Tenfu (Cayman) Holdings Company Limited
天福（開曼）控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6868)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

Financial Highlights

- Revenue for the six months ended 30 June 2012 increased by 8.4% to RMB905.2 million from RMB835.3 million for the corresponding period in 2011;
- Gross profit margin for the six months ended 30 June 2012 increased to 65.5% from 61.1% for the corresponding period in 2011;
- Profit attributable to the owners of the Company for the six months ended 30 June 2012 increased to RMB160.1 million from RMB153.1 million for the corresponding period in 2011; and
- Basic earnings per share for the six months ended 30 June 2012 amounted to RMB0.13. The Board proposed an interim dividend of HKD0.08 per share (equivalent to RMB0.065 per share).

The board of directors (the "**Board**") of Tenfu (Cayman) Holdings Company Limited (the "**Company**", together with its subsidiaries, the "**Group**") is pleased to announce the unaudited consolidated interim results of the Group for the six months ended 30 June 2012, together with the comparative figures for the corresponding period in the year 2011 as below.

FINANCIAL INFORMATION

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended 30 June 2012 Unaudited *RMB'000*	2011 Unaudited *RMB'000*
Revenue		**905,189**	835,270
Cost of sales		**(312,728)**	(324,848)
Gross profit		**592,461**	510,422
Distribution costs		**(271,139)**	(219,862)
Administrative expenses		**(110,559)**	(79,157)
Other income	*7*	**10,269**	5,619
Other (losses)/gains – net	*6*	**(3,757)**	147
Operating profit		**217,275**	217,169
Finance income		**5,604**	788
Finance costs		**(5,081)**	(9,794)
Finance income/(costs) – net		**523**	(9,006)
Share of profit of a jointly controlled entity		**337**	541
Profit before income tax		**218,135**	208,704
Income tax expense	*8*	**(57,988)**	(55,580)
Profit for the period, all attributable to the owners of the Company		**160,147**	153,124
Other comprehensive income for the period		**–**	–
Total comprehensive income for the period, all attributable to the owners of the Company		**160,147**	153,124
Earnings per share for profit attributable to the owners of the Company (expressed in RMB per share)			
– Basic earnings per share	*9*	**0.13**	0.15
– Diluted earnings per share	*9*	**0.13**	0.15

	Note	Six months ended 30 June 2012 Unaudited *RMB'000*	2011 Unaudited *RMB'000*
Dividends	*10*	**80,239**	–

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2012 Unaudited *RMB'000*	As at 31 December 2011 Audited *RMB'000*
ASSETS			
Non-current assets			
Leasehold land and land use rights		**26,710**	19,119
Investment properties		**4,887**	5,030
Property, plant and equipment		**526,117**	383,544
Intangible assets		**2,190**	2,670
Investment in a jointly controlled entity		**3,271**	4,061
Deferred income tax assets		**43,603**	42,008
Prepayments – non-current portion		**79,380**	31,134
		686,158	487,566
Current assets			
Inventories		**415,985**	380,026
Trade and other receivables	*11*	**300,824**	314,731
Prepayments		**152,007**	103,605
Restricted cash		**4,490**	16,470
Time deposits		**100,000**	55,600
Cash and cash equivalents		**463,023**	1,119,929
		1,436,329	1,990,361
Total assets		**2,122,487**	2,477,927
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital		**100,816**	100,816
Share premium		**758,089**	1,036,145
Other reserves	*12*	**377,288**	375,897
Retained earnings		**537,771**	377,624
Total equity		**1,773,964**	1,890,482
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**17,219**	14,497
Current liabilities			
Trade and other payables	*14*	**186,343**	213,034
Current income tax liabilities		**32,349**	35,143
Borrowings		**110,471**	324,771
Other liabilities	*15*	**2,141**	–
		331,304	572,948
Total liabilities		**348,523**	587,445
Total equity and liabilities		**2,122,487**	2,477,927
Net current assets		**1,105,025**	1,417,413
Total assets less current liabilities		**1,791,183**	1,904,979

NOTE TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION

The Group is engaged in the classification, packaging of tea leaves, manufacture of tea snacks, and sale of tea leaves, tea snacks and tea ware. The Group has manufacturing plants in Fujian Province and Sichuan Province, the People's Republic of China (the "PRC") and sells mainly to customers located in the PRC.

