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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 FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

	Year ended 31 December		Change
	2016	2015	%
Revenue (RMB'000)	868,092	832,348	↑4%
Profit attributable to owners of the Company (RMB'000)	307,724	276,967	↑11%
Earnings per share			
— Basic and diluted (RMB cents)	11.98	10.78	↑11%
Sales volume (tonnes)	112,086	111,512	↑1%
Gross profit margin	60%	60%	—
Dividend per share (HKD cents)	—	4	↓100%
	As at 31 December		
	2016	2015	
Total assets (RMB'000)	4,818,068	3,660,491	
Equity attributable to owners of the Company (RMB'000)	3,122,599	2,877,805	

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 2016, together with comparative figures prepared under International Financial Reporting Standards (“IFRS”).

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December	
		2016	2015
		RMB'000	RMB'000
Assets			
Non-current assets			
Land use rights	7	30,693	31,417
Property, plant and equipment (“PP&E”)	8	619,387	655,505
Intangible assets	9	132,552	154,638
Goodwill	10	721,139	721,139
Investment in associates	12	1,307,508	1,062,595
Deferred income tax assets	22	2,818	3,038
Prepayments	15	65,476	6,792
Other receivables and other assets	16	—	360
		<u>2,879,573</u>	<u>2,635,484</u>
Current assets			
Trade receivables	13	193,926	205,266
Prepayments	15	190,147	20,942
Prepaid enterprise income tax		8,508	10,798
Other receivables and other assets	16	249,770	87,341
Inventories	17	67,516	72,528
Available-for-sale financial assets (“AFS”)	18	186,230	—
Cash and cash equivalents	19	1,042,398	628,132
		<u>1,938,495</u>	<u>1,025,007</u>
Total assets		<u>4,818,068</u>	<u>3,660,491</u>
Equity			
Equity attributable to owners of the Company			
Share capital	20	21,363	21,363
Share premium	20	1,206,829	1,206,829
Reserves	21	279,202	235,269
Retained earnings		1,615,205	1,414,344
		<u>3,122,599</u>	<u>2,877,805</u>
Non-controlling interests	11	<u>371,965</u>	<u>319,202</u>
Total equity		<u>3,494,564</u>	<u>3,197,007</u>

CONSOLIDATED BALANCE SHEET (CONTINUED)

		As at 31 December	
	Note	2016	2015
		RMB'000	RMB'000
Liabilities			
Non-current liabilities			
Bank borrowings	27	190,000	—
Deferred revenue	24	24,241	22,058
Deferred income tax liabilities	22	20,652	38,340
Convertible bond — liability component	28	458,066	—
		<u>692,959</u>	<u>60,398</u>
Current liabilities			
Trade payables	25	78,055	72,827
Deferred revenue and advances received from customers	23	14,710	44,868
Enterprise income tax payable		28,210	20,558
Accruals and other payables	26	53,570	64,833
Bank borrowings	27	456,000	200,000
		<u>630,545</u>	<u>403,086</u>
Total liabilities		<u>1,323,504</u>	<u>463,484</u>
Total equity and liabilities		<u>4,818,068</u>	<u>3,660,491</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Year ended 31 December	
		2016	2015
		<i>RMB'000</i>	<i>RMB'000</i>
Revenue	6	868,092	832,348
Cost of sales	30	<u>(348,408)</u>	<u>(330,168)</u>
Gross profit		519,684	502,180
Selling and distribution expenses	30	(103,250)	(108,366)
Administrative expenses	30	(78,879)	(74,806)
Other gains, net	29	<u>55,619</u>	<u>44,403</u>
Operating profit		<u>393,174</u>	<u>363,411</u>
Finance income		21,038	10,397
Finance costs		<u>(40,276)</u>	<u>(20,496)</u>
Finance costs, net	32	<u>(19,238)</u>	<u>(10,099)</u>
Share of profit of associates	12	<u>26,913</u>	<u>21,332</u>
Profit before income tax		400,849	374,644
Income tax expense	33	<u>(41,694)</u>	<u>(51,573)</u>
Profit for the year		<u><u>359,155</u></u>	<u><u>323,071</u></u>
Profit attributable to:			
— Owners of the Company		307,724	276,967
— Non-controlling interests		<u>51,431</u>	<u>46,104</u>
		<u><u>359,155</u></u>	<u><u>323,071</u></u>
Earnings per share for profit attributable to owners of the Company			
— Earnings per share (basic and diluted) (RMB cents per share)	34	<u><u>11.98</u></u>	<u><u>10.78</u></u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
	Note	2016	2015
		<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year		<u>359,155</u>	<u>323,071</u>
Other comprehensive income:			
<i>Item that will not be reclassified subsequently to profit or loss</i>			
Currency translation differences	21	1,612	4,391
<i>Items that may be reclassified subsequently to profit or loss</i>			
Change in value of AFS	18	<u>6,230</u>	<u>—</u>
Other comprehensive income for the year, net of tax		<u>7,842</u>	<u>4,391</u>
Total comprehensive income for the year		<u><u>366,997</u></u>	<u><u>327,462</u></u>
Attributable to:			
— Owners of the Company		314,234	281,358
— Non-controlling interests		<u>52,763</u>	<u>46,104</u>
Total comprehensive income for the year		<u><u>366,997</u></u>	<u><u>327,462</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company						
	Share capital	Share premium	Reserves	Retained earnings	Total	Non- controlling interests	Total equity
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2015	<u>21,363</u>	<u>1,206,829</u>	<u>210,182</u>	<u>1,239,147</u>	<u>2,677,521</u>	<u>273,098</u>	<u>2,950,619</u>
Profit for the year	—	—	—	276,967	276,967	46,104	323,071
Currency translation differences	—	—	4,391	—	4,391	—	4,391
Total comprehensive income for the year	—	—	4,391	276,967	281,358	46,104	327,462
Appropriations to statutory surplus reserve (Note 21)	—	—	20,696	(20,696)	—	—	—
Dividends	—	—	—	(81,074)	(81,074)	—	(81,074)
At 31 December 2015	<u>21,363</u>	<u>1,206,829</u>	<u>235,269</u>	<u>1,414,344</u>	<u>2,877,805</u>	<u>319,202</u>	<u>3,197,007</u>
Profit for the year	—	—	—	307,724	307,724	51,431	359,155
Currency translation differences	—	—	1,612	—	1,612	—	1,612
Change in value of AFS	—	—	4,898	—	4,898	1,332	6,230
Total comprehensive income for the year	—	—	6,510	307,724	314,234	52,763	366,997
Convertible bond- equity component (Note 28)	—	—	18,385	—	18,385	—	18,385
Appropriations to statutory surplus reserve (Note 21)	—	—	19,038	(19,038)	—	—	—
Dividends (Note 35)	—	—	—	(87,825)	(87,825)	—	(87,825)
At 31 December 2016	<u><u>21,363</u></u>	<u><u>1,206,829</u></u>	<u><u>279,202</u></u>	<u><u>1,615,205</u></u>	<u><u>3,122,599</u></u>	<u><u>371,965</u></u>	<u><u>3,494,564</u></u>

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December	
		2016	2015
		<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities			
Cash generated from operations	36	260,008	449,044
Interest received		3,770	13,920
Income tax paid		<u>(49,221)</u>	<u>(24,622)</u>
Net cash generated from operating activities		<u>214,557</u>	<u>438,342</u>
Cash flows from investing activities			
Purchases of PP&E		(93,482)	(23,160)
Cash received from government grants related to fixed assets		4,860	4,950
Purchases of AFS	18	(460,000)	(390,000)
Proceeds from disposal of AFS		287,826	396,732
Loans granted to third parties		(368,899)	(50,000)
Repayments of loans received from third parties		296,000	14,000
Loans granted to a related party		—	(57,000)
Repayments of loans received from a related party		—	57,000
Amounts received from third parties		1,261,750	595,000
Amounts paid to third parties		(1,113,598)	(670,070)
Amounts received from a related party		238,348	265,070
Amounts paid to a related party		(425,000)	(190,000)
Prepayment for equity investment in a third party	15	(17,400)	—
Investment in associates	12	<u>(218,000)</u>	<u>(440,000)</u>
Net cash used in investing activities		<u>(607,595)</u>	<u>(487,478)</u>

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	Note	Year ended 31 December	
		2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Cash flows from financing activities			
Dividends paid to shareholders	35	(87,825)	(81,074)
Proceeds from bank borrowings		556,000	250,000
Repayments of bank borrowings and interests		(120,997)	(55,810)
Repayments of borrowings from government		—	(200,000)
Proceeds from issue of convertible bond	28	469,613	—
Transaction costs paid relating to convertible bond		(1,655)	—
Coupon payments relating to convertible bond	28	<u>(14,387)</u>	<u>—</u>
Net cash generated from/(used in) financing activities		<u>800,749</u>	<u>(86,884)</u>
Net increase/(decrease) in cash and cash equivalents			
		407,711	(136,020)
Cash and cash equivalents at beginning of year		628,132	763,409
Exchange translation gains on cash and cash equivalents		<u>6,555</u>	<u>743</u>
Cash and cash equivalents at end of year	19	<u><u>1,042,398</u></u>	<u><u>628,132</u></u>

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 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 24 March 2017.

Key event

On 24 June 2016, the Group issued convertible bond at nominal value of Hong Kong Dollar ("HKD")525,000,000 (equivalent to RMB469,613,000) with annual coupon rate of 6% and conversion price of HKD3.50 per ordinary share. Further details are given in Note 28.

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 available-for-sale financial assets ("AFS"), 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

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

- Accounting for acquisitions of interests in joint operations — Amendments to IFRS 11
- Clarification of acceptable methods of depreciation and amortisation — Amendments to IAS 16 and IAS 38
- Annual improvements to IFRS 2012 — 2014 cycle, and
- Disclosure initiative — amendments to IAS 1.

The adoption of these amendments did not have any impact on the current year or any prior year and is not likely to affect future periods.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following as set out below:

(i) *IFRS 9 Financial instruments*

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018 but is available for early adoption. The Group does not expect to adopt the new standard before 1 January 2018.

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, debt instruments currently classified as AFS would appear to satisfy the conditions for classification as at fair value through other comprehensive income (“FVOCI”) and hence there will be no change to the accounting for these assets.

Accordingly the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

(b) New standards and interpretations not yet adopted (continued)

(i) *IFRS 9 Financial instruments (continued)*

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed. The new hedge accounting rules are not expected to have significant impact to the Group given that the Group does not have any hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard. The Group will continue to make detailed assessments of the effect from the new standard.

(ii) *IFRS 15 Revenue from contracts with customers*

The International Accounting Standards Board ("IASB") has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018, and will allow early adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and at this stage, the Group is not able to estimate the overall effect of the new rules on the Group's financial statements. The Group will make more detailed assessments of the effect over the next twelve months. The Group does not expect to adopt the new standard before 1 January 2018.

(iii) *IFRS 16 Leasing*

IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

(b) New standards and interpretations not yet adopted (continued)

(iii) IFRS 16 Leasing (continued)

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB2,716,000, see Note 37. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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. This estimate is based on the historical experience of the actual residual value and useful lives of plant and equipment 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. The current estimated useful lives are stated in Note 2.7.

(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 the current and deferred income tax assets and liabilities in the period in which such determination is made.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Income taxes (continued)

Where the expectation is different from the original estimate, such differences will impact 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 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.

(c) Impairment review

(i) Goodwill arising from acquisition of a subsidiary — Tibet Tiandi Green Beverage Development Co., Ltd. (“Tiandi Green”) (Note 10)

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in Note 2.8.1. The recoverable amounts of cash-generating unit (“CGU”) 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 to the value-in-use calculations upon unfavourable movements of the key assumptions:

Items	Assumptions used	Movement of key assumptions	Decrease of value-in-use (RMB'000)
Compound annual revenue growth rate	4.00%~6.00%	Decrease by 1%	67,775
Long-term growth rate	4.00%	Decrease to 3%	48,698
Gross margin	48.12%	Decrease by 5%	133,616
Pre-tax discount rate	15.21%	Increase to 16.21%	97,178
Government subsidy income	Continued government subsidy income from 2017 onwards	Discontinued government subsidy income from 2017 onwards	59,358

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Impairment review (continued)

(i) Goodwill arising from acquisition of a subsidiary — Tibet Tiandi Green Beverage Development Co., Ltd. (“Tiandi Green”) (Note 10) (continued)

Based on management’s analysis, the goodwill arising from acquisition of Tiandi Green will not suffer impairment loss upon happening of any one of the above mentioned changes of key assumptions.

