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 FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

	Year ended 31 December		**Change**
	2019	2018	**%**
Revenue from contracts with customers (RMB'000)	**721,455**	880,657	↓ 18%
Operating profit (RMB'000)	**132,668**	342,048	↓ 61%
Impairment losses on investment accounted for using the equity method (RMB'000)	**(873,151)**	—	N/A
(Loss)/Profit attributable to owners of the Company (RMB'000)	**(745,118)**	317,532	N/A
(Loss)/Earnings per share - Basic and diluted (RMB cents)	**(29.77)**	12.68	N/A
Total sales volume (tonnes)	**109,651**	125,379	↓ 13%
Gross profit margin	**56%**	55%	↑ 1% point

	As at 31 December	
	2019	2018
Total assets (RMB'000)	**4,262,406**	4,912,191
Equity attributable to owners of the Company (RMB'000)	**2,701,943**	3,459,296

FINAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Tibet Water Resources Ltd. (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2019, together with comparative figures prepared under International Financial Reporting Standards ("**IFRS**").

CONSOLIDATED BALANCE SHEET

	Note	**As at 31 December**	
		2019	2018
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Land use rights		**28,521**	29,245
Property, plant and equipment ("**PP&E**")		**521,083**	578,997
Investment properties		**4,679**	—
Intangible assets		**66,403**	88,521
Goodwill		**721,139**	721,139
Investments accounted for using the equity method	7	**698,283**	1,574,938
Deferred tax assets		**9,511**	2,838
Prepayments		**6,518**	38,613
Financial assets at fair value through other comprehensive income ("**FVOCI**")		**231,881**	231,881
Financial assets at fair value through profit or loss ("**FVPL**")		**16,517**	11,517
Total non-current assets		**2,304,535**	3,277,689
Current assets			
Trade receivables	8	**258,991**	289,885
Prepayments		**115,428**	141,552
Prepaid enterprise income tax		**2,860**	6,358
Other financial assets at amortised cost		**831,736**	641,117
Inventories		**52,716**	99,160
Financial assets at fair value through profit or loss ("**FVPL**")		**180,630**	179,278
Cash and cash equivalents		**515,510**	277,152
Total current assets		**1,957,871**	1,634,502
Total assets		**4,262,406**	4,912,191
EQUITY			
Equity attributable to owners of the Company			
Share capital		**21,363**	21,363
Share premium		**1,225,214**	1,206,829
Shares held for share award scheme		**(173,037)**	(173,037)
Other reserves		**147,304**	177,924
Retained earnings		**1,481,099**	2,226,217
Total equity attributable to owners of the Company		**2,701,943**	3,459,296
Non-controlling interests		**96**	40
Total equity		**2,702,039**	3,459,336

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	As at 31 December	
		2019	2018
		RMB'000	*RMB'000*
LIABILITIES			
Non-current liabilities			
Bank borrowings		**140,000**	240,000
Other payables		**16,000**	—
Deferred revenue		**18,517**	20,942
Deferred tax liabilities		**9,695**	15,255
Total non-current liabilities		**184,212**	276,197
Current liabilities			
Trade and notes payables	9	**323,881**	78,721
Deferred revenue		**2,373**	2,373
Contract liabilities		**29,409**	21,225
Enterprise income tax payable		**34,355**	25,974
Accruals and other payables		**410,137**	129,692
Bank borrowings		**576,000**	461,000
Convertible bond - liability component		**—**	457,673
Total current liabilities		**1,376,155**	1,176,658
Total liabilities		**1,560,367**	1,452,855
Total equity and liabilities		**4,262,406**	4,912,191

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Year ended 31 December 2019 *RMB'000*	2018 *RMB'000*
Revenue from contracts with customers	6	**721,455**	880,657
Cost of sales	11	**(317,140)**	(400,528)
Gross profit		**404,315**	480,129
Selling and distribution costs	11	**(112,829)**	(115,664)
Administrative expenses	11	**(92,465)**	(89,631)
Net impairment losses on financial assets	11	**(83,164)**	(1,795)
Other gains, net	10	**16,811**	69,009
Operating profit		**132,668**	342,048
Finance income		**63,819**	31,855
Finance costs		**(54,258)**	(42,105)
Finance income/(costs), net		**9,561**	(10,250)
Impairment losses on investments accounted for using the equity method	7	**(873,151)**	—
Share of net profit of investments accounted for using the equity method	7	**14,319**	20,436
(Loss)/Profit before income tax		**(716,603)**	352,234
Income tax expense	12	**(28,515)**	(34,702)
(Loss)/Profit for the year		**(745,118)**	317,532
(Loss)/Profit attributable to:			
– Owners of the Company		**(745,118)**	317,532
– Non-controlling interests		**—**	—
		(745,118)	317,532
(Loss)/Earnings per share for (loss)/profit attributable to owners of the Company			
– (Loss)/Earnings per share (basic and diluted) (RMB cents per share)	13	**(29.77)**	12.68

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
(Loss)/Profit for the year	**(745,118)**	317,532
Other comprehensive loss:		
Item that will not be reclassified subsequently to profit or loss		
Currency translation differences	**(12,235)**	(18,455)
Other comprehensive loss for the year, net of tax	**(12,235)**	(18,455)
Total comprehensive (loss)/income for the year	**(757,353)**	299,077
Attributable to:		
– Owners of the Company	**(757,353)**	299,077
– Non-controlling interests	**—**	—
Total comprehensive (loss)/income for the year	**(757,353)**	299,077

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company							
	Share capital *RMB'000*	Share premium *RMB'000*	Shares held for share award scheme *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2019	**21,363**	**1,206,829**	**(173,037)**	**177,924**	**2,226,217**	**3,459,296**	**40**	**3,459,336**
Loss for the year	**—**	**—**	**—**	**—**	**(745,118)**	**(745,118)**	**—**	**(745,118)**
Currency translation differences	**—**	**—**	**—**	**(12,235)**	**—**	**(12,235)**	**—**	**(12,235)**
Total comprehensive loss for the year	**—**	**—**	**—**	**(12,235)**	**(745,118)**	**(757,353)**	**—**	**(757,353)**
Convertible bond-equity component	**—**	**18,385**	**—**	**(18,385)**	**—**	**—**	**—**	**—**
Capital injections from non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**56**	**56**
Balance at 31 December 2019	**21,363**	**1,225,214**	**(173,037)**	**147,304**	**1,481,099**	**2,701,943**	**96**	**2,702,039**
Balance at 31 December 2017 as originally presented	21,363	1,206,829	(158,868)	191,921	1,913,143	3,174,388	—	3,174,388
Change in accounting policy	—	—	—	(5,884)	5,884	—	—	—
Restated total equity as at 31 December 2017	21,363	1,206,829	(158,868)	186,037	1,919,027	3,174,388	—	3,174,388
Balance at 1 January 2018	21,363	1,206,829	(158,868)	186,037	1,919,027	3,174,388	—	3,174,388
Profit for the year	—	—	—	—	317,532	317,532	—	317,532
Currency translation differences	—	—	—	(18,455)	—	(18,455)	—	(18,455)
Total comprehensive income for the year	—	—	—	(18,455)	317,532	299,077	—	299,077
Appropriations to statutory surplus reserve	—	—	—	10,342	(10,342)	—	—	—
Non-controlling interests on acquisition of subsidiary	—	—	—	—	—	—	40	40
Acquisition of shares under share award scheme	—	—	(14,169)	—	—	(14,169)	—	(14,169)
Balance at 31 December 2018	21,363	1,206,829	(173,037)	177,924	2,226,217	3,459,296	40	3,459,336

