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 2017

FINANCIAL HIGHLIGHTS

	Year ended 31 December		**Change**
	2017	2016	**%**
Revenue (RMB'000)	**931,887**	868,092	↑ 7%
Profit attributable to owners of the Company (RMB'000)	**315,174**	307,724	↑ 2%
Earnings per share			
- Basic and diluted (RMB cents)	**12.32**	11.98	↑ 3%
Total sales volume (tonnes)	**128,616**	112,086	↑ 15%
Gross profit margin	**59%**	60%	↓ 1 % point

	As at 31 December	
	2017	2016
Total assets (RMB'000)	**4,549,040**	4,818,068
Equity attributable to owners of the Company (RMB'000)	**3,174,388**	3,122,599

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 2017, together with comparative figures prepared under International Financial Reporting Standards ("**IFRS**").

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
Assets			
Non-current assets			
Land use rights		**29,969**	30,693
Property, plant and equipment ("**PP&E**")		**606,723**	619,387
Intangible assets		**110,466**	132,552
Goodwill		**721,139**	721,139
Investment in associates	7	**1,326,300**	1,307,508
Deferred income tax assets		**2,895**	2,818
Prepayments		**43,937**	65,476
Available-for-sale financial assets ("**AFS**")		**65,297**	—
		2,906,726	2,879,573
Current assets			
Trade receivables	8	**235,139**	193,926
Prepayments		**143,178**	190,147
Prepaid enterprise income tax		**6,705**	8,508
Other receivables and other assets		**175,022**	249,770
Inventories		**75,613**	67,516
Available-for-sale financial assets ("**AFS**")		**175,884**	186,230
Cash and cash equivalents		**830,773**	1,042,398
		1,642,314	1,938,495
Total assets		**4,549,040**	4,818,068
Equity			
Equity attributable to owners of the Company			
Share capital		**21,363**	21,363
Share premium		**1,206,829**	1,206,829
Shares held for share award scheme		**(158,868)**	—
Other reserves		**191,921**	279,202
Retained earnings		**1,913,143**	1,615,205
		3,174,388	3,122,599
Non-controlling interests		**—**	371,965
Total equity		**3,174,388**	3,494,564

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	As at 31 December **2017** ***RMB'000***	 2016 *RMB'000*
Liabilities			
Non-current liabilities			
Bank borrowings		**—**	190,000
Deferred revenue		**22,333**	24,241
Deferred income tax liabilities		**18,572**	20,652
Convertible bond - liability component		**432,340**	458,066
		473,245	692,959
Current liabilities			
Trade payables	9	**92,841**	78,055
Deferred revenue and advances received from customers		**27,498**	14,710
Enterprise income tax payable		**27,302**	28,210
Accruals and other payables		**322,766**	53,570
Bank borrowings		**431,000**	456,000
		901,407	630,545
Total liabilities		**1,374,652**	1,323,504
Total equity and liabilities		**4,549,040**	4,818,068

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Year ended 31 December **2017** *RMB'000*	2016 *RMB'000*
Revenue	6	**931,887**	868,092
Cost of sales	10	**(380,429)**	(348,408)
Gross profit		**551,458**	519,684
Selling and distribution expenses	10	**(120,336)**	(103,250)
Administrative expenses	10	**(84,936)**	(78,879)
Other gains, net		**46,497**	55,619
Operating profit		**392,683**	393,174
Finance income		**27,957**	21,038
Finance costs		**(38,202)**	(40,276)
Finance costs, net		**(10,245)**	(19,238)
Share of profit of associates	7	**26,089**	26,913
Profit before income tax		**408,527**	400,849
Income tax expense	11	**(40,853)**	(41,694)
Profit for the year		**367,674**	359,155
Profit attributable to:			
—Owners of the Company		**315,174**	307,724
—Non-controlling interests		**52,500**	51,431
		367,674	359,155
Earnings per share for profit attributable to owners of the Company			
—Earnings per share (basic and diluted) (RMB cents per share)	12	**12.32**	11.98

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit for the year	**367,674**	359,155
Other comprehensive income:		
Item that will not be reclassified subsequently to profit or loss		
Currency translation differences	**7,662**	1,612
Items that may be reclassified subsequently to profit or loss		
Change in fair value of AFS	**(346)**	6,230
Other comprehensive income for the year, net of tax	**7,316**	7,842
Total comprehensive income for the year	**374,990**	366,997
Attributable to:		
—Owners of the Company	**323,822**	314,234
—Non-controlling interests	**51,168**	52,763
Total comprehensive income for the year	**374,990**	366,997