(ii) Investment in an associate — Tibet Highland Natural Water Limited (“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 accounting policy stated in Note 2.4 and Note 2.10. The recoverable amounts of CGU 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 impairment review for investment in Highland Natural Water and the potential impairment losses arising from unfavourable changes of the key assumptions:

Items	Assumptions used	Movement of key assumptions	Impairment loss (RMB’000)
Compound annual revenue growth rate	14.21%~29.78% from 2017 to 2021; 5.00% ~ 12.97% from 2022 to 2026	Decrease by 1%	124,376
Long-term growth rate	3.00%	Decrease to 2%	46,178
Gross margin	58.05%~59.73%	Decrease by 5%	213,675
Pre-tax discount rate	13.00%	Increase to 14.00%	121,310
Government subsidy income	Continued government subsidy income from 2017 onwards	Discontinued government subsidy income from 2017 onwards	17,421

Based on management’s analysis, the negative movements of the key assumptions in the table above are unlikely to happen and thus no impairment loss is noted for the investment in Highland Natural Water for the year ended 31 December 2016 (Note 12).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Impairment review (continued)

(iii) Trade and other receivables

Management assesses the impairment of trade and other receivables according to trade and other receivable's aging, management's prior experience and customers' conditions as well as applying management's judgments and estimates when determining the impairment to be recognised. Based on management's best estimates, trade and other receivables amounting to RMB1,995,000 were impaired (2015: nil) as at 31 December 2016 (Note 13). Where the basis of judgements and estimates is different from the initial assessment, such differences will impact the provision for impairment and the carrying values of the trade and other receivables in the year.

(d) Convertible bond

The Group issued convertible bond that is considered hybrid financial instruments. Significant judgement is required in determining the applicable accounting standards used for the convertible bond, *IFRS2 — Shared-based Payment* against *IAS32 — Financial Instruments: Presentation* and *IAS39 — Financial Instruments: Recognition and Measurement* in relation to the difference between the nominal value of the convertible bond and the fair value of the convertible bond at the issuance date. In making this judgement, the Group evaluates, among other factors, the market condition of the convertible bond during commitment date and issuance date, the contract terms of the convertible bond and the arrangement with the counter party.

(e) Share-based payment

The Group granted share options to a major customer that provide right to the customer to purchase ordinary shares of the Company at a fixed price when certain vesting conditions could be met by the customer within the vesting period. During assessment of the possibility for the customer to meet the vesting conditions, management considered the current completion progress for the vesting conditions and future expected performance of the customer in relation to the vesting conditions, which require significant judgement.

5 SEGMENT INFORMATION

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

The Group has two business segments, being the production and sales of (1) water products, and (2) beer products.

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

5 SEGMENT INFORMATION (CONTINUED)

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

The amounts provided to the executive directors of the Company 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 of the Company for the reportable segments for the year ended 31 December 2016 is as follows:

	Water products	Beer products	Inter-segment elimination	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total segment revenue	484,442	388,001	(4,351)	868,092
Cost of sales	<u>152,489</u>	<u>200,270</u>	<u>(4,351)</u>	<u>348,408</u>
Gross profit for the year	<u>331,953</u>	<u>187,731</u>	<u>—</u>	<u>519,684</u>
Share of profit from associates	<u>26,913</u>	<u>—</u>	<u>—</u>	<u>26,913</u>
Adjusted EBITDA	273,659	223,671	—	497,330
Finance costs	(31,502)	(8,774)	—	(40,276)
Finance income	19,742	1,296	—	21,038
Depreciation and amortisation	<u>(23,383)</u>	<u>(53,860)</u>	<u>—</u>	<u>(77,243)</u>
Profit before tax	238,516	162,333	—	400,849
Income tax expenses	<u>(26,308)</u>	<u>(15,386)</u>	<u>—</u>	<u>(41,694)</u>
Profit for the year	<u>212,208</u>	<u>146,947</u>	<u>—</u>	<u>359,155</u>

5 SEGMENT INFORMATION (CONTINUED)

	Water products <i>RMB'000</i>	Beer products <i>RMB'000</i>	Total <i>RMB'000</i>
Segment total assets	2,344,374	2,267,631	4,612,005
Investments accounted for using equity method	1,307,508	—	1,307,508
Additions/(reductions) in non-current assets (exclude deferred income tax assets)	29,778	(53,067)	(23,289)
Unallocated			
AFS			186,230
Deferred income tax assets			2,818
Corporate assets			406,300
Inter-segment elimination			<u>(389,285)</u>
Total assets			<u><u>4,818,068</u></u>
Segment total liabilities	645,763	575,170	1,220,933
Unallocated			
Deferred income tax liabilities			20,652
Corporate liabilities			471,204
Inter-segment elimination			<u>(389,285)</u>
Total liabilities			<u><u>1,323,504</u></u>

The segment information provided to the executive directors of the Company for the reportable segments for the year ended 31 December 2015 is as follows:

	Water products <i>RMB'000</i>	Beer products <i>RMB'000</i>	Inter-segment elimination <i>RMB'000</i>	Total <i>RMB'000</i>
Total segment revenue	441,366	391,785	(803)	832,348
Cost of sales	<u>117,353</u>	<u>213,512</u>	<u>(697)</u>	<u>330,168</u>
Gross profit for the year	<u><u>324,013</u></u>	<u><u>178,273</u></u>	<u><u>(106)</u></u>	<u><u>502,180</u></u>
Share of profit from associates	<u><u>21,332</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>21,332</u></u>
Adjusted EBITDA	249,412	211,921	(106)	461,227
Finance costs	(5,973)	(14,523)	—	(20,496)
Finance income	9,232	1,165	—	10,397
Depreciation and amortisation	<u>(22,789)</u>	<u>(53,695)</u>	<u>—</u>	<u>(76,484)</u>
Profit before tax	229,882	144,868	(106)	374,644
Income tax expenses	<u>(38,536)</u>	<u>(13,037)</u>	<u>—</u>	<u>(51,573)</u>
Profit for the year	<u><u>191,346</u></u>	<u><u>131,831</u></u>	<u><u>(106)</u></u>	<u><u>323,071</u></u>

5 SEGMENT INFORMATION (CONTINUED)

	Water products <i>RMB'000</i>	Beer products <i>RMB'000</i>	Total <i>RMB'000</i>
Segment total assets	1,931,318	1,872,067	3,803,385
Investments accounted for using equity method	1,062,595	—	1,062,595
Additions/(reductions) in non-current assets (exclude deferred income tax assets)	486,131	(66,009)	420,122

Unallocated

Deferred income tax assets	3,038
Corporate assets	221,696
Inter-segment elimination	<u>(367,628)</u>

Total assets 3,660,491

Segment total liabilities 562,898 215,677 778,575

Unallocated

Deferred income tax liabilities	38,340
Corporate liabilities	12,895
Inter-segment elimination	<u>(366,326)</u>

Total liabilities 463,484

Entity-Wide information

Breakdown of total revenue is as follows:

Analysis of revenue by category	Year ended 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of goods	866,041	830,297
Rental of bottled water production line	<u>2,051</u>	<u>2,051</u>
Total	<u><u>868,092</u></u>	<u><u>832,348</u></u>

Revenue from external customers of the Group were all derived in the PRC for the years ended 31 December 2016 and 2015.

5 SEGMENT INFORMATION (CONTINUED)

Non-current assets, other than financial instruments and deferred income tax assets are all located in the PRC as at 31 December 2016 and 2015.

During the year 2016, sales of approximately RMB89,107,000 are derived from an associate from the water product segment and sales of approximately RMB96,384,000 are derived from one single external customer from the beer product segment. (2015: sales of approximately RMB272,674,000 and RMB107,350,000 are derived from two single external customers, both are attributable to the beer product segment.)

6 REVENUE

Revenue from external customers are derived from the sales of water products and beer products. The Group also sells bottle preforms and caps and leases a bottled water production line to an associate and generates revenue from those activities. Breakdown of the revenue is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Sales of water products	395,335	388,766
Sales of beer products	383,650	391,785
Sales of bottle preforms and caps	87,056	49,746
Rental of a bottled water production line	2,051	2,051
	<u>868,092</u>	<u>832,348</u>

Revenue from external customers of the Group were derived in the PRC for the years ended 31 December 2016 and 2015.

7 LAND USE RIGHTS

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
At beginning of year	31,417	32,141
Amortisation charge (Note 30, Note 36)	<u>(724)</u>	<u>(724)</u>
At end of year	<u>30,693</u>	<u>31,417</u>

The Group's interests in land use rights represent operating lease assets. All of the Group's land use rights are located in the PRC and each has a lease period of 50 years.

As at 31 December 2016, land use rights with net book value of RMB30,615,000 (2015: nil) were pledged for bank borrowings with principal amounts of RMB66,000,000 and RMB200,000,000 (Note 27).

8 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery	Vehicles	Others	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2015						
Cost	145,298	677,653	2,937	51,838	33,643	911,369
Accumulated depreciation	(22,871)	(207,438)	(1,609)	(15,884)	—	(247,802)
Impairment (a)	—	(2,311)	—	—	—	(2,311)
Net book amount	<u>122,427</u>	<u>467,904</u>	<u>1,328</u>	<u>35,954</u>	<u>33,643</u>	<u>661,256</u>
Year ended 31 December 2015						
Opening net book amount	122,427	467,904	1,328	35,954	33,643	661,256
Additions	2,859	1,330	215	674	42,845	47,923
Transfer upon completion	7,233	2,393	—	—	(9,626)	—
Depreciation charges (Note 30, Note 36)	(6,560)	(44,091)	(282)	(2,741)	—	(53,674)
Closing net book amount	<u>125,959</u>	<u>427,536</u>	<u>1,261</u>	<u>33,887</u>	<u>66,862</u>	<u>655,505</u>
At 31 December 2015						
Cost	155,390	681,376	3,152	52,512	66,862	959,292
Accumulated depreciation	(29,431)	(251,529)	(1,891)	(18,625)	—	(301,476)
Impairment (a)	—	(2,311)	—	—	—	(2,311)
Net book amount	<u>125,959</u>	<u>427,536</u>	<u>1,261</u>	<u>33,887</u>	<u>66,862</u>	<u>655,505</u>
Year ended 31 December 2016						
Opening net book amount	125,959	427,536	1,261	33,887	66,862	655,505
Additions	1,307	2,335	—	692	13,981	18,315
Transfer upon completion	—	23,204	—	—	(23,204)	—
Depreciation charges (Note 30, Note 36)	(6,895)	(44,941)	(267)	(2,330)	—	(54,433)
Closing net book amount	<u>120,371</u>	<u>408,134</u>	<u>994</u>	<u>32,249</u>	<u>57,639</u>	<u>619,387</u>
At 31 December 2016						
Cost	156,697	706,915	3,152	53,204	57,639	977,607
Accumulated depreciation	(36,326)	(296,470)	(2,158)	(20,955)	—	(355,909)
Impairment (a)	—	(2,311)	—	—	—	(2,311)
Net book amount	<u>120,371</u>	<u>408,134</u>	<u>994</u>	<u>32,249</u>	<u>57,639</u>	<u>619,387</u>

8 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

- (a) Certain idle machineries with the cost amounting to RMB2,978,000 (2015: RMB2,978,000) were considered obsolete before 2012, and an impairment provision of RMB2,311,000 (2015: RMB2,311,000) had been made accordingly based on the assets' fair value less costs to sell.

Depreciation of property, plant and equipment has been charged to the consolidated statement of profit or loss as follows:

	Year ended 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of sales	49,536	48,575
Selling and distribution expenses	73	54
Administrative expenses	4,824	5,045
	<u>54,433</u>	<u>53,674</u>

As at 31 December 2016, the Group was in the process of applying for registration of the ownership certificates for certain of its buildings with an aggregate net book value of approximately RMB361,000 (2015: RMB24,980,000). The executive directors of the Company are of the opinion that the Group is entitled to lawfully and validly occupy or use these properties.

There was interest capitalised amounting to RMB2,347,000 in assets under construction for the year ended 31 December 2016 (2015: nil). Interest was capitalised at the weighted average rate of its general borrowings of 2.35%.

As at 31 December 2016, buildings with net book value of RMB107,022,000 (2015: nil) were pledged for bank borrowings with principal amounts of RMB66,000,000 and RMB200,000,000 (Note 27).

