Tibet Water Resources Ltd.
西藏水資源有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1115)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHT

	Six months ended 30 June		
	2018	2017	**Change**
	(Unaudited)	*(Unaudited)*	%
Revenue (RMB'000)	**447,165**	456,220	↓ **2%**
Profit attributable to the owners of the Company (RMB'000)	**170,566**	160,669	↑ **6%**
Earnings per share			
– Basic (RMB cents)	**6.81**	6.25	↑ **9%**
– Diluted (RMB cents)	**6.81**	6.25	↑ **9%**
Sales volume (Tonnes)	**59,181**	61,453	↓ **4%**

	As at 30 June 2018	As at 31 December 2017	
	(Unaudited)	*(Audited)*	
Total assets (RMB'000)	**4,682,461**	4,549,040	↑ **3%**
Equity attributable to owners of the Company (RMB'000)	**3,326,612**	3,174,388	↑ **5%**

INTERIM RESULTS

The board of directors (the "**Directors**") (the "**Board**") of Tibet Water Resources Ltd. (the "**Company**") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2018. These interim results have been reviewed by the Company's audit committee, comprising all of the independent non-executive Directors, one of whom chairs the committee, and the Company's external auditor, PricewaterhouseCoopers.

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited 30 June 2018** *RMB'000*	Audited 31 December 2017 Restated* *RMB'000*
ASSETS			
Non-current assets			
Land use rights	8	**29,612**	29,969
Property, plant and equipment ("**PP&E**")	8	**589,147**	606,723
Intangible assets	8	**99,575**	110,466
Goodwill	8	**721,139**	721,139
Investments accounted for using the equity method	9	**1,340,345**	1,326,300
Deferred income tax assets		**2,919**	2,895
Prepayments		**43,495**	43,937
Financial asset at fair value through profit or loss ("**FVPL**")	4	**69,517**	—
Available-for-sale financial assets ("**AFS**")	4	**—**	65,297
Total non-current assets		**2,895,749**	2,906,726
Current assets			
Trade receivables	10	**257,337**	235,139
Prepayments		**234,222**	143,178
Prepaid enterprise income tax		**6,641**	6,705
Other receivables and other assets	11	**291,377**	175,022
Inventories		**61,799**	75,613
Financial asset at fair value through profit or loss ("**FVPL**")	4	**174,859**	—
Available-for-sale financial assets ("**AFS**")	4	**—**	175,884
Cash and cash equivalents		**760,477**	830,773
Total current assets		**1,786,712**	1,642,314
Total assets		**4,682,461**	4,549,040

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**Unaudited 30 June 2018** *RMB'000*	Audited 31 December 2017 *Restated** *RMB'000*
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		**(173,037)**	(158,868)
Other reserves		**181,864**	186,037
Retained earnings		**2,089,593**	1,919,027
Total equity attributable to owners of the Company		**3,326,612**	3,174,388
Total equity		**3,326,612**	3,174,388
LIABILITIES			
Non-current liabilities			
Deferred revenue		**22,155**	22,333
Deferred income tax liabilities		**12,904**	18,572
Convertible bond - liability component		**438,224**	432,340
Total non-current liabilities		**473,283**	473,245
Current liabilities			
Trade payables	12	**57,055**	92,841
Deferred revenue and advances received from customers		**2,374**	27,498
Contract liabilities	4	**38,266**	—
Enterprise income tax payable		**29,779**	27,302
Accruals and other payables		**299,092**	322,766
Bank borrowings	13	**456,000**	431,000
Total current liabilities		**882,566**	901,407
Total liabilities		**1,355,849**	1,374,652
Total equity and liabilities		**4,682,461**	4,549,040

* See Note 4 for details regarding the restatement as a result of a change in accounting policy.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Unaudited Half-year 2018 RMB'000	2017 RMB'000
Revenue	7	**447,165**	456,220
Cost of sales	15	**(193,811)**	(183,976)
Gross profit		**253,354**	272,244
Selling and distribution costs	15	**(52,881)**	(58,268)
Administrative expenses	15	**(39,236)**	(35,574)
Other gains, net	14	**16,338**	14,630
Operating profit		**177,575**	193,032
Finance income		**11,547**	12,268
Finance costs		**(17,724)**	(19,014)
Finance costs, net		**(6,177)**	(6,746)
Share of net profits of investments accounted for using the equity method	9	**14,045**	17,590
Profit before income tax		**185,443**	203,876
Income tax expense	16	**(14,877)**	(19,769)
Profit for the half-year		**170,566**	184,107
Profit attributable to:			
– Owners of the Company		**170,566**	160,669
– Non-controlling interests		**—**	23,438
		170,566	184,107
Earnings per share for profit attributable to the owners of the Company			
– Earnings per share (basic and diluted) (RMB cents per share)	17	**6.81**	6.25

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Half-year	
	2018	2017
	RMB'000	*RMB'000*
Profit for the half-year	**170,566**	184,107
Other comprehensive (loss)/income:		
Items that will not be reclassified subsequently to profit or loss		
Foreign currency translation differences	**(4,173)**	890
Items that may be reclassified subsequently to profit or loss		
Change in value of AFS	—	2,523
Deferred tax liabilities recognised against change in value of AFS	—	(227)
Transferred to other gains upon disposal of AFS	—	(6,230)
Other comprehensive loss for the half-year, net of tax	**(4,173)**	(3,044)
Total comprehensive income for the half-year	**166,393**	181,063
Attributable to:		
– Owners of the Company	**166,393**	158,154
– Non-controlling interests	—	22,909
Total comprehensive income for the half-year	**166,393**	181,063