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company							
	Share capital	Share premium	Treasury stock	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2016	21,363	1,206,829	—	235,269	1,414,344	2,877,805	319,202	3,197,007
Profit for the year	—	—	—	—	307,724	307,724	51,431	359,155
Currency translation differences	—	—	—	1,612	—	1,612	—	1,612
Change in fair 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	—	—	—	18,385	—	18,385	—	18,385
Appropriations to statutory surplus reserve	—	—	—	19,038	(19,038)	—	—	—
Dividends (Note 13)	—	—	—	—	(87,825)	(87,825)	—	(87,825)
At 31 December 2016	21,363	1,206,829	—	279,202	1,615,205	3,122,599	371,965	3,494,564
Profit for the year	**—**	**—**	**—**	**—**	**315,174**	**315,174**	**52,500**	**367,674**
Currency translation differences	**—**	**—**	**—**	**7,662**	**—**	**7,662**	**—**	**7,662**
Change in fair value of AFS	**—**	**—**	**—**	**986**	**—**	**986**	**(1,332)**	**(346)**
Total comprehensive income for the year	**—**	**—**	**—**	**8,648**	**315,174**	**323,822**	**51,168**	**374,990**
Appropriations to statutory surplus reserve	**—**	**—**	**—**	**17,236**	**(17,236)**	**—**	**—**	**—**
Acquisition of shares under share award scheme	**—**	**—**	**(158,868)**	**—**	**—**	**(158,868)**	**—**	**(158,868)**
Transaction with non-controlling interests	**—**	**—**	**—**	**(113,165)**	**—**	**(113,165)**	**(423,133)**	**(536,298)**
At 31 December 2017	**21,363**	**1,206,829**	**(158,868)**	**191,921**	**1,913,143**	**3,174,388**	**—**	**3,174,388**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	**Year ended 31 December**	
		2017	2016
		RMB'000	*RMB'000*
Cash flows from operating activities			
Cash generated from operations		**518,761**	260,204
Interest received		**5,575**	3,770
Interest paid		**(202)**	(196)
Income tax paid		**(42,114)**	(49,221)
Net cash generated from operating activities		**482,020**	214,557
Cash flows from investing activities			
Purchases of PP&E		**(17,955)**	(93,482)
Cash received from government grants related to fixed assets		**—**	4,860
Purchases of AFS		**(600,600)**	(460,000)
Proceeds from disposal of AFS		**591,315**	287,826
Loans granted to third parties		**(438,201)**	(368,899)
Repayments of loans granted to third parties		**469,571**	296,000
Amounts received from third parties		**117,491**	1,261,750
Amounts paid to third parties		**(110,450)**	(1,113,598)
Amounts received from a related party		**54,821**	238,348
Amounts paid to a related party		**(30,000)**	(425,000)
Prepayment for equity investment in a third party		**—**	(17,400)
Investment in associates	7	**—**	(218,000)
Net cash generated from/(used in) investing activities		**35,992**	(607,595)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Cash flows from financing activities		
Dividends paid to shareholders	**—**	(87,825)
Proceeds from bank borrowings	**186,000**	556,000
Repayments of bank borrowings and interests	**(413,861)**	(120,997)
Proceeds from issue of convertible bond	**—**	469,613
Transaction costs paid relating to issue of convertible bond	**—**	(1,655)
Coupon interest payments relating to convertible bond	**(26,835)**	(14,387)
Payments for shares bought back	**(158,868)**	—
Transaction with non-controlling interests	**(297,254)**	—
Net cash (used in)/generated from financing activities	**(710,818)**	800,749
Net (decrease)/increase in cash and cash equivalents	**(192,806)**	407,711
Cash and cash equivalents at beginning of year	**1,042,398**	628,132
Exchange translation (loss)/gains on cash and cash equivalents	**(18,819)**	6,555
Cash and cash equivalents at end of year	**830,773**	1,042,398

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

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

These financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated. These financial statements have been approved for issue by the Board on 23 March 2018.

Key event

On 21 December 2017, the Group acquired the remaining 35% of the equity interests of Tibet Tiandi Green Beverage Development Co., Ltd. ("**Tiandi Green**") for RMB536,298,000 (including transaction costs of RMB2 million). Together with the existing 65% equity interests in Tiandi Green held by the Group, it became an indirect wholly-owned subsidiary of the Company.

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 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 2017:

- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12, and
- Disclosure initiative – amendments to IAS 7.

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

The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities.

(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.

Based on the Group's current 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.

3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

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

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

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified no significant areas will be affected. Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

(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.

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB1,607,000. 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 exemption 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 standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

(a) Depreciation and amortisation

The Group's management determines the residual value, useful lives and related depreciation charges for its property, plant and equipment. 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.

(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.

