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Tibet Water Resources Ltd.
西藏水資源有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1115)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

	Year ended 31 December		Change
	2018	2017	%
Revenue from contracts with customers (RMB'000)	**880,657**	931,887	↓ 5%
Profit attributable to owners of the Company (RMB'000)	**317,532**	315,174	↑ 1%
Earnings per share			
- Basic and diluted (RMB cents)	**12.68**	12.32	↑ 3%
Total sales volume (tonnes)	**125,379**	128,616	↓ 3%
Gross profit margin	**55%**	59%	↓ 4% points

	As at 31 December	
	2018	2017
Total assets (RMB'000)	**4,912,191**	4,549,040
Equity attributable to owners of the Company (RMB'000)	**3,459,296**	3,174,388

FINAL RESULTS

The board of directors (the "**Directors**") (the "**Board**") 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 2018, together with comparative figures prepared under International Financial Reporting Standards ("**IFRS**").

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2018	2017 Restated*
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Land use rights		**29,245**	29,969
Property, plant and equipment ("**PP&E**")		**578,997**	606,723
Intangible assets		**88,521**	110,466
Goodwill		**721,139**	721,139
Investments accounted for using the equity method	7	**1,574,938**	1,326,300
Deferred tax assets		**2,838**	2,895
Prepayments		**38,613**	43,937
Financial assets at fair value through other comprehensive income ("**FVOCI**")		**231,881**	—
Financial asset at fair value through profit or loss ("**FVPL**")		**11,517**	—
Available-for-sale financial assets ("**AFS**")		**—**	65,297
Total non-current assets		**3,277,689**	2,906,726
Current assets			
Trade receivables	8	**289,885**	235,139
Prepayments		**141,552**	143,178
Prepaid enterprise income tax		**6,358**	6,705
Other receivables and other assets		**641,117**	175,022
Inventories		**99,160**	75,613
Financial assets at fair value through profit or loss ("**FVPL**")		**179,278**	—
Available-for-sale financial assets ("**AFS**")		**—**	175,884
Cash and cash equivalents		**277,152**	830,773
Total current assets		**1,634,502**	1,642,314
Total assets		**4,912,191**	4,549,040
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		**177,924**	186,037
Retained earnings		**2,226,217**	1,919,027
Total equity attributable to owners of the Company		**3,459,296**	3,174,388
Non-controlling interests		**40**	—
Total equity		**3,459,336**	3,174,388

* See Note 3.3 for details about restatements for changes in accounting policies.

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	As at 31 December 2018	2017 Restated*
		RMB'000	*RMB'000*
LIABILITIES			
Non-current liabilities			
Bank borrowings		**240,000**	—
Deferred revenue		**20,942**	22,333
Deferred tax liabilities		**15,255**	18,572
Convertible bond - liability component		**—**	432,340
Total non-current liabilities		**276,197**	473,245
Current liabilities			
Trade and notes payables	9	**78,721**	92,841
Deferred revenue and advances received from customers		**2,373**	27,498
Contract liabilities		**21,225**	—
Enterprise income tax payable		**25,974**	27,302
Accruals and other payables		**129,692**	322,766
Bank borrowings		**461,000**	431,000
Convertible bond - liability component		**457,673**	—
Total current liabilities		**1,176,658**	901,407
Total liabilities		**1,452,855**	1,374,652
Total equity and liabilities		**4,912,191**	4,549,040

* See Note 3.3 for details about restatements for changes in accounting policies.

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue from contracts with customers	6	**880,657**	931,887
Cost of sales	11	**(400,528)**	(380,429)
Gross profit		**480,129**	551,458
Selling and distribution costs	11	**(115,664)**	(120,336)
Administrative expenses	11	**(89,631)**	(84,936)
Net impairment losses on financial assets	11	**(1,795)**	—
Other gains, net	10	**69,009**	46,497
Operating profit		**342,048**	392,683
Finance income		**31,855**	27,957
Finance costs		**(42,105)**	(38,202)
Finance costs, net		**(10,250)**	(10,245)
Share of net profit of associates accounted for using the equity method	7	**20,436**	26,089
Profit before income tax		**352,234**	408,527
Income tax expense	12	**(34,702)**	(40,853)
Profit for the year		**317,532**	367,674
Profit attributable to:			
– Owners of the Company		**317,532**	315,174
– Non-controlling interests		**—**	52,500
		317,532	367,674
Earnings per share for profit attributable to owners of the Company			
– Earnings per share (basic and diluted) (RMB cents per share)	13	**12.68**	12.32

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit for the year	**317,532**	367,674
Other comprehensive (loss)/income:		
Item that will not be reclassified subsequently to profit or loss		
Currency translation differences	**(18,455)**	7,662
Items that may be reclassified subsequently to profit or loss		
Change in fair value of AFS	**—**	(346)
Other comprehensive (loss)/income for the year, net of tax	**(18,455)**	7,316
Total comprehensive income for the year	**299,077**	374,990
Attributable to:		
– Owners of the Company	**299,077**	323,822
– Non-controlling interests	**—**	51,168
Total comprehensive income for the year	**299,077**	374,990