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash generated from operations	**576,978**	247,365
Interest received	**492**	3,261
Interest paid	**(375)**	(106)
Income taxes paid	**(28,869)**	(38,963)
Net cash flows from operating activities	**548,226**	211,557
Cash flows from investing activities		
Purchases of PP&E	**(1,583)**	(16,015)
Government grants received relating to fixed assets	**—**	1,641
Purchases of FVOCI	**—**	(173,881)
Purchases of FVPL	**(525,000)**	(684,319)
Proceeds from disposal of FVPL	**525,157**	703,475
Loans granted to third parties	**(1,138,642)**	(709,534)
Repayments received from loans to third parties	**1,354,389**	336,016
Amounts advanced to third parties	**(349,699)**	(408,257)
Payments received from third parties	**162,481**	211,339
Loans granted to related parties	**(288,200)**	(22,000)
Repayments received from loans to a related party	**14,363**	—
Amounts paid to related parties	**(55,623)**	(170,000)
Amounts received from related parties	**—**	407,704
Cash acquired from acquisition of a subsidiary	**—**	45,751
Payments for investment in associates	**(5,020)**	(297,500)
Dividends received from an associate	**—**	32,364
Net cash flows used in investing activities	**(307,377)**	(743,216)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Cash flows from financing activities		
Proceeds from bank borrowings	**456,000**	706,000
Repayments of bank borrowings and interests	**(471,540)**	(450,108)
Loans from third parties	**295,697**	—
Payments for shares bought back	**—**	(14,169)
Payments relating to convertible bond	**(282,789)**	(26,882)
Transaction with non-controlling interests	**—**	(239,044)
Capital injections from non-controlling interests	**56**	40
Net cash flows used in financing activities	**(2,576)**	(24,163)
Net increase/(decrease) in cash and cash equivalents	**238,273**	(555,822)
Cash and cash equivalents at beginning of year	**277,152**	830,773
Exchange gains	**85**	2,201
Cash and cash equivalents at end of year	**515,510**	277,152

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE 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 the Hong Kong Special Administrative Region of the PRC ("**Hong Kong**") 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.

These financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated. These financial statements have been approved for issue by the Board on 31 March 2020.

Key events

The Group's convertible bonds with par value of HKD525,000,000 were matured on 24 June 2019. None of the bond holders exercised the conversion option of the convertible bonds and thus the Group was required to repay the bond holders in cash upon maturity. By 16 July 2019 (the contractual repayment deadline based on the terms of the bonds), the Group had repaid the bonds in full, amounting to RMB486,363,000 (equivalent to HKD545,599,000), representing principal of RMB468,517,000 (equivalent to HKD525,000,000) and interest of RMB17,846,000 (equivalent to HKD20,599,000).

Management performed impairment analysis for the investment in an associate - Tibet Highland Natural Water Limited ("**Highland Natural Water**"). The recoverable amount of the investment is determined based on value-in-use calculations, which is assessed to be higher than the fair value less disposal costs. Based on the results of management's impairment analysis, an impairment loss of RMB873,151,000 was recognised for the year ended 31 December 2019. See Note 7 for further details.

2 BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with all applicable IFRSs and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of FVPL and FVOCI, which are carried at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

3.1 New standard adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- IFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.

The impact of the adoption of IFRS 16 is disclosed in Note 3.3. The other amendments, annual improvements and interpretations did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

3.2 New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

3.3 Impact on the financial statements

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements.

The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. As at 1 January 2019 and through the year ended 31 December 2019, except for the land lease arrangements with the PRC government, all the Group's lease contracts' remaining lease terms are within 12 months, thus the Group treats the leases as short-term leases according to the practical expedients permitted by the standard, and elected to recognise the lease payments as an expense on a straight-line basis over the lease term. The land lease arrangements with the PRC government are recognised as right-of-use assets. Thus, there is no significant impact on the Group's financial statements from application of IFRS 16 as at 1 January 2019 and during the year ended 31 December 2019.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of accounting estimates, which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Depreciation and amortisation

The Group's management determines the residual value, useful lives and related depreciation charges for its property, plant and equipment and investment properties. This estimate is based on the historical experience of the actual residual value and useful lives of property, plant and equipment as well as investment properties of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where residual value or useful lives are less than previous estimates, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact on the current and deferred tax assets and liabilities in the period in which such determination is made.

Where the expectation is different from the original estimate, such differences will impact on the recognition of deferred tax assets and taxation in the periods in which such estimates are changed.

Dividends derived from the Company's subsidiaries in the PRC earned after 1 January 2008 are subject to withholding tax at the rate of 5%-10%. The Group reassessed its needs to make distributions out of its subsidiaries in the PRC. As a result, withholding income tax has been provided for the undistributed profits to the extent they are expected to be distributed in future.

Deferred tax assets relating to certain temporary differences are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences can be utilised.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Impairment review

(i) Goodwill arising from acquisition of a subsidiary – Tibet Tiandi Green Beverage Development Co., Ltd. ("**Tiandi Green**")

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy. The recoverable amounts of cash-generating units ("**CGUs**") have been determined based on value-in-use calculations. These calculations require the use of estimates.

The table below summarised the key assumptions used in the goodwill impairment review and the impacts on the value-in-use calculations upon unfavourable movements of the key assumptions:

Items	**Assumptions used**	**Movement of key assumptions**	**Decrease in value-in-use/ impairment loss (RMB'000)**
Compound annual revenue growth rate	-4.8%~11.7%	Decrease by 1%	41,206/10,635
Long-term growth rate	2.5%	Decrease to 1.5%	47,529/16,958
Gross margin	46.6%~46.7%	Decrease by 5%	139,749/109,178
Pre-tax discount rate	15.5%	Increase to 16.5%	65,561/34,990

Based on management's analysis, negative movements of the above key assumptions are unlikely to happen given prudent assumptions had been used in the goodwill impairment analysis. As such, no impairment loss had been recognised for the goodwill arising from acquisition of Tiandi Green for the year ended 31 December 2019.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Impairment review (continued)

(ii) Investment in an associate – Highland Natural Water

The Group performs impairment analysis for investment in Highland Natural Water when there is any indicator for impairment noted in accordance with the relevant accounting policy. The recoverable amounts of CGU have been determined based on value-in-use calculations, which was higher than fair value less costs of disposal. These calculations require the use of estimates.

The table below summarised the key assumptions used in the impairment review for investment in Highland Natural Water and the impacts on the value-in-use calculations upon unfavourable changes of the key assumptions:

Items	**Assumptions used**	**Movement of key assumptions**	**Decrease in value-in-use/ additional impairment loss (RMB'000)**
Compound annual revenue growth rate	8.0% ~9.1%	Decrease by 1%	105,780
Long-term growth rate	2.5%	Decrease to 1.5%	26,622
Gross margin	55.7% ~55.8%	Decrease by 5%	155,550
Pre-tax discount rate	12.4%	Increase to 13.4%	53,956

As at 31 December 2019, management recorded impairment loss of RMB873,151,000 in relation to the investment in Highland Natural Water based on the impairment assessment performed (Note 7). Based on management's analysis, negative movement of the above key assumptions are unlikely to happen given prudent assumptions had been used in the impairment analysis for investment in Highland Natural Water. As such, no further impairment loss had been recognised for the investment for the year ended 31 December 2019.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Impairment review (continued)

(iii) Trade receivables and other financial assets at amortised cost

The loss allowances for trade receivables and other financial assets at amortised cost are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period.

5 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the executive Directors that are used to make strategic decisions.

(a) Description of segments and principal activities

(i) Water 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 and providing lending services to third parties in Hong Kong with relevant license.

(ii) Beer segment

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

The executive Directors assess the performance of the operating segments based on review of their revenue, cost of sales and gross profit.

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information disclosures

Sales between segments are based on the agreed terms between two segments. The revenue from external parties provided to the executive Directors is measured in a manner consistent with that in the statement of profit or loss.