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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Income taxes (continued)

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

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

(c) Impairment review

(i) Goodwill arising from acquisition of a subsidiary – Tiandi Green

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy. 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	1.4%~8.3%	Decrease by 1%	76,241
Long-term growth rate	4.0%	Decrease to 3%	68,824
Gross margin	47.7%	Decrease by 5%	200,296
Pre-tax discount rate	15.4%	Increase to 16.4%	125,555
Government subsidy income	Continued government subsidy income from 2018 onwards	Discontinued government subsidy income from 2018 onwards	33,178

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Impairment review (continued)

(i) Goodwill arising from acquisition of a subsidiary – Tiandi Green (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 engaged an independent valuer to perform impairment analysis for investment in Highland Natural Water when there is any indicator for impairment noted in accordance with the accounting policy. 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 impacts to the value-in-use calculations upon unfavourable changes of the key assumptions:

Items	Assumptions used	Movement of key assumptions	Decrease of value-in-use (RMB'000)
Compound annual revenue growth rate	19.5%~28.5% from 2018 to 2021; 8.5% ~18.5% from 2022 to 2026	Decrease by 1%	211,657
Long-term growth rate	3.0%	Decrease to 2%	83,686
Gross margin	49.5%~57.2%	Decrease by 5%	288,004
Pre-tax discount rate	12.6%	Increase to 13.6%	155,360
Government subsidy income	Continued government subsidy income from 2018 onwards	Discontinued government subsidy income from 2018 onwards	19,891

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Impairment review (continued)

*(ii) Investment in an associate – Tibet Highland Natural Water Limited ("**Highland Natural Water**") (continued)*

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 2017 (Note 7).

(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 receivables amounting to RMB38,000 were impaired as at 31 December 2017 (2016: RMB1,995,000) (Note 8). 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) 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.

(a) Description of segments and principal activities

(i) Water segment

The principal activities of the Group are manufacturing and selling a range of water products through wholesales in the PRC, selling bottle preforms and caps to a related party and providing lending services to third parties in Hong Kong with relevant license.

(ii) Beer segment

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

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.

(b) Segment information disclosures

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.

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information disclosures (continued)

The segment information provided to the executive Directors of the Company for the reportable segments for the year ended 31 December 2017 is as follows:

	Water segment *RMB'000*	Beer segment *RMB'000*	Inter-segment elimination *RMB'000*	Total *RMB'000*
Total segment revenue	**569,863**	**368,938**	**(6,914)**	**931,887**
Cost of sales	**(197,746)**	**(189,597)**	**6,914**	**(380,429)**
Gross profit for the year	**372,117**	**179,341**	**—**	**551,458**
Share of profit from associates	**26,089**	**—**	**—**	**26,089**
Adjusted EBITDA*	**280,275**	**216,384**	**—**	**496,659**
Finance income	**15,745**	**12,212**	**—**	**27,957**
Finance costs	**(28,246)**	**(9,956)**	**—**	**(38,202)**
Depreciation and amortisation	**(23,895)**	**(53,992)**	**—**	**(77,887)**
Profit before tax	**243,879**	**164,648**	**—**	**408,527**
Income tax expenses	**(26,062)**	**(14,791)**	**—**	**(40,853)**
Profit for the year	**217,817**	**149,857**	**—**	**367,674**

* Earnings before interest, taxes, depreciation and amortisation

5 SEGMENT INFORMATION (CONTINUED)

	Water segment *RMB'000*	Beer segment *RMB'000*	Total *RMB'000*
Segment total assets	**2,921,108**	**2,313,375**	**5,234,483**
Investments accounted for using equity method	**1,326,300**	**—**	**1,326,300**
Unallocated			
AFS			**241,181**
Deferred income tax assets			**2,895**
Corporate assets			**103,733**
Inter-segment elimination			**(1,033,252)**
Total assets			**4,549,040**
Segment total liabilities	**1,050,458**	**362,552**	**1,413,010**
Unallocated			
Deferred income tax liabilities			**18,572**
Corporate liabilities			**440,024**
Inter-segment elimination			**(496,954)**
Total liabilities			**1,374,652**

5 SEGMENT INFORMATION (CONTINUED)

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

5 SEGMENT INFORMATION (CONTINUED)

	Water segment *RMB'000*	Beer segment *RMB'000*	Total *RMB'000*
Segment total assets	2,344,374	2,267,631	4,612,005
Investments accounted for using equity method	1,307,508	—	1,307,508
Unallocated			
AFS			186,230
Deferred income tax assets			2,818
Corporate assets			406,300
Inter-segment elimination			(389,285)
Total assets			4,818,068
Segment total liabilities	645,763	575,170	1,220,933
Unallocated			
Deferred income tax liabilities			20,652
Corporate liabilities			471,204
Inter-segment elimination			(389,285)
Total liabilities			1,323,504

5 SEGMENT INFORMATION (CONTINUED)

Entity-Wide information

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

Revenue from external customers of the Group were derived in the PRC for the years ended 31 December 2017 and 2016.

Non-current assets, other than financial instruments and deferred income tax assets are all located in the PRC as at 31 December 2017 and 2016.

During the year 2017, sales of approximately RMB102,699,000 (2016: RMB89,107,000) are derived from an associate in the water segment and sales of approximately RMB93,630,000 (2016: RMB96,384,000) are derived from one single external customer in the beer 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, leases a bottled water production line to an associate, provides lending services to third parties in Hong Kong with relevant license. Breakdown of the revenue is as follows:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Sales of water products	**465,307**	395,335
Sales of beer products	**362,024**	383,650
Sales of bottle preforms and caps	**100,648**	87,056
Rental of a bottled water production line	**2,051**	2,051
Interest income from lending services provided	**1,857**	—
	931,887	868,092

Revenue from external customers of the Group were derived in the PRC for the years ended 31 December 2017 and 2016.