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company							
	Share capital	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 3.3)	**—**	**—**	**—**	**(5,884)**	**5,884**	**—**	**—**	**—**
Restated total equity as at 31 December 2017	**21,363**	**1,206,829**	**(158,868)**	**186,037**	**1,919,027**	**3,174,388**	**—**	**3,174,388**
Balance at 1 January 2018	**21,363**	**1,206,829**	**(158,868)**	**186,037**	**1,919,027**	**3,174,388**	**—**	**3,174,388**
Profit for the year	**—**	**—**	**—**	**—**	**317,532**	**317,532**	**—**	**317,532**
Currency translation differences	**—**	**—**	**—**	**(18,455)**	**—**	**(18,455)**	**—**	**(18,455)**
Total comprehensive income for the year	**—**	**—**	**—**	**(18,455)**	**317,532**	**299,077**	**—**	**299,077**
Appropriations to statutory surplus reserve	**—**	**—**	**—**	**10,342**	**(10,342)**	**—**	**—**	**—**
Non-controlling interests on acquisition of subsidiary	**—**	**—**	**—**	**—**	**—**	**—**	**40**	**40**
Acquisition of shares under share award scheme	**—**	**—**	**(14,169)**	**—**	**—**	**(14,169)**	**—**	**(14,169)**
Balance at 31 December 2018	**21,363**	**1,206,829**	**(173,037)**	**177,924**	**2,226,217**	**3,459,296**	**40**	**3,459,336**
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 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)
Balance at 31 December 2017	21,363	1,206,829	(158,868)	191,921	1,913,143	3,174,388	—	3,174,388

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	**Year ended 31 December**	
		2018	2017
		RMB'000	*RMB'000*
Cash flows from operating activities			
Cash generated from operations		**247,365**	518,761
Interest received		**3,261**	5,575
Interest paid		**(106)**	(202)
Income taxes paid		**(38,963)**	(42,114)
Net cash flows from operating activities		**211,557**	482,020
Cash flows from investing activities			
Purchases of PP&E		**(16,015)**	(17,955)
Cash received from government grants related to fixed assets		**1,641**	—
Purchases of FVOCI		**(173,881)**	—
Purchases of FVPL (2017: AFS)		**(684,319)**	(600,600)
Proceeds from disposal of FVPL (2017: AFS)		**703,475**	591,315
Loans granted to third parties		**(709,534)**	(438,201)
Repayments received from loans to third parties		**336,016**	469,571
Amounts advanced to third parties		**(408,257)**	(110,450)
Payments received from third parties		**211,339**	117,491
Loans granted to a related party		**(22,000)**	—
Amounts paid to a related party		**(170,000)**	(30,000)
Amounts received from related parties		**407,704**	54,821
Cash acquired from acquisition of a subsidiary		**45,751**	—
Investment in associates		**(297,500)**	—
Dividends received from an associate	7	**32,364**	—
Net cash flows (used in)/from investing activities		**(743,216)**	35,992

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Cash flows from financing activities		
Proceeds from bank borrowings	**706,000**	186,000
Repayments of bank borrowings and interests	**(450,108)**	(413,861)
Payments for shares bought back	**(14,169)**	(158,868)
Coupon interest payments relating to convertible bond	**(26,882)**	(26,835)
Transaction with non-controlling interests	**(239,044)**	(297,254)
Capital injections from non-controlling interests	**40**	—
Net cash flows used in financing activities	**(24,163)**	(710,818)
Net decrease in cash and cash equivalents	**(555,822)**	(192,806)
Cash and cash equivalents at beginning of year	**830,773**	1,042,398
Exchange gains/(losses)	**2,201**	(18,819)
Cash and cash equivalents at end of year	**277,152**	830,773

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

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

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

These financial statements are presented in Renminbi ("**RMB**"), unless otherwise stated. These financial statements have been approved for issue by the Board on 22 March 2019.

Key events

In January 2018, the Company (through Tibet Glacier Mineral Water Co., Ltd. ("**Tibet Glacier Mineral Water**"), a wholly-owned subsidiary of the Company) and Shenzhen Guangyuan Investment Management Partnership (Limited Partnership) entered into a partnership agreement (the "**Partnership 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 other related industries. Based on the Partnership Agreement, Zhuhai Guangyuan is considered as a subsidiary of the Company and it has been consolidated into the Group's financial statements. As at 31 December 2018, the 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 31 December 2018.

1 GENERAL INFORMATION (CONTINUED)

Key events (continued)

On 6 December 2018, the Group acquired 25% of equity interests of Tibet Fudi Natural Beverage Packaging Ltd. ("**Fudi Packaging**"; 西藏福地天然飲品包裝有限責任公司) for a cash consideration of RMB187,500,000. Fudi Packaging is a company specialising in the manufacturing and distribution of bottle preforms and caps. No significant transaction costs were incurred in the above acquisition. Given the equity interests the Group acquired and the articles of association of Fudi Packaging, the Group has right to participate in Fudi Packaging's operational decision-making process. Accordingly, Fudi Packaging is treated as an associate of the Group and the investment is accounted for using the equity method.

On 10 December 2018, the Group acquired 9% of the equity interests of Tibet Shannan Yalaxiangbu Industrial Ltd. ("**Shannan Yalaxiangbu**") for a cash consideration of RMB178,200,000. Shannan Yalaxiangbu is a company specialising in the manufacturing and distribution of water products. No significant transaction costs were incurred in the above acquisition.

Based on the share purchase agreement, if Shannan Yalaxiangbu could not meet certain conditions in 2019, the Group has the option to sell the equity shares to the original shareholder; if such conditions are met, the Group has the option to purchase additional shares of Shannan Yalaxiangbu. These options are treated as derivative financial products by the Group and recorded as FVPL on the balance sheet. As at 31 December 2018, the amount of FVPL in relation to the above options was RMB4,319,000.

The balance of the cash consideration paid amounting to RMB173,881,000 was treated as FVOCI. Based on the equity interests the Group acquired and the articles of association of Shannan Yalaxiangbu, the Group has no control or significant influence on Shannan Yalaxiangbu's operational decision-making process. Our management views the investment as a long-term strategic investment.