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

The segment information provided to the executive Directors for the reportable segments for the year ended 31 December 2019 is as follows:

	Water segment	Beer segment	Inter-segment elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total segment revenue	**410,953**	**311,855**	**(1,353)**	**721,455**
Cost of sales	**(151,064)**	**(167,429)**	**1,353**	**(317,140)**
Gross profit for the year	**259,889**	**144,426**	**—**	**404,315**
Impairment losses on investments accounted for using the equity method	**(873,151)**	**—**	**—**	**(873,151)**
Share of profit from associates	**14,319**	**—**	**—**	**14,319**
Net impairment losses on financial assets	**(78,718)**	**(4,446)**	**—**	**(83,164)**
Adjusted EBITDA*	**(813,661)**	**168,873**	**—**	**(644,788)**
Finance income	**36,493**	**27,326**	**—**	**63,819**
Finance costs	**(45,162)**	**(9,096)**	**—**	**(54,258)**
Depreciation and amortisation	**(27,400)**	**(53,976)**	**—**	**(81,376)**
(Loss)/Profit before tax	**(849,730)**	**133,127**	**—**	**(716,603)**
Income tax expenses	**(6,943)**	**(21,572)**	**—**	**(28,515)**
(Loss)/Profit for the year	**(856,673)**	**111,555**	**—**	**(745,118)**

* Earnings before interest, taxes, depreciation and amortisation

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information disclosures (continued)

	Water segment	Beer segment	Total
	RMB'000	*RMB'000*	*RMB'000*
Segment total assets	**2,650,909**	**2,375,042**	**5,025,951**
Investments accounted for using the equity method	**698,283**	**—**	**698,283**
Unallocated			
FVPL			**197,147**
FVOCI			**231,881**
Deferred tax assets			**9,511**
Corporate assets			**26,359**
Inter-segment elimination			**(1,228,443)**
Total assets			**4,262,406**
Segment total liabilities	**1,525,605**	**526,668**	**2,052,273**
Unallocated			
Deferred tax liabilities			**9,695**
Corporate liabilities			**315,241**
Inter-segment elimination			**(816,842)**
Total liabilities			**1,560,367**

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information disclosures (continued)

The segment information provided to the executive Directors for the reportable segments for the year ended 31 December 2018 is as follows:

	Water segment	Beer segment	Inter-segment elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total segment revenue	539,501	348,518	(7,362)	880,657
Cost of sales	(226,361)	(181,529)	7,362	(400,528)
Gross profit for the year	313,140	166,989	—	480,129
Share of profit from associates	20,436	—	—	20,436
Net impairment losses on financial assets	—	(1,795)	—	(1,795)
Adjusted EBITDA	252,197	189,599	—	441,796
Finance income	12,071	19,784	—	31,855
Finance costs	(35,154)	(6,951)	—	(42,105)
Depreciation and amortisation	(25,694)	(53,618)	—	(79,312)
Profit before tax	203,420	148,814	—	352,234
Income tax expenses	(22,973)	(11,729)	—	(34,702)
Profit for the year	180,447	137,085	—	317,532

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information disclosures (continued)

	Water segment	Beer segment	Total
	RMB'000	*RMB'000*	*RMB'000*
Segment total assets	3,389,461	2,308,455	5,697,916
Investments accounted for using the equity method	1,574,938	—	1,574,938
Unallocated			
FVPL			190,795
FVOCI			231,881
Deferred tax assets			2,838
Corporate assets			30,614
Inter-segment elimination			(1,241,853)
Total assets			4,912,191
Segment total liabilities	1,458,808	218,992	1,677,800
Unallocated			
Deferred tax liabilities			15,255
Corporate liabilities			465,355
Inter-segment elimination			(705,555)
Total liabilities			1,452,855

Entity-Wide information

Breakdown of total revenue by category is shown in Note 6.

Revenue from external customers of the Group were derived in the PRC for the years ended 31 December 2019 and 2018.

Non-current assets other than financial instruments and deferred tax assets are all located in the PRC as at 31 December 2019 and 2018.

During the year 2019, sales of approximately RMB59,124,000 (2018: RMB104,516,000) are derived from associates in the water segment. Sales of approximately RMB59,531,000 (2018: RMB89,757,000) are derived from one single external customer in the water segment.

6 REVENUE FROM CONTRACTS WITH CUSTOMERS

Revenue from external customers are mainly derived from the sales of water products and beer products and interest income from lending services provided. 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:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Sales of water products	**353,185**	429,633
Sales of beer products	**310,502**	341,156
Sales of raw materials and consumables	**49,293**	103,201
Rental income	**6,220**	2,063
Interest income from lending services provided	**2,255**	4,604
	721,455	880,657

Revenue from external customers of the Group were derived in the PRC for the years ended 31 December 2019 and 2018.

7 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Opening net book amount	**1,574,938**	1,326,300
Additions (a)	**21,020**	306,930
Share of profits	**14,319**	20,436
Transfer to a subsidiary	**—**	(46,364)
Declaration of dividend (b)	**(38,843)**	(32,364)
Impairment loss recognised (c)	**(873,151)**	—
Closing net book amount	**698,283**	1,574,938

7 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(a) In May 2019, Center Faithful Limited, a wholly-owned subsidiary of the Company and third parties entered into an agreement to establish a company named Great Wall 5100 Technology Co., Ltd. ("**Great Wall 5100**"). Great Wall 5100 is a company specialising in the distribution of water products. Based on the articles of association of Great Wall 5100, the Group owns 40% of its equity interests and has right to participate in operational decision-making process of Great Wall 5100. As such, the Group treats the investment as an investment accounted for using the equity method. As at 31 December 2019, total equity contribution to Great Wall 5100 is RMB20,000,000, including cash payment of RMB4,000,000 and other payables of RMB16,000,000.

On 6 September 2019, Tibet Glacier Mineral Water Co., Ltd. ("**Tibet Glacier Mineral Water**"), a wholly-owned subsidiary of the Company and third parties entered into an agreement to establish a company named Guangzhou Mingzhu 5100 Drinking Water Co., Ltd. ("**Mingzhu 5100**"). Mingzhu 5100 is a company specialising in the distribution of water products. Based on the articles of association of Mingzhu 5100, the Group owns 34% of its equity interests and has right to participate in operational decision-making process of Mingzhu 5100. As such, the Group treats the investment as an investment accounted for using the equity method. As at 31 December 2019, total equity contribution to Mingzhu 5100 is RMB1,020,000.

(b) In 2019, Highland Natural Water, an associate, declared cash dividends. The Group recognised RMB38,843,000 cash dividends according to the percentage of the equity interests held by the Group.

7 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(c) Management performed impairment analysis for the investment in Highland Natural Water. The recoverable amount of the investment is determined based on value-in-use calculations, which is higher than fair value less disposal costs. Management assessed the recoverable amount and recognised an impairment loss of RMB873,151,000 (2018: nil). The main factors that led to the impairment is the continuous weakness of market performance.

These calculations use pre-tax cash flow projections based on financial budgets approved by management covering an eight-year period when optimum market share is expected to be reached. Cash flows beyond the eight-year period are extrapolated using the estimated growth rate.

The key assumptions used for value-in-use calculations in 2019 and 2018 are as follows:

	2019	2018
Compound annual revenue growth rate	8.0% ~9.1%	24.0%~28.1% from 2019 to 2021; 7.3%~24.6% from 2022 to 2026
Long-term growth rate	2.5%	3.0%
Gross margin	55.7% ~55.8%	55.4%~58.5%
Pre-tax discount rate	12.4%	12.5%

Revenue growth rate and gross margin are based on past performance and management's expectations on market development. The long term growth rates used is in line with the long term inflation rate forecast in China. The discount rate used is pre-tax and reflects specific risks relating to the business.

7 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Set out below are the associates of the Group as at 31 December 2019.

Name of entity	**Place of business/ country of incorporation**	**% of ownership interest**	**Principal activities**	**Measurement method**
Highland Natural Water	The PRC	43.981	Manufacturing and distribution of water products	Equity
Tibet Fudi Natural Beverage Packaging Ltd. ("**Fudi Packaging**")	The PRC	25	Manufacturing and distribution of bottle preforms, caps and other raw materials and consumables	Equity
Great Wall 5100	The PRC	40	Distribution of water products	Equity
Mingzhu 5100	The PRC	34	Distribution of water products	Equity

There is no contingent liability relating to the Group's interest in above associates, and the proportion of ownership interest is the same as the proportion of voting rights held.

8 TRADE RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade receivables due from third parties	**312,652**	270,397
Loan receivables due from a third party (a)	**24,088**	21,321
	336,740	291,718
Less: loss allowance	**(77,749)**	(1,833)
	258,991	289,885

8 TRADE RECEIVABLES (CONTINUED)

Trade receivables for which an impairment provision was recognised are written off against the provision when there is no expectation of recovering additional cash. For the year 2019, impairment provision amounting to RMB77,749,000 were recognised.