7 INVESTMENT IN ASSOCIATES

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Opening net book amount	**1,307,508**	1,062,595
Additions	**—**	218,000
Share of profits	**26,089**	26,913
Transfer to AFS (a)	**(7,297)**	—
Closing net book amount	**1,326,300**	1,307,508

(a) Prior to January 2017, the Group has 2% equity interests in Beijing GT Express Limited (北京貫通雲網有限公司; "**GT Express**") and the Group has the right to appoint one director in the board of directors in GT Express. In January 2017, based on agreement among shareholders, GT Express modified its articles of association and the Group no longer has the right to appoint a director nor to participate in the operational decision making process in GT Express. Accordingly, the Group lost significant influence in GT Express and such investment was reclassified from investment in an associate to AFS.

Set out below are the associates of the Group as at 31 December 2017:

Name of entity	**Place of business/ country of incorporation**	**% of ownership interest**	**Principal activities**	**Measurement method**
Tibet Highland Natural Water Limited	The PRC	40	Manufacturing and distribution of water products	Equity
Moutai Group Tibet 5100 Mineral Water Co., Ltd. ("**Moutai 5100**")	The PRC	50	Distribution of water products	Equity

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

8 TRADE RECEIVABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade receivables due from third parties	**192,139**	143,354
Loan receivable due from third parties (a)	**36,671**	—
Trade receivables due from associates (b)	**6,367**	52,567
	235,177	195,921
Less: Provision for impairment of trade receivables	**(38)**	(1,995)
	235,139	193,926

Trade receivables for which an impairment provision was recognised are written off against the provision when there is no expectation of recovering additional cash. For the year 2017, there is no additional impairment provision and receivables amounting to RMB1,957,000 were written off as uncollectible.

(a) This balance includes a loan receivable of HKD40,998,000 (equivalent to RMB34,270,000, 2016: nil), which is secured by collaterals provided by the borrower, bears interest at fixed rate, and is repayable in the next 12 months.

(b) This balance represents amounts due from Highland Natural Water and Moutai 5100. They were unsecured, non-interest bearing and repayable on demand.

8 TRADE RECEIVABLES (CONTINUED)

As at 31 December 2017 and 2016, 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	
	2017	2016
	RMB'000	*RMB'000*
Within 6 months	**222,532**	131,794
Over 6 months but within 1 year	**8,855**	2,699
Over 1 year but within 2 years	**2,302**	56,914
Over 2 years	**1,488**	4,514
	235,177	195,921

As at 31 December 2017, trade receivables amounting to RMB38,000 were impaired and provided for (2016: RMB1,995,000).

The maximum exposure to credit risk at the reporting date is RMB235,177,000 (2016: RMB195,921,000) including amount due from a third party of RMB34,270,000 (2016: nil) was secured by two properties.

As at 31 December 2017 and 2016, the carrying amounts of the above trade receivables approximated their fair values.

9 TRADE PAYABLES

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Trade payables	**92,841**	78,055

As at 31 December 2017 and 2016, the aging analysis of trade payables based on invoice dates is as follows:

	As at 31 December	
	2017	2016
	RMB'000	*RMB'000*
Within 3 months	**69,402**	51,903
Over 3 months but within 6 months	**4,247**	15,717
Over 6 months but within 1 year	**6,046**	4,354
Over 1 year but within 2 years	**9,011**	5,215
Over 2 years	**4,135**	866
	92,841	78,055

As at 31 December 2017 and 2016, the Group's trade payables were all denominated in RMB and were not interest bearing.

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

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

10 EXPENSES BY NATURE

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Raw materials and consumables used	**271,650**	243,199
(Increase)/Decrease in the balances of inventories of finished goods and work in progress	**(32)**	7,316
Transportation costs	**75,091**	51,957
Depreciation of PP&E	**55,077**	54,433
Employee benefit expenses	**74,841**	73,032
Advertising and marketing expenditure	**19,760**	19,669
City construction tax and education surcharge	**16,632**	13,676
Electricity and other utility expenses	**17,651**	12,842
Rental expenses	**3,433**	5,159
Legal and other consulting services fee	**8,192**	6,104
Repair and maintenance	**2,807**	2,538
Amortisation of land use rights	**724**	724
Amortisation of intangible assets	**22,086**	22,086
Auditor's remuneration		
—Audit services	**6,586**	6,000
—Non-audit services	**800**	—
Exploration rights expenses	**500**	500
Office and consumption expenses	**4,982**	4,611
Provision for impairment of trade receivables (Note 8)	**—**	1,995
Others	**4,921**	4,696
	585,701	530,537

11 INCOME TAX EXPENSE

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

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Current income tax	**43,010**	43,962
Deferred income tax credit	**(2,157)**	(2,268)
Income tax expense	**40,853**	41,694

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	
	2017	2016
	RMB'000	*RMB'000*
Profit before income tax	**408,527**	400,849
Tax calculated at statutory tax rate of 15%	**61,279**	60,127
Preferential tax rates on income of certain group entities (a)	**(28,329)**	(28,149)
Income not subject to tax	**(2,523)**	(2,422)
Tax on deemed revenue	**—**	337
Tax losses of certain group entities for which no deferred income tax assets were recognised	**2,347**	2,188
Expenses not deductible for tax purposes	**8,079**	9,613
Income tax expense	**40,853**	41,694

The weighted average tax rate was 10.0% for the year ended 31 December 2017 (2016: 10.4%).