2 BASIS OF PREPARATION

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

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

3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

3.1 New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 9 Financial Instruments (a)
- IFRS 15 Revenue from Contracts with Customers (b)
- Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2
- Annual Improvements 2014-2016 cycle
- Transfers to Investment Property – Amendments to IAS 40
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

The impact of the adoption of IFRS 9 and IFRS 15 is disclosed in Note 3.3. The other amendments and interpretations did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

3.2 New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019 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 16 Leasing

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

3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

3.2 New standards and interpretations not yet adopted (continued)

(i) IFRS 16 Leasing (continued)

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

The standard will affect primarily the accounting for the Group's operating leases. As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB578,000.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year. 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.

Given the insignificant amount of operating lease involved, the management does not expect the adoption of IFRS 16 will have significant impact on the Group's financial statements.

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.

3.3 Impact on the financial statements

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.

3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

3.3 Impact on the financial statements (continued)

As a result of the changes in the Group's accounting policies, prior year financial statements have been 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 the 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 Restated *RMB'000*
Non-Current assets							
FVPL	(a), (b)	**—**	—	**—**	7,297	—	**7,297**
FVOCI	(b)	**—**	—	**—**	58,000	—	**58,000**
AFS		**65,297**	—	**—**	(65,297)	—	**—**
Current assets							
FVPL	(a)	**—**	—	**—**	175,884	—	**175,884**
AFS		**175,884**	—	**—**	(175,884)	—	**—**
Current liabilities							
Deferred revenue and advances received from customers		**27,498**	—	**—**	—	(25,250)	**2,248**
Contract liabilities	(c)	**—**	—	**—**	—	25,250	**25,250**
Reserves	(a)	**191,921**	(5,884)	**186,037**	—	—	**186,037**
Retained earnings		**1,913,143**	5,884	**1,919,027**	—	—	**1,919,027**

3 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

3.3 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. For the year ended 31 December 2018, net fair value gains of RMB4,959,000 (Note 10) relating to these investments were recognised in profit or loss.

(b) Equity investment previously classified as AFS

Investment in GT Express (Beijing) Information Technology Co., Ltd ("**GT Express**") and China Railway Express Co., Ltd. ("**CRE**") that were previously classified as AFS, were reclassified to FVPL and FVOCI as designated by the management. Fair value gains of RMB4,220,000 (Note 10) was recognised in profit or loss from investment in GT Express in the year ended 31 December 2018. The management did not expect any significant change in fair value from the investment in CRE for the year ended 31 December 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 advances 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 were recognised in relation to the sales of products that were previously presented as deferred revenue and advances received from customers.

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. The 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. The 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 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.

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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(b) Income taxes (continued)

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

(c) Impairment review

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

The Group tests annually whether goodwill has suffered any impairment in accordance with the relevant 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	4.7%~10.4%	Decrease by 1%	53,604
Long-term growth rate	4.0%	Decrease to 3%	76,615
Gross margin	46.1%~47.0%	Decrease by 5%	191,481
Pre-tax discount rate	15.2%	Increase to 16.2%	114,064
Government subsidy income	Continued government subsidy income from 2019 onwards	Discontinued government subsidy income from 2019 onwards	26,105

Based on the 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Impairment review (continued)

(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 relevant 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	24.0%~28.1% from 2019 to 2021; 7.3%~ 24.6% from 2022 to 2026	Decrease by 1%	236,327
Long-term growth rate	3.0%	Decrease to 2%	89,614
Gross margin	55.4%~58.5%	Decrease by 5%	340,184
Pre-tax discount rate	12.5%	Increase to 13.5%	172,928
Government subsidy income	Continued government subsidy income from 2019 onwards	Discontinued government subsidy income from 2019 onwards	11,744

Based on the 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 2018 (Note 7).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(c) Impairment review (continued)

(iii) Trade and other receivables

The management assesses the impairment of trade receivables according to the expected credit loss model. Based on the management's best estimates, trade receivables amounting to RMB1,833,000 were impaired as at 31 December 2018 (2017: RMB38,000) (Note 8).

For other receivables, management performed credit evaluations of the financial conditions of the counter parties and considered that these loans and cash advances will be repaid on time with no collectability risks. The management concluded that no impairment provision was necessary accordingly.

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.

5 SEGMENT INFORMATION

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

(a) Description of segments and principal activities

(i) Water segment

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

(ii) Beer segment

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

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

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information disclosures

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

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

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

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

* Earnings before interest, taxes, depreciation and amortisation

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information disclosures (continued)

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

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information disclosures (continued)

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

	Water segment	Beer segment	Inter-segment elimination	Total
	RMB'000	*RMB'000*	*RMB'000*	*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

5 SEGMENT INFORMATION (CONTINUED)

(b) Segment information disclosures (continued)

	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 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 tax liabilities			18,572
Corporate liabilities			440,024
Inter-segment elimination			(496,954)
Total liabilities			1,374,652

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 2018 and 2017.

Non-current assets, other than financial instruments and deferred tax assets are all located in the PRC as at 31 December 2018 and 2017.

During the year 2018, sales of approximately RMB104,516,000 (2017: RMB102,699,000) are derived from an associate in the water segment. Sales of approximately RMB89,757,000 (2017: RMB56,119,000) are derived from one single external customer in the water segment.

6 REVENUE FROM CONTRACTS WITH CUSTOMERS

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, and provides financing services to third parties in Hong Kong with relevant license. Breakdown of the revenue is as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Sales of water products	**429,633**	465,307
Sales of beer products	**341,156**	362,024
Sales of bottle preforms and caps	**103,201**	100,648
Rental of a bottled water production line	**2,063**	2,051
Interest income from financing services provided	**4,604**	1,857
	880,657	931,887

Revenue from external customers of the Group were derived in the PRC for the years ended 31 December 2018 and 2017.