(a) This balance includes a loan to a third party amounting to HKD26,890,000 (equivalent to RMB24,088,000, 2018: RMB21,321,000), which represents lending principal of HKD17,000,000 (equivalent to RMB15,229,000, 2018: RMB14,895,000) and accrued interest of HKD9,890,000 (equivalent to RMB8,859,000, 2018: RMB6,426,000). The lending is at a fixed interest rate at 15% per annum after 23 April 2018. This loan is secured by the borrower's property located in Beijing.

As at 31 December 2019 and 2018, the Group's trade receivables due from third parties were all denominated in RMB and the Group's loan receivables due from a third party were all denominated in HKD. The aging analysis of trade receivables based on invoice dates is as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Within 6 months	**161,775**	180,205
Over 6 months but within 1 year	**75,426**	46,220
Over 1 year but within 2 years	**67,027**	61,532
Over 2 years	**32,512**	3,761
	336,740	291,718

For the trade receivables arising from sales of water and beer products, the Group applies the IFRS 9 simplified approach to measure the expected credit losses which uses a lifetime expected loss allowance. For the trade receivables arising from loans to third parties, the Group uses three categories which reflect their credit risk and how the loan loss provision is determined for each of those categories. This resulted in the recognition of loss allowance for trade receivables amounting to RMB77,749,000 for the year ended 31 December 2019.

As at 31 December 2019 and 2018, the carrying amounts of the above trade receivables approximated their fair values.

9 TRADE AND NOTES PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade payables	**64,202**	73,275
Notes payables	**259,679**	5,446
	323,881	78,721

As at 31 December 2019 and 2018, the aging analysis of trade payables based on invoice dates is as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**34,180**	56,232
Over 3 months but within 6 months	**13,147**	9,983
Over 6 months but within 1 year	**9,528**	2,386
Over 1 year but within 2 years	**3,136**	548
Over 2 years	**4,211**	4,126
	64,202	73,275

As at 31 December 2019 and 2018, the Group's trade payables were all denominated in RMB and were not interest bearing.

Trade payables are unsecured and are usually paid within 90 days of recognition.

The carrying amounts of trade payables are considered to be the same as their fair values.

The bank acceptance notes amounting to RMB188,663,000 was guaranteed by the Company and a subsidiary of the Company. The bank acceptance notes amounting to RMB71,016,000 was guaranteed by the Company and a third party company, and was pledged by 7% of an associate's equity interests. According to the agreement of bank acceptance notes, maturity dates of notes payables are based on the following schedule: RMB68,790,000, RMB110,577,000, RMB9,296,000 and RMB71,016,000 on 18 January 2020, 29 February 2020, 10 April 2020 and 25 December 2020, respectively. The amount of RMB179,367,000 was repaid subsequent to the balance sheet date.

10 OTHER GAINS, NET

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Government grants		
– Tax refund (a)	**24,320**	37,800
– Amortisation of deferred income	**2,425**	2,907
Gain on disposal of FVPL (b)	**10,198**	17,591
Fair value changes on FVPL (b)	**630**	9,179
Loss on maturing FVPL (c)	**(4,319)**	—
Impairment loss of inventory (d)	**(17,885)**	—
Others	**1,442**	1,532
	16,811	69,009

(a) According to "Zang Zheng Ban [1997] No.24", "Zang Cai Qi Zi [2010] No.93", "La Kai Cai Zhu Zi [2010] No.29", "La Kai Cai Zhu Zi [2012] No.101", "La Jing Kai Cai Qi Zhuan [2015] No.01", "La Kai Cai Qi Zhuan [2016] No.91", "Support to enterprises in Tibet Lhasa Economy and Technology Development Zone (Temporary) No.8" and "Zang Zheng Fa [2018] No.25 Notice for Several Regulations in relation to Attraction of Investment in Tibet Autonomous Region (Trial Version)", the Group is eligible to receive subsidy income from the local government in relation to the domestic subsidiaries' fiscal contribution to the local economic development as a major tax payer and employer in Tibet Autonomous Region of the PRC ("**Tibet**"). The Group recognised such income of approximately RMB24,320,000 for the year ended 31 December 2019 (2018: RMB37,800,000).

10 OTHER GAINS, NET (CONTINUED)

(b) The Group purchased financial products issued by a financial institution in the PRC. These financial products will mature within one year with variable return rates indexed to the performance of the underlying assets. During the year, the Group disposed these investments amounting to RMB510,000,000 (2018: RMB680,000,000), which resulted in a gain amounting to RMB10,198,000 (2018: RMB17,591,000).

As at 31 December 2019, the Group held structured financial products amounting to RMB180,000,000, which was accounted as FVPL. The related fair value gains of RMB630,000 were recognised for the year.

(c) As at 31 December 2019, the derivative financial products related to share option recorded as FVPL was matured and the Group has not exercised the equity option, amounting to RMB4,319,000 which was recorded as loss on FVPL.

(d) This relates to inventory for a specific customer who is in financial difficulties, thus the cost of the inventory is assessed to be impaired.

11 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution costs, administrative expenses and net impairment losses on financial assets are analysed as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Raw materials and consumables used	**221,779**	284,105
(Increase)/Decrease in the balances of inventories of finished goods and work in progress	**(8,282)**	2,083
Transportation costs	**57,048**	72,676
Depreciation of PP&E	**58,359**	56,470
Depreciation of investment properties	**175**	—
Employee benefit expenses	**83,059**	82,587
Advertising and marketing expenditure	**36,017**	17,409
City construction tax and education surcharge	**11,758**	16,566
Electricity and other utility expenses	**12,193**	17,834
Rental expenses	**1,641**	2,200
Legal and other consulting services fee	**7,239**	10,517
Repair and maintenance	**2,597**	2,750
Amortisation of land use rights	**724**	724
Amortisation of intangible assets	**22,118**	22,118
Auditor's remuneration		
– Audit services	**7,136**	6,586
– Non-audit services	**—**	—
Exploration rights expenses	**500**	500
Office and consumption expenses	**3,089**	3,988
Net impairment losses on financial assets	**83,164**	1,795
Provision for impairment of inventories	**—**	230
Others	**5,284**	6,480
	605,598	607,618

12 INCOME TAX EXPENSE

The amount of income tax expense charged to the consolidated statement of profit or loss represents:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Current income tax	**40,748**	37,962
Deferred income tax credit	**(12,233)**	(3,260)
Income tax expense	**28,515**	34,702

The taxation on the Group's (loss)/profit before income tax differs from the theoretical amount that would arise using the statutory tax rate as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
(Loss)/Profit before income tax	**(716,603)**	352,234
Tax calculated at statutory tax rate of 15%	**(107,490)**	52,835
Preferential tax rates on income of certain group entities (a)	**(13,709)**	(25,688)
Loss/(Income) not subject to tax	**130,017**	(1,795)
Tax losses of certain group entities for which no deferred tax assets were recognised	**1,283**	1,498
Expenses not deductible for tax purposes	**9,335**	5,352
Withholding tax from distribution of profits by a PRC subsidiary	**9,079**	2,500
Income tax expense	**28,515**	34,702

12 INCOME TAX EXPENSE (CONTINUED)

(a) The Company was incorporated in the Cayman Islands. Under current laws of the Cayman Islands, there is no income, estate, corporation, capital gains or other taxes payable by the Company. The group entities established under the International Business Companies Acts of the British Virgin Islands are exempted from British Virgin Islands income taxes.

The group entities incorporated in the PRC are subject to PRC enterprise income tax. Major operational entities of the Group are located in Tibet and were entitled to preferential income tax rate. Based on the tax ruling announced by the PRC central tax authorities, the corporate income tax rate of Lhasa is 9% for the years from 2015 to 2021. From 2022 onwards, the corporate income tax rate in Tibet will resume to 15% if no further announcement from the PRC central tax authorities is made. The remaining entities incorporated in the PRC were taxed based on the income tax rate of 25% for the year ended 31 December 2019 (2018: 25%) as determined in accordance with the relevant PRC income tax rules and regulations. The relevant deferred tax balances had been measured based on the expected tax rates applicable in the future. Hong Kong profits tax has been provided for at the rate of 16.5% (2018: 16.5%).

13 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

As at 31 December 2019 and 2018, basic (loss)/earnings per share is calculated by dividing:

- the (loss)/profit attributable to owners of the Company

- by the weighted average number of ordinary shares outstanding during the financial year, excluding the shares held for share award scheme.

