natural Water in the first half of 2021 was 122,510 tonnes, and its revenue was RMB158 million which represent an increase of 92% and 1.4% from the first half of 2020, respectively. Starting from June 2020, the production and sales of Highland Natural Water affected by the pandemic have progressively returned to the normal level. The Group’s 43.981% equity interests in Highland Natural Water generated share of Highland Natural Water’s net loss of RMB2 million (the first half of 2020: Nil).

Income tax expense

In the first half of 2021, the income tax expense was RMB9 million which decreased by RMB1 million due to the decrease in total profit compared to the first half of 2020.

Profit for the period

Due to the reasons mentioned above, in the first half of 2021, the profit for the period was RMB45 million, which decreased by RMB5 million when compared to RMB50 million in the first half of 2020.

OTHER FINANCIAL POSITIONS

As at 30 June 2021, investments accounted for using the equity method of the Group amounted to RMB1,289 million compared to RMB651 million as at 31 December 2020. The increase was mainly due to the Group's acquisition of 31% equity interests in Shannan Yalaxiangbu at a consideration of RMB465 million in April 2021. Prior to the acquisition, the Group already held 9% equity interests in Shannan Yalaxiangbu, which was accounted for as financial assets at FVTOCI. Upon completion of the acquisition, the Group owed an aggregate of 40% equity interests in Shannan Yalaxiangbu, and transferred the aggregate fair value of approximately RMB174 million to investments accounted for using the equity method in the condensed consolidated statement of financial position. Further details of the acquisition of 31% equity interests in Shannan Yalaxiangbu are set out in Note 10 to the condensed consolidated financial statements of this announcement.

As at 30 June 2021, financial assets at FVTOCI of the Group was nil compared to RMB174 million as at 31 December 2020. The decrease was due to the reason mentioned in the above paragraph.

As at 30 June 2021, net trade receivables of the Group amounted to RMB208 million compared to RMB283 million as at 31 December 2020. The decrease was mainly due to the decrease in trade receivables from certain institutional clients and distributors and the increase in allowance for ECL of trade receivables of RMB27 million.

The Group maintained regular contact with our major debtors through meetings and telephone conversations and paid regular attention to public information about our major debtors to understand the status of their operations, their continuing business needs and the ways in which the Group can improve its services. As at 30 June 2021, allowance for ECL on trade receivables was RMB86 million (as at 31 December 2020: RMB59 million).

As at 30 June 2021, prepayments of the Group amounted to RMB175 million compared to RMB86 million as at 31 December 2020. The increase was due to the increase in prepayment for purchasing raw materials.

As at 30 June 2021, other financial assets at amortised cost, net of allowance for ECL of the Group amounted to approximately RMB947 million compared to RMB1,367 million as at 31 December 2020. As at 30 June 2021, other financial assets at amortised cost mainly included the amounts due from third parties amounting to RMB865 million, amounts due from associates amounting to RMB79 million, and other receivables amounting to RMB7 million. As at 30 June 2021, as mentioned above, the Group continued to be committed to the development of Tibet's water industry and allocated resources to the long term strategic positioning in Tibet's water industry. As at 30 June 2021, allowance for ECL on other financial assets at amortised cost amounted to RMB4 million (as at 31 December 2020: RMB5 million).

As at 30 June 2021, contract liabilities of the Group amounted to RMB71 million compared to RMB17 million as at 31 December 2020. The increase was mainly due to the increase in advances received from customers of the sales of beer products of RMB54 million.

As at 30 June 2021, accruals and other payables of the Group amounted to RMB159 million compared to RMB424 million as at 31 December 2020. The decrease was mainly due to (i) the decrease in borrowings from a third party of RMB300 million; (ii) the decrease in salaries and welfare payables of RMB10 million; and (iii) the decrease in other operating and services expenses payables of RMB12 million, offset by (iv) the increase in amount received from a third party of RMB56 million; and (v) the increase in payables for value added tax and other taxes of RMB1 million.

As at 30 June 2021, the bank borrowings of the Group decreased by RMB100 million, which was mainly because the repayment of principal of bank borrowings amounting to RMB240 million in the first half of 2021 was offset by the proceeds from bank borrowings amounting to RMB140 million in the first half of 2021.

As at 30 June 2021, the liability component of the Convertible Bonds issued by the Company amounted to RMB295 million, and as at 31 December 2020, the Company did not have any liability components of the Convertible Bonds. In March 2021, the Company issued Convertible Bonds with principal amount of HK\$380 million (equivalent to RMB318 million) which borne an interest rate of 5.0% per annum. Further details of the Convertible Bonds are set out in Note 13 to the condensed consolidated financial statements of this announcement.