7 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Opening net book amount	**1,326,300**	1,307,508
Additions (a)	**306,930**	—
Share of profits	**20,436**	26,089
Transfer to AFS	**—**	(7,297)
Transfer to a subsidiary (b)	**(46,364)**	—
Paid of dividend (c)	**(32,364)**	—
Closing net book amount	**1,574,938**	1,326,300

7 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

(a) On 12 June 2018, the Group acquired 3.981% of the equity interests of Highland Natural Water for a cash consideration of RMB119,430,000. No significant transaction costs were incurred in the above acquisition. Taking into consideration of all past acquisitions, the Group held 43.981% of equity shares in Highland Natural Water and accounted for it using the equity method. Goodwill of RMB1,153,407,000 has been identified in the investment in Highland Natural Water.

On 6 December 2018, the Group acquired 25% of equity interests of Fudi Packaging for a cash consideration of RMB187,500,000. Fudi Packaging is a company specialising in the manufacturing of bottle preforms and caps. No significant transaction costs were incurred in the above acquisition. Given the equity interests the Group acquired and the articles of association of Fudi Packaging, the Group has right to participate in Fudi Packaging's operational decision-making process. As such, the Group treats the investment as an investment accounted for using the equity method.

(b) In August 2018, Tibet 5100 Mineral Water Co., Ltd. ("**5100 Mineral Water**", formerly known as Moutai Group Tibet 5100 Mineral Water Co., Ltd.) purchased its own equity shares held by China Kweichow Moutai Winery (Group) Co., Ltd. based on the fair value of the shares at the date of purchase. These "stock shares" were then cancelled by 5100 Mineral Water. After this action, 5100 Mineral Water became a wholly-owned subsidiary of the Group. As such, the related investment in 5100 Mineral Water was recorded as investment in a subsidiary.

(c) In 2018, an associate, Highland Natural Water declared cash dividends. The Group received RMB32,364,000 cash dividends according to the percentage of the shares held by the Group.

7 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

Set out below are the associates of the Group as at 31 December 2018.

Name of entity	Place of business/ country of incorporation	% of ownership interest	Principal activities	Measurement method
Highland Natural Water	The PRC	43.981	Manufacturing and distribution of water products	Equity
Fudi Packaging	The PRC	25	Manufacturing and distribution of bottle preforms and caps	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	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables due from third parties	**270,397**	192,139
Loan receivables due from third parties (a)	**21,321**	36,671
Trade receivables due from associates	**—**	6,367
	291,718	235,177
Less: Provision for impairment of trade receivables	**(1,833)**	(38)
	289,885	235,139

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 2018, additional impairment provision amounting to RMB1,795,000 were recognised.

8 TRADE RECEIVABLES (CONTINUED)

(a) This balance includes a loan to a third party amounting to HKD24,333,000 (equivalent to RMB21,321,000, 2017: RMB34,270,000), which represents lending principal of HKD17,000,000 (equivalent to RMB14,895,000, 2017: RMB32,600,000) and accrued interest of HKD7,333,000 (equivalent to RMB6,426,000, 2017: RMB1,670,000). The lending is at a fixed interest rate at 15% per annum after 23 April 2018 and contractual repayment date is 31 December 2019. This loan is secured by the borrower's property located in Beijing.

As at 31 December 2018 and 2017, 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	
	2018	2017
	RMB'000	*RMB'000*
Within 6 months	**180,205**	222,532
Over 6 months but within 1 year	**46,220**	8,855
Over 1 year but within 2 years	**61,532**	2,302
Over 2 years	**3,761**	1,488
	291,718	235,177

As at 31 December 2018, trade receivables amounting to RMB1,833,000 were impaired and provided for (2017: RMB38,000).

The maximum exposure to credit risk at the reporting date is RMB291,718,000 (2017: RMB235,177,000) including amount due from a third party of RMB21,321,000 (2017: RMB34,270,000), which was secured by a property.

As at 31 December 2018 and 2017, the carrying amounts of the above trade receivables approximated their fair values.

9 TRADE AND NOTES PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade payables	**73,275**	92,841

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Within 3 months	**56,232**	69,402
Over 3 months but within 6 months	**9,983**	4,247
Over 6 months but within 1 year	**2,386**	6,046
Over 1 year but within 2 years	**548**	9,011
Over 2 years	**4,126**	4,135
	73,275	92,841

As at 31 December 2018 and 2017, 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.

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Notes payables	**5,446**	—

10 OTHER GAINS, NET

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Government grants		
– Tax refund (a)	**37,800**	23,235
– Amortisation of deferred income	**2,907**	1,908
Gain on disposal of FVPL (2017: AFS) (b)	**17,591**	19,604
Fair value changes on FVPL (c)	**9,179**	—
Others	**1,532**	1,750
	69,009	46,497

(a) According to "Zang Zheng Ban[1997] No.24", "Zang Cai Qi Zi[2010] No.93", "La Kai Cai Zhu Zi[2010] No.29", "La Kai Cai Zhu Zi[2012] No.101", "La Jing Kai Cai Qi Zhuan[2015] No.01", "La Kai Cai Qi Zhuan[2016] No.91", "Support to enterprises in Tibet Lhasa Economy and Technology Development Zone (Temporary) No.8" and "Zang Zheng Fa[2018] No.25 Notice for Several Regulations in relation to Attraction of Investment in Tibet Autonomous Region (Trial Version)", the Group is eligible to receive subsidy income from the local government in relation to the domestic subsidiaries' fiscal contribution to the local economic development as a major tax payer and employer in Tibet Autonomous Region of the PRC ("**Tibet**"). The Group recognised such income of approximately RMB37,800,000 for the year ended 31 December 2018 (2017: RMB23,235,000).