	Year ended 31 December	
	2019	2018
(Loss)/Profit attributable to owners of the Company (RMB'000)	**(745,118)**	317,532
Weighted average number of ordinary shares in issue (thousands)	**2,503,267**	2,503,421
(Loss)/Earnings per share (basic and diluted) (RMB cents per share)	**(29.77)**	12.68

13 (LOSS)/EARNINGS PER SHARE (CONTINUED)

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. As at 31 December 2019, the Group has no dilutive ordinary shares.

14 DIVIDENDS

No dividend has been declared by the Company in respect of 2019 (2018: nil). No dividend was paid during the year.

15 EVENTS AFTER THE BALANCE SHEET DATE

Late in 2019, news first emerged from China about the COVID-19 (Coronavirus). The situation at year end was that a limited number of cases of an unknown virus had been reported to the World Health Organisation. In the first few months of 2020, the virus spread globally. The Group considers this outbreak to be a non-adjusting post balance sheet event. The Group is currently unable to assess the full impact of COVID-19 virus on its future financial position and the results of operations, however, depending on future developments, it may have a negative impact on the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2019, we continued our endeavors in the development of the water industry in Tibet and supplying high-quality products and premium services to our customers.

In 2019, the Group basically completed its strategic layout of the water industry in Tibet. Based on this, the following advantages of the Group will be very beneficial to the long-term development of the Group:

1. Resources advantages - In August 2019, PetroChina Company Limited ("**PetroChina**") acquired 51% equity interests in Tibet Shannan Yalaxiangbu Industrial Ltd. ("**Shannan Yalaxiangbu**") and became the controlling shareholder of Shannan Yalaxiangbu; the Group acquired 9% of the equity interests in Shannan Yalaxiangbu in December 2018, and has been participating in the management of Shannan Yalaxiangbu. Shannan Yalaxiangbu started the production of "Gesang Spring" products in the second half of 2019, and the products have been sold in the gas station channels of PetroChina in some provinces in China. The strategic cooperation between the Group and PetroChina started in the second half of 2019. The two parties have planned that "Gesang Spring" products would gradually cover all gas station channels of PetroChina throughout China. In addition, the strategic cooperation between the Group and China Petroleum & Chemical Corporation ("**Sinopec**") continued to develop steadily in 2019. In 2019, Sinopec held 51% and the Group held 43.981% of the equity interests of Highland Natural Water, whose sales volume increased by 4,862 tonnes or 3% compared with the previous year. With Shannan Yalaxiangbu and Highland Natural Water being important production bases for the water industry in Tibet, plus the Group's "Tibet 5100 Glacial Spring Water" ("**5100 Glacial Water**") high-end series products as high-quality water resources, the Group has an important share in the water industry in Tibet. Irrespective of the impairment in Highland Natural Water, the Group remains confident in the strategic and financial advantage of its investment in this company.

2. Advantages of sales channels - As mentioned above, Sinopec and PetroChina have fully participated in the development of the water industry in Tibet. As of the end of 2019, approximately 30,000 gas stations had been selling packaged water products from Tibet which are related to the Group. With the "Gesang Spring" products covering gas station channels of PetroChina throughout China in 2020, there will be approximately 50,000 gas stations in China selling packaged water products from Tibet which are related to the Group. This is expected to result in business growth and considerable profit for the Group. Starting from 2018, beer products of the Group also have been sold in the gas station channels of PetroChina and Sinopec. In 2019, the revenue of beer products of the Group from PetroChina and Sinopec's gas station channels increased by RMB12 million or 71% compared with the previous year, with significant potential for further growth.

3. Logistics network advantages and new retail sales model - In 2019, the Group has been constructing and laying out a new customer service network by fully utilizing and integrating the Group's service system in the petrol station channels of Sinopec and PetroChina, and combining the Group's online sales and logistics cooperation with JD.com and Alibaba, to vigorously develop new retail service model for end consumers. Such new model is expected to bring new additional growth in revenue to the Group.

4. Raw material production and supply advantages - Beginning from the second quarter of 2019, Fudi Packaging, in which the Group holds 25% equity interests, began production and sales. This company is one of the important packaging material production bases in the water industry in Tibet, with a planned production capacity of supplying packaging material for volume up to 2 million tonnes of water products per year. Through the operation of this packaging material production base, the Group can realize large-scale production management such as centralized procurement of raw materials and intra-Tibet transportation, which brings significant cost advantages, and the Company will benefit from its income as a shareholder of Fudi Packaging. In 2019, the revenue and net profit of Fudi Packaging were RMB167 million and RMB5 million, respectively.

5. "5100 Glacier Water" and high-quality beer remain important parts of the Group's business – Retail distributors and institutional clients remained the major customer base of our water business. As at 31 December 2019, our water products have been sold throughout Mainland China and Hong Kong. In Mainland China, we have built a relationship with well-known domestic cinemas, high-end international and domestic chain hotels, e-commerce platforms represented by Jingdong and Tmall, airlines, large enterprise customers and home users; in Hong Kong, our products have covered major retailers and are widely distributed in high-end hotels and tourist and entertainment venues, as well as in Hong Kong International Airport.

   Our beer products were sold in Tibet mainly through supermarkets, convenience stores, restaurants and entertainment outlets. In 2019, the proportions of revenue of our beer products within and outside Tibet in the total revenue of our beer products were 90% and 10%, respectively.

In 2019, the revenue of the Group decreased by RMB160 million or 18%, compared with the previous year. The sales of water products of the Group in key target channels such as cinema lines, home users (barreled 12L) and e-commerce platforms maintained steady growth. However, the sales was more severely affected by the decline in average selling prices of products due to change in product mix and high promotion discount in traditional retail channels such as supermarkets, convenience stores, restaurants and entertainment venues. Consequently, the Group's revenue from sales of water products decreased by RMB76 million or 18%. Furthermore, since the second quarter of 2019, the business of producing preforms and bottle caps and selling them to Highland Natural Water has been transferred from a PRC subsidiary of the Company to the Group's associate, Fudi Packaging, and hence the Group's revenue from sales of raw materials declined by RMB54 million or 52% accordingly (in the future, it is expected that the Group's profit from the investment in and partnership with Fudi Packaging will show healthy growth).

The above-mentioned decrease in the revenue from both sales of water products and sales of raw materials mainly resulted in the declined revenue by RMB130 million or 24% in the water business of the Group. The beer business of the Group outside Tibet, especially gas station channels, maintained steady growth. However, as the sales was more severely affected by the great market competition in Tibet, the sales of beer products in Tibet declined, and the corresponding revenue of the beer business also declined by approximately RMB30 million or 9%. Net profit of the Group decreased by RMB1,063 million, compared with the previous year. Please refer to the analysis in "Loss/Profit for the Year" in the following section headed "Financial Review" for the main reason.

FINANCIAL REVIEW

REVENUE

In 2019, due to the reasons mentioned in the "Business Review" section above, the total revenue of the Group amounted to RMB721 million, representing a decrease of approximately RMB160 million or 18% in comparison with 2018.

The revenue generated from our water business segment was RMB411 million, representing a decrease of 24% in comparison with 2018. Among the water products, the revenue of our "5100 Glacial Water" products and "Gesang Spring" products decreased by 20% and 7%, respectively, in comparison with 2018. The revenue generated from our beer business segment was approximately RMB310 million, representing a decrease of 9% in comparison with 2018.

SALES VOLUME

In 2019, due to the reasons mentioned in the "Business Review" section above, the total sales volume of the Group's products amounted to 109,651 tonnes (2018: 125,379 tonnes) which consisted of 65,442 tonnes (2018: 73,412 tonnes) of our water products and 44,209 tonnes (2018: 51,967 tonnes) of our beer products. The overall sales volume of our water products decreased by 11% in comparison with that of 2018. The sales volume of our "5100 Glacial Water" and our "Gesang Spring" products decreased by 12% and 7%, respectively, in comparison with 2018. The sales volume of our beer products decreased by 15% in comparison with that of 2018.