The category of machinery includes production line leased by the Group to a related party under operating leases with the following carrying amounts:

	Year ended 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Cost	37,145	37,145
Accumulated depreciation at 1 January	(15,613)	(13,211)
Depreciation charge for the year	(2,402)	(2,402)
Net Book amount	<u>19,130</u>	<u>21,532</u>

9 INTANGIBLE ASSETS

	Trade Name <i>RMB'000</i>	Distribution Network <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2015			
Opening net book amount	53,461	123,263	176,724
Amortisation charge (Note 30, Note 36)	<u>(3,198)</u>	<u>(18,888)</u>	<u>(22,086)</u>
Closing net book amount	<u>50,263</u>	<u>104,375</u>	<u>154,638</u>
Year ended 31 December 2016			
Opening net book amount	50,263	104,375	154,638
Amortisation charge (Note 30, Note 36)	<u>(3,198)</u>	<u>(18,888)</u>	<u>(22,086)</u>
Closing net book amount	<u>47,065</u>	<u>85,487</u>	<u>132,552</u>

Amortisation of approximately RMB3,198,000 (2015: RMB3,198,000) is included in the “Administrative expenses” and RMB18,888,000 (2015: RMB18,888,000) is included in “Selling and distribution expenses” in the statement of profit or loss.

10 GOODWILL

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Goodwill	<u>721,139</u>	<u>721,139</u>

The goodwill of RMB721,139,000 was generated from acquisition of a controlling stake in Tiandi Green in PRC in 2014. Tiandi Green was viewed as one CGU within the beer segment. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period when optimum market share is expected to be reached. Cash flows beyond the five-year period are extrapolated using the estimated growth rates.

10 GOODWILL (CONTINUED)

The key assumptions used for value-in-use calculations in 2016 and 2015 are as follows:

	2016	2015
Compound annual revenue growth rate	4.00%~6.00%	2.00%~6.00%
Long-term growth rate	4.00%	4.00%
Gross margin	48.12%	45.66%~47.31%
Pre-tax discount rate	15.21%	14.98%
Government subsidy income	Continued government subsidy income from 2017 onwards	Continued government subsidy income from 2016 onwards

Revenue growth rate and gross margin are based on past performance and management's expectations of market development. The long term growth rates used are estimated with reference to industry forecasts. The discount rate used is pre-tax and reflects specific risks relating to the business.

The Directors are of the view that there was no impairment of goodwill as at 31 December 2016 and 2015.

11 SUBSIDIARIES

The following is a list of significant principal subsidiaries of the Group as at 31 December 2016:

Company name	Place/date of incorporation/type of legal entities	Issued/paid-in capital		Effective interest held		Principal activities
		2016	2015	2016	2015	
<i>Indirectly held:</i>						
Tibet Zhongji Jiahua Industry Co., Ltd.	PRC/1 January 2004/Limited liability company	USD16,000,000	USD16,000,000	100%	100%	Investment holding
Tibet Glacier Mineral Water Co., Ltd. (“Tibet Glacier Mineral Water”)	PRC/31 October 2005/Limited liability company	RMB118,000,000	RMB118,000,000	100%	100%	Water products manufacturing and sales
Beijing 5100 Management Consulting Co., Ltd. (formerly known as “Beijing 5100 Enterprise Planning Club Co., Ltd.”)	PRC/13 July 2007/Limited liability company	RMB1,000,000	RMB1,000,000	100%	100%	Water products market operation and management
Tibet Glacier Mineral Water Marketing Co., Ltd.	PRC/21 April 2010/Limited liability company	RMB3,000,000	RMB3,000,000	100%	100%	Water products marketing, promotion, distribution and retailing
Tibet Tiandi Green Beverage Development Co., Ltd.	PRC/28 April 2009/Limited liability company	RMB200,000,000	RMB200,000,000	65%	65%	Beer manufacturing and sales
Wealth Keeper Limited	Hong Kong/30 October 2012/Limited liability company	HKD1	HKD1	100%	100%	Investment holding
Tibet 5100 Water Resources (HK) Limited	Hong Kong/6 September 2013/ Limited liability company	HKD100	HKD100	100%	100%	Investment holding and raw material purchases and sales

(a) Material non-controlling interests

The total non-controlling interest of RMB371,965,000 (2015: RMB319,202,000) represents 35% equity shares of Tiandi Green.

Significant restrictions

Cash and short-term deposits of RMB503,861,000 (2015: RMB204,549,000) are held in China and are subject to local exchange control regulations. These local exchange control regulations provide restrictions on exporting capital from Mainland China, other than through normal dividends.

Summarised financial information on a subsidiary with material non-controlling interests

Set out below is the summarised financial information for Tiandi Green that has non-controlling interests which is material to the Group.

11 SUBSIDIARIES (CONTINUED)

(a) Material non-controlling interests (continued)

Summarised balance sheet

	As at 31 December	
	2016	2015
	RMB' 000	RMB' 000
Current		
Assets	1,172,132	611,309
Liabilities	<u>(373,961)</u>	<u>(207,359)</u>
Total current net assets	<u>798,171</u>	<u>403,950</u>
Non-current		
Assets	486,555	539,622
Liabilities	<u>(221,970)</u>	<u>(31,566)</u>
Total non-current net assets	<u>264,585</u>	<u>508,056</u>
Net assets	<u><u>1,062,756</u></u>	<u><u>912,006</u></u>

Summarised statement of profit or loss

	Year ended 31 December	
	2016	2015
	RMB' 000	RMB' 000
Revenue	<u>388,001</u>	<u>391,785</u>
Profit before income tax	162,333	144,868
Income tax expense	<u>(15,386)</u>	<u>(13,037)</u>
Profit after tax	146,947	131,831
Other comprehensive income	<u>3,807</u>	<u>—</u>
Total comprehensive income	<u>150,754</u>	<u>131,831</u>
Total comprehensive income allocated to non-controlling interests	<u><u>52,763</u></u>	<u><u>46,104</u></u>

There is no dividend paid by Tiandi Green in 2016 and 2015.

11 SUBSIDIARIES (CONTINUED)

(a) Material non-controlling interests (continued)

Summarised cash flows

	Year ended 31 December	
	2016	2015
	RMB' 000	RMB' 000
Cash flows from operating activities		
Cash generated from operations	88,092	177,468
Interest received	1,296	1,166
Income tax paid	(15,787)	(6,159)
	<u>73,601</u>	<u>172,475</u>
Net cash generated from operating activities	73,601	172,475
Net cash used in investing activities	(125,644)	(234,012)
Net cash generated from/(used in) financing activities	<u>351,355</u>	<u>(55,640)</u>
Net increase /(decrease) in cash and cash equivalents	299,312	(117,177)
Cash and cash equivalents at beginning of year	<u>204,549</u>	<u>321,726</u>
Cash and cash equivalents at end of year	<u><u>503,861</u></u>	<u><u>204,549</u></u>

The information above is the amount before inter-company eliminations.

12 INVESTMENT IN ASSOCIATES

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Opening net book amount	1,062,595	601,263
Additions (a)	218,000	440,000
Share of profits (Note 36)	<u>26,913</u>	<u>21,332</u>
Closing net book amount	<u><u>1,307,508</u></u>	<u><u>1,062,595</u></u>

(a) The following additional investments in associates were made by the Group:

- (i) On 23 September 2016, the Group acquired 7% of the share capital of Highland Natural Water for a cash consideration of RMB210,000,000 (On 29 January 2015, the Group acquired 13% of the share capital of Highland Natural Water for a cash consideration of RMB390,000,000). Highland Natural Water is a company specialising in the manufacturing of water products. No significant transaction costs were incurred in the above acquisitions. Taking into consideration of all past acquisitions, a goodwill of RMB1,064,053,000 has been identified in the investment in Highland Natural Water.

12 INVESTMENT IN ASSOCIATES (CONTINUED)

- (ii) In January 2016, the Group acquired 2% of the share capital of Beijing GT Express Limited (北京貫通雲網有限公司; “GT Express”) for a cash consideration of RMB8,000,000. GT Express is a company specialising in internet-based express services. Based on the articles of association of GT Express, the Group can appoint 1 out of 7 directors for GT Express and participate in the operational decision making of GT Express.

Details of net assets acquired and goodwill arising from the acquisition of Highland Natural Water are as follows:

	As at 23 September 2016 (date of acquisition) RMB'000	As at 29 January 2015 (date of acquisition) RMB'000	As at 5 November 2014 (date of acquisition) RMB'000
Purchase consideration:			
— Cash paid	210,000	390,000	600,000
Less: share of fair value of net assets acquired (see below)	<u>(36,809)</u>	<u>(39,665)</u>	<u>(59,473)</u>
Goodwill	<u>173,191</u>	<u>350,335</u>	<u>540,527</u>

12 INVESTMENT IN ASSOCIATES (CONTINUED)

The goodwill is attributable to Highland Natural Water's strong market position and profitability in the sales of water products in the market, which cannot be separately recognised as an intangible asset.

Fair value of net assets acquired:

	As at 23 September 2016 (date of acquisition) RMB'000	As at 29 January 2015 (date of acquisition) RMB'000	As at 5 November 2014 (date of acquisition) RMB'000
Cash and cash equivalents	83,301	26,576	111,572
Inventories	24,586	11,202	15,764
Trade and other receivables	281,661	33,331	68,829
PP&E	468,578	400,507	391,827
Land use right	31,900	41,494	37,360
Intangible assets	262,542	187,333	196,535
Trade and other payables	(288,324)	(96,576)	(159,745)
Borrowings	(290,000)	(265,000)	(270,000)
Dividend to original shareholders	(8,095)	(3,882)	(64,700)
Deferred tax liabilities	(40,304)	(29,869)	(30,076)
Net assets acquired	<u>525,845</u>	<u>305,116</u>	<u>297,366</u>
Ownership interest acquired	<u>7%</u>	<u>13%</u>	<u>20%</u>
Share of fair value of net assets acquired	<u>36,809</u>	<u>39,665</u>	<u>59,473</u>

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

12 INVESTMENT IN ASSOCIATES (CONTINUED)

The key assumptions used for value-in-use calculations in 2016 and 2015 are as follows:

	2016	2015
Compound annual revenue growth rate	14.21%~29.78% from 2017 to 2021; 5.00%~12.97% from 2022 to 2026	5.43%~24.35%
Long-term growth rate	3.00%	3.00%
Gross margin	58.05%~59.73%	62.55%~66.00%
Pre-tax discount rate	13.00%	12.70%
Government subsidy income	Continued government subsidy income from 2017 onwards	Continued government subsidy income from 2016 onwards

Revenue growth rate and gross margin are based on past performance and management's expectations of market development. The long term growth rates used are estimated with reference to industry forecasts. The discount rate used is pre-tax and reflects specific risks relating to the business.

The Directors are of the view that there was no impairment of investment in Highland Natural Water as at 31 December 2016 and 2015.

Based on the opinion of the Directors, the Group has one material associate — Highland Natural Water. Set out below is the information relating to Highland Natural Water.

Name of entity	Place of business/country of incorporation	% of ownership interest	Principal activities	Measurement method
Tibet Highland Natural Water Limited	China	40	Manufacturing and distribution of water products	Equity

The share capital of Highland Natural Water consists solely of ordinary shares. There is no contingent liabilities relating to the Group's interest in Highland Natural Water.

Summarised financial information for an associate — Highland Natural Water

Set out below is the summarised financial information of the Group's significant associate — Highland Natural Water, which is accounted for using the equity method.

12 INVESTMENT IN ASSOCIATES (CONTINUED)

Summarised balance sheet

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Current		
Cash and cash equivalents	158,601	262,632
Other current assets	<u>160,123</u>	<u>50,345</u>
Total current assets	<u>318,724</u>	<u>312,977</u>
Borrowings	(290,000)	(500,000)
Other current liabilities	<u>(220,259)</u>	<u>(106,080)</u>
Total current liabilities	<u>(510,259)</u>	<u>(606,080)</u>
Total current net liabilities	<u>(191,535)</u>	<u>(293,103)</u>
Non-current		
Assets	753,820	689,485
liabilities	<u>(38,278)</u>	<u>(28,159)</u>
Total non-current net assets	<u>715,542</u>	<u>661,326</u>
Net assets	<u><u>524,007</u></u>	<u><u>368,223</u></u>

Summarised statement of comprehensive income

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Revenue	<u>471,704</u>	<u>296,677</u>
Pre-tax profit for the year	90,640	70,775
Income tax expense	<u>(8,318)</u>	<u>(2,868)</u>
Post-tax profit for the year	<u>82,322</u>	<u>67,907</u>
Other comprehensive income	<u>—</u>	<u>—</u>
Total comprehensive income	<u>82,322</u>	<u>67,907</u>
Dividends received from an associate	<u><u>—</u></u>	<u><u>—</u></u>

12 INVESTMENT IN ASSOCIATES (CONTINUED)

The information above reflects the amounts presented in the financial statements of Highland Natural Water adjusted for differences in accounting policies between the Group and Highland Natural Water.