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited							
	Attributable to owners of the Company							
	Share capital	Share premium	Shares held for share award scheme	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*
Balance at 31 December 2017 as originally presented	**21,363**	**1,206,829**	**(158,868)**	**191,921**	**1,913,143**	**3,174,388**	**—**	**3,174,388**
Change in accounting policy (Note 4)	**—**	**—**	**—**	**(5,884)**	**5,884**	**—**	**—**	**—**
Restated total equity as at 31 December 2017	**21,363**	**1,206,829**	**(158,868)**	**186,037**	**1,919,027**	**3,174,388**	**—**	**3,174,388**
Balance at 1 January 2018	**21,363**	**1,206,829**	**(158,868)**	**186,037**	**1,919,027**	**3,174,388**	**—**	**3,174,388**
Profit for the half-year	**—**	**—**	**—**	**—**	**170,566**	**170,566**	**—**	**170,566**
Currency translation differences	**—**	**—**	**—**	**(4,173)**	**—**	**(4,173)**	**—**	**(4,173)**
Total comprehensive income for the half-year	**—**	**—**	**—**	**(4,173)**	**170,566**	**166,393**	**—**	**166,393**
Acquisition of shares under share award scheme	**—**	**—**	**(14,169)**	**—**	**—**	**(14,169)**	**—**	**(14,169)**
Balance at 30 June 2018	**21,363**	**1,206,829**	**(173,037)**	**181,864**	**2,089,593**	**3,326,612**	**—**	**3,326,612**
Balance at 1 January 2017	21,363	1,206,829	—	279,202	1,615,205	3,122,599	371,965	3,494,564
Profit for the half-year	—	—	—	—	160,669	160,669	23,438	184,107
Currency translation differences	—	—	—	890	—	890	—	890
Change in fair value of AFS	—	—	—	(3,405)	—	(3,405)	(529)	(3,934)
Total comprehensive income for the half-year	—	—	—	(2,515)	160,669	158,154	22,909	181,063
Balance at 30 June 2017	21,363	1,206,829	—	276,687	1,775,874	3,280,753	394,874	3,675,627

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Half-year	
	2018	2017
	RMB'000	*RMB'000*
Cash flows from operating activities		
Cash generated from operations	**156,438**	289,711
Interest received	**1,911**	3,027
Income tax paid	**(18,029)**	(19,496)
Net cash flows from operating activities	**140,320**	273,242
Cash flows from investing activities		
Purchases of PP&E	**(9,005)**	(11,672)
Government grants received relating to fixed assets	**1,641**	—
Purchases of FVPL (2017: AFS)	**(340,000)**	(320,600)
Proceeds from disposal of FVPL (2017: AFS)	**352,432**	365,044
Loans granted to third parties	**(321,755)**	(202,456)
Repayments received from loans to third parties	**277,117**	144,182
Amounts advanced to third parties	**(270,000)**	(110,450)
Payments received from third parties	**268,339**	117,491
Amounts paid to a related party	**(170,000)**	—
Amounts received from a related party	**108,000**	54,821
Prepayment for investment in an associate	**(100,000)**	—
Net cash flows (used in)/from investing activities	**(203,231)**	36,360
Cash flows from financing activities		
Proceeds from bank borrowings	**266,000**	116,000
Repayments of bank borrowings	**(246,273)**	(277,647)
Payments for shares bought back	**(14,169)**	—
Coupon interest payments relating to convertible bond	**(13,158)**	(13,669)
Net cash flows used in financing activities	**(7,600)**	(175,316)
Net (decrease)/increase in cash and cash equivalents	**(70,511)**	134,286
Cash and cash equivalents at the beginning of the half-year	**830,773**	1,042,398
Exchange gains/(losses)	**215**	(2,664)
Cash and cash equivalents at end of the half-year	**760,477**	1,174,020

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

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

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

Key event

In January 2018, the Company (through Tibet Glacier Mineral Water Co., Ltd., a wholly-owned subsidiary of the Group) and Shenzhen Guangyuan Investment Management Partnership (Limited Partnership) reached an agreement to establish a fund named Zhuhai Guangyuan Huijin Equity Investment Fund (Limited Partnership) ("**Zhuhai Guangyuan**"). Zhuhai Guangyuan is a fund to invest in culture, entertainment, consumer product, retail business and related industries. Based on the partnership agreement, Zhuhai Guangyuan is considered as a subsidiary of the Group and it has been consolidated into the Group's financial statements. As at 30 June 2018, total equity contribution to Zhuhai Guangyuan by the Group is RMB3,600,000. No investment activity has been carried out by Zhuhai Guangyuan as at 30 June 2018.

2 BASIS OF PREPARATION

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2018 has been prepared in accordance with Accounting Standards IAS 34 *Interim financial reporting*. The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2017 and any public announcements made by the Company during the interim reporting period.

3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, and the adoption of new and amended standards as set out below.

3.1 New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

- IFRS 9 Financial Instruments (a)
- IFRS 15 Revenue from Contracts with Customers (b)

The impact of the adoption of these standards are disclosed in Note 4 and the new accounting policies are disclosed below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

(a) IFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss, and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

3 ACCOUNTING POLICIES (CONTINUED)

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

(a) IFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (continued)

(i) Classification (continued)

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the financial asset at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group applies the measurement shown below to classify its debt instruments.

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

3 ACCOUNTING POLICIES (CONTINUED)

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

(a) IFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (continued)

(ii) Measurement (continued)

FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

The Group subsequently measures all equity investments at fair value. Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable.

(iii) Impairment

For trade and other receivables, the Group applies the simplified approach to providing for expected credit losses provision prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade and other receivables. Given the Group did not and is not expected to have significant credit losses from trade and other receivables, the adoption of the new standard does not affect the determination of allowance for trade and other receivables.

3 ACCOUNTING POLICIES (CONTINUED)

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

(b) IFRS 15 Revenue from Contracts with Customers – Accounting policies applied from 1 January 2018

(i) Sales of goods – wholesale

The Group manufactures and sells a range of water products and beer products in the wholesale market. The Group also sells bottle preforms and caps to a related party. Sales are recognised when control of the products has transferred, being when the products are delivered to the customers, the customers have full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Delivery occurs when the products have been shipped to the specified location; the risks of obsolescence and loss have been transferred to the customers.

(ii) Sales of goods – water cards

Sales of water products to certain distributors or end customers are made in form of water cards ("**Water Cards Sales Arrangement**"). Under the Water Cards Sales Arrangement with the distributors, the distributors sell the water cards to the end customers and use the logistics network, which is designed by the Group with the Group's long-term cooperative logistics suppliers, to deliver water products to the designated locations at the request of the end customers when the water cards are redeemed before the expiry dates; and relevant logistics expenses are charged to the Group. Sales of goods under the Water Cards Sales Arrangement are deferred as the Group has ultimate obligations towards the card holders. Sales of goods under the Water Cards Sales Arrangement are recognised when the water cards are redeemed by the end customers and the water products are delivered, or when the water cards are expired, whichever is earlier.