11 INCOME TAX EXPENSE (CONTINUED)

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

The group entities incorporated in the PRC are subject to PRC enterprise income tax. Major operational entities of the Group are located in the Tibet Autonomous Region of the PRC and were entitled to preferential income tax rate. Based on the tax ruling announced by the PRC central tax authorities, the corporate income tax rate of Lhasa is 9% for the years 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 remaining entities incorporated in the PRC were taxed based on the income tax rate of 25% for the year ended 31 December 2017 (2016: 25%) as determined in accordance with the relevant PRC income tax rules and regulations. The relevant deferred tax balances had been measured based on the expected tax rates applicable in the future. Hong Kong profits tax has been provided for at the rate of 16.5% (2016: 16.5%).

12 EARNINGS PER SHARE

(a) Basic earnings per share

As at 31 December 2017 and 2016, basic earnings per share is calculated by:

- the profit attributable to owners of the company dividing
- by the weighted average number of ordinary shares outstanding during the financial year, excluding the shares held for share award scheme.

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit attributable to owners of the Company (RMB'000)	**315,174**	307,724
Weighted average number of ordinary shares in issue (thousands)	**2,557,839**	2,568,893
Earnings per share (basic and diluted) (RMB cents per share)	**12.32**	11.98

12 EARNINGS PER SHARE (CONTINUED)

(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. During the year 2017, when the convertible bond is assumed to have converted into ordinary shares since 1 January 2017, the calculated diluted earnings per share is more than the basic earnings per share. As such, the convertible bond is determined to be anti-dilutive and not to be included in the calculation of the diluted earnings per share. For the share options, no shares would be issuable at the end of the contingency period based on management's estimation given none of the vesting conditions is expected to be met at the end of the vesting period. Accordingly, the potential ordinary shares under the share options are not included in the calculation of diluted earnings per share (2016: no dilutive potential ordinary shares). In this connection, the diluted earnings per share is the same as the basic earnings per share for the Company for the year 2016 and 2017.

13 DIVIDENDS

No dividend has been declared by the Company in respect of 2017 (2016: nil). 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2017, we continued our endeavors in supplying high quality products and premium services to our customers.

In 2017, the market continued to be characterized by strong competition and a challenging economic environment, which had a general impact on premium products. Nevertheless, the Group has continued to increase its total sales volume and revenue in 2017 by 15% and 7%, respectively, in comparison with 2016, as a result of the continuing development of the water business.

Sales volume and revenue of our water products, including "Tibet 5100 Glacial Spring Water" ("**5100 Glacial Water**") and "Gesang Spring" products, increased by 39% and 18%, respectively, in comparison with last year, which was largely due to deep penetration and distribution in the retail channels and increasing sales to institutional clients covering more office sites. Our "Easy Joy • Zhuoma Spring" sold by our associate, Highland Natural Water, saw a continuing increase in popularity at Easy Joy convenience stores at Sinopec gas stations throughout China. The Group's share of post-tax profits of Highland Natural Water slightly decreased by 3% from last year.

Our water products have been sold throughout the Mainland China and Hong Kong, and retail distributors and institutional clients constituted our major customer base. As at 31 December 2017, in Mainland China, the geographical coverage of our water products in retail channels had covered more than 100 cities, and the sales outlets in offline retail channels, such as supermarkets, convenience stores, cinemas, hotels, airports, restaurants, and health and entertainment venues, had exceeded 15,000.

Due to the strong competition in the relatively limited market in the Tibet Autonomous Region ("**Tibet**"), both sales volume and revenue of our beer products slightly decreased by 6% in comparison with last year; however the gross profit margin maintained the same satisfactory level as last year. In 2017, our beer products were sold in Tibet mainly through retail channels including supermarkets, convenience 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

The total sales of the Group amounted to RMB932 million, representing an increase of RMB64 million or 7% in comparison with 2016.

The revenue generated from our water business segment was RMB570 million, representing an increase of 18% in comparison with 2016, contributed by the increase of sales of water products and sales of bottle preforms and caps. Among the water products, revenue of our "5100 Glacial Water" in 2017 increased by 14% in comparison with 2016; and revenue of our "Gesang Spring" products increased by 47% in comparison with 2016.

The revenue generated from our beer business segment was RMB362 million, representing a slight decrease of 6% in comparison with 2016.