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of the Group's interest in Highland Natural Water:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Opening net assets as at 1 January	368,223	300,316
Profit for the year	82,322	67,907
Valuation adjusted from additional acquisition	<u>73,462</u>	<u>—</u>
Closing net assets	<u>524,007</u>	<u>368,223</u>
Elimination of unrealised profit from inter-company sales	<u>(767)</u>	<u>(471)</u>
Adjusted total net assets	<u>523,240</u>	<u>367,752</u>
Interest in the associate (2016: 40% (from 23 September 2016 to 31 December 2016) and 33% (from 1 January 2016 to 23 September 2016); 2015: 33% (from 29 January 2015 to 31 December 2015) and 20% (from 1 January 2015 to 29 January 2015))	187,461	121,679
Goodwill	<u>1,064,053</u>	<u>890,862</u>
Carrying value	<u>1,251,514</u>	<u>1,012,541</u>

13 TRADE RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Trade receivables due from third parties	143,354	204,430
Trade receivables due from associates (a) (Note 38)	<u>52,567</u>	<u>836</u>
	195,921	205,266
Less: Provision for impairment of trade receivables	<u>(1,995)</u>	<u>—</u>
	<u>193,926</u>	<u>205,266</u>

13 TRADE RECEIVABLES (CONTINUED)

The recognition of provision for impairment of trade receivables have been included in “cost of sales” in the statement of profit or loss.

- (a) This balance represents amounts due from Highland Natural Water and Moutai Group Tibet 5100 Mineral Water Co., Ltd. (“Moutai 5100”). They were unsecured, non-interest bearing and repayable on demand.

As at 31 December 2016 and 2015, the Group’s trade receivables were all denominated in RMB. The aging analysis of trade receivables based on invoice dates is as follows:

	As at 31 December	
	2016	2015
	<i>RMB’000</i>	<i>RMB’000</i>
Within 6 months	131,794	22,732
Over 6 months but within 1 year	2,699	89,115
Over 1 year but within 2 years	56,914	86,377
Over 2 years	4,514	7,042
	<u>195,921</u>	<u>205,266</u>

As at 31 December 2016, trade receivables amounting to RMB1,995,000 were impaired and provided for (2015: nil).

The maximum exposure to credit risk at the reporting date is the carrying amounts of trade receivables mentioned above. The Group does not hold any material collateral as security.

As at 31 December 2016 and 2015, the carrying amounts of the above trade receivables approximated their fair values.

14 CREDIT QUALITY OF FINANCIAL ASSETS

(a) Financial assets neither past due nor impaired

The contractual credit terms based on written sales contracts with customers range from 1 to 3 months.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to the nature of counterparties or to historical information about counterparty default rates:

	As at 31 December	
	2016	2015
	<i>RMB’000</i>	<i>RMB’000</i>
Trade receivables		
— Group 1	12,680	881
— Group 2	85,777	5,159
	<u>98,457</u>	<u>6,040</u>

14 CREDIT QUALITY OF FINANCIAL ASSETS (CONTINUED)

(a) Financial assets neither past due nor impaired (continued)

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Other receivables		
— Group 1	162,291	50,006
— Group 2	87,479	37,695
	<u>249,770</u>	<u>87,701</u>

Group 1 — new third parties/related parties

Group 2 — existing third parties/related parties with no defaults in the past

(b) Financial assets past due but not impaired

As at 31 December 2016, trade receivables of approximately RMB95,469,000 (2015: RMB199,226,000) were past due but not impaired. The aging analysis of these trade receivables based on invoice dates is as follows:

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Over credit term but within 6 months	33,337	16,692
Over 6 months but within 1 year	2,699	89,115
Over 1 year but within 2 years	56,914	86,377
Over 2 years	2,519	7,042
	<u>95,469</u>	<u>199,226</u>

(c) Financial assets past due and impaired

As at 31 December 2016, trade receivables amounting to RMB1,995,000 (2015: nil) were past due and impaired.

15 PREPAYMENTS

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments made for purchase of raw materials, services, and equipment	238,223	25,063
Prepayment for investment in a third party (a)	17,400	—
Prepaid value added tax	<u>—</u>	<u>2,671</u>
	255,623	27,734
Less: Non-current portion Prepayments made for purchase of equipment (b)	<u>(65,476)</u>	<u>(6,792)</u>
Current portion	<u>190,147</u>	<u>20,942</u>

(a) This balance represents equity investment in a third party company where the transfer of ownership title for the shares purchased has not been completed as at year end.

(b) These balances represent prepayments made for the purchase of equipment, the ownership of which has not been obtained at year end.

The carrying amounts of current and non-current prepayments are denominated in the following currencies:

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
— RMB	249,256	25,828
— HKD	456	441
— USD	75	1,381
— EUR	5,836	—
— Swiss Franc (“CHF”)	<u>—</u>	<u>84</u>
	<u>255,623</u>	<u>27,734</u>

16 OTHER RECEIVABLES AND OTHER ASSETS

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due from third parties (b)	156,944	62,599
Amounts due from an associate (c) (Note 38)	54,821	21,321
Government grant receivable (a)	30,810	—
Deposits	1,186	1,243
Receivable from disposal of AFS	1,711	—
Others	4,298	2,538
	<u>249,770</u>	<u>87,701</u>
Less: non-current portion		
Deposits	<u>—</u>	<u>(360)</u>
Current portion	<u>249,770</u>	<u>87,341</u>

(a) Government grant receivable represents government grant that has been approved by the local government but not yet received by the Group. It relates to the domestic subsidiaries' fiscal contribution to the local economic development as a major tax payer and employer in Tibet during the year.

(b) The balances include the following items:

- amounts due from a third party company of RMB13,259,000 (2015: RMB12,599,000), which represents principal of RMB11,500,000 (2015: RMB11,500,000) and accrued interest of RMB1,759,000 (2015: RMB1,099,000). The lending is at a fixed interest rate at 6% per annum and contractual maturity date is 31 December 2016. The amount was repaid by the counterparty subsequent to the financial year end.
- amounts due from another third party company of HKD130,481,000 (equivalent to RMB116,716,000, 2015: nil), which represents principal of HKD127,340,000 (equivalent to RMB113,906,000) and accrued interest of HKD3,141,000 (equivalent to RMB2,810,000). The lending is at a fixed interest rate at 10% per annum and contractual repayment dates are 21 July 2017, 1 September 2017 and 6 October 2017 for HKD3,600,000, HKD7,600,000 and HKD116,140,000 respectively.
- amounts due from another third party company of HKD5,010,000 (equivalent to RMB4,482,000, 2015: nil), which represents principal of HKD5,000,000 (equivalent to RMB4,473,000) and accrued interest of HKD10,000 (equivalent to RMB9,000). The contractual maturity date is 7 January 2018. The interest rate is based on the one-year deposit rate announced by Hang Seng Bank, which is 0.2% per annum for the period before 8 January 2017 and at fixed rate of 2.5% per annum from 8 January 2017 onwards.

16 OTHER RECEIVABLES AND OTHER ASSETS (CONTINUED)

- amounts due from another third party company of USD657,000 (equivalent to RMB4,561,000, 2015: nil), which represents principal of USD651,000 (equivalent to RMB4,520,000) and accrued interest of USD6,000 (equivalent to RMB41,000). The lending is at a fixed interest rate at 7% per annum and contractual maturity date is 14 November 2017.
 - amounts due from third party companies of RMB17,926,000 (2015: nil), which were unsecured, non-interest bearing and repayable on demand.
- (c) The balance represents amounts due from Highland Natural Water. They were unsecured, non-interest bearing and repayable on demand.

The Group's maximum exposure to credit risk at the balance sheet date is the carrying amounts of the receivables mentioned above. The Group does not hold any collateral as security.

The carrying amounts of current and non-current other receivables are denominated in the following currencies:

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
— RMB	121,647	87,300
— HKD	123,551	391
— USD	4,572	10
	<u>249,770</u>	<u>87,701</u>

17 INVENTORIES

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	54,476	52,171
Finished goods	8,795	16,096
Work in progress	4,245	4,261
	<u>67,516</u>	<u>72,528</u>

The cost of inventories which was recognised as an expense and was included in "cost of sales" amounted to approximately RMB330,687,000 for the year ended 31 December 2016 (2015: RMB315,630,000).

As at 31 December 2016, the carrying amount of the Group's inventories did not exceed the net realisable value, and no provision for decline of the value of inventories was made.

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
At 1 January	—	—
Additions	460,000	390,000
Disposals	(289,537)	(396,732)
Net gains recognised upon disposal (Note 29, Note 36)	9,537	6,732
Net gains transferred to other comprehensive income	6,230	—
	<u>186,230</u>	<u>—</u>
At 31 December	<u>186,230</u>	<u>—</u>

All AFS are denominated in RMB as at 31 December 2016.

19 CASH AND CASH EQUIVALENTS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Cash on hand	632	845
Cash at bank	1,041,766	627,287
	<u>1,042,398</u>	<u>628,132</u>
Denominated in:		
— RMB	845,093	619,257
— USD	1,254	2,504
— HKD	195,853	6,364
— Others	198	7
	<u>1,042,398</u>	<u>628,132</u>

As at 31 December 2016, the Group's cash and cash equivalents amounting to RMB839,440,000 (2015: RMB610,204,000) were held in the financial institutions located in the PRC. The remaining amounted to RMB202,958,000 (2015: RMB17,928,000) were held in major financial institutions located in the Hong Kong Special Administrative Region.

The conversion of RMB denominated balances into foreign currencies and the remittance of the foreign currencies out of the PRC are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

The Group earns interests on cash at bank at floating bank deposit rates, which range from 0.01% to 4.4% per annum for the year ended 31 December 2016 (2015: range from 0.35% to 3.3% per annum).

19 CASH AND CASH EQUIVALENTS (CONTINUED)

As at 31 December 2016, bank deposits of RMB2,004,000 (2015: RMB3,871,000) are restricted as guarantee for payments of imported equipment.

20 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares (thousands)	Nominal value of ordinary shares <i>HKD'000</i>	Equivalent nominal value of ordinary shares <i>RMB'000</i>	Share premium <i>RMB'000</i>	Total <i>RMB'000</i>
Balance as at 1 January and 31 December 2015 and 2016	<u>2,568,893</u>	<u>25,689</u>	<u>21,363</u>	<u>1,206,829</u>	<u>1,228,192</u>

21 RESERVES

	Capital reserve <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Currency translation differences <i>RMB'000</i>	AFS <i>RMB'000</i>	Convertible bond-equity component <i>RMB'000</i>	Total <i>RMB'000</i>
Opening balance						
1 January 2015	146,012	118,186	(54,016)	—	—	210,182
Currency translation differences	—	—	4,391	—	—	4,391
Appropriations to statutory surplus reserve (a)	<u>—</u>	<u>20,696</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>20,696</u>
At 31 December 2015	<u>146,012</u>	<u>138,882</u>	<u>(49,625)</u>	<u>—</u>	<u>—</u>	<u>235,269</u>
Opening balance						
1 January 2016	146,012	138,882	(49,625)	—	—	235,269
Convertible bond — equity component (Note 28)	—	—	—	—	18,385	18,385
Currency translation differences	—	—	1,612	—	—	1,612
Appropriations to statutory surplus reserve (a)	—	19,038	—	—	—	19,038
Revaluation-gross	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,898</u>	<u>—</u>	<u>4,898</u>
At 31 December 2016	<u>146,012</u>	<u>157,920</u>	<u>(48,013)</u>	<u>4,898</u>	<u>18,385</u>	<u>279,202</u>

21 RESERVES (CONTINUED)

- (a) According to the provisions of the articles of association of the Group's subsidiaries located in PRC ("PRC subsidiaries"), the PRC subsidiaries shall first set aside 10% of its profit attributable to owners after tax as indicated in their statutory financial statements for the statutory surplus reserve (except where the reserve has reached 50% of the entity's registered share capital) each year. PRC subsidiaries may also make appropriations from its profit attributable to shareholders to a discretionary surplus reserve, provided it is approved by a resolution passed in a shareholders' general meeting. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends without the prior approval obtained from the shareholders in a shareholders' general meeting under specific circumstances.