AVERAGE SELLING PRICE

In 2019, the average selling price of our water products was RMB5,397 per tonne, which decreased by 8% compared with the same period of last year (2018: RMB5,852 per tonne), partly due to the change in our customers mix, and partly due to the decline in average selling price of water products of the Group in traditional retail channels such as supermarkets, convenience stores, restaurants and entertainment venues due to promotion discount. In 2019, the average selling price of our beer products was RMB7,024 per tonne which increased by 7% compared with the same period of last year (2018: RMB6,565 per tonne), mainly due to the increase in the share of revenue of draft beer products, of which the average selling price was higher.

GROSS PROFIT MARGIN

In 2019, the gross profit margin of the Group maintained a satisfactory level as in 2018. The overall gross profit margin of the Group was 56%, which increased by 1 percentage point when compared to 2018. The gross profit margin of the water business segment was 63%, which increased by 5 percentage points when compared to 2018, mainly due to the decrease in the share of revenue of the sales of raw materials and consumables, of which the gross profit margin was lower. Mainly due to the increase in the average unit cost arising from the increase in the purchase cost of packaging raw materials and the decrease of production volume, the gross profit margin of the beer business segment decreased by 3 percentage points to 46% in 2019.

SELLING AND DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

In 2019, the selling and distribution costs decreased by approximately 3% to RMB113 million from RMB116 million in 2018, mainly due to the decrease in transportation costs. The administrative expenses increased by 2% from RMB90 million in 2018 to RMB92 million in 2019, mainly due to the increase in traveling expenses when comparing with 2018.

NET IMPAIRMENT LOSSES ON FINANCIAL ASSETS

Net impairment losses on financial assets mainly included impairment loss on trade receivables and impairment loss on other financial assets at amortised cost. Impairment loss on trade receivables increased from RMB2 million in 2018 to RMB78 million in 2019, mainly because there were difficulties in the operation of certain customers of the Group in 2019, and the Group classified them as high credit risk customers and made impairment loss accordingly. Impairment loss on other financial assets at amortised cost increased from nil in 2018 to RMB5 million in 2019.

OTHER NET GAINS

Other net gains decreased from RMB69 million in 2018 to RMB17 million in 2019, which was attributable to (i) the decrease in gain on disposal of FVPL by RMB8 million; (ii) the decrease in gain on fair value changes on FVPL by RMB8 million; (iii) the decrease of RMB14 million in government grants; (iv) the loss on FVPL of RMB4 million was recognised due to the expiry of the options formed during previous acquisition; and (v) impairment loss of inventory, amounting to RMB18 million, for a specific customer who is in financial difficulties.

SHARE OF NET PROFIT OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The share of net profit of investments accounted for using the equity method was mainly the share of net profit of Highland Natural Water whose ultimate controlling shareholder is Sinopec. In 2019, the Group's 43.981% equity interests in Highland Natural Water generated share of Highland Natural Water's net profit of RMB16 million, representing a decrease of 24% in comparison with 2018, mainly due to the decreased profit of Highland Natural Water.

The sales volume of Highland Natural Water was 194,071 tonnes, representing an increase of 3% compared with 2018; revenue was RMB452 million, decreased by 2% in comparison with the same period of last year.

IMPAIRMENT LOSS ON INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

The impairment loss on investment accounted for using the equity method related to the Group's investment in Highland Natural Water. The impairment loss is made based on the results of the impairment test in accordance with IAS36. The management of the Group has currently reviewed the key parameters relevant to the impairment test of the investment and made amendments to those parameters of Highland Natural Water, if necessary, in order to reflect the best estimate for the development of the market and Highland Natural Water in the future. Recently, the management has noticed that the economic growth of the world and the PRC slowed down and the competition in the overall fast consumer goods industry was intensifying. As a result, compared with the operation forecast made as at the timing when the Group acquired Highland Natural Water, the expected growth trend of Highland Natural Water showed fluctuations in varying degrees. Besides, the recent outbreak of the COVID-19 in China had significant adverse impact on the production and sales of Highland Natural Water from the end of January 2020 to February 2020. Given the unclear development trend in the future and the existence of various uncertainties, the management of the Group made amendments to the key parameters in the impairment analysis of the investment in a prudent manner in accordance with IAS36, hence an impairment loss on the investment of RMB873 million was recognised accordingly. It is a one-off non-cash item and has no impact on the Group's daily operation and cash flow.

FINANCE NET INCOME

In 2019, the Group incurred finance costs of RMB54 million and gained finance income of RMB64 million. Finance costs increased by RMB12 million compared with 2018 mainly due to (i) the increase of RMB16 million in interest costs on borrowings from banks; (ii) the increase of RMB10 million in interest costs on borrowings from third parties, which were offset by (iii) the decrease of RMB13 million in interest costs on the convertible bonds issued by the Company; and (iv) the decrease of RMB1 million in exchange losses. Finance income increased by RMB32 million mainly due to the increase of RMB35 million in interest income from interest-bearing loans to third parties and related parties, which was offset by the decrease of RMB3 million in bank interest income.

INCOME TAX EXPENSE

In 2019, the income tax expense was RMB29 million which has decreased by RMB6 million when compared to RMB35 million in 2018. It was mainly due to (i) the decrease in profit before income tax; and (ii) distribution of profit from a PRC subsidiary of the Group, resulting in an increase of RMB9 million in income tax expenses.

LOSS/PROFIT FOR THE YEAR

The profit for the year decreased by RMB1,063 million from RMB318 million for 2018 to net loss of RMB745 million for 2019, mainly due to (i) the decrease in gross profit of the Group by RMB76 million; (ii) the increase in net impairment losses on financial assets by RMB81 million; and (iii) the decrease in other net gains of RMB52 million; and (iv) the recognition of impairment loss on investment accounted for using the equity method of RMB873 million, which were offset by (v) the increase in finance net income by RMB20 million. However, excluding one-off impairment loss on investment accounted for using the equity method of RMB873 million and one-off impairment losses on financial assets of RMB76 million, the actual profit for the year was RMB204 million.

LOSS/PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to owners of the Company decreased by RMB1,063 million from RMB318 million for 2018 to net loss of RMB745 million for 2019, which was in line with the decrease in profit for the year during the relevant reporting period.

FINANCIAL POSITION

As at 31 December 2019, investment properties of the Group amounted to RMB5 million compared to nil as at 31 December 2018. As mentioned before, starting from the second quarter of 2019, the production and sales of the Group's preforms and bottle caps were transferred from the Company's PRC subsidiary to the Group's associate, Fudi Packaging, and the Company's subsidiaries leased their preforms and bottle caps manufacturing equipment and building to Fudi Packaging. From 1 April 2019, the Group transferred the relevant building with a net value of RMB5 million to investment properties based on cost method.

In 2019, the Group recognised the impairment loss on investment in Highland Natural Water of RMB873 million, resulting in a corresponding reduction in the carrying amount of investments accounted for using the equity method of the Group. Please refer to the analysis in "Impairment loss on investment accounted for using the equity method" in this section.

As at 31 December 2019, deferred tax assets of the Group amounted to RMB10 million, compared to RMB3 million as at 31 December 2018. The increase was mainly due to the increase in temporary differences caused by impairment of trade receivables and other financial assets at amortised cost.

As at 31 December 2019, net trade receivables of the Group amounted to RMB259 million compared to RMB290 million as at 31 December 2018. The decrease was mainly attributable to the increase of RMB45 million in trade receivables from certain institutional clients and distributors, who continuously kept long-term business relationship with the Group, on the one hand, and the addition of provision for impairment of trade receivables of RMB76 million on the other hand.

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. In 2019, through public information and regular communication between the Group and our major debtors, the Group was informed of the operating difficulties of certain customers. The Group classified them as high credit risk customers resulting in provision for impairment loss of trade receivables balances of RMB78 million in 2019 (2018: RMB1.80 million).

As at 31 December 2019, prepayments of the Group amounted to RMB122 million, which was RMB180 million as at 31 December 2018. The decrease was due to the decrease of RMB32 million in prepayment for purchasing equipment and the decrease of RMB26 million in prepayment for raw materials and services.

As at 31 December 2019, prepaid enterprise income tax of the Group amounted to RMB3 million, which was RMB6 million as at 31 December 2018. The decrease was mainly because of the decrease in prepaid enterprise income tax in the fourth quarter of 2019.