SALES VOLUME

The total sales volume of the Group amounted to 128,616 tonnes (2016: 112,086 tonnes), and consisted of 71,990 tonnes (2016: 51,630 tonnes) from our water products and 56,626 tonnes (2016: 60,456 tonnes) from our beer products.

The overall sales volume of our water products increased by 39% in comparison with that of 2016; sales volume of our "5100 Glacial Water" in 2017 increased by 34% in comparison with 2016; and sales volume of our "Gesang Spring" products increased by 56% in comparison with 2016.

The sales volume of our beer products slightly decreased by 6% in comparison with that of 2016.

AVERAGE SELLING PRICE

The average selling price fluctuated along with the change of our products mix. The average selling price of our water products decreased by 16% from RMB7,657 per tonne in 2016 to RMB6,463 per tonne in 2017. The average selling price of our beer products remained stable from RMB6,346 per tonne in 2016 to RMB6,393 per tonne in 2017.

GROSS PROFIT MARGIN

The gross profit margin of the water business segment is 65%, in comparison with 69% in 2016, and such decrease was mainly attributable to the change in mix of the sales of products in the water business segment. The gross profit margin of the beer business segment is 49%, which is same as in 2016. The overall gross profit margin of the Group is 59%, and has remained stable in comparison with 60% in 2016.

SELLING AND DISTRIBUTION EXPENSE AND ADMINISTRATIVE EXPENSES

In 2017, the selling and distribution expense increased by 17% to RMB120 million from RMB103 million in 2016, mainly due to the increase in transportation costs as the sales volume of the water products increased. The administrative expenses increased by 8% from RMB79 million in 2016 to RMB85 million in 2017, in line with the growth and development of the business.

OTHER NET GAINS

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

The government grants decreased by 44% from RMB45 million in 2016 to RMB25 million in 2017. Such fluctuation was caused mainly by the timing of the approval of the grants by 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 is 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 they will be received and the Group will comply with all associated conditions. According to the latest policies implemented by the Tibet government, we received the government grants in 2017 and will continue to receive them in future.

In 2017, the gain on disposal of AFS increased by approximately 100% from RMB10 million in 2016 to RMB20 million, as more available-for-sale structured financial products were bought and disposed of in 2017.

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 China Petroleum & Chemical Co., Ltd ("**Sinopec**"). In 2017, 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 RMB28 million, a slight decrease of 3% in comparison with 2016.

The sales volume and revenue in respect of Highland Natural Water in 2017 were approximately 221,394 tonnes and RMB461 million, respectively, representing an increase of 22% and a slight decrease of 2%, respectively, compared to those in 2016. Such fluctuations were results of the promotion in terms of volume discount for the sales of "Easy Joy • Zhuoma Spring" at Easy Joy convenience stores at Sinopec gas stations throughout China.

FINANCE NET COSTS

In 2017, the Group incurred finance costs of RMB38 million and gained finance income of RMB28 million. Compared to 2016, finance costs in 2017 decreased by RMB2 million, mainly due to (i) the increase approximately of RMB15 million in interest costs on convertible bonds issued by the Company, and (ii) the increase of RMB2 million interest costs on borrowings from banks, which were offset by (a) the decrease of RMB11 million in exchange loss, and (b) the one-off fair value loss of RMB8 million relating to the convertible bond issued in 2016. Finance income increased by RMB7 million mainly due to the increase in interest-bearing loans to third parties.

INCOME TAX EXPENSE

The income tax expense decreased by RMB1 million or 2% from RMB42 million in 2016 to RMB41 million in 2017. The effective tax rate in 2017 and 2016 was 10%.

PROFIT FOR THE YEAR

The profit for the year increased by RMB9 million or 2% from RMB359 million in 2016 to RMB368 million in 2017. The operating profit kept stable from last year and the finance net cost decreased by RMB9 million, resulting the increase in profit for the year.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to owners of the Company increased by RMB7 million from RMB308 million in 2016 to RMB315 million in 2017, which was in line with the increase in profit for the year as described above.

FINANCIAL POSITION

As at 31 December 2017, net trade receivables of the Group amounted to RMB235 million compared to RMB194 million as at 31 December 2016. The increase was mainly attributable to the loan receivable due from third parties of RMB37 million. Up to 23 March 2018, RMB43 million had been further collected, resulting in further reduction in our trade receivables.

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 the 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 problem in recovering its trade receivables from its major debtors. In 2017, the Group did not recognize any additional provision for impairment loss of trade receivables (2016: provision of RMB2 million) and wrote off approximately RMB1.96 million provision recognised in prior year (2016: nil).

As at 31 December 2017, inventories of the Group amounted to RMB76 million compared to RMB68 million as at 31 December 2016. The increase was mainly attributable to an increase in raw materials inventories.

As at 31 December 2017, prepayments (including current and non-current) of the Group decreased to RMB187 million from RMB256 million as at 31 December 2016. The decrease was mainly attributable to the decrease approximately of RMB52 million of prepayment made for purchase of raw materials, services and equipment and the decrease of RMB17 million of prepayment for investment in a third party.