When the statutory surplus reserve is not sufficient to make good for any losses of the PRC subsidiaries from previous years, the current year profit attributable to the owners shall be used to make good the losses before any allocations are set aside for the statutory surplus reserve.

The statutory surplus reserve, the discretionary surplus reserve and the capital reserve of the PRC subsidiaries may be converted into share capital of the PRC subsidiaries provided it is approved by a resolution passed in a shareholders' general meeting and meets other regulatory requirements with the provision that the ending balance of the statutory surplus reserve does not fall below 25% of the registered share capital amount.

For the year ended 31 December 2016, the directors of the PRC subsidiaries proposed appropriations amounting to approximately RMB19,038,000 (2015: RMB20,696,000) to the statutory surplus reserve.

22 DEFERRED INCOME TAX

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Deferred tax assets:		
— Deferred tax assets to be recovered after 12 months	2,566	2,597
— Deferred tax assets to be recovered within 12 months	<u>252</u>	<u>441</u>
	<u>2,818</u>	<u>3,038</u>
Deferred tax liabilities:		
— Deferred tax liabilities to be recovered after 12 months	(18,526)	(21,027)
— Deferred tax liabilities to be recovered within 12 months	<u>(2,126)</u>	<u>(17,313)</u>
	<u>(20,652)</u>	<u>(38,340)</u>

22 DEFERRED INCOME TAX (CONTINUED)

The gross movement on the deferred tax assets and deferred tax liabilities is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Deferred tax assets:		
At beginning of year	3,038	2,524
Statement of profit or loss (charge)/credit	<u>(220)</u>	<u>514</u>
At end of year	<u>2,818</u>	<u>3,038</u>
Deferred tax liabilities:		
At beginning of year	(38,340)	(35,835)
Statement of profit or loss credit/(charge)	2,488	(12,994)
Settlement of withholding tax for dividend declared	<u>15,200</u>	<u>10,489</u>
At end of year	<u>(20,652)</u>	<u>(38,340)</u>

The (Credit)/Charge to statement of profit or loss is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Deferred tax assets	220	(514)
Deferred tax liabilities	<u>(2,488)</u>	<u>12,994</u>
(Credit)/Charge to statement of profit or loss (Note 33)	<u>(2,268)</u>	<u>12,480</u>

22 DEFERRED INCOME TAX (CONTINUED)

The balances of deferred tax assets and liabilities as at 31 December 2016 were not offset because the deferred tax assets and liabilities related to income taxes were levied by different taxation authorities. The movement of deferred income tax assets and liabilities during the year is as follows:

	Provisions for impairment RMB'000	Deferred income RMB'000	Undistributed profits from subsidiaries RMB'000	Other temporary differences RMB'000	Total RMB'000
Deferred tax assets					
At 1 January 2015	347	1,671	—	506	2,524
Credited to statement of profit or loss	<u>—</u>	<u>351</u>	<u>—</u>	<u>163</u>	<u>514</u>
At 31 December 2015	347	2,022	—	669	3,038
Charged to statement of profit or loss	<u>—</u>	<u>(3)</u>	<u>—</u>	<u>(217)</u>	<u>(220)</u>
At 31 December 2016	<u><u>347</u></u>	<u><u>2,019</u></u>	<u><u>—</u></u>	<u><u>452</u></u>	<u><u>2,818</u></u>
Deferred tax liabilities					
At 1 January 2015	—	—	(10,489)	(25,346)	(35,835)
(Charged)/credited to statement of profit or loss	<u>—</u>	<u>—</u>	<u>(15,200)</u>	<u>2,206</u>	<u>(12,994)</u>
Settlement of withholding tax for dividend declared	<u>—</u>	<u>—</u>	<u>10,489</u>	<u>—</u>	<u>10,489</u>
At 31 December 2015	—	—	(15,200)	(23,140)	(38,340)
Credited to statement of profit or loss	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,488</u>	<u>2,488</u>
Settlement of withholding tax for dividend declared	<u>—</u>	<u>—</u>	<u>15,200</u>	<u>—</u>	<u>15,200</u>
At 31 December 2016	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>(20,652)</u></u>	<u><u>(20,652)</u></u>

As at 31 December 2016, the Company's certain subsidiaries' future taxable income would not be available against which their temporary losses could be utilised and also the losses of those subsidiaries would not be offset by the taxable income of other subsidiaries within the Group, as there is no legally enforceable right to do so. As such, the Group did not recognise deferred

22 DEFERRED INCOME TAX (CONTINUED)

income tax assets of RMB8,994,000 (2015: RMB7,705,000) in respect of losses amounting to RMB35,988,000 (2015: RMB32,738,000) that can be carried forward against future taxable income. Losses of RMB35,988,000 as at 31 December 2016 (2015: RMB32,738,000) will expire on the following dates to offset the future taxable income.

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Expiring in		
— 2016	—	11,375
— 2017	10,568	10,568
— 2018	10,795	10,795
— 2021	14,625	—
	<u>35,988</u>	<u>32,738</u>

Deferred income tax liabilities of RMB183,338,000 (2015: RMB111,748,000) had not been recognised for the withholding tax that would be payable on the distributable retained profits amounting to RMB1,833,379,000 (2015: RMB1,118,393,000) of the Company's PRC subsidiaries. The Group has no intention to distribute these retained earnings out from the PRC subsidiaries in the foreseeable future.

23 DEFERRED REVENUE AND ADVANCES RECEIVED FROM CUSTOMERS (CURRENT)

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Deferred revenue		
— Sales of water cards	8,459	27,826
— Government grant (Note 24)	2,248	1,692
Advances received from customers	<u>4,003</u>	<u>15,350</u>
	<u>14,710</u>	<u>44,868</u>

As at 31 December 2016 and 2015, the Group's deferred revenue and advances received from customers were all denominated in RMB.

24 DEFERRED REVENUE (NON-CURRENT)

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Government grant	26,489	23,750
Less: current portion (Note 23)	<u>(2,248)</u>	<u>(1,692)</u>
Non-current portion	<u>24,241</u>	<u>22,058</u>

25 TRADE PAYABLES

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	<u>78,055</u>	<u>72,827</u>

As at 31 December 2016 and 2015, the aging analysis of trade payables based on invoice dates is as follows:

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	51,903	52,362
Over 3 months but within 6 months	15,717	10,652
Over 6 months but within 1 year	4,354	7,774
Over 1 year but within 2 years	5,215	1,092
Over 2 years	<u>866</u>	<u>947</u>
	<u>78,055</u>	<u>72,827</u>

As at 31 December 2016 and 2015, the Group's trade payables were all denominated in RMB and were not interest bearing.

26 ACCRUALS AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Salary payables	7,987	7,306
Welfare payables	9,072	4,375
Payables for value added tax and other taxes	8,250	5,041
Accrued operating expenses	6,286	5,486
Payables for purchase of equipment	4,759	23,590
Audit fee payable	5,000	6,050
Professional service fee payable	4,066	3,944
Payables to third party import agents	—	2,307
Deposits from customers	1,402	1,417
Others	6,748	5,317
	53,570	64,833

The carrying amounts of the accruals and other payables are denominated in the following currencies:

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
— RMB	46,013	59,245
— USD	1,376	2,105
— HKD	6,097	3,483
— Singapore Dollar (“SGD”)	84	—
	53,570	64,833

27 BANK BORROWINGS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Non-current		
Long-term borrowing from a bank — Secured (a)	<u>190,000</u>	<u>—</u>
Current		
Current portion of long-term borrowings from banks — Secured (a)	120,000	—
Current portion of long-term borrowing from a bank — Guaranteed (b)	100,000	150,000
Short-term borrowing from a bank - Guaranteed and secured (c)	66,000	—
Short-term borrowings from banks - Guaranteed (d)	<u>170,000</u>	<u>50,000</u>
	<u>456,000</u>	<u>200,000</u>
Total borrowings	<u>646,000</u>	<u>200,000</u>

All borrowings were denominated in RMB as at 31 December 2016 and 2015.

(a) The balances include the following borrowings from banks:

- (i) The borrowing with principal amount of RMB200,000,000 was secured by the Group's factory plant with net book value of RMB71,942,000 (Note 8) and land use rights with net book value of RMB29,569,000 (Note 7). The interest rate was based on the directive interest rate announced by the People's Bank of China Lhasa Central Sub-branch, which was 2.75% per annum as at 31 December 2016. The tenure of the borrowing is from 2 November 2016 to 23 September 2018. According to the loan agreement, principal of RMB10,000,000 and RMB190,000,000 are required to be repaid in November 2017 and September 2018 respectively. Accordingly, borrowing amounting to RMB10,000,000 was recorded as current liability and borrowing amounting to RMB190,000,000 was recorded as non-current liability as at 31 December 2016.
- (ii) The borrowing with principal amount of RMB120,000,000 was pledged by 28,099,562 shares of a third party. The interest rate was based on the directive interest rate announced by the People's Bank of China Lhasa Central Sub-branch, which was 2.75% per annum as at 31 December 2016. The tenure of the borrowing is from 18 January 2016 to 17 January 2018 and repayment terms are based on the following schedule: repayments of RMB5,000,000, RMB5,000,000, RMB5,000,000 and RMB105,000,000 on 18 June 2016, 18 December 2016, 18 June 2017 and 17 January 2018 respectively. The first two payments had been made by the Group based on the contractual terms. Due to certain terms of the borrowing agreement, the bank has the potential right to request for repayment of the loan before the contractual maturity dates. Accordingly, the outstanding borrowing amounting to RMB110,000,000 was recorded as current liability as at 31 December 2016.

27 BANK BORROWINGS (CONTINUED)

- (b) The borrowing with principal amount of RMB200,000,000 was guaranteed by Tibet Glacier Mineral Water, a subsidiary of the Group. The interest rate was based on the directive interest rate announced by the People's Bank of China minus 1.98% per annum, which was 2.77% as at 31 December 2016. The tenure of the borrowing is from 27 January 2015 to 27 January 2017. The loan principal has been repaid based on the agreement as follows: RMB50,000,000 each in July 2015 and January 2016. The remaining loan balance of RMB100,000,000 is repaid on 27 January 2017.
- (c) The borrowing with principal amount of RMB66,000,000 was guaranteed by the Company and secured by the Group's factory plant with net book value of RMB35,080,000 (Note 8) and land use rights with net book value of RMB1,046,000 (Note 7). The borrowing bears fixed interest at 2.35% per annum and the tenure is from 25 March 2016 to 24 March 2017.
- (d) The balances include the following borrowings from banks:
- (i) The borrowing with principal amount of RMB70,000,000 was guaranteed by the Company and another subsidiary of the Group. The borrowing bears fixed interest at 2.35% per annum and the tenure is from 10 November 2016 to 10 November 2017.
- (ii) The borrowing with principal amount of RMB100,000,000 was guaranteed by the Company. The borrowing bears fixed interest at 2.35% per annum and the tenure is from 25 March 2016 to 25 March 2017.

The carrying amounts of borrowings approximate their fair values.

The Group has the following undrawn bank borrowing facilities:

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Fixed rate:		
— expiring within one year	130,000	—
— expiring beyond one year	34,000	—
	<u>164,000</u>	<u>—</u>

27 BANK BORROWINGS (CONTINUED)

As at 31 December 2016, the Group's borrowings were repayable as follows:

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	456,000	200,000
Between 1 and 2 years	190,000	—
	<u>646,000</u>	<u>200,000</u>

28 CONVERTIBLE BOND — LIABILITY COMPONENT

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Convertible bond - liability component	<u>458,066</u>	<u>—</u>

The Group issued 5,250 6.0% convertible bonds at a par value of HKD525,000,000 on 24 June 2016. The convertible bonds mature three years from the issue date at their nominal value of HKD525,000,000 or can be converted into ordinary shares of the Company at the bondholder's option at a price of HKD3.50 per share. The fair values of the liability component and the equity conversion component were determined at issuance date of the bond. The fair value of the liability component of the convertible bond is determined using a market interest rate for an equivalent non-convertible bond and the remaining residue value is allocated to the equity component. The fair value change of the convertible bond between the commitment date and issuance date is recognised in the profit and loss (Note 32). The convertible bond is secured by the entire issued shares of Wealth Keeper Limited, a wholly owned subsidiary of the Group and can be early redeemed upon certain events at the option of the bondholder or the issuer. The early redemption options are closely related to the host contract of the convertible bond and as such they were not separated from the host debt as derivatives.