3 ACCOUNTING POLICIES (CONTINUED)

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

(b) IFRS 15 Revenue from Contracts with Customers – Accounting policies applied from 1 January 2018 (continued)

(iii) Interest income

The Group provides lending services to third parties in Hong Kong with relevant license and earns interest as revenue. Related interest income is recognised in a time proportion basis using effective interest method.

(iv) Rental income

Rental income from leasing of a production line is recognised in the statement of profit or loss on a straight-line basis over the term of the lease.

3.2 Impact of standards issued but not yet applied by the Group

(a) 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 30 June 2018, the Group has non-cancellable operating lease commitments of RMB1,061,000. 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.

3 ACCOUNTING POLICIES (CONTINUED)

3.2 Impact of standards issued but not yet applied by the Group (continued)

(a) IFRS 16 Leasing (continued)

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 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers on the Group's financial statements.

4.1 Impact on the financial statements

As a result of the changes in the Group's accounting policies, prior year financial statements had to be restated. The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail by notes below.

Balance Sheet (extract)	Note	31 December 2017 As originally presented *RMB'000*	IFRS 9 *RMB'000*	31 December 2017 Restated *RMB'000*	IFRS 9 *RMB'000*	IFRS 15 *RMB'000*	1 January 2018 *RMB'000*
Non-Current assets							
FVPL	(a)	—	—	—	65,297	—	**65,297**
AFS		**65,297**	—	—	(65,297)	—	—
Current assets							
FVPL	(a)	—	—	—	175,884	—	**175,884**
AFS		**175,884**	—	—	(175,884)	—	—
Total assets		**241,181**	—	—	—	—	**241,181**
Current liabilities							
Deferred revenue and advances received from customers		**27,498**	—	—	—	(25,250)	**2,248**
Contract liabilities	(b)	—	—	—	—	25,250	**25,250**
Total liabilities		**27,498**	—	—	—	—	**27,498**
Reserves		**191,921**	(5,884)	**186,037**	—	—	**186,037**
Retained earnings		**1,913,143**	5,884	**1,919,027**	—	—	**1,919,027**
Total equity		**2,105,064**	—	**2,105,064**	—	—	**2,105,064**

4 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

4.1 Impact on the financial statements (continued)

(a) Reclassification from AFS to FVPL

Investments in structured financial products were reclassified from AFS to FVPL (RMB175,884,000 as at 1 January 2018 restated). They do not meet the IFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest. Related fair value gains of RMB5,884,000 were transferred from the AFS reserve to retained earnings on 1 January 2018. In the six months ended 30 June 2018, net fair value gains of RMB4,859,000 (Note 14) relating to these investments were recognised in profit or loss.

(b) Equity investment previously classified as AFS

Investment in China Railway Express Co., Ltd. ("**CRE**") and Beijing GT Express Limited ("**GT Express**") that were previously classified as AFS, were reclassified to FVPL as designated by the management. Fair value gains of RMB4,220,000 (Note 14) was recognised in profit or loss from investment in GT Express in the six months' period ended 30 June 2018. The management did not expect any fair value change in investment in CRE for the period ended 30 June 2018.

(c) Reclassification from deferred revenue and advances received from customers to contract liabilities

Contract liabilities for sales of water cards were previously presented as deferred revenue. Contract liabilities for sales of water and beer products were previously presented as advanced received from customers.

Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under IFRS 15: Contract liabilities for progress billing recognised in relation to sale product were previously presented as deferred revenue and advances received from customers.

5 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017, with the exception of the changes in estimates that are required in the impairment assessment for the 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. The recoverable amounts of cash-generating unit have been determined based on value-in-use calculations. These calculations require the use of estimates.

Management has performed an impairment assessment of the investment in Highland Natural Water as at 30 June 2018. Based on the assessment, management has concluded there was no impairment of this investment.

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	**Key assumptions used**	**Movement of key assumptions**	**Impairment loss** *(RMB'000)*
Compound annual revenue growth rate	11.2%~25.6% from 2018 to 2021; 6.2%~23.4% from 2022 to 2026	Decrease by 1%	213,370
Long-term growth rate	3.0%	Decrease to 2%	72,656
Gross margin	49.4%~56.5%	Decrease by 5%	291,960
Pre-tax discount rate	12.5%	Increase to 13.5%	139,424
Government subsidy income	Continued government subsidy income from 1 July 2018 onwards	Discontinued government subsidy income from 1 July 2018 onwards	2,857

Based on management's analysis above, 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 six months ended 30 June 2018 (Note 9).

6 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 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.

6 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 six months ended and as at 30 June 2018 is as follows:

	Unaudited			
	Six months ended 30 June 2018			
	Water segment	**Beer segment**	**Inter-segment elimination**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Segment revenue	**274,054**	**176,882**	**(3,771)**	**447,165**
Cost of sales	**(105,689)**	**(91,893)**	**3,771**	**(193,811)**
Gross profit for the period	**168,365**	**84,989**	**—**	**253,354**
Profit for the period	**102,127**	**68,439**	**—**	**170,566**
Depreciation and amortisation	**(12,933)**	**(26,585)**	**—**	**(39,518)**

6 SEGMENT INFORMATION (CONTINUED)

	Unaudited		
	As at 30 June 2018		
	Water segment	**Beer segment**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Segment total assets	**3,287,728**	**2,370,257**	**5,657,985**
Investments accounted for using the equity method	**1,340,345**	**—**	**1,340,345**
Unallocated			
FVPL			**244,376**
Deferred income tax assets			**2,919**
Corporate assets			**58,475**
Inter-segment elimination			**(1,281,294)**
Total assets			**4,682,461**
Segment total liabilities	**1,285,563**	**358,150**	**1,643,713**
Unallocated			
Deferred income tax liabilities			**12,904**
Corporate liabilities			**446,178**
Inter-segment elimination			**(746,946)**
Total liabilities			**1,355,849**