(b) The Group purchased financial products issued by a financial institution in the PRC. These financial products will mature within one year with variable return rates indexed to the performance of the underlying assets. During the year, the Group disposed these investments amounting to RMB680,000,000 (2017: RMB570,000,000), which resulted in a gain amounting to RMB17,591,000 (2017: RMB19,604,000).

(c) The amounts include the following items:

- As at 31 December 2018, the Group held structured financial products amounting to RMB170,000,000, which is accounted as FVPL. The related fair value gains of RMB4,959,000 were recognised for the year.

- The Group recorded fair value gain of RMB4,220,000 from investment in GT Express for the year ended 31 December 2018 based on the fair value implied by the latest fund raising of GT Express from the external investors.

11 EXPENSES BY NATURE

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Raw materials and consumables used	**284,105**	271,650
Decrease/(Increase) in the balances of inventories of finished goods and work in progress	**2,083**	(32)
Transportation costs	**72,676**	75,091
Depreciation of PP&E	**56,470**	55,077
Employee benefit expenses	**82,587**	74,841
Advertising and marketing expenditure	**17,409**	19,760
City construction tax and education surcharge	**16,566**	16,632
Electricity and other utility expenses	**17,834**	17,651
Rental expenses	**2,200**	3,433
Legal and other consulting services fee	**10,517**	8,192
Repair and maintenance	**2,750**	2,807
Amortisation of land use rights	**724**	724
Amortisation of intangible assets	**22,118**	22,086
Auditor's remuneration		
– Audit services	**6,586**	6,586
– Non-audit services	**—**	800
Exploration rights expenses	**500**	500
Office and consumption expenses	**3,988**	4,982
Provision for impairment of trade receivables (Note 8)	**1,795**	—
Provision for impairment of inventories	**230**	—
Others	**6,480**	4,921
	607,618	585,701

12 INCOME TAX EXPENSE

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

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current income tax	**37,962**	43,010
Deferred income tax credit	**(3,260)**	(2,157)
Income tax expense	**34,702**	40,853

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	
	2018	2017
	RMB'000	*RMB'000*
Profit before income tax	**352,234**	408,527
Tax calculated at statutory tax rate of 15%	**52,835**	61,279
Preferential tax rates on income of certain group entities (a)	**(25,688)**	(28,329)
Income not subject to tax	**(1,795)**	(2,523)
Tax losses of certain group entities for which no deferred tax assets were recognised	**1,498**	2,347
Expenses not deductible for tax purposes	**5,352**	8,079
Withholding tax from distribution of profits by a PRC subsidiary	**2,500**	—
Income tax expense	**34,702**	40,853

The weighted average tax rate was 9.9% for the year ended 31 December 2018 (2017: 10.0%).

12 INCOME TAX EXPENSE (CONTINUED)

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

The group entities incorporated in the PRC are subject to PRC enterprise income tax. Major operational entities of the Group are located in Tibet and were entitled to preferential income tax rate. Based on the tax ruling announced by the PRC central tax authorities, the corporate income tax rate of Lhasa is 9% for the years from 2015 to 2021. From 2022 onwards, the corporate income tax rate in Tibet will resume to 15% if no further announcement from the PRC central tax authorities is made. The remaining entities incorporated in the PRC were taxed based on the income tax rate of 25% for the year ended 31 December 2018 (2017: 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% (2017: 16.5%).

13 EARNINGS PER SHARE

(a) Basic earnings per share

As at 31 December 2018 and 2017, basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company

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

	Year ended 31 December	
	2018	2017
Profit attributable to owners of the Company (RMB'000)	**317,532**	315,174
Weighted average number of ordinary shares in issue (thousands)	**2,503,421**	2,557,839
Earnings per share (basic and diluted) (RMB cents per share)	**12.68**	12.32

13 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 potential ordinary shares, from the convertible bond issued on 24 June 2016. During the year 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.

14 DIVIDENDS

No dividend has been declared by the Company in respect of 2018 (2017: nil). No dividend was paid during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

In 2018, the market continued to be characterized by strong competition and a challenging economic environment, which had a general impact on premium products. The total sales volume and revenue of the Group slightly decreased by 3% and 5%, respectively, year on year in 2018.

Our water business segment

With fluctuation in the current consumer products market, the revenue of our water business segment, including "Tibet 5100 Glacial Spring Water" ("**5100 Glacial Water**") and "Gesang Spring" products decreased by 5%, in comparison with 2017; however, the sales volume showed a satisfactory increase of 2%. 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 2018, due to the increase in the cost of raw materials and the decrease in government grants income, the Group's share of net-tax profits of Highland Natural Water decreased by approximately 25% compared with the same period of last year.

Retail distributors and institutional clients remained our major customer base. As at 31 December 2018, our water products have been sold throughout the Mainland China and Hong Kong. In the Mainland China, we have been building relationship with the well-known domestic cinemas, high end international and domestic chain hotels, e-commerce platforms represented by Jingdong and Tmall, airlines, large enterprise customers and home users; in Hong Kong, our products have covered major retailers and are widely distributed in high-end hotels and tourist and entertainment venues.