As at 31 December 2019, net other financial assets at amortised cost of the Group amounted to RMB832 million, which was RMB641 million as at 31 December 2018. As at 31 December 2019, other financial assets at amortised cost mainly included the amounts due from third parties amounting to RMB613 million (of which (i) an amount due from a third-party amounting to RMB227 million was secured by the pledge of 11.5% of Shannan Yalaxiangbu's equity interests and secured by Fudi Packaging's machinery; (ii) an amount due from a third-party amounting to approximately RMB343 million was secured by the pledge of 26% of Shannan Yalaxiangbu's equity interests; and (iii) an amount due from a third-party amounting to RMB32 million was secured by the pledge of 2.5% of Shannan Yalaxiangbu's equity interests), amount due from associates amounting to RMB190 million, government grants amounting to RMB24 million, and other receivables amounting to RMB7 million. As at 31 December 2019, as mentioned before, the Group continued to be committed to the development of Tibet's water industry and allocated resources to the strategic layout of Tibet's water industry, and the amount due from third parties increased by RMB37 million, and the amount due from associates increased by RMB167 million. In 2019, the Group recognised an provision for impairment loss for other financial assets at amortised cost of RMB2 million (2018: nil).

As at 31 December 2019, inventories of the Group amounted to RMB53 million compared to RMB99 million as at 31 December 2018. The decrease was mainly because the production of preforms and bottle caps has been transferred from the Company's PRC subsidiary to the Group's associate, Fudi Packaging, since the second quarter of 2019.

As at 31 December 2019, cash and cash equivalents of the Group increased by RMB238 million from RMB277 million as at 31 December 2018 to approximately RMB515 million as at 31 December 2019, which was mainly attributable to the cash inflows from operating activities of RMB548 million, and offset by the cash outflows from investing activities of RMB307 million and cash outflows for financing activities of RMB3 million. The cash outflows from investing activities of RMB307 million in 2019 mainly included (i) the net cash outflows for funds transfers with third parties and related parties of RMB243 million; (ii) the net cash outflows from loans to and repayments received from third parties and related parties of RMB58 million; (iii) the payment for investment in associates of RMB5 million; and (iv) the purchases of PP&E of approximately RMB1 million. The cash outflows for financing activities of RMB3 million in 2019 mainly included (i) net cash outflows from bank borrowings and interests of RMB16 million; and (ii) payment of principal and interest relating to convertible bond of RMB283 million, which were offset by (iii) loans obtained from third parties of RMB296 million.

As at 31 December 2019, deferred revenue (non-current) of the Group amounted to RMB19 million, which was RMB21 million as at 31 December 2018. The decrease was due to regular amortisation of asset-related government grant.

As at 31 December 2019, deferred income tax liabilities of the Group amounted to RMB10 million, which was RMB15 million as at 31 December 2018. The decrease was due to, on one hand, the reversal of RMB2 million deferred income tax liabilities arising from calculating revaluation of assets of a subsidiary, and on the other hand, the transfer of corresponding accrued income tax of RMB3 million from deferred income tax liabilities to enterprise income tax payable, which was incurred from the distribution of profit from a PRC subsidiary to its overseas holding company.

As at 31 December 2019, trade and notes payables of the Group amounted to RMB324 million, which was RMB79 million as at 31 December 2018. The increase was mainly due to the fact that for some of the suppliers of the Group, the procurement was mainly settled in the form of notes payables in 2019, which increased the turnover days of settlement.

As at 31 December 2019, contract liabilities of the Group amounted to RMB29 million, which were RMB21 million as at 31 December 2018. The increase was mainly due to the increase in advances received from customer of the sales of water and beer products of RMB22 million, offset by the decrease in the sales of water cards amounting to RMB14 million.

As at 31 December 2019, enterprise income tax payable of the Group amounted to RMB34 million, which was RMB26 million as at 31 December 2018. The increase was mainly due to the increase in enterprise income tax payable of RMB12 million incurred from distributing profit from a PRC subsidiary to the overseas holding company, offset by the decrease in profit before income tax leds to decrease in enterprise income tax payable of RMB4 million.

As at 31 December 2019, accruals and other payables of the Group increased by RMB296 million, which was mainly attributable to (i) the increase in shareholder loans payable by the Group of RMB290 million due to funds raising from the shareholder(s) of the Group for repaying the convertible bonds which expired in June 2019, (ii) the increase in payables for the equity investment in associates of RMB7 million; (iii) the increase in payables for staff welfare of RMB5 million; and (iv) the increase in payables for value-added tax and other taxes of RMB3 million, which were offset by (v) the decrease in accrued operating expenses of RMB9 million.

As at 31 December 2019, the bank borrowings of the Group increased by RMB15 million, which was mainly because the proceeds from bank borrowings amounting to RMB456 million in 2019 was offset by repayment of principal of bank borrowings amounting to RMB441 million in 2019.

As at 31 December 2019, the convertible bond – liability component was nil when compared to RMB458 million as at 31 December 2018.

The Group's convertible bonds with par value of HKD525 million matured on 24 June 2019. None of the bond holders exercised the conversion option of the convertible bonds and thus the Group was required to repay the bond holders in cash upon maturity. By 16 July 2019 (the contractual repayment deadline), the Group had repaid the balance in full, amounting to approximately RMB486 million (equivalent to HKD546 million), representing principal of approximately RMB468 million (equivalent to HKD525 million) and interest of approximately RMB18 million(equivalent to HKD21 million).

The source of the fund used for the repayment of convertible bonds was loans from two entities. One entity is ultimately held by Mr. Wang Peter Jian (the substantial shareholder of the Company), and the other entity is ultimately held by Mr. Wang Peter Jian's spouse. These loans bore an annual interest at 7%, are not secured, and are repayable in June 2020.

In the view of the Directors, pursuant to Rule 14A.90 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), the loans as mentioned above were fully exempted connected transactions as they were conducted on better commercial terms and were not secured by the assets of the Group.

EMPLOYEES

As at 31 December 2019, the total number of employees of the Group was 417 compared to 458 as at 31 December 2018. The decrease in the number of employees was mainly due to the fact that, since the second quarter of 2019, the production of preforms and bottle caps has been transferred from the Company's PRC subsidiary to the Group's associate, Fudi Packaging, and the corresponding production and management staff were also transferred to Fudi Packaging. Relevant staff cost of the Group was RMB83 million per year in 2019 and 2018.

The Group's remuneration policies are formulated according to the duty, experience, ability and performance of individual employees and are reviewed annually. In addition to basic salary, employees are entitled to other benefits including social insurance contribution, employee provident fund schemes and discretionary incentive.

GEARING RATIO

The gearing ratio is calculated as borrowings (including bank borrowings, convertible bonds and borrowings from third parties) divided by total capital. The total capital is calculated as "equity" as shown in the consolidated balance sheet plus borrowings (including bank borrowings, convertible bonds and borrowings from third parties). As at 31 December 2019 and 31 December 2018, the gearing ratios of the Group were 27.14% and 25.09%, respectively.

MERGER AND ACQUISITION

In May 2019, Zhuhai Guangyuan Huijin Equity Investment Fund (Limited Partnership) ("**Zhuhai Guangyuan**"), a subsidiary of the Company, acquired 20% of the equity interests of Shanghai Maikaite Network Technology Co., Ltd. ("**Shanghai MKT**"). Shanghai MKT is a company specialising in programme development and intelligence property agency. As at 31 December 2019, total investment in Shanghai MKT is RMB5 million, which is accounted as FVPL by the Group.

SIGNIFICANT INVESTMENTS

In May 2019, Center Faithful Limited, a wholly-owned subsidiary of the Company and third parties entered into an agreement to establish Great Wall 5100. Great Wall 5100 is a strategic investment cooperation of the Group with Dr. Peng Telecom & Media Group Co., Ltd., an A-share listed company (stock code: 600804), and specialises in the distribution of water products. Based on the articles of association of Great Wall 5100, the Group owns 40% of its equity interests and has right to participate in operational decision-making process of Great Wall 5100. As such, the Group treats the investment as an investment accounted for using the equity method. As at 31 December 2019, total equity contribution to Great Wall 5100 is RMB20 million, including cash payment of RMB4 million and other payables amounting to RMB16 million.