6 SEGMENT INFORMATION (CONTINUED)

The segment information provided to the executive directors of the Company for the reportable segments for the six months ended 30 June 2017 and as at 31 December 2017 is as follows:

	Unaudited			
	Six months ended 30 June 2017			
	Water segment	**Beer segment**	**Inter-segment elimination**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Segment revenue	275,510	183,891	(3,181)	456,220
Cost of sales	(92,804)	(94,353)	3,181	(183,976)
Gross profit for the period	182,706	89,538	—	272,244
Profit for the period	117,141	66,966	—	184,107
Depreciation and amortisation	(11,746)	(26,618)	—	(38,364)

6 SEGMENT INFORMATION (CONTINUED)

	Audited		
	As at 31 December 2017		
	Water segment	Beer segment	Total
	RMB'000	*RMB'000*	*RMB'000*
Segment total assets	2,921,108	2,313,375	5,234,483
Investments accounted for using the 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

7 REVENUE

Revenue from external customers are derived from the sales of water products and beer products, and interest income from lending services provided. The Group also sells bottle preforms and caps, leases a bottled water production line to an associate. Breakdown of the revenue is as follows:

	Unaudited Half-year	
	2018	2017
	RMB'000	*RMB'000*
Sales of water products	**222,451**	224,436
Sales of beer products	**173,111**	180,710
Sales of bottle preforms and caps	**48,594**	50,048
Rental of a bottled water production line	**1,029**	1,026
Interest income from lending services provided	**1,980**	—
	447,165	456,220

Revenues from external customers of the Group were derived in the PRC for the six months ended 30 June 2018 and 2017.

8 LAND USE RIGHTS, PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS AND GOODWILL

	Unaudited			
	Land use rights	Property, plant and equipment	Intangible assets	Goodwill
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Opening net book amount at 1 January 2018	**29,969**	**606,723**	**110,466**	**721,139**
Additions	**—**	**10,694**	**—**	**—**
Depreciation and amortisation (Note 15)	**(357)**	**(28,270)**	**(10,891)**	**—**
Closing net book amount at 30 June 2018	**29,612**	**589,147**	**99,575**	**721,139**
Opening net book amount at 1 January 2017	30,693	619,387	132,552	721,139
Additions	—	22,596	—	—
Depreciation and amortisation (Note15)	(357)	(27,116)	(10,891)	—
Closing net book amount at 30 June 2017	30,336	614,867	121,661	721,139

As at 30 June 2018, buildings with net book value of RMB98,951,000 and land use rights with net book value of RMB29,534,000 were secured for bank borrowings with carrying amounts of RMB66,000,000 and RMB190,000,000 (Note 13) (As at 31 December 2017, buildings with net book value of RMB101,291,000 and land use rights with net book value of RMB29,892,000 were pledged for bank borrowings with carrying amounts of RMB66,000,000 and RMB190,000,000).

9 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Six months ended 30 June 2018
	RMB'000
	Unaudited
At the beginning of the half-year	**1,326,300**
Share of net-tax profits of investments accounted for using the equity method	**14,045**
At end of the half-year	**1,340,345**

The Group's share of the results in a material associate - Highland Natural Water, and its aggregated assets and liabilities are shown below:

	As at	
	30 June 2018	31 December 2017
	RMB'000	RMB'000
	Unaudited	*Audited*
Assets	**1,177,343**	1,113,539
Liabilities	**555,172**	524,677

9 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

	Unaudited Half-year	
	2018	2017
	RMB'000	*RMB'000*
Revenue	**253,353**	254,520
Share of profit	**14,435**	18,608
Percentage held	**40%**	40%

10 TRADE RECEIVABLES

The aging analysis of trade receivables based on invoice dates is as follows:

	As at	
	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	Unaudited	*Audited*
Within 6 months	**160,380**	222,532
Over 6 months but within 1 year	**91,526**	8,855
Over 1 year but within 2 years	**1,700**	2,302
Over 2 years	**3,769**	1,488
	257,375	235,177
Less: Provision for impairment of trade receivables	**(38)**	(38)
	257,337	235,139

As at 30 June 2018, trade receivables amounting to RMB38,000 were impaired and provided for (2017: RMB38,000).

11 OTHER RECEIVABLES AND OTHER ASSETS

	As at	
	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	Unaudited	*Audited*
Amounts due from third parties (a)	**194,243**	140,194
Amounts due from an associate (b)	**92,000**	30,000
Others	**4,762**	3,858
Deposits	**372**	970
	291,377	175,022

(a) The balances mainly include the following items:

- A lending to a third party company with an outstanding principal amount of RMB77,660,000 (2017: RMB 38,000,000), which bore an annual interest rate of 10%, mature in June 2019.

- A lending to a third party company with a principal amount of RMB110,000,000 (2017: nil) and accrued interest of RMB4,438,000 (2017: nil) which bore an annual interest rate of 12% from 6 March 2018 to 5 June 2018 and an annual interest rate of 15% from 6 June 2018 to 5 September 2018, mature in September 2018. The lending was guaranteed by a third party.

(b) 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.

12 TRADE PAYABLES

As at 30 June 2018 and 31 December 2017, the aging analysis of trade payables based on invoice dates is as follows:

	As at	
	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	Unaudited	*Audited*
Within 3 months	**42,680**	69,402
Over 3 months but within 6 months	**4,534**	4,247
Over 6 months but within 1 year	**4,644**	6,046
Over 1 year but within 2 years	**3,000**	9,011
Over 2 years	**2,197**	4,135
	57,055	92,841

13 BANK BORROWINGS

	As at	
	30 June 2018	31 December 2017
	RMB'000	*RMB'000*
	Unaudited	*Audited*
Current		
Current portion of long-term borrowing from a bank		
– Guaranteed (a)	**120,000**	105,000
Current portion of long-term borrowing from a bank		
– Guaranteed and secured (b)	**190,000**	190,000
Short-term borrowing from a bank – Guaranteed and secured (c)	**66,000**	66,000
Short-term borrowing from a bank – Guaranteed (d)	**80,000**	70,000
Total borrowings	**456,000**	431,000

The borrowings were all denominated in RMB as at 30 June 2018 and 31 December 2017.