The Company was incorporated in the Cayman Islands on 22 April 2010 as an exempted company with limited liability under the Company Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company's ordinary shares were listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26 September 2011 (the "Listing").

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board on 27 August 2012.

This condensed consolidated interim financial information has not been audited.

Key events

Pursuant to the share option scheme adopted on 17 December 2010, the Company granted options to subscribe for an aggregate of 7,046,000 shares on 6 January 2012 to certain directors, employees and independent third party distributors of the Group and an aggregate of 1,307,000 shares on 12 January 2012 to certain directors of the Group. These options vest in tranches over a period of up to 3 years.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2012 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, 'Interim financial reporting' issued by the Hong Kong Institute of Certified Public Accountants. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants.

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011, as described in those annual financial statements.

(a) Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the Group receives services from directors, employees, independent third party distributors and other persons as consideration for equity instruments (options) of the Group. The fair value of the services received from these participants in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and an employee remaining on service over a specified time period);
- excluding any market performance conditions (for example, the Company's share price); and
- excluding the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market performance vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market performance vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated statement of comprehensive income, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The grant by the Company of options over its equity instruments to the employees of subsidiaries in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in a subsidiary, with a corresponding credit to equity in the parent company accounts.

(b) Customer loyalty programme

The Group operates a loyalty programme where customers accumulate points for purchases made which entitle them to redeem the Group's products. The reward points are recognised as a separately identifiable component of the initial sale transaction by allocating the fair value of the consideration received between the reward points and the other components of the sale such that the reward points are initially recognised as deferred income at their fair value. Revenue from the reward points is recognised when the points are redeemed. Reward points will expire till the end of next year after the initial sale.

(c) Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The amended standards or interpretations that are effective for the first time for this interim period do not have any material impact on the Group.

The following new standards and amendments to standards have been issued and are relevant to the Group's operations but they are not yet effective for the financial year beginning on 1 January 2012 and have not been early adopted by the Group:

		Effective for accounting period beginning on or after
HKAS 1 (Amendment)	Presentation of financial statements	1 July 2012
HKFRS 9	Financial instruments	1 January 2015
HKFRS 10	Consolidated financial statements	1 January 2013
HKAS 27 (revised 2011)	Separate financial statements	1 January 2013
HKFRS 11	Joint arrangements	1 January 2013
HKAS 28 (revised 2011)	Investments in associates and joint ventures	1 January 2013
HKFRS 12	Disclosure of interests in other entities	1 January 2013
HKFRS 13	Fair value measurements	1 January 2013
HKAS 19 (Amendment)	Employee benefits	1 January 2013
HKAS 32 (Amendment)	Offsetting financial assets and financial liabilities	1 January 2014
HKFRS 7 and HKFRS 9 (Amendment)	Mandatory effective date and transition disclosures	1 January 2015
HKFRS 1 (Amendment)	Government loans	1 January 2013

The Group will apply the new/revised standards and amendments described above when they become effective. The Group is in the process of making an assessment on the impact of these new/revised standards and amendments and does not anticipate that the adoption when they become effective will result in any material impact on the Group's results of operations and financial position.

4 ESTIMATES

The preparation of condensed consolidated 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 these condensed consolidated interim financial information, 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 annual financial statements for the year ended 31 December 2011, except for the accounting estimate in respect of the share-based payment charge.

Share-based payments with specific performance conditions

The Group's share-based payments are exercisable subject to the Group achieving certain non-market performance vesting conditions. The Group recognises an amount for the goods or services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and revises that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates. Where the expectation is different from the original estimate, such difference will impact the recognition of share-based payment expense charge in the period in which such estimate has been changed.

5 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. The Board has determined the operating segments based on these reports.

The Board considers the business from a product perspective. The Board assesses the performance of the operating segments based on a measure of segment profit or loss.

The reportable operating segments derive their revenue primarily from the classification, packaging of tea leaves, manufacture of tea snacks, and sale of tea leaves, tea snacks and tea ware.

Other services include revenue from restaurant, hotel and management service. These are not included within the reportable operating segments, as they are not presented separately in the reports provided to the Board.