As at 31 December 2017, other receivables and other assets of the Group amounted to RMB175 million compared to RMB250 million as at 31 December 2016. Among other receivables as at 31 December 2017, the amounts due from third parties amounted to RMB140 million, and up to 23 March 2018, all had been further collected from the third parties, resulting in further reduction in our other receivables.

As at 31 December 2017, AFS (including current and non-current) of the Group increased to RMB241 million compared to RMB186 million as at 31 December 2016, which was mainly attributable to the acquisition of 0.48% equity interests of a company.

As at 31 December 2017, cash and cash equivalents of the Group decreased by RMB212 million, which was mainly attributable to the cash inflows from operating activities of RMB482 million, cash inflows from investing activities of RMB36 million, cash outflows for financing activities of RMB711 million and exchange loss of RMB19 million. The cash inflows from investing activities of RMB36 million in 2017 mainly included the net cash inflows for amounts received from and paid to third parties and a related party of RMB32 million, the net cash inflows from loan and repayments of loans granted to third parties approximately of RMB31 million, offset by the purchase of PP&E of RMB18 million and the net cash outflows for purchases and disposal of AFS approximately of RMB9 million. The cash outflows for financing activities of RMB711 million in 2017 mainly included net cash outflows for bank borrowings of RMB228 million and payment of interest for convertible bond of RMB27 million, payments for shares purchased for the share award scheme of RMB159 million, and the cash outflows for transaction with non-controlling interests of RMB297 million.

As at 31 December 2017, trade payables of the Group amounted to RMB93 million compared to RMB78 million as at 31 December 2016. The increase was mainly attributable to the effective management of trade payables.

As at 31 December 2017, the current portion of deferred revenue and advances received from customers of the Group amounted to RMB27 million compared to RMB15 million as at 31 December 2016. Deferred revenue of unredeemed but effective Water Cards increased approximately by RMB5 million and advances received from customers increased by RMB7 million, mainly leading to an overall increase in the total amount of the current portion of deferred revenue and advances received from customers.

As at 31 December 2017, accrual and other payables of the Group increased by RMB269 million, which was mainly attributable to the increase in payables for investing in a subsidiary of RMB239 million, salary payables and welfare payables of RMB3 million, increase in payables for value added tax and other taxes of RMB15 million, the increase in accrued operating expense of RMB7 million, and the increase in other payables to third parties of RMB5 million.

As at 31 December 2017, the bank borrowings (including current and non-current) of the Group decreased by RMB215 million, which was mainly attributable to bank borrowings received which principal amounted to RMB186 million and repayment of bank borrowings which principal amounted to RMB401 million in 2017.

MERGER AND ACQUISITION

The Group acquired 35% equity interests in Tiandi Green on 21 December 2017 at cost of RMB536 million (including the consideration and relevant transaction costs of RMB2 million). Upon completion of the transaction, the Group held 100% equity interests of Tiandi Green and Tiandi Green became an indirect wholly-owned subsidiary of the Company.

SIGNIFICANT INVESTMENTS

In 2017, the Group invested RMB58 million in China Railway Express Co., Ltd. ("**CRE**"), representing 0.48% of its total equity. Furthermore, the Group acquired PP&E of approximately RMB42 million (2016: approximately RMB18 million). Regarding the future development and outlook of the Group, please refer to the section headed "Outlook" in the "Management Discussion and Analysis" section.

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 2017 and 31 December 2016, the gearing ratios of the Group were 21.38% and 24.01%, respectively.

EMPLOYEES

As at 31 December 2017, the total number of employees of the Group was approximately 452 compared to 439 as at 31 December 2016. Relevant staff cost was RMB75 million in 2017, compared to RMB73 million in 2016. The fluctuation in staff cost was mainly attributable to the improvement of business and human resources structure during 2017.

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.

SHARE-BASED PAYMENTS

On 16 December 2015, the Company granted share options to China Distribution and Logistics Company Ltd. ("**China Distribution**", an independent customer). 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. If these options are exercised, the shares subscribed will account for approximately 1% of the total number of ordinary shares of the Company. As at 31 December 2017, the 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 reduction of revenue relating to the sales incentive under the share option scheme was recorded during the year ended 31 December 2017 (2016: nil).

CAPITAL COMMITMENTS

As at 31 December 2017, the Group committed to purchase PP&E of approximately RMB117 million (31 December 2016: RMB113 million), and equity investment of RMB13 million (31 December 2016: RMB54 million). Regarding the future development and outlook of the Group, please refer to the section headed "Outlook" in this "Management Discussion and Analysis" section.