(a) The borrowing with principal amount of RMB120,000,000 was guaranteed by a subsidiary of the Group. 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 30 June 2018. The tenure of the borrowing is from 28 April 2018 to 28 April 2020 and repayment terms are based on the following schedule: repayments of RMB5,000,000, RMB5,000,000 and RMB110,000,000 on 18 October 2018, 18 October 2019 and 28 April 2020 respectively. 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 RMB120,000,000 was recorded as current liability as at 30 June 2018.

13 BANK BORROWINGS (CONTINUED)

(b) The borrowing with principal amount of RMB200,000,000 was guaranteed by a subsidiary of the Group and secured by the Group's factory plant with net book value of RMB66,664,000 (Note 8) and land use rights with net book value of RMB28,530,000 (Note 8). 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 30 June 2018. The tenure of the borrowing is from 2 November 2016 to 23 September 2018 and repayment terms are based on the following schedule: repayments of RMB10,000,000 and RMB190,000,000 on 2 November 2017 and 23 September 2018 respectively. According to the loan agreement, unpaid principal of RMB190,000,000 is required to be repaid in September 2018. Accordingly, borrowing amounting to RMB190,000,000 was recorded as current liability as at 30 June 2018 and 31 December 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 RMB32,287,000 (Note 8) and land use rights with net book value of RMB1,004,000 (Note 8). The loan was repaid and reborrowed in 2018. The loan is of fixed interest rate at 4.35% per annum. The tenure of the borrowing is from 12 June 2018 to 11 June 2019.

(d) The borrowing with principal amount of RMB80,000,000 was guaranteed by the Company and a subsidiary of the Group. The loan was repaid and reborrowed in 2018. The loan is at fixed interest rate of 4.35% per annum. The tenure of the borrowing is from 29 June 2018 to 28 June 2019.

The Group has no undrawn borrowing facilities as at 30 June 2018 and 31 December 2017.

14 OTHER GAINS, NET

	Unaudited Half-year 2018	2017
	RMB'000	*RMB'000*
Gain on disposal of FVPL (a)	**6,548**	13,333
Fair value changes on FVPL (b)	**9,079**	—
Government grants	**1,693**	1,130
Donation	**(1,421)**	—
Others	**439**	167
	16,338	14,630

(a) The Group purchased financial products issued by a financial institution in the PRC. These financial products will mature within one year with variable return rates indexed to the performance of the underlying assets. During the six months ended 30 June 2018, the Group disposed these investments amounting to RMB340,000,000 (six months ended 30 June 2017: RMB350,000,000), which resulted in a gain amounting to RMB6,548,000 (six months ended 30 June 2017: RMB13,333,000).

(b) The amounts include the following items:

- As at 30 June 2018, the Group held structured financial products amounting to RMB170,000,000, and related fair value gains of RMB4,859,000 were recognised for the half-year.

- The Group recorded fair value gain of RMB4,220,000 from investment in GT Express for the half year ended 30 June 2018 based on the fair value implied by the latest raising funds of GT Express from the external investors.

15 EXPENSES BY NATURE

Expenses including cost of sales, selling and distribution costs and administrative expenses were analysed as follows:

	Unaudited Half-year	
	2018	2017
	RMB'000	*RMB'000*
Raw materials and consumables used	**139,437**	139,845
Increase in the balances of inventories of finished goods and work in progress	**(1,486)**	(6,428)
Transportation costs	**32,465**	35,156
Depreciation of PP&E (Note 8)	**28,270**	27,116
Amortisation of land use rights (Note 8)	**357**	357
Amortisation of intangible assets (Note 8)	**10,891**	10,891
Employee benefit expenses	**40,872**	35,282
Consulting and other service expenses	**3,582**	4,502
Advertising and marketing expenditure	**7,707**	10,266
City construction tax and education surcharge	**7,967**	8,336
Electricity and other utility expenses	**9,812**	6,039
Repair, maintenance and rental expenses	**3,730**	3,830
Others	**2,324**	2,626
	285,928	277,818

16 INCOME TAX EXPENSE

The Company was incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, there is no income, estate, corporation, capital gains or other taxes payable by the Company. Certain subsidiaries of the Group established under the International Business Companies Act of the British Virgin Islands are exempted from British Virgin Islands income taxes.

Certain subsidiaries of the Group incorporated in the PRC are subject to PRC enterprise income tax. Entities in the Tibet Autonomous Region of the PRC were entitled to preferential tax rate of 9% for the six months ended 30 June 2018 and 2017. The remaining entities are taxed based on the statutory income tax rate of 25% for the six months ended 30 June 2018 and 2017 as determined in accordance with the relevant PRC income tax rules and regulations.

	Unaudited Half-year	
	2018	2017
	RMB'000	*RMB'000*
Current income tax	**20,569**	21,040
Deferred income tax	**(5,692)**	(1,271)
	14,877	19,769

The estimated tax rate used for the six months ended 30 June 2018 is about 8.0% (the estimated tax rate for the six months ended 30 June 2017 was 9.7%). The lower tax rate is the result of reversal of deferred income tax amounting to RMB4,908,000 due to the change of expected income tax rate from 15% to 9% from 2018 to 2021.

17 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share for the six months ended 30 June 2018 and 2017 is calculated by dividing:

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

	Unaudited Half-year 2018	2017
Profit attributable to owners of the Company (RMB'000)	**170,566**	160,669
Weighted average number of shares in issue (thousands)	**2,503,550**	2,568,893
Basic earnings per share (RMB cents per share)	**6.81**	6.25

(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 six months ended 30 June 2018, when the convertible bond is assumed to have converted into ordinary shares since 1 January 2018, 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 (six months ended 30 June 2017: no dilutive potential ordinary shares). With no dilutive potential ordinary shares, the diluted earnings per share is the same as the basic earnings per share for the Company for the six months ended 30 June 2018 and 2017.