EMPLOYEES

As at 30 June 2021, the total number of employees of the Group was 399 compared to 382 as at 30 June 2020. Relevant staff cost of the Group was RMB29 million in the first half of 2021 (the first half of 2020: RMB31 million). The decrease of relevant staff cost was due to decline in revenue and profit of water business segment, leading to a decrease in sales incentives of sales staff.

The Group adopted a share award scheme in 2017. Up to 30 June 2021, no share has been granted by the Group to any parties under the share award scheme.

GEARING RATIO

The gearing ratio is calculated as borrowings (including bank borrowings, liability component of convertible bonds and borrowings from third parties) divided by total capital. The total capital is calculated as “equity” as shown in the condensed consolidated statement of financial position plus borrowings (including bank borrowings, liability component of convertible bonds and borrowings from third parties). As at 30 June 2021 and 31 December 2020, the gearing ratios of the Group were 22.50% and 25.09%, respectively.

MERGER AND ACQUISITION

On 23 April 2021, the Group acquired 31% equity interests in Shannan Yalaxiangbu, a company incorporated in the PRC with other limited liability, at a consideration of RMB465 million. Prior to the acquisition, the Group already held 9% equity interests in Shannan Yalaxiangbu. Upon completion of the acquisition, the Group was interested in 40% equity interests in Shannan Yalaxiangbu, which became an associate of the Group. Further details of the acquisition of 31% equity interests in Shannan Yalaxiangbu are set out in Note 10 to the condensed consolidated financial statements of this announcement.

SIGNIFICANT INVESTMENTS

In the first half of 2021, the Group acquired PP&E of RMB1 million (the first half of 2020: RMB5 million). Regarding the future development and outlook of the Group, please refer to the section headed “Outlook” in this “Management Discussion and Analysis” section.

CAPITAL COMMITMENTS

As at 30 June 2021, the Group has committed to purchasing PP&E of approximately RMB35 million (31 December 2020: RMB37 million), and equity investment of RMB16 million (31 December 2020: RMB16 million). The funding sources related to these commitments are expected to be disbursed from the Group’s own capital.

CHARGES (OR PLEDGES)

As at 30 June 2021, (i) a bank loan with the principal amount of RMB290 million (31 December 2020: RMB290 million) of the Group was secured by the pledge of 35% of Tibet Tiandi Green Beverage Development Co., Ltd.’s (“**Tiandi Green**”) equity interests; (ii) a bank loan with the principal amount of RMB100 million (31 December 2020: RMB100 million) of the Group was secured by the pledge of 15% of Highland Natural Water’s equity interests; (iii) a bank loan with the principal amount of RMB150 million (31 December 2020: RMB150 million) of the Group was secured by land use rights of a third party of the Group (31 December 2020: secured by land use rights of a third party of the Group); (iv) a bank loan with the principal amount of RMB100 million (31 December 2020: nil) of the Group was secured by the pledge of 20% of Shannan Yalaxiangbu’s equity interests; and (v) a bank loan with principal amount of RMB100 million (31 December 2020: RMB100 million) of the Group was secured by the Group’s factory plant with net book value of RMB50 million (31 December 2020: RMB62 million) and land use rights with net book value of RMB12 million (31 December 2020: RMB27 million).

The bank acceptance notes amounting to RMB188 million (31 December 2020: RMB242 million) were guaranteed by bank deposits of RMB38 million (31 December 2020: RMB48 million).

CONTINGENT LIABILITIES

The Group did not have contingent liabilities as at 30 June 2021 (31 December 2020: RMB170 million).

FOREIGN EXCHANGE RISK

The Group adopts a conservative approach to cash management and risk control. The Group mainly operates in the PRC with most of its business transactions denominated in RMB. However, the Group is exposed to foreign exchange risk arising from its cash exchange transactions, which are primarily denominated in HKD. To mitigate the impact of exchange rate fluctuations, the Group continually assesses and monitors its exposure to foreign exchange risk. During the first half of 2021, management of the Group did not consider it necessary to enter into any hedging transactions in order to reduce the exposure to foreign exchange risk because the exposure, after netting off the assets and liabilities subject to foreign exchange risk, was not significant.

PRODUCTION CAPACITY

In the first half of 2021, the expected annual water production capacity and annual beer production capacity are approximately 300,000 tonnes and 2,000,000 hectoliter respectively, same as in 2020. The Group will assess its production capacity periodically and consider increasing production capacity to meet the demands of future development.