28 CONVERTIBLE BOND — LIABILITY COMPONENT (CONTINUED)

The convertible bond recognised in the balance sheet is calculated as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Face value of convertible bond issued on 24 June 2016	469,613	—
Transaction costs	(2,728)	—
Equity component (Note 21)	(18,385)	—
Fair value change between the commitment date and issuance date (Note 32, Note 36)	7,839	—
Liability component on initial recognition at 24 June 2016	456,339	—
Interest expense (Note 32)	16,114	—
Interest paid	(14,387)	—
Liability component at 31 December 2016	458,066	—

The fair value of the liability component of the convertible bond at 31 December 2016 amounted to RMB455,774,000, which is calculated using cash flows discounted at the rate of 7.34%.

29 OTHER GAINS, NET

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Government grants (a)	45,056	37,825
Gain on disposal of AFS (Note 18, Note 36)	9,537	6,732
Others	1,026	(154)
	55,619	44,403

(a) The amount mainly related to the government grant received by the Group as follows: according to “藏政辦 [1997] No. 24”, “藏財企字 [2010] No. 93”, “拉開財駐字 [2010] No. 29”, “拉開財駐字 [2012] No.101”, “拉經開財企專[2015] No.01”, “拉開財企專[2016] No. 91” and “西藏拉薩經濟技術開發區關於支持入區企業發展的若干意見(暫行)No.8”, 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. The Group recognised such income of approximately RMB42,822,000 for the year ended 31 December 2016 (2015: RMB26,040,000).

30 EXPENSES BY NATURE

Expenses included in cost of sales, selling and distribution expenses and administrative expenses are analysed as follows:

	Year ended 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials and consumables used	243,199	240,024
Decrease in the balances of inventories of finished goods and work in progress	7,316	2,681
Transportation costs	51,957	51,816
Depreciation of PP&E (Note 8)	54,433	53,674
Employee benefit expenses (Note 31)	73,032	76,500
Advertising and marketing expenditure	19,669	14,002
City construction tax and education surcharge	13,676	12,424
Electricity and other utility expenses	12,842	9,715
Rental expenses	5,159	4,426
Consulting and other service expenses	6,104	4,474
Repair and maintenance	2,538	3,154
Amortisation of land use rights (Note 7)	724	724
Amortisation of intangible assets (Note 9)	22,086	22,086
Auditor's remuneration		
— Audit services	6,000	6,050
— Non-audit services	—	400
Exploration rights expenses	500	548
Office and consumption expenses	4,611	6,872
Provision for impairment of trade receivables (Note 13)	1,995	—
Others	4,696	3,770
	530,537	513,340

31 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Wages and salaries	61,123	64,454
Provision for medical and other employee benefits	4,009	3,382
Contributions to defined contribution pension scheme (a)	4,577	5,039
Contributions to the housing scheme (b)	3,323	3,625
	73,032	76,500

31 EMPLOYEE BENEFIT EXPENSES (CONTINUED)

(a) Pension scheme

The Group pays contributions to publicly administered pension insurance plans on a mandatory, contractual basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Housing scheme

In accordance with the PRC housing reform regulations, the Group is required to make contributions to the Chinese state-sponsored housing fund at 10% of the salaries of the PRC employees. At the same time, the employees are also required to make a contribution at 10% of their salaries out of their payroll. The employees are entitled to claim the entire sum of the fund under certain specified withdrawal circumstances.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2015: three) directors whose emoluments are reflected in the analysis presented in Note 42. The emoluments paid and payable to the remaining three (2015: two) individuals during the year are as follows:

	Year ended 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Basic salaries and allowances	3,475	2,125
Contribution to pension scheme	31	29
Bonuses	167	39
	<u>3,673</u>	<u>2,193</u>

The emoluments fell within the following bands:

	Number of individuals	
	2016	2015
Emolument bands		
HKD1,000,001 to HKD1,500,000 (approximately RMB850,001 to RMB1,275,000)	2	2
HKD1,500,001 to HKD2,000,000 (approximately RMB1,275,001 to RMB1,700,000)	1	—
	<u>1</u>	<u>—</u>

32 FINANCE COSTS, NET

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Foreign exchange losses, net (Note 36)	(7,477)	(5,683)
Interest costs on a borrowing from government	—	(8,836)
Interest costs on bank borrowings	(8,650)	(5,810)
Interest costs on convertible bond (Note 28)	(16,114)	—
Other finance costs	(196)	(167)
Loss on fair value change of convertible bond (Note 28, Note 36)	<u>(7,839)</u>	<u>—</u>
Finance costs	<u>(40,276)</u>	<u>(20,496)</u>
Interest income	<u>21,038</u>	<u>10,397</u>
Finance income	<u>21,038</u>	<u>10,397</u>
Finance costs, net	<u>(19,238)</u>	<u>(10,099)</u>

33 INCOME TAX EXPENSE

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Current income tax	43,962	39,093
Deferred income tax (credit)/charge (Note 22)	<u>(2,268)</u>	<u>12,480</u>
Income tax expense	<u>41,694</u>	<u>51,573</u>

33 INCOME TAX EXPENSE (CONTINUED)

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

	Year ended 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	<u>400,849</u>	<u>374,644</u>
Tax calculated at statutory tax rate of 15%	60,127	56,197
Preferential tax rates on income of certain group entities (a)	(28,149)	(25,135)
Income not subject to tax	(2,422)	(1,920)
Tax on deemed revenue	337	298
Tax losses of certain group entities for which no deferred income tax assets were recognised	2,188	2,316
Expenses not deductible for tax purposes	9,613	4,617
Withholding tax from distribution of profits by the PRC subsidiaries	<u>—</u>	<u>15,200</u>
Income tax expense	<u>41,694</u>	<u>51,573</u>

The weighted average tax rate was 10.4% for the year ended 31 December 2016 (2015: 13.8%).

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 the Tibet Autonomous Region of the PRC and were entitled to preferential income tax rate of 9% for the year ended 31 December 2016 (2015: 9%); the remaining entities incorporated in the PRC were taxed based on the income tax rate of 25% for the year ended 31 December 2016 (2015: 25%) as determined in accordance with the relevant PRC income tax rules and regulations. Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%).

- (a) Based on the tax ruling announced by the PRC central tax authorities, the corporate income tax rate of Lhasa is 9% for years 2015 to 2017 and from 2018 onwards, the corporate income tax rate will resume to 15% if no further announcement of preferential tax treatment is made. The relevant deferred tax balances had been measured based on the expected tax rates applicable in the future.

34 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share for 31 December 2016 and 2015 is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares outstanding during the period.

	Year ended 31 December	
	2016	2015
Profit attributable to owners of the Company (RMB'000)	307,724	276,967
Weighted average number of ordinary shares in issue (thousands)	2,568,893	2,568,893
Earnings per share (basic and diluted) (RMB cents per share)	<u>11.98</u>	<u>10.78</u>

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of potential ordinary shares: the convertible bond issued on 24 June 2016 and share options granted under a share option scheme on 16 December 2015. As at 31 December 2016, when these two categories of potential ordinary shares are assumed to be converted into ordinary shares since the issue dates, the calculated earnings per share under each circumstance is more than the basic earnings per share. As such, the convertible bond and share options are determined to be anti-dilutive (2015: no dilutive potential ordinary shares), and not to be included in the calculation of the diluted earnings per share this year. With no dilutive potential ordinary shares, the diluted earnings per share is the same as the basic earnings per share for the Company as at 31 December 2016 and 2015.

35 DIVIDENDS

Dividend of HKD0.04 per share (amounting to HKD102,756,000, equivalent to RMB87,825,000 based on the exchange rate on the payment date of such dividend) was declared and paid in 2016 in respect of the year ended 31 December 2015 (2015: dividend of HKD0.04 per share (amounting to HKD102,756,000, equivalent to RMB81,074,000 based on the exchange rate on the payment date of such dividend) was declared and paid in 2015 in respect of the year ended 31 December 2014). No dividend has been declared by the Company in respect of 2016 (2015: RMB86,058,000).

36 CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit before income tax	400,849	374,644
Adjustments for:		
Amortisation of land use rights (Note 7)	724	724
Amortisation of intangible assets (Note 9)	22,086	22,086
Depreciation of PP&E (Note 8)	54,433	53,674
Net foreign exchange losses (Note 32)	7,477	5,683
Deferred income credited to statement of profit or loss	(2,122)	(11,785)
Interest income, net	3,726	4,249
Share of profit of associates (Note 12)	(26,913)	(21,332)
Gain on disposal of AFS (Note 18, Note 29)	(9,537)	(6,732)
Loss on fair value change of convertible bond (Note 28, Note 32)	7,839	—
Operating profit before working capital changes	458,562	421,211
Decrease/(Increase) in inventories	5,012	(7,207)
Decrease in trade receivables	11,340	127,018
Increase in prepayments and other receivables	(195,916)	(22,636)
Increase/(Decrease) in trade payable	5,228	(44,513)
Increase/(Decrease) in accruals and other payables	6,495	(7,345)
Decrease in deferred revenue and advance received from customers	(30,713)	(17,484)
Cash generated from operations	260,008	449,044

Significant non-cash transaction

During the year, amounts due from a related party of RMB156,500,000 were offset against amounts due to a third party for the same amount based on the settlement agreements among the Group, the third party and the related party.

37 COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital commitments

As at 31 December 2016 and 31 December 2015, capital expenditures contracted for but not yet incurred were as follows:

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	113,316	—
Equity investment	53,600	—
	<u>166,916</u>	<u>—</u>

(b) Operating lease commitments

The Group leases offices and plant under non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year	2,543	3,485
More than 1 year but within 5 years	173	2,454
	<u>2,716</u>	<u>5,939</u>

(c) Contingent liabilities

The Group provided a financial guarantee to an associate amounting to RMB260,000,000 as at 31 December 2016 (31 December 2015: RMB260,000,000) (Note 3.1). The guarantee is provided for bank borrowings obtained by the associate with the remaining amounts of RMB240,000,000 as at 31 December 2016 (31 December 2015: RMB240,000,000), the period of the guarantee is from 20 July 2015 to 20 July 2017.

38 RELATED-PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

38 RELATED-PARTY TRANSACTIONS (CONTINUED)

The Group is ultimately controlled by Mr. Wang Peter Jian, the “Controlling Shareholder”.

(a) Transactions with related parties

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Revenue from		
— Leasing of a production line to an associate (ii)	2,051	2,051
— Selling of bottle preforms and caps to an associate(ii)	87,056	49,746
— Selling of water products to an associate (iv)	2,371	715
Purchase of		
— Goods from entities under common control (i)	2	39
— Equipment from an associate (ii)	950	—
Settlement of		
— Equipment purchase from an associate (ii)	950	—
— Trade and other receivables from an associate (ii)	54,859	73,571
— Trade receivables from an associate (iv)	439	—
Prepayment made by an associate for purchase of bottle preforms and caps (ii)	—	16,429
Cash advance to an associate (ii)	33,500	—
Net settlement of payables to third parties on behalf of an associate and an entity under common control (iii)	—	75,070
Financial guarantee for an associate (Note 37 (c))	260,000	260,000

(i) Goods were bought from an entity controlled by a major individual shareholder based on normal commercial terms and conditions.

(ii) These were the transactions between the Group and Highland Natural Water, an associate of the Group. The transactions were based on agreed terms between both parties.

(iii) These were transactions with Highland Natural Water and an entity controlled by the Controlling Shareholder based on agreed terms among all parties in 2015 to facilitate Highland Natural Water and the entity controlled by the Controlling Shareholder to settle their payables to third parties.

(iv) These were the transactions between the Group and Moutai 5100, an associate of the Group. The transactions were based on the agreed terms between both parties.