CHARGES

As at 31 December 2017, a bank loan with principal amount of RMB200 million (31 December 2016: RMB200 million) of the Group was secured by its factory plant with net book value of RMB68 million (31 December 2016: RMB72 million) and land use rights with net book value of RMB29 million (31 December 2016: RMB30 million); and a bank loan with principal amount of RMB66 million (31 December 2016: RMB66 million) of the Group was secured by its factory plant with net book value of RMB33 million (31 December 2016: RMB35 million) and land use rights with net book value of RMB1 million (31 December 2016: RMB1 million). As at 31 December 2017 and 31 December 2016, the convertible bond was secured by the entire issued shares of Wealth Keeper Limited, a wholly-owned subsidiary of the Group.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have contingent liabilities (31 December 2016: RMB260 million).

FOREIGN EXCHANGE RISK

The Group adopts a conservative approach to cash management and risk control. The Group mainly operates in the PRC with most of its business transactions denominated in RMB. However, the Group is exposed to foreign exchange risk arising from its cash exchange transactions, which are primarily denominated in HKD. To mitigate the impact of exchange rate fluctuations, the Group continually assesses and monitors its exposure to foreign exchange risk. During the year ended 31 December 2017, 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 consolidated 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 2017 were approximately 300,000 tonnes and 200,000 tonnes, respectively (for the year ended 31 December 2016: approximately 300,000 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.

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 2017 Utilized net proceeds** *HKD'Million*	**As at 31 December 2017 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 toward promotional activities	206	29	177
Mergers and acquisitions that complement our existing business	1,092	1,092	—
Working capital and other general corporate purpose	41	41	—
	1,472	1,295	177

Up to 31 December 2017, the Group has utilized net proceeds amounting to HKD133 million, HKD29 million, HKD1,092 million and HKD41 million (i) for expanding our production capacity; (ii) for expanding our distribution network and towards promotional activities; (iii) for mergers and acquisitions that complement our existing business; and (iv) as working capital and for other general corporate purposes, respectively. The remaining net proceeds were deposited in reputable financial institutions.

FINAL DIVIDEND

No dividend has been declared by the Company in respect of 2017 (for the year ended 31 December 2016: nil).

OUTLOOK

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 continuing brand development through a range of marketing activities.

The Group will target to further develop the premium brand of "5100 Glacial Water" and the high quality brand of "Gesang Spring" to expand market share in both offline retail network and online e-commerce platforms through strong retail distributors.

The Group's products have established a strong brand reputation with families and office sites, and such markets were identified by the Group as potential markets, into which the Group will devote more resources for further development.

The Group has maintained and developed strategic partnerships to achieve improvement in both sales and marketing. We will continue to cooperate with more hotels, cinemas, airports and other premium outlets to present our premium "Diamond Series" products. We will also continue to optimize allocated resources with our strategic partners and to further increase our market share in the airline beverage sector with our airline partners.

Our strategic cooperation with Sinopec has demonstrated success that the products of the Group's associate saw a continuing pickup in popularity at Easy Joy convenience stores at Sinopec gas stations throughout China. We will further explore opportunities with Sinopec and China National Petroleum Corporation to expand our whole business.

The Group's products have penetrated Hong Kong market in recent two years and we consider Hong Kong market a good example for us to explore more opportunities to promote our products in overseas markets to meet our mission to share Tibet high quality water with the world.

Up to 31 December 2017, our premium beer "Tibet Highland Barley Beer" and our cooperation product "Lhasa Beer" were sold mainly in Tibet and the Group plans to develop strategic partnerships in the near future to penetrate into premium beer markets outside Tibet.

While continuing to implement the abovementioned strategies, the Group will continue to look for products that reflect the Tibet characteristics of the Group and new projects to develop beverage products with Chinese characteristics for diversification of our business and products. Meanwhile, the Group has assessed the production capacity periodically and currently has arranged to increase the production capacity in the coming years to meet the demands of future development, and the funding of such capital investments came from the operating cash the Group has earned.

To reflect the Group's priority towards the numerous ongoing projects, the Group will continue to give high priority to strengthen its human resources both qualitatively and quantitatively.

The Group expects that it will continue to face strong competition 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 2017.

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 2017 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 2017. 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

The forthcoming annual general meeting of the Company will be held on 8 June 2018 ("**2018 AGM**"). For the purposes of determining shareholders' eligibility to attend and vote at the 2018 AGM, the register of members will be closed. Details of such closure are set out below:

Latest time to lodge transfer documents for registration .... 4:00 p.m. on 1 June 2018

Closure of register of members .... 4 to 8 June 2018 (both dates inclusive)

Record date .... 4 June 2018

During the above closure period, no transfer of shares will be registered. To be eligible to attend and to vote at the 2018 AGM, 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 2017, 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 2017. 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

During the year, the Group adopted a share award scheme and purchased 60,626,000 shares (a total consideration of RMB158,868,000) of the Company through Bank of Communications Trustee Limited. As at 31 December 2017, no share has been granted by the Group to any parties under the share award scheme.

Besides, 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 2017 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, 23 March 2018

As of the date of this announcement, the executive Directors are Mr. WANG Dong (Chief Executive Officer), Mr. YUE Zhiqiang, Mr. LIU Chen, Mr. WONG Hak Kun and Ms. HAN Linyou, 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.