USE OF NET PROCEEDS FROM THE GLOBAL OFFERING

The shares of the Company were listed on the Main Board of the Stock Exchange on 30 June 2011 with net proceeds from the global offering of approximately HKD1,472 million (including proceeds from the exercise of over-allotment option and after deducting underwriting commissions and related expenses). On 10 April 2013, the Company resolved to change the usage of the net proceeds from the global offering. Please refer to the Company's announcement dated 10 April 2013 for details. The revised usage of the net proceeds has been allocated in the following manner:

	As at			As at	
	31 December	In the first	As at	As at	
Revised	2020	half of 2021	30 June 2021	30 June 2021	
usage of	Utilized	Utilized	Utilized	Unutilized	
net proceeds	net proceeds	net proceeds	net proceeds	net proceeds	
<i>HKD'Million</i>	<i>HKD'Million</i>	<i>HKD'Million</i>	<i>HKD'Million</i>	<i>HKD'Million</i>	<i>HKD'Million</i>
Expand our production capacity by constructing additional facilities and purchasing additional production equipment	133	133	—	133	—
Expand our distribution network and towards promotional activities	206	46	2	48	158
Mergers and acquisitions that complement our existing business	1,092	1,092	—	1,092	—
Working capital and other general corporate purpose	41	41	—	41	—
	<u>1,472</u>	<u>1,312</u>	<u>2</u>	<u>1,314</u>	<u>158</u>

As at 30 June 2021, the Group has utilized net proceeds amounting to HKD133 million, HKD48 million, HKD1,092 million and HKD41 million (i) for expanding our production capacity, (ii) for expanding our distribution network and toward promotional activities, (iii) for mergers and acquisitions that complement our existing business, and (iv) as working capital and for other general corporate purposes, respectively. The remaining net proceeds were deposited in reputable financial institutions and are intended to be applied towards expanding distribution network and towards promotional activities in the coming financial years. The net proceeds were applied and are to be applied according to the intentions disclosed in the Company's announcement dated 10 April 2013.

INTERIM DIVIDENDS

The Board did not recommend a payment of an interim dividend for the six months ended 30 June 2021 (for the six months ended 30 June 2020: nil).

OUTLOOK

The Group will continue to make full use of its existing advantages in resources, marketing channels and logistics network to strengthen and solidify its strategic position in Tibet's water industry.

The Group will continue investing in significant resources, strengthen its strategic cooperation with Sinopec and PetroChina Company Limited, fully utilize the water resources and production bases advantages of Highland Natural Water and Shannan Yalaxiangbu and promote additional new strategic cooperation to make the high-quality water from Tibet available to numerous households.

The Group will continue to maintain and develop the advantages of the "5100 Glacial Mineral Water" as a premium brand, combine with the resources of the existing key target channels including cinemas, hotels, airlines, e-commerce, office and family users, with marketing and promotional campaigns to continuously improve the brand image and influence.

The Group will intensify its cooperation with various key platforms, including JD.com, in respect of sales and logistics to boost the development of the Group's products in the e-commerce sales channels. Coupled with its service system in the nationwide gas stations channels, the Group will build its service networks which cover more consumers and retail ends to diversify its sales models and make its products available to more customers.

EVENT AFTER THE REPORTING PERIOD

There is no significant event after the reporting period.

NON-COMPLIANCE WITH REQUIREMENTS REGARDING INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

Following the retirement of Mr. HUNG Ka Hai Clement as an independent non-executive Director with effect from the conclusion of the annual general meeting of the Company held on 30 June 2021, the number of independent non-executive Directors and the number of members of the audit committee of the Company (the “**Audit Committee**”) have fallen below the minimum number required under Rule 3.10(1) and Rule 3.21 of the Listing Rules respectively, no independent non-executive Director has appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules (the “**Qualification**”), and the Audit Committee comprises no independent non-executive Director with the Qualification as required under Rule 3.21 of the Listing Rules. The Company is in the process of seeking suitable candidate to fill the vacancy and expects to meet the said requirements within 3 months from 30 June 2021 pursuant to Rule 3.11 and Rule 3.23 of the Listing Rules respectively. The Company will make further announcement(s) as and when appropriate.

CORPORATE GOVERNANCE PRACTICES

For the first half of 2021, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all the Directors and each of the Directors has confirmed that each of them has complied with the Model Code for the first half of 2021. Specific employees who are likely to be in possession of inside information of the Group have been requested to comply with the provisions of the Model Code. No incident of non-compliance has been noted by the Company.

The Audit Committee, consisting of two independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Group, and has reviewed the interim results for the first half of 2021.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SHARES

For the first half of 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares.

PUBLICATION OF INTERIM REPORT

Pursuant to the requirements of the Listing Rules, the 2021 interim report of the Company will set out, including but not limited to, all information disclosed in the interim results announcement for the first half of 2021 and will be despatched to the shareholders of the Company and uploaded on the websites of the Company (<http://www.twr1115.net>) and the Stock Exchange (<http://www.hkexnews.hk>) in due course.

By order of the Board
Tibet Water Resources Ltd.
YAN Qingjiang
Executive Director

Hong Kong, 27 August 2021

As of the date of this announcement, the executive Director is Mr. YAN Qingjiang, the non-executive Director is Ms. JIANG Xiaohong and the independent non-executive Directors are Mr. TANG Zeping and Mr. DAI Yang.