18 DIVIDENDS

No dividend related to the year ended 31 December 2017 was paid during the six months ended 30 June 2018 (six months ended 30 June 2017: No dividend related to the year ended 31 December 2016 was paid). No dividend has been declared by the Company in respect of the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

19 SEASONALITY OF OPERATIONS

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

In the financial year ended 31 December 2017, 56% of water products revenues accumulated in the second and third quarters of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2018, we continued our endeavors in supplying high quality products and premium services to our customers.

In the first half of 2018, the market continued to be characterized by strong competition and a challenging economic environment, which had a general impact on premium products. Nevertheless, in the first half of 2018, the total sales volume and revenue of the Group only slightly decreased by 4% and 2%, respectively in comparison with the first half of 2017.

Sales volume and revenue of our water products, including "Tibet 5100 Glacial Spring Water" ("**5100 Glacial Water**") and "Gesang Spring" products, both slightly decreased by 1%, in comparison with the first half of 2017. The co-branding product, "Easy Joy • Zhuoma Spring", sold by our associate, Highland Natural Water, saw a continuing increase in popularity at Easy Joy convenience stores at China Petroleum & Chemical Co., Ltd ("**Sinopec**") gas stations throughout China. However, in the first half of 2018, the revenue of its larger size packaged products accounted for a relatively higher proportion of its total revenue. Due to (i) lower profit margin on its larger size packaged products; (ii) the increase in the cost of the raw materials; and (iii) the decrease in the government grants as a result of the timing difference of the receipt of such grants, the Group's share of post-tax profits of Highland Natural Water decreased by 22% compared with the same period of last year.

Our water products have been sold throughout Mainland China and Hong Kong, and retail distributors and institutional clients remained our major customer base. As at 30 June 2018, in Mainland China, the geographical coverage of our water products in retail channels had covered more than 100 cities, and the number of sales outlets had exceeded 15,000.

Due to the strong competition in the relatively limited market in Tibet Autonomous Region ("**Tibet**"), the sales volume and revenue of our beer products slightly decreased by 6% and 4%, respectively, in comparison with the first half of 2017; however, the gross profit margin maintained the same satisfactory level as in the first half of 2017. In the first half of 2018, our beer products were sold in Tibet mainly through 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 was 90% and 10%, respectively.

FINANCIAL REVIEW

REVENUE

The total sales of the Group amounted to RMB447 million, representing a slight decrease of RMB9 million or 2% in comparison with the first half of 2017.

The revenue generated from our water business segment was RMB274 million, representing a slight decrease of 1% in comparison with the first half of 2017. Among the water products, revenue of our "5100 Glacial Water" for the first half of 2018 increased by 3% in comparison with the first half of 2017; and revenue of "Gesang Spring" products, which have been introduced to the market for less than two years and were strongly influenced by the competition of the product brands in their segment market, decreased by 28% in comparison with the first half of 2017.

The revenue generated from our beer business segment was RMB173 million, representing a slight decrease of 4% in comparison with the first half of 2017.

SALES VOLUME

The total sales volume of the Group amounted to 59,181 tonnes (the first half of 2017: 61,453 tonnes) which consisted of 32,430 tonnes (the first half of 2017: 32,867 tonnes) from our water products and 26,751 tonnes (the first half of 2017: 28,586 tonnes) from our beer products.

The overall sales volume of our water products slightly decreased by 1% in comparison with that of the first half of 2017. However, despite strong competition, sales volume of our "5100 Glacial Water" for the first half of 2018 showed a very satisfactory increase of 8% in comparison with the first half of 2017. Due to the reasons above-mentioned in the "Revenue" section, sales volume of our "Gesang Spring" products decreased by 23% in comparison with the first half of 2017.

The sales volume of our beer products decreased by 6% in comparison with that of the first half of 2017.

AVERAGE SELLING PRICE

The average selling price fluctuated along with the change of our products mix. In the first half of 2018 and in the first half of 2017, the average selling price of our water products was RMB6,859 per tonne and RMB6,829 per tonne, respectively; the average selling price of our beer products was RMB6,471 per tonne and RMB6,322 per tonne, respectively.

GROSS PROFIT MARGIN

The gross profit margin of the water business segment was 62%, in comparison with 66% in the first half of 2017. Such decrease was mainly attributable to the increase in the cost of raw materials and the change in clients and products mix. The gross profit margin of the beer business segment was 49%, which was similar to the first half of 2017. The overall gross profit margin of the Group was 57%, representing a decrease of 3 percentage point in comparison with 60% in the first half of 2017.

SELLING AND DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

In the first half of 2018, the selling and distribution costs decreased by 9% to RMB53 million from RMB58 million in the first half of 2017, mainly due to the decrease in transportation costs and promotion fees. The administrative expenses increased by approximately 8% from RMB36 million in the first half of 2017 to RMB39 million in the first half of 2018.

OTHER NET GAINS

Other net gains mainly included gain on disposal of FVPL, fair value change on FVPL, government grants and donation.

Since 1 January 2018, the Group has adopted the updated IFRS 9. The structured financial products and equity investments purchased by the Group were accounted for as "AFS" in the past and are now changed to being accounted for as "FVPL", and the gain on disposal of FVPL during this period decreased from RMB13 million in the first half of 2017 to RMB7 million in the first half of 2018. Fair value gain of the structured financial products and the fair value gain from equity investment in GT Express based on the fair value implied by the latest fund raising of GT Express from the external investors were RMB9 million in total. In the first half of 2017, the changes in fair value of the structured financial products and equity investments were presented as other comprehensive income in the consolidated statement of comprehensive income.

In the first half of 2018, the government grants was RMB1.70 million (in the first half of 2017: RMB1.10 million).

In the first half of 2018, donation to a non-profit foundation was RMB1 million (in the first half of 2017: nil).

SHARE OF NET-TAX PROFITS OF INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The share of net-tax profits of investments accounted for using the equity method mainly included the share of net-tax profit of Highland Natural Water whose ultimate controlling shareholder is Sinopec. In the first half of 2018, the Group's 40% equity interests in Highland Natural Water has generated a share of the net-tax profits of an associate in the amount of RMB14 million, representing a decrease of approximately 22% in comparison with the first half of 2017 due to the above-mentioned reasons in the "Business Review" section.