Our beer business segment

Due to the strong competition in the relatively limited market in Tibet, the sales volume and revenue of our beer products decreased by 8% and 6%, respectively, in comparison with 2017; however, the gross profit margin maintained the same satisfactory level as in 2017. In 2018, our beer products were sold in Tibet mainly through supermarkets, convenience stores, restaurants and entertainment outlets. Since the second half of the year, our beer products have begun to be sold outside Tibet through PetroChina Company Limited ("**PetroChina**") gas stations. The proportion of revenue of our beer products within and outside Tibet to the total revenue of our beer products was 94% and 6%, respectively.

FINANCIAL REVIEW

REVENUE

The total sales of the Group amounted to RMB881 million, representing a slight decrease of RMB51 million or 5% in comparison with 2017.

The revenue generated from our water business segment was RMB540 million, representing a slight decrease of 5% in comparison with 2017. Among the water products, the revenue of our "5100 Glacial Water" for 2018 decreased by 9% in comparison with 2017 due to change of customer mix whereas the revenue of "Gesang Spring" products, despite the strong competition in the lower priced segment, increased by 3% in comparison with 2017.

The revenue generated from our beer business segment was RMB341 million, representing a decrease of 6% in comparison with 2017.

SALES VOLUME

The total sales volume of the Group amounted to 125,379 tonnes (2017: 128,616 tonnes) which consisted of 73,412 tonnes (2017: 71,990 tonnes) from our water products and 51,967 tonnes (2017: 56,626 tonnes) from our beer products.

The overall sales volume of our water products increased by 2% in comparison with that of 2017. Sales volume of our "5100 Glacial Water" for 2018 increased by 3% in comparison with 2017. Sales volume of our "Gesang Spring" products slightly decreased by 1% in comparison with 2017.

The sales volume of our beer products decreased by 8% in comparison with that of 2017.

AVERAGE SELLING PRICE

The average selling price fluctuated along with the change of our products mix. In 2018 and 2017, the average selling price of our water products was RMB5,852 per tonne and RMB6,463 per tonne, respectively; the average selling price of our beer products was RMB6,565 per tonne and RMB6,393 per tonne, respectively.

GROSS PROFIT MARGIN

The gross profit margin of the water business segment was 58%, in comparison with 65% in 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 same as in 2017. The overall gross profit margin of the Group was 55%, representing a decrease of 4 percentage points in comparison with 59% in 2017 but still at a very satisfactory level.

SELLING AND DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

In 2018, the selling and distribution costs decreased by approximately 3% to RMB116 million from RMB120 million in 2017, in line with the revenue fluctuation. The administrative expenses increased by 6% from RMB85 million in 2017 to RMB90 million in 2018.

OTHER NET GAINS

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

Since 1 January 2018, the Group has adopted the updated IFRS 9. The structured financial products and equity investment in GT Express purchased by the Group were accounted for as AFS in the past and are now changed to being accounted for as "FVPL", and the gains on disposal of FVPL during this period decreased from RMB20 million in 2017 to RMB18 million in 2018. Fair value gains 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 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 2018, the government grants were RMB41 million (in 2017: RMB25 million).

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 2018, the Group acquired further 3.981% equity interests of Highland Natural Water from its other shareholders thereby increasing the Group's ownership proportion in Highland Natural Water to 43.981%. In 2018, the Group's 43.981% equity interests in Highland Natural Water has generated a share of the net-tax profits of an associate in the amount of RMB21 million, representing a decrease of approximately 25% in comparison with 2017 due to the above-mentioned reasons in the "Business Review" section.

In 2018, the sales volume of Highland Natural Water was 189,209 tonnes, representing a decrease of 15% compared with 2017. Revenue was RMB461 million, same as in the last year.

FINANCE NET COSTS

In 2018, the Group incurred finance costs of RMB42 million and gained finance income of RMB32 million. Compared with 2017, finance costs in 2018 increased by RMB4 million mainly due to (i) the decrease of RMB5 million in exchange gains; and (ii) the increase of RMB1 million in interest costs on borrowings from banks, which were offset by (i) the decrease of RMB1 million in interest costs on convertible bond issued by the Company; and (ii) the increase of RMB1 million in amount capitalised in assets under construction. Finance income increased by RMB4 million mainly due to the increase of RMB6 million in interest income from interest-bearing loans to third parties, offset by the decrease of RMB2 million in bank interest income.

INCOME TAX EXPENSE

In 2018, the income tax expense was RMB35 million which was decreased by RMB6 million when compared to RMB41 million in 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 2018 was 10%, same as in the last year.

PROFIT FOR THE YEAR

The profit for the year moderately decreased by RMB50 million or 14% from RMB368 million for 2017 to RMB318 million for 2018. Despite other net gains increased by RMB23 million compared with 2017, the decrease in total revenue and the increase in the cost of raw materials led to the decrease in gross profit of RMB71 million and net impairment losses on financial assets of RMB2 million, resulting in the decrease in operating profit of RMB51 million, and decrease in the profit for the year.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to owners of the Company increased by approximately RMB3 million from RMB315 million for 2017 to RMB318 million for 2018. The increase was mainly attributable to the Group's acquisition of 35% interest in Tiandi Green on 21 December 2017, which then became a wholly-owned subsidiary of the Company.

FINANCIAL POSITION

As at 31 December 2018, investments accounted for using the equity method amounted to RMB1,575 million, compared to 1,326 million as at 31 December 2017. The increase was attributable to (i) the Group's acquisition of 3.981% equity interests of Highland Natural Water with consideration of RMB119 million; (ii) the Group's acquisition of 25% equity interests of Fudi Packaging from an independent third party with consideration of RMB188 million; (iii) the share of profits of investments accounted for using the equity method recognised RMB20 million this year, (iv) dividend payment of RMB32 million of Highland Natural Water; and (v) our associate company, 5100 Mineral Water, since its another shareholder withdrew from the investment in 2018, this company became a wholly-owned subsidiary of the Company and was not accounted for investments accounted for using the equity method, resulting in the decrease of RMB46 million.