38 RELATED-PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties:

The balances with related parties are as follows:

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables (Note 13)		
— An associate-Highland Natural Water	49,396	—
— An associate-Moutai 5100	<u>3,171</u>	<u>836</u>
	<u>52,567</u>	<u>836</u>

	As at 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Other receivables		
— An associate-Highland Natural Water (Note 16)	<u>54,821</u>	<u>21,321</u>

The above amounts due from Highland Natural Water were unsecured, non-interest bearing and repayable on demand.

(c) Key management compensation

The compensation paid/payable to key management is shown below:

	Year ended 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries and other short-term employee benefits	<u>9,626</u>	<u>9,601</u>

39 SHARE-BASED PAYMENT

On 16 December 2015, the Company granted 25,200,000 of share options to China Distribution and Logistics Company Ltd. (“China Distribution”). Under the agreement, China Distribution has the right to purchase up to 25,200,000 ordinary shares of the Company at the price of HKD3.00 per share within 10 years from 1 January 2016 if certain performance conditions are met by China Distribution during the vesting period from 1 January 2016 to 31 December 2018.

The vesting of the share options is conditional, subject to the achievement of the prescribed sale and performance targets by China Distribution within three years commencing from 1 January 2016.

39 SHARE-BASED PAYMENT (CONTINUED)

The Group has no legal or constructive obligation to repurchase or settle the options in cash. As at 31 December 2016, none of the share options was exercisable.

The Company determined that the above share option scheme was a sales incentive to its major customer — China Distribution. As at 31 December 2016, management assessed the possibility for China Distribution to meet the vesting conditions within the three-year period from 1 January 2016 and concluded that none of the vesting conditions could be met within the three-year period. Accordingly, no debit of revenue was recorded for the year ended 31 December 2016 (nil for the year ended 31 December 2015) relating to the sales incentive under the above share option scheme.

40 EVENTS AFTER THE BALANCE SHEET DATE

On 10 January 2017, the controlling shareholder of the Company had entered into agreements with three independent investors to sell approximately 1.83%, 3.50% and 4.67% of the total issued share capital of the Company, respectively, with selling price of HKD3.50 per share. On 11 January 2017, the controlling shareholder of the Company had entered into an agreement with an independent investor, Khorgos Tianshan No.1 Industrial Investment Fund Limited Partnership (霍爾果斯天山一號產業投資基金有限合夥企業, “Khorgos Tianshan No.1”) to sell 18% of the total issued share capital of the Company with selling price of HKD3.50 per share. Upon completion of the above-mentioned transactions, Khorgos Tianshan No.1 will become the single largest shareholder of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2016, we continued our endeavors in supplying high quality products and premium services to our customers.

Also in 2016, the market was characterized by strong competition and a challenging economic environment, which has a general impact on premium products. Nevertheless, the Group has continued to increase its total revenue in 2016 by 4% and increase its profit attributable to owners of the Company in 2016 by 11%, in comparison with 2015, largely as a result of a continuation of diversifying product profiles, deeply penetrating its retail channels, and developing more strategic partnerships.

Regarding the core business of our water business segment, sales volume of Tibet 5100 Glacial Spring Water (“5100 Glacial Water”) was down 20% from 2015 to 2016 as the procurement agreement with China Railway Express Co., Ltd. (“CRE”) expired in June 2015; however, if excluding sales of 5100 Glacial Water to CRE, sales volume and revenue of the Group’s 5100 Glacial Water have achieved impressive growth rates of 30% and 8%, respectively, in the same period, largely due to strong performance in the retail channel. Also, products under our new “Gesang Spring” brand, which was launched in early 2016, recorded satisfactory sales volume of 12,611 tonnes and generated revenue of RMB39.71 million. “Easy Joy• Zhuoma Spring” sold by our associate, Highland Natural Water, saw a pickup in popularity at Easy Joy convenience stores at Sinopec gas stations throughout China in 2016. The Group’s share of post-tax profits of Highland Natural Water was RMB29 million, representing a year-on-year increase of 38%.

In 2016, our water products have been sold throughout the mainland China and Hong Kong, mainly through our strategic partners and other retail channels including supermarkets, convenient stores, hotels, cinemas, airports, e-commerce platforms, restaurants and healthcare and entertainment venues, etc. As at 31 December 2016, in mainland China, the geographical coverage of our third party retail sales channel of our water products covered 108 cities, and the numbers of distributors and sales outlets were 249 and 9,776, respectively. In 2016, the revenue of our water products from retail distribution channel accounts for more than 60% of the total revenue of our water products. Revenue from our 5100 Glacial Water bottled water redemption card (“Water Card”) business accounted for approximately 8% of revenue in our water products business in 2016.

Regarding our beer business segment, in 2016, sales volume of our beer products reached 60,456 tonnes and revenue of our beer products reached RMB384 million, which represented a year-on-year decrease of 3% and 2%, respectively; while the gross profit margin improved and remained at a high level among the industry. In 2016, our beer products were sold in the Tibet Autonomous Region (“Tibet”) mainly

through retail channels including supermarkets, convenient stores, restaurants and entertainment outlets. The proportion of revenue of our beer products within and outside Tibet to the total revenue of our beer products remained at 98% and 2%, respectively.

FINANCIAL REVIEW

REVENUE

In 2016, total sales of the Group amounted to RMB868 million, representing an increase of RMB36 million or 4% from the total sales of the Group of RMB832 million in 2015. In 2016, both the water business and the beer business were developing stably, and the revenue generated from our water business segment was RMB484 million, representing an increase of 10% from the sales of RMB441 million in 2015, contributed by the increase of sales of water products and sales of bottle preforms and caps; the revenue generated from our beer business segment in 2016 was RMB384 million, representing a decrease of 2% from the sales of RMB392 million in 2015.

SALES VOLUME

In 2016, the total sales volume of the Group amounted to 112,086 tonnes (2015: 111,512 tonnes), and consisted of 51,630 tonnes (2015: 49,045 tonnes) from our water products and 60,456 tonnes (2015: 62,467 tonnes) from our beer products; the sales volume of water products increased by 5% in comparison with that of 2015, and the sales volume of beer products decreased by 3% in comparison with that of 2015.

AVERAGE SELLING PRICE

As the Group continued to launch new products during the past two years, the average selling price fluctuated along with the change of products mix. The average selling price of our water products decreased by 3% from RMB7,927 per tonne in 2015 to RMB7,657 per tonne in 2016. However, the average selling price of 5100 Glacial Water increased 15% in the same period from RMB7,928 to RMB9,114. The average selling price of our beer products increased by 1% from RMB6,272 per tonne in 2015 to RMB6,346 per tonne in 2016.

GROSS PROFIT MARGIN

In 2016, the gross profit margin of the water business segment is 69%, in comparison with 74% in 2015, and such decrease was mainly attributable to the change in mix of the sales of water products and the non-core business in the water business segment, and the gross profit margin of water products remained stable from 2015 to

2016. In 2016, the gross profit margin of the beer business segment is 49%, in comparison with 46% in 2015, and such increase was mainly due to the increase in the average selling price and decrease in average unit costs of the beer products. The overall gross profit margin of the Group in 2016 is 60%, which is in line with 2015.

OTHER NET GAINS

Other net gains mainly included government grants and gain on disposal of AFS.

The government grants increased by approximately 18% from RMB38 million in 2015 to RMB45 million in 2016. Such increase was in line with the revision to government grants policies from 2015 to 2016 by the Tibet local government. As our main production processes are carried out in Tibet, we enjoy relevant government grants from time to time. The amount of grants we are entitled to receive from the government of Tibet was mainly calculated with reference to our fiscal contribution to the local economic development as a major tax payer and employer in Tibet. Grants from the government are recognized where there is a reasonable assurance that the grant will be received and the Group will comply with all associated conditions. According to the newly updated and issued policies enforced by the Tibet government in 2016, we enjoyed the government grants in 2016 and will continue to enjoy them in future.

In 2016, gain on disposal of AFS increased by approximately 43% from RMB7 million in 2015 to RMB10 million, as more available-for-sale structured financial products were bought and disposed in 2016.

SHARE OF POST-TAX PROFITS OF ASSOCIATES

The share of post-tax profits of associates mainly included the share of post-tax profit of Highland Natural Water whose ultimate controlling shareholder is Sinopec. In September 2016, the Group acquired further 7% equity interests of Highland Natural Water from its other shareholders thereby increasing the Group's ownership in Highland Natural Water to 40%. In 2016, the Group's 40% equity interests in Highland Natural Water has generated a share of the post-tax profits of an associate at the amount of RMB29 million. The sales volume and revenue in respect of Highland Natural Water in 2016 were approximately 180,827 tonnes and RMB472 million, respectively, representing an increase of 75% and 59%, respectively, compared to those in 2015. Such increase was a result of Highland Natural Water's major water products, Easy Joy• Zhuoma Spring, being merchandised at more Easy Joy convenience stores at Sinopec gas stations throughout China and its increase in popularity at those stores.

FINANCE NET COSTS

In 2016, the Group incurred finance costs of RMB40 million and gained finance income of RMB21 million. Compared to 2015, finance costs in 2016 increased by RMB20 million mainly due to the decrease of RMB6 million in interest costs on borrowings from government and banks, together with an increase of RMB16 million in interest costs on convertible bond, and the fair value loss of RMB8 million, which represented the difference in fair values on the convertible bond between the commitment date and the issuance date and was a one-off loss with no cash implication for the year. Finance income increased by RMB11 million mainly due to the increase in interest-bearing loans to third parties.

INCOME TAX EXPENSE

The income tax expense decreased by RMB10 million or 19% from RMB52 million in 2015 to RMB42 million in 2016. The effective tax rate in 2016 and in 2015 was 10% and 14%, respectively. Although the profit before income tax increased, the decrease in effective tax rate resulted in the decrease in income tax expense. The decrease in effective tax rate was mainly attributable to the decrease of withholding tax incurred from proposed distribution of profit from PRC subsidiaries to their overseas holding companies.

PROFIT FOR THE YEAR

The profit for the year increased by RMB36 million or 11% from RMB323 million in 2015 to RMB359 million in 2016. On operational level, the result of 2016 has improved with an increase in operating profit of RMB30 million mainly resulting from the increase in revenue as mentioned above. Besides, the improved result was also attributable to an increase in the share of post-tax profits of associates of RMB6 million, and a decrease in income tax expense of RMB10 million.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to owners of the Company increased by RMB31 million or 11% from RMB277 million in 2015 to RMB308 million in 2016, which increased in line with the increase in profit for the year as mentioned above.

FINANCIAL POSITION

As at 31 December 2016, investment in associates of the Group amounted to RMB1,308 million, compared to RMB1,063 million as at 31 December 2015. In September 2016, the Group acquired 7% of the share capital of Highland Natural Water for a cash consideration of RMB210 million; and in January 2016, the Group acquired 2% of the share capital of GT Express for a cash consideration of RMB8

million. The increase in investment in associates of RMB245 million was mainly attributable to the above two investments. Further details of the investment in associates of the Group are set out in Note 12 to the consolidated financial statements of this announcement.

As at 31 December 2016, net trade receivables of the Group amounted to RMB194 million compared to RMB205 million as at 31 December 2015. Among the net trade receivables of RMB194 million, there was a decrease in the accumulated amount due from a customer of the Group from RMB154 million as at 31 December 2015 to RMB37 million as at 31 December 2016. As at 31 December 2016, trade receivables due from such customer included RMB35 million aged over 1 year but within 2 years, and RMB2 million aged within 1 year, of which RMB28 million had been further collected before 24 March 2017.

In view of the decrease in the trade receivables of the Group from such customer in the proportion of the total trade receivables of the Group, and taking into account the history of business dealings and the strategic business relationship with such customer, the Group considers that there is no objective evidence of an impairment loss for the trade receivables due from such customer. The Group also expects to receive further sums of moneys from such customer before the end of December 2017 as settlement of its trade receivables. There has never been any write-off on the trade receivables due from such customer in the past.

Besides, the Group continuously develops strategic cooperation partnerships and retail distributorships. As at 31 December 2016, net trade receivables (excluding the above mentioned customer) due from third party distributors amounted to RMB104 million (of which RMB85 million had been further collected before 24 March 2017), and trade receivables due from associates amounted to RMB53 million, which increased in comparison with those as at 31 December 2015, offsetting the impact of the decrease in trade receivables due from a single customer as mentioned above. The Group maintains regular contact with our major debtors through meetings and telephone conversations to understand the status of their operations, their continuing business needs and ways in which the Group can improve its services. During such meetings and conversations, the Group is not aware of any material circumstances indicating any problems in recovering its trade receivables from its major debtors. In 2016, the Group recognized provision for impairment loss of trade receivables of RMB2 million (2015: nil).