In the first half of 2018, the sales volume of Highland Natural Water was 112,084 tonnes, representing an increase of 3% compared to the first half of 2017. Revenue was RMB253 million, similar to the first half of 2017.

FINANCE NET COSTS

In the first half of 2018, the Group incurred finance costs of RMB18 million and gained finance income of RMB12 million. Compared to the first half of 2017, finance costs in the first half of 2018 decreased by RMB1 million mainly due to (i) the decrease of RMB1 million in interest costs on convertible bonds issued by the Company, and (ii) the decrease of RMB2 million interest costs on borrowings from banks, which were offset by the decrease of RMB2 million in exchange gains. Finance income mainly included interest-bearing loans to third parties, the amount of finance income remained unchanged in comparison with the same period of last year.

INCOME TAX EXPENSE

In the first half of 2018, the income tax expense was RMB15 million which decreased by RMB5 million when compared to RMB20 million in the first half of 2017, due to the change of expected income tax rate from 15% to 9% for the years from 2018 to 2021, resulting in reversal of deferred income tax which amounted to RMB5 million. The effective tax rate in the first half of 2018 was 8% (in the first half of 2017: 10%).

PROFIT FOR THE HALF YEAR

The profit for the half year moderately decreased by RMB14 million or 7% from RMB184 million for the first half of 2017 to RMB171 million for the first half of 2018. While facing the very complex and volatile macroeconomic environment, the total revenue of the Group only slightly decreased by 2% when comparing with the first half of 2017. However, operating profit decreased by RMB15 million which was mainly due to increase in the cost of raw material. Further, a share of net-tax profits of investments accounted for using the equity method decreased by RMB4 million, but was offset by the decrease in income tax expense of RMB5 million, thereby resulting in the decrease in the profit for the half year.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to owners of the Company increased by RMB10 million from RMB161 million for the first half of 2017 to RMB171 million for the first half of 2018. The increase was mainly attributable to the Group acquired of a 35% interest in Tibet Tiandi Green Beverage Development Co., Ltd. ("**Tiandi Green**") on 21 December 2017, which then became a wholly owned subsidiary of the Company, resulting in its share of profit attributable to owners of the Company increased by 35% comparing with the first half of 2017.

FINANCIAL POSITION

As at 30 June 2018, net trade receivables of the Group amounted to RMB257 million compared to RMB235 million as at 31 December 2017. The increase was mainly attributable to the increase in trade receivables from some of the institutional clients.

The Group maintained 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 was not aware of any material circumstances indicating any problem in recovering its trade receivables from its major debtors. In the first half of 2018, the Group did not recognize any additional provision for impairment loss of trade receivables (2017: nil) and did not write off provision recognised in prior year (2017: wrote off approximately RMB1.96 million provision).

As at 30 June 2018, inventories of the Group amounted to RMB62 million compared to RMB76 million as at 31 December 2017. The decrease was mainly attributable to the effective management of the storage quantity of raw materials.

As at 30 June 2018, prepayments (including current and non-current) of the Group increased to RMB278 million from RMB187 million as at 31 December 2017. The increase was mainly attributable to the increase of RMB100 million of prepayment for investment in an associate, which was partly offset by the decrease of RMB9 million of prepayment made for purchase of raw materials, services and equipment.

As at 30 June 2018, other receivables and other assets of the Group amounted to RMB291 million compared to RMB175 million as at 31 December 2017. Among other receivables, as at 30 June 2018, the amounts due from third parties amounted to RMB194 million.

Since 1 January 2018, the Group has adopted updated IFRS 9. Structured financial products and equity investments originally classified as "AFS" are now classified and accounted for as "FVPL". As at 30 June 2018, FVPL (including both current and non-current) of the Group amounted to RMB244 million and as at 31 December 2017 was RMB241 million.

As at 30 June 2018, cash and cash equivalents of the Group decreased by RMB70 million, which was mainly attributable to the cash inflows from operating activities of RMB140 million, cash outflows from investing activities of RMB203 million, and cash outflows for financing activities of approximately RMB7 million. The cash outflows from investing activities of RMB203 million in the first half of 2018 mainly included (i) the net cash outflows for amounts received from and paid to third parties and a related party of approximately RMB63 million, (ii) the net cash outflows from loan and repayments of loans granted to third parties of RMB45 million, (iii) the purchase of PP&E of RMB9 million and (iv) prepayment for investment in an associate of RMB100 million, offset by (i) the net cash inflows for purchases and disposal of FVPL of RMB12 million and (ii) cash received from government grants relating to fixed assets of RMB2 million. The cash outflows for financing activities of approximately RMB7 million in the first half of 2018 mainly included (i) payment of interest for convertible bond of RMB13 million and (ii) payments for shares purchased for the share award scheme of RMB14 million, offset by cash inflows from bank borrowings of RMB20 million.

As at 30 June 2018, trade payables of the Group amounted to RMB57 million compared to RMB93 million as at 31 December 2017. The decrease was mainly attributable to the decrease in the payables for transportation costs, raw materials costs and advertising fees incurred.

As at 30 June 2018, the current portion of deferred revenue and advances received from customers and contract liabilities of the Group amounted to RMB2 million and RMB38 million, respectively, and as at 31 December 2017 were RMB27 million and nil, respectively. Mainly due to the adoption of IFRS 15, sales of water cards and advances from customers of the Group, which was accounted for as "Deferred revenue and advances received from customers" in the past, are now changed to "Contract liabilities".

As at 30 June 2018, the bank borrowings of the Group increased by RMB25 million, which was mainly attributable to bank borrowings of the principal loan amounted to RMB266 million and offset by repayment of bank borrowings of the principal loan amounted to RMB241 million in the first half of 2018.

EMPLOYEES

As at 30 June 2018, the total number of employees of the Group was 439 compared to 460 as at 30 June 2017. Relevant staff cost was RMB41 million in the first half of 2018, compared to RMB35 million in the first half of 2017. The fluctuation in staff cost was mainly attributable to the improvement of business and human resources structure during the first half of 2018.

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

GEARING RATIO

The gearing ratio is calculated as borrowings (including 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 30 June 2018 and 31 December 2017, the gearing ratios of the Group were 21.19% and 21.38%, respectively.