As at 31 December 2018, net trade receivables of the Group amounted to RMB290 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 2018, the Group recognised additional provision for impairment loss of trade receivables of RMB1.80 million (2017: nil) and did not write off provision recognised in prior year (2017: wrote off approximately RMB1.96 million provision).

As at 31 December 2018, inventories of the Group amounted to RMB99 million compared to RMB76 million as at 31 December 2017. The increase was mainly attributable to an increase in raw materials inventories.

As at 31 December 2018, other receivables and other assets of the Group amounted to RMB641 million compared to RMB175 million as at 31 December 2017. As at 31 December 2018, other receivables mainly included the amounts due from third parties amounted to RMB576 million, the government grants receivables amounted to RMB38 million, and the amounts due from an associate amounted to RMB23 million. Up to 22 March 2019, the amounts due from third parties of RMB468 million had been further collected, resulting in a reduction in our other receivables.

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" and "FVOCI". As at 31 December 2018, FVPL (including both current and non-current) of the Group amounted to RMB191 million, FVOCI (non-current) amounted to RMB232 million and as at 31 December 2017, AFS was RMB241 million. As at 31 December 2018, there was a new addition to FVOCI, since the Group acquired 9% equity interests of Shannan Yalaxiangbu.

As at 31 December 2018, cash and cash equivalents of the Group decreased by RMB554 million, which was mainly attributable to the cash outflows for investing activities of approximately RMB744 million and the cash outflows for financing activities of RMB24 million, offset by cash inflows from operating activities of RMB212 million and exchange translation gains on cash and cash equivalents of RMB2 million. The cash outflows for investing activities of approximately RMB744 million in 2018 mainly included (i) the payment for associates of RMB298 million; (ii) the net cash outflows for purchases and disposals of FVPL and FVOCI of RMB155 million; (iii) the net cash outflows for loan and repayments of loans granted to third parties and a related party of RMB396 million; and (iv) the purchase of PP&E of RMB16 million, offset by (i) the net cash inflows from third parties and a related party of RMB41 million; (ii) dividend received from an associate of RMB32 million; (iii) the net cash inflow from the merger of a subsidiary of RMB46 million; and (iv) cash received from government grants related to fixed assets of RMB2 million. The cash outflows for financing activities of RMB24 million in 2018 mainly included (i) cash outflow for the purchase of minority equity interests of a subsidiary of RMB239 million, (ii) payment of interest for convertible bond of RMB27 million; and (iii) payments for shares purchased for the share award scheme of RMB14 million, offset by net cash inflows from bank borrowings of RMB256 million.

As at 31 December 2018, trade and notes payables of the Group amounted to RMB79 million compared to RMB93 million as at 31 December 2017. The decrease was mainly attributable to the decrease in the payables for transportation costs and advertising fees incurred.

As at 31 December 2018, the current portion of deferred revenue and advances received from customers, and contract liabilities of the Group amounted to RMB2 million and RMB21 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 accounted for as "Contract liabilities".

As at 31 December 2018, deferred income tax liabilities of the Group amounted to RMB15 million compared to RMB19 million as at 31 December 2017. The decrease was mainly 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 liabilities.

As at 31 December 2018, accrual and other payables of the Group decreased by RMB193 million, which was mainly attributable to (i) the settling of the payables for investing in a subsidiary of RMB239 million; (ii) the decrease in salary payables and welfare payables of RMB9 million; (iii) the decrease in payables for value added tax and other taxes of RMB16 million; (iv) net decrease in other accruals and other payables of approximately RMB1 million; offset by (i) the increase in amounts received from a third party of RMB49 million; (ii) the increase in payables for the acquisition of equity shares in an associate of RMB9 million; (iii) the increase in payables for purchasing of equipment of RMB9 million; and (iv) the increase in accrued operating expense of RMB5 million.

As at 31 December 2018, the bank borrowings of the Group increased by RMB270 million, which was mainly attributable to bank borrowings of the principal loan amounting to RMB706 million and offset by repayment of bank borrowings of the principal loan amounting to RMB436 million in 2018.

EMPLOYEES

As at 31 December 2018, the total number of employees of the Group was 458 compared to 452 as at 31 December 2017. Relevant staff cost was RMB83 million in 2018, compared to RMB75 million in 2017. The fluctuation in staff cost was mainly attributable to the improvement of business and human resources structure during 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 31 December 2018 and 31 December 2017, the gearing ratios of the Group were 25.09% 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, conditional upon the achievement of the prescribed sale and performance targets by China Distribution within three years commencing from 1 January 2016. The Group has no legal or constructive obligation to repurchase or settle the options in cash. The Company determined that the above share option scheme was a sales incentive to its customer – China Distribution.

As at 31 December 2018, China Distribution did not meet the vesting conditions. Accordingly, none of the share options was exercisable and no debit of revenue was recorded for the year ended 31 December 2018 (2017: nil) relating to the sales incentive under the above share option scheme.