As at 31 December 2016, prepayments (including current and non-current) of the Group increased to RMB256 million from RMB28 million as at 31 December 2015. The increase was mainly attributable to an increase of RMB213 million of prepayment made for purchase of raw materials, services and equipment and an increase of RMB17 million of prepayment made for investment in a third party.

As at 31 December 2016, other receivables and other assets (including current and non-current) of the Group amounted to RMB250 million compared to RMB88 million as at 31 December 2015. The amounts due from third parties increased by RMB94 million, and the amounts due from an associate increased by RMB34 million, and government grant receivable increased by RMB31 million, mainly leading to an overall increase in the total amount of other receivables and other assets.

As at 31 December 2016, AFS of the Group increased by RMB186 million which were undue structured financial products.

As at 31 December 2016, cash and cash equivalents of the Group increased by RMB414 million, which was mainly attributable to the cash inflows from operating activities of RMB215 million, cash outflows for investing activities of RMB608 million, and cash inflows from financing activities of RMB801 million. The cash outflows for investing activities of RMB608 million in 2016 mainly included purchase of PP&E of RMB93 million, net cash outflows for purchases and disposal of AFS of RMB172 million, net cash outflows for loan granted to and received from third parties of RMB73 million, net cash outflows for amounts received from and paid to third parties and a related party of RMB39 million, prepayment for investment in a third party of RMB17 million and investments in associates of RMB218 million. The cash inflows from financing activities of RMB801 million in 2016 mainly included net cash inflows from bank borrowings of RMB435 million and net cash inflows from issue of convertible bond of RMB454 million, offsetted by dividends paid to shareholders of RMB88 million.

As at 31 December 2016, deferred income tax liabilities of the Group decreased by RMB18 million, which was mainly attributable to the settlement of withholding tax for dividend declared.

The Group issued 6.0% convertible bond due 2019 at an aggregate principal amount of HKD525 million on 24 June 2016. The convertible bond can be converted into ordinary shares of the Company at the bondholder's option at a price of HKD3.50 per share. As at 31 December 2016, the amortized remaining balances of the liability component of the convertible bond of the Group was RMB458 million. Further details of the convertible bond are set out in Note 28 to the consolidated financial statements of this announcement.

As at 31 December 2016, deferred revenue and advances received from customers (current) of the Group decreased by RMB30 million, which was mainly attributable to the decrease in deferred revenue of RMB19 million relating to sales of Water Cards and decrease in advances received from customers of RMB11 million.

As at 31 December 2016, accrual and other payables of the Group decreased by RMB11 million, which was mainly attributable to the increase in welfare payables of RMB5 million, increase in payables for value added tax and other taxes of RMB3 million, and decrease in payables for purchase of equipment of RMB19 million.

As at 31 December 2016, non-current bank borrowings of the Group increased by RMB190 million, and the current bank borrowings of the Group increased by RMB256 million, which was mainly attributable to bank borrowings received amounting to RMB556 million, and repayments of bank borrowings amounting to RMB110 million in 2016. Further details of the bank borrowings are set out in Note 27 to the consolidated financial statements of this announcement.

EMPLOYEES

As at 31 December 2016, the total number of employees of the Group was approximately 439 compared to 507 as at 31 December 2015. Relevant staff cost was RMB73 million in 2016, compared to RMB77 million in 2015. The decrease in staff cost was mainly attributable to the decrease in the number of employees as the Group continued to optimize the human resources structure during 2016. 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 borrowings and convertible bond) divided by total capital. The total capital is calculated as "equity" as shown in the consolidated balance sheet plus borrowings (including borrowings and convertible bond). As at 31 December 2016 and 31 December 2015, the gearing ratios of the Group were 24.01 % and 5.89%, respectively. The increase in gearing ratio was mainly attributable to the increase in bank borrowings and liability component of convertible bond as at 31 December 2016.

SHARE-BASED PAYMENTS

On 16 December 2015, the Company granted share options to China Distribution. Under the agreement, China Distribution has the right to subscribe up to 25,200,000 ordinary shares of the Company at a price of HKD3.00 per share within 10 years from 1 January 2016, if certain performance conditions are met by China Distribution during the vesting period from 1 January 2016 to 31 December 2018. Further details of the grant of share options are set out in Note 39 to the consolidated financial statements of this announcement.

MERGER AND ACQUISITION

In January 2016, the Group acquired 2% of the share capital of GT Express for a cash consideration of RMB8 million. In September 2016, the Group acquired 7% of the share capital of Highland Natural Water for a cash consideration of RMB210 million. Further details of the two acquisitions are set out in Note 12 to the consolidated financial statements of this announcement.

SIGNIFICANT INVESTMENTS

In 2016, the Group acquired PP&E of approximately RMB18 million (in 2015: approximately RMB48 million). Regarding the future development and outlook of the Group, please refer to the section headed “Outlook” in this “Management Discussion & Analysis” section.

CAPITAL COMMITMENTS

As at 31 December 2016, the Group committed to purchase PP&E of approximately RMB113 million (31 December 2015: nil), and equity investment of RMB54 million (31 December 2015: nil). Regarding the future development and outlook of the Group, please refer to the section headed “Outlook” in this “Management Discussion & Analysis” section.

CHARGES

As at 31 December 2016, a bank loan of RMB200 million of the Group was secured by its factory plant with net book value of RMB72 million and land use rights with net book value of RMB30 million; and a bank loan of RMB66 million of the Group was secured by its factory plant with net book value of RMB35 million and land use rights with net book value of RMB1 million. The convertible bond is secured by the entire issued shares of Wealth Keeper Limited, a wholly-owned subsidiary of the Group. As at 31 December 2015, the Group did not have any asset charges.

CONTINGENT LIABILITIES

The Group provided a financial guarantee to an associate amounting to RMB260 million as at 31 December 2016 (31 December 2015: RMB260 million). The guarantee is provided for bank borrowings obtained by the associate with the remaining amounts of RMB240 million as at 31 December 2016 (31 December 2015: RMB240 million), the period of the guarantee is from 20 July 2015 to 20 July 2017.

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 year ended 31 December 2016, management 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, is not significant.

VALUATION OF PROPERTIES

For the purpose of 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 financial statements.

With reference to the property valuation set out in Note 4 of Appendix II-A of 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 property of the Group were stated at that valuation, the depreciation charge per annum would increase by approximately RMB130,000.

PRODUCTION CAPACITY

The annual water production capacity and annual beer production capacity for the year ended 31 December 2016 are approximately 300,000 tonnes and 200,000 tonnes, respectively (for the year ended 31 December 2015: approximately 238,000 tonnes and 200,000 tonnes, respectively), and the Group will assess the production capacity periodically and consider to increase production capacity to meet the demands of future development.

EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 10 January 2017, the controlling shareholder of the Company entered into agreements with three independent investors to sell approximately 1.83%, 3.50% and 4.67% of the total issued share capital of the Company, respectively, with selling price of HKD3.50 per share. Further details of the transactions are set out in the Company's announcement dated 10 January 2017.

On 11 January 2017, the controlling shareholder of the Company entered into an agreement with an independent investor, Khorgos Tianshan No.1 Industrial Investment Fund Limited Partnership (霍爾果斯天山一號產業投資基金有限合夥企業, “Khorgos Tianshan No.1”) to sell 18% of the total issued share capital of the Company with selling price of HKD3.50 per share. Further details of the transactions are set out in the Company’s announcement dated 11 January 2017.

Upon completion of the above-mentioned transactions, Khorgos Tianshan No.1 will become the single largest shareholder of the Company.

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 and has been partially utilized in the following manner:

	Revised usage of net proceeds HKD’Million	As at 31 December 2016 Utilized net proceeds HKD’Million	As at 31 December 2016 Unutilized net proceeds HKD’Million
Expand our production capacity by constructing additional facilities and purchasing additional production equipment	133	133	—
Expand our distribution network and towards promotional activities	206	20	186
Mergers and acquisitions that complement our existing business	1,092	1,092	—
Working capital and other general corporate purpose	41	41	—
	<u>1,472</u>	<u>1,286</u>	<u>186</u>

In 2016, the Group has utilized net proceeds amounting to HKD78 million and HKD3 million (i) for expanding our production capacity; and (ii) for expanding our distribution network and towards promotional activities. The remaining net proceeds were deposited in reputable financial institutions.

FINAL DIVIDENDS

No dividend has been declared by the Company in respect of 2016 (for the year ended 31 December 2015: HKD4 cents per share).

OUTLOOK

Consumer awareness and recognition of the Group's high quality products are expected to further increase as a result of the Group's activities.

The Group will continue its diversification strategy on product portfolio, market-oriented business strategy, internationalization strategy and further enhance strategic channel cooperation in future along with continued brand development through a range of marketing activities.

During the past two years, the Group launched its premium version of 5100 Glacial Water named as "Diamond Series" product, 10L/12L "5100 Family Soft Barreled Water" and medium priced bottled water products under the brand of "Gesang Spring". The new products will be further promoted in 2017, and the Group will also continue to develop new products in future.

The Group will also continue to expand its retail network, and target to develop key channels not only in traditional retail channel but also in hotels, cinemas, airports, e-commerce platforms, restaurants and healthcare and entertainment venues. Family market and markets beyond the mainland China were identified by the Group as two potential markets, in which the Group will devote resources to develop.

During the past year, the Group has maintained and developed strategic partnerships for the purpose of both sales and marketing. In order to develop the sales of our water products, we will continue to allocate resources to our strategic airline partners to further increase our market share in the airline beverage sector. We will further explore opportunities with CRE to promote our products in railway channels; with Sinopec and Petrol China to cover more petrol stations; with Country Garden to penetrate our supplies in more communities and with Moutai Group and Zhongshang Huimin to promote our "5100 Family Soft Barreled Water" and "Gesang Spring".

In January 2017, an independent investor, Khorgos Tianshan No.1 has agreed to buy 18% of the total issued share capital of the Company from the existing controlling shareholder of the Company. After completion of the transaction, Khorgos Tianshan No.1 will be our single largest shareholder and it has declared that it will make good

use of its advantages and resources, support the Group's current management team, expand the Group's market share, and strengthen the Group's competitiveness, in order to bring more benefits to the shareholders of the Company and the local economy in both Tibet and Xinjiang Autonomous Region.

While continuing to implement the above mentioned strategies and actively strengthen the integration of our existing resources in both our water business segment and beer business segment, and to generate further synergy between the water business and the beer business, the Group will continue to seek new projects with a business presence in the Chinese beverage industry that focuses on the Group's products' Tibet origins, leading to the diversification of our business and products.

In recognition of the importance of the ongoing projects, the Group will continue to give high priority to strengthen its workforce both qualitatively and quantitatively.

The Group expects strong competition to continue and a challenging economic environment, but will continue to focus on improving our core business.

AUDIT COMMITTEE

The audit committee of the Company currently consists of three independent non-executive directors, namely, Mr. Kevin Cheng WEI (Chairman of the audit committee), Mr. LEE Conway Kong Wai and Mr. Jesper Bjoern MADSEN. The audit committee is mainly responsible for monitoring the integrity of the Company's financial statements, to oversee 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 2016.

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 2016 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 2016. 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 announcement.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the forthcoming annual general meeting of the Company to be held on 29 May 2017 ("AGM 2017"), the register of members will be closed.

For determining shareholders' eligibility to attend and vote at the AGM 2017

Latest time to lodge transfer documents for registration	4:00 p.m. on 22 May 2017
Closure of register of members	23 May 2017 to 29 May 2017 (both dates inclusive)
Record date	29 May 2017

During the above closure period, no transfer of shares will be registered. To be eligible to attend and to vote at the AGM 2017, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong share registrar, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, no later than the aforementioned latest time.

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. Throughout the year ended 31 December 2016, the Company had complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules").

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 2016. 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 has been noted by the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

For the year ended 31 December 2016, 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 2016 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, 24 March 2017

As of the date of this announcement, the executive Directors are Mr. FU Lin (Chief Executive Officer), Mr. YUE Zhiqiang, Mr. LIU Chen and Mr. WONG Hak Kun, the non-executive Director is Ms. JIANG Xiaohong, the independent non-executive Directors are Mr. Jesper Bjoern MADSEN (Chairman), Mr. LEE Conway Kong Wai and Mr. Kevin Cheng WEI.