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 option 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 30 June 2018, the management of the Group 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 six months ended 30 June 2018 (for the six months ended 30 June 2017: nil).

MERGER AND ACQUISITION

There was no merger and acquisition transaction in both the first half of 2018 and the first half of 2017.

SIGNIFICANT INVESTMENTS

The Group invested approximately RMB3.6 million in Zhuhai Guangyuan in the first half of 2018, which is an equity investment fund and limited partnership in nature. The maximum amount the Group intended to invest in Zhuhai Guangyuan is RMB180 million. As at 30 June 2018, the unvested portion has included the committed equity investment mentioned in the section “Capital Commitments” below. Furthermore, the Group acquired PP&E of approximately RMB11 million. (for the first half of 2017: approximately RMB23 million).

CAPITAL COMMITMENTS

As at 30 June 2018, the Group is committed to purchasing PP&E of approximately RMB117 million (31 December 2017: RMB117 million), and the equity investment of RMB209 million (31 December 2017: RMB13 million).

CHARGES

As at 30 June 2018, a bank loan with principal amount of RMB200 million (31 December 2017: RMB200 million) of the Group was secured by its factory plant with net book value of RMB67 million (31 December 2017: RMB68 million) and land use rights with net book value of RMB29 million (31 December 2017: RMB29 million); and a loan with principal amount of RMB66 million (31 December 2017: RMB66 million) of the Group was secured by its factory plant with net book value of RMB32 million (31 December 2017: RMB33 million) and land use rights with net book value of RMB1 million (31 December 2017: RMB1 million). As at 30 June 2018 and 31 December 2017, 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 30 June 2018 and 31 December 2017, the Group did not have contingent liabilities.

FOREIGN EXCHANGE RISK

The Group adopts a conservative approach to cash management and risk control. The Group mainly operates in the PRC with most of its business transactions denominated in RMB. However, the Group is exposed to foreign exchange risk arising from its cash exchange transactions, which are primarily denominated in HKD. To mitigate the impact of exchange rate fluctuations, the Group continually assesses and monitors its exposure to foreign exchange risk. During the first half of 2018, management of the Group did not consider it necessary to enter into any hedging transactions in order to reduce the exposure to foreign exchange risk, because the exposure, after netting off the assets and liabilities subject to foreign exchange risk, was not significant.

VALUATION OF PROPERTIES

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

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

PRODUCTION CAPACITY

The expected annual water production capacity and annual beer production capacity for the year ended 31 December 2018 are approximately 300,000 tonnes and 200,000 tonnes, respectively (for the year ended 31 December 2017: approximately 300,000 tonnes and 200,000 tonnes, respectively). The Group will assess its 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 in the following manner:

	Revised usage of net proceeds	As at 30 June 2018 Utilized net proceeds	As at 30 June 2018 Unutilized net proceeds
	HKD'Million	*HKD'Million*	*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	30	176
Mergers and acquisitions that complement our existing business	1,092	1,092	–
Working capital and other general corporate purpose	41	41	–
	1,472	1,296	176

As at 30 June 2018, the Group has utilized net proceeds amounting to HKD133 million, HKD30 million, HKD1,092 million and HKD41 million (i) for expanding our production capacity; (ii) for expanding our distribution network and toward promotional activities; (iii) for mergers and acquisitions that complement our existing business; and (iv) as working capital and for other general corporate purposes, respectively. The remaining net proceeds were deposited in reputable financial institutions.

INTERIM DIVIDENDS

The Board did not recommend a payment of an interim dividend for the six months ended 30 June 2018 (for the six months ended 30 June 2017: 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.

In addition, the Group will review and further improve its business practice in order to establish a stronger platform for growth in future in the highly competitive market.

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 has maintained and developed strategic partnerships to achieve improvement in both channel expansion and marketing

The Group has established a strong brand reputation among more 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.

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 and we consider Hong Kong market a good example for us to explore more opportunities to promote our products in overseas markets to realize our mission to share Tibet high quality water with the world.

As of 30 June 2018, our premium beer “Tibet Highland Barley Beer” and our cooperation product “Lhasa Beer” were sold mainly in Tibet through retail channels and the Group has started to cooperate with Sinopec to sell our high-end beer “Tibet Highland Barley Beer” at Easy Joy convenience store at its gas stations. At the same time, we are also exploring other options to penetrate premium beer markets outside Tibet.

While continuing to implement the above-mentioned 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.

CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2018, the Company has complied with the Code on Corporate Governance Practices (the “**Code**”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), save for the deviations as follows:

Under Code provision A.6.7, independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders.

– Ms. JIANG Xiaohong (being a non-executive Director) was unable to attend the annual general meeting held on 8 June 2018 as she was obliged to be away for the Group’s other matters.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 to the Listing Rules. Specific enquiry has been made to all the Directors and each of the Directors has confirmed that each of them has complied with the Model Code for the six months ended 30 June 2018. Specific employees who are likely to be in possession of 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.

The audit committee of the Company, consisting of three independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Group, and has reviewed the interim results for the six months ended 30 June 2018. The Company's external auditor, PricewaterhouseCoopers, has performed a review of the Group's interim financial information for the six months ended 30 June 2018 in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". Based on their review, PricewaterhouseCoopers confirmed that nothing has come to their attention that causes them to believe that the interim financial information was not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim financial reporting".

SUBSEQUENT EVENTS

There are no material subsequent events of the Group occurred from 30 June 2018 to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the period, the Group purchased 5,000,000 shares (for a total consideration of approximately RMB14 million) of the Company through Bank of Communications Trustee Limited. As at 30 June 2018, 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.

PUBLICATION OF INTERIM REPORT

Pursuant to the requirements of the Listing Rules regarding the six months ended 30 June 2018, the 2018 interim report of the Company will set out, including but not limited to, all information disclosed in the interim results announcement for the six months ended 30 June 2018 and will be despatched to the shareholders of the Company and uploaded on the websites of the Company (http://www.twr1115.net) and the Stock Exchange (http://www.hkexnews.hk) in due course.

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

Hong Kong, 30 August 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.