MERGER AND ACQUISITION

In 2018, the Group acquired 3.981% equity interests of Highland Natural Water for a cash consideration of RMB119 million; the Group acquired 25% equity interests of Fudi Packaging for a cash consideration of RMB188 million; and the Group acquired 9% equity interests of Shannan Yalaxiangbu for a cash consideration of RMB178 million. Based on the share purchase agreement, if Shannan Yalaxiangbu could not meet certain conditions in 2019, the Group has the option to sell the equity shares to the original shareholder at the same price considering charging reasonable interests; if such conditions are met, the Group has the option to purchase additional shares of Shannan Yalaxiangbu based on the same equity price. These options are treated as derivative financial products by the Group and recorded as FVPL on the balance sheet. As at 31 December 2018, the amount of FVPL in relation to the above options was RMB4 million. The balance of the cash consideration paid amounting to RMB174 million was treated as FVOCI. The Group acquired 35% equity interests in Tiandi Green on 21 December 2017 at cost of RMB536 million (including the 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. Further details of the above-mentioned acquisitions in 2018 are set out in Note 7 to the consolidated financial statements of this announcement.

SIGNIFICANT INVESTMENTS

In 2018, the Group invested RMB3.6 million in Zhuhai Guangyuan, 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 31 December 2018, the uninvested portion has been included in the committed equity investment mentioned in the section "Capital Commitments" below. In 2018, the Group acquired PP&E of approximately RMB29 million (for 2017: approximately RMB42 million).

CAPITAL COMMITMENTS

As at 31 December 2018, the Group is committed to purchasing PP&E of approximately RMB73 million (31 December 2017: RMB117 million), and the equity investment of RMB198 million (31 December 2017: RMB13 million).

CHARGES

As at 31 December 2018, a loan with principal amount of RMB290 million (31 December 2017: nil) of the Group was pledged by 35% of a subsidiary's equity interests; a loan with principal amount of RMB100 million (31 December 2017: nil) of the Group was pledged by 5% of an associate's equity interests; 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 RMB31 million (31 December 2017: RMB33 million) and land use rights with net book value of RMB1 million (31 December 2017: RMB1 million). As at 31 December 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 31 December 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 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 properties of the Group were accounted for 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 2018 are approximately 300,000 tonnes and 200,000 tonnes, same as for the year ended 31 December 2017. 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 31 December 2018 Utilized net proceeds	As at 31 December 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	33	173
Mergers and acquisitions that complement our existing business	1,092	1,092	—
Working capital and other general corporate purpose	41	41	—
	1,472	1,299	173

As at 31 December 2018, the Group has utilized net proceeds amounting to HKD133 million, HKD33 million, HKD1,092 million and HKD41 million (i) for expanding our production capacity; (ii) for expanding our distribution network and toward promotional activities; (iii) for mergers and acquisitions that complement our existing business; and (iv) as working capital and for other general corporate purposes, respectively. The remaining net proceeds were deposited in reputable financial institutions and are intended to be applied towards expanding distribution network and towards promotional activities in the coming financial years. The net proceeds were applied and are to be applied according to the intentions disclosed in the Company's announcement at 10 April 2013.

FINAL DIVIDEND

No dividend has been declared by the Company in respect of 2018 (2017: nil).

OUTLOOK

The Group will continue its diversification strategy on product portfolio, market-oriented business strategy, internationalization strategy and further enhance strategic sales channel cooperation in future along with continuing brand development through a range of marketing activities for both water and beer products. Additionally, the Group will implement more innovative and flexible ways to reach the customers, in order to attract more and more corporate and family customers with an innovative platform.

Up to now, the natural drinking water industry in Tibet is a pillar industry strongly supported by the Tibetan government. Our "5100 Glacial Water", "Gesang Spring", and "Easy joy • Zhuoma Spring" from the cooperation between our Group and Sinopec have been the leading brands in Tibet's natural drinking water industry. With more and more big groups getting involved in selling natural drinking water from Tibet throughout China, it is expected that such industry will develop positively. During the reporting period, the Group has put significant resources into such area, involved in the integration of the industry chain of the natural drinking water industry, cooperated with more big groups for the expansion of the natural drinking water industry and will continue to do so in the foreseeable future. This, combined with consumers' increasing appetite for high quality and healthy products makes the Group well positioned to benefit from such development.

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 its core business.

EVENTS AFTER THE BALANCE SHEET DATE

On 18 February 2019, Tibet Glacier Mineral Water, a subsidiary of the Group, entered into a share purchase agreement with Tibet Everest Water Cube Co., Ltd to purchase 70% equity shares of Tibet Yuanzheng Packaging Co. Ltd. ("**Tibet Yuanzheng**") at the price of RMB117,600,000. After the transaction, Tibet Yuanzheng became a subsidiary of the Group. Tibet Yuanzheng is in the business of manufacturing and distribution of packing materials, such as cartons and paper boxes. It is a major supplier for the Group.

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, overseeing the audit process and performing other duties and responsibilities as assigned by the Board. The audit committee has reviewed the audited annual results of the Group for the year ended 31 December 2018.

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 2018 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 2018. 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 30 May 2019 (the "**2019 AGM**"). For the purposes of determining shareholders' eligibility to attend and vote at the 2019 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 23 May 2019

Closure of register of members.................................. 24 to 30 May 2019 (both dates inclusive)

Record date .... 24 May 2019

During the above closure period, no transfer of shares will be registered. To be eligible to attend and to vote at the 2019 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. According to code provision A.6.7 of the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities of the Stock Exchange (the "**Listing Rules**"), independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. However, Ms. JIANG Xiaohong (being a non-executive Director) was unable to attend the annual general meeting held on 8 June 2018 as she was obliged to be away for the Group's other matters. Save for the above deviation, the Company had complied with the code provisions of the Corporate Governance Code in the Listing Rules throughout the year ended 31 December 2018.

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 2018. 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

In 2017, the Group adopted a share award scheme. During the year, the Group purchased 5,000,000 shares (a total consideration of approximately RMB14,169,000) of the Company through Bank of Communications Trustee Limited for this purpose. As at 31 December 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.

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 2018 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, 22 March 2019

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.