On 6 September 2019, Tibet Glacier Mineral Water, a wholly-owned subsidiary of the Company and third parties entered into an agreement to establish a company named Mingzhu 5100. Mingzhu 5100 is a strategic investment cooperation of the Group with Guangdong Southern Airlines Mingzhu Service Co., Ltd. and specialises in the distribution of water products. Based on the articles of association of Mingzhu 5100, the Group owns 34% of its equity interests and has right to participate in operational decision-making process of Mingzhu 5100. As such, the Group treats the investment as an investment accounted for using the equity method. As at 31 December 2019, total equity contribution to Mingzhu 5100 is RMB1.02 million.

In 2019, the Group acquired PP&E of approximately RMB5 million (for 2018: approximately RMB29 million). Regarding the future development and outlook of the Group, please refer to the section headed "Outlook" in the "Management Discussion and Analysis" section.

CAPITAL COMMITMENTS

As at 31 December 2019, the Group has committed to purchasing PP&E of approximately RMB37 million (31 December 2018: RMB73 million), and equity investment of RMB197 million (31 December 2018: RMB198 million). The funding sources related to these commitments are expected to be disbursed from the Group's own capital.

CHARGES (OR PLEDGES)

As at 31 December 2019, (i) a bank loan with the principal amount of RMB290 million (31 December 2018: RMB290 million) of the Group was secured by the pledge of 35% of Tiandi Green's equity interests, (ii) a bank loan with principal amount of RMB100 million (31 December 2018: nil) of the Group was secured by the Group's factory plant with net book value of RMB66 million (31 December 2018: nil) and land use rights with net book value of RMB27 million (31 December 2018: nil), (iii) a bank loan with the principal amount of RMB100 million (31 December 2018: RMB100 million) of the Group was secured by the pledge of 15% of Highland Natural Water's equity interests, (iv) a bank loan with the principal amount of RMB66 million (31 December 2018: RMB66 million) of the Group was secured by the Group's factory plant with net book value of RMB29 million (31 December 2018: RMB31 million) and land use rights with net book value of RMB1 million (31 December 2018: RMB1 million); and (v) a bank loan with the principal amount of RMB60 million (31 December 2018: nil) of the Group was secured by the pledge of 15% of Highland Natural Water's equity interests.

Bank acceptance notes amounting to RMB189 million were guaranteed by the Company and a subsidiary of the Company. Bank acceptance notes amounting to RMB71 million were guaranteed by the Company and a third party company, and were pledged by 7% of Highland Natural Water's equity interests.

CONTINGENT LIABILITIES

The Group provided financial guarantee amounting to RMB200 million to an associate as at 31 December 2019 (2018: nil). The guarantee was provided for bank borrowings obtained by the associate with the remaining amounts of RMB200 million as at 31 December 2019 (2018: nil). The period of guarantee for RMB100 million is from 5 July 2019 to 4 July 2023 whereas the period of guarantee for the remaining RMB100 million is from 29 November 2019 to 25 November 2023.

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 2019, 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.

VALUATION OF PROPERTIES

For the purpose of the listing of the Company's shares on the Main Board of the Stock Exchange on 30 June 2011, a valuation was conducted on the property interests held by the Group. However, those property interests were still carried at historical costs less accumulated depreciation and impairment, if any, on the Group's consolidated financial statements.

With reference to the property valuation set out in Note 4 of Appendix II-A to the Company's prospectus dated 20 June 2011, a revaluation surplus of approximately RMB3,947,000 was identified in respect of the property interests of the Group as at 31 March 2011. If the properties of the Group were accounted for at that valuation, the depreciation charge per annum would increase by approximately RMB130,000.

PRODUCTION CAPACITY

In 2019, the annual water production capacity and annual beer production capacity for the year were approximately 300,000 tonnes and 200,000 tonnes, same as in 2018. 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:

	Revised usage of net proceeds	As at 31 December 2018 Utilized net proceeds	In 2019 Utilized net proceeds	As at 31 December 2019 Utilized net proceeds	As at 31 December 2019 Unutilized net proceeds
	HKD'Million	*HKD'Million*	*HKD'Million*	*HKD'Million*	*HKD'Million*
Expand our production capacity by constructing additional facilities and purchasing additional production equipment	133	133	—	133	—
Expand our distribution network and toward promotional activities	206	33	1	34	172
Mergers and acquisitions that complement our existing business	1,092	1,092	—	1,092	—
Working capital and other general corporate purpose	41	41	—	41	—
	1,472	1,299	1	1,300	172

As at 31 December 2019, the Group has utilized net proceeds amounting to HKD133 million, HKD34 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.

FINAL DIVIDEND

No dividend has been declared by the Company in respect of 2019 (2018: 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 significant resources, strengthen its strategic cooperation with Sinopec and PetroChina, 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 more people.

The Group will continue to maintain and develop the advantages of the "5100 Glacial Water" as a premium brand, combine 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 Jingdong and Tmall, 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 users.

EVENTS AFTER THE BALANCE SHEET DATE

At the end of 2019, news about the COVID-19 (Coronavirus) first emerged in China. The situation at year end was that the number of cases of this unknown virus which had been reported to the World Health Organisation was limited. In the first few months of 2020, the virus spread globally. The Group considers this outbreak to be a non-adjusting post balance sheet event.

There were temporary serious adverse effects on the Group's water business during late January and February 2020, due to the administrative suspension of public transportation and business activities. However, the cargo train service and other public transportation were gradually resuming since March 2020. Therefore, our water business was resuming gradually as well.

The Group is currently unable to assess the full impact of the COVID-19 virus on its furture financial position and the results of its operations. However, depending on future developments, it may have a negative impact on the Group.

AUDIT COMMITTEE

The audit committee of the Company currently consists of four independent non-executive Directors, namely, Mr. Kevin Cheng WEI (Chairman of the audit committee), Mr. Jesper Bjoern MADSEN, Mr. HUNG Ka Hai Clement and Mr. TANG Zeping. The audit committee is mainly responsible for monitoring the integrity of the Company's financial statements, overseeing the audit process and performing other duties and responsibilities as assigned by the Board. The audit committee has reviewed the audited annual results of the Group for the year ended 31 December 2019.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The financial figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2019 have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 December 2019. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary results announcement.

CORPORATE GOVERNANCE CODE

The Company will continue its effort in maintaining high corporate governance standards so as to ensure better transparency and protection of interests of the shareholders and the Company. According to code provision A.6.7 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "**Corporate Governance Code**"), independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. However, Ms. JIANG Xiaohong (being a non-executive Director) was unable to attend the annual general meeting held on 30 May 2019 as she was obliged to be away for the Group's other matters. Save for the above deviation, no incident of non-compliance with the code provisions of the Corporate Governance Code throughout the year ended 31 December 2019 has been noted by the Company.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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 as its own code of conduct regarding Directors' securities transactions.

Having made specific enquiries to all Directors, all Directors confirmed that they have complied with the requirements set out in the Model Code for the year ended 31 December 2019. Specific employees who are likely to be in possession of unpublished inside information have been requested to comply with the provisions of the Model Code. No incident of non-compliance by any specific employee has been noted by the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

DISCLOSURE OF INFORMATION ON WEBSITES

This announcement is being published on the website of the Stock Exchange at www.hkexnews.hk and on the Company's website at www.twr1115.net. The annual report 2019 of the Company will be despatched to the shareholders and will be published on the abovementioned websites in due course.

ACKNOWLEDGEMENT

The Chairman of the Board would like to express his sincere appreciation for the devotion and hard work of the Board, the management team and all the staff members, as well as the support from the shareholders, business partners and loyal customers.

By order of the Board
Tibet Water Resources Ltd.
Jesper Bjoern MADSEN
Chairman and Independent Non-executive Director

Hong Kong, 31 March 2020

As of the date of this announcement, the executive Directors are Mr. WANG Dong (Chief Executive Officer), Mr. YUE Zhiqiang and Mr. LIU Chen; the non-executive Directors are Ms. JIANG Xiaohong, Mr. WEI Zhe Ming, Mr. XU Liang and Ms. GUO Kun Kun; the independent non-executive Directors are Mr. Jesper Bjoern MADSEN (Chairman), Mr. Kevin Cheng WEI, Mr. HUNG Ka Hai Clement and Mr. TANG Zeping.