No geographical segment information is presented as almost all the sales and operating profits of the Group are derived within the PRC and all the operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

The Board assesses the performance of the operating segments based on a measure of adjusted operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the condensed consolidated interim financial information. Common administrative expenses, other gains/(losses), other income, financing (including finance costs and interest income), share of results of a jointly controlled entity and income taxes are managed on a group basis and are not allocated to operating segments.

Segment assets consist primarily of leasehold land and land use rights, property, plant and equipment, intangible assets, inventories, trade and other receivables, prepayments, as well as cash and cash equivalents and restricted cash held by subsidiaries in the PRC. They exclude investment properties, deferred income tax assets and prepaid tax, as well as cash and cash equivalents and time deposits held by the Company and overseas subsidiaries.

Segment liabilities comprise operating liabilities. They exclude borrowings, deferred income tax liabilities, tax liabilities, dividend payable and directors' and senior management's emoluments payable.

(a) Revenue

Turnover of the Group consists of the following revenues for the six months ended 30 June 2012 and 2011.

	Six months ended 30 June	
	2012	2011
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Tea leaves	**673,389**	623,740
Tea ware	**115,363**	95,237
Tea snacks	**99,908**	99,857
Others	**16,529**	16,436
	905,189	835,270

The segment results for the six months ended 30 June 2012:

			Unaudited		
	Tea leaves	**Tea snacks**	**Tea ware**	**All other segments**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Segment revenue	**673,389**	**99,908**	**115,363**	**16,529**	**905,189**
Segment results	**200,725**	**5,775**	**12,337**	**2,394**	**221,231**
Common administrative expenses					**(10,468)**
Other losses – net					**(3,757)**
Other income					**10,269**
Finance costs – net					**523**
Share of results of a jointly controlled entity					**337**
Profit before income tax					**218,135**
Income tax expense					**(57,988)**
Profit for the period					**160,147**

Other segment items included in the condensed consolidated interim statement of comprehensive income for the six months ended 30 June 2012:

	Unaudited					
	Tea leaves *RMB'000*	**Tea snacks** *RMB'000*	**Tea ware** *RMB'000*	**All other segments** *RMB'000*	**Unallocated** *RMB'000*	**Total** *RMB'000*
Depreciation of property, plant and equipment	**14,590**	**3,822**	**2,035**	**810**	**6,003**	**27,260**
Depreciation of investment properties	**–**	**–**	**–**	**–**	**143**	**143**
Amortization of leasehold land and land use rights	**173**	**46**	**46**	**25**	**–**	**290**
Losses/(gains) on disposal of property, plant and equipment, net	**553**	**77**	**98**	**(7)**	**–**	**721**

The segment assets and liabilities as at 30 June 2012 are as follows:

	Unaudited					
	Tea leaves *RMB'000*	**Tea snacks** *RMB'000*	**Tea ware** *RMB'000*	**All other segments** *RMB'000*	**Unallocated** *RMB'000*	**Total** *RMB'000*
Segment assets	**1,057,291**	**192,427**	**207,807**	**29,459**	**635,503**	**2,122,487**
Segment liabilities	**138,258**	**16,790**	**24,291**	**1,028**	**168,156**	**348,523**

The segment results for the six months ended 30 June 2011:

	Unaudited				
	Tea leaves *RMB'000*	Tea snacks *RMB'000*	Tea ware *RMB'000*	All other segments *RMB'000*	Total *RMB'000*
Segment revenue	623,740	99,857	95,237	16,436	835,270
Segment results	179,919	21,701	14,612	2,577	218,809
Common administrative expenses					(7,406)
Other gains – net					147
Other income					5,619
Finance costs – net					(9,006)
Share of results of a jointly controlled entity					541
Profit before income tax					208,704
Income tax expense					(55,580)
Profit for the period					153,124

Other segment items included in the condensed consolidated interim statement of comprehensive income for the six months ended 30 June 2011:

	Unaudited					
	Tea leaves *RMB'000*	Tea snacks *RMB'000*	Tea ware *RMB'000*	All other segments *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Depreciation of property, plant and equipment	12,382	3,185	1,640	1,354	3,918	22,479
Depreciation of investment properties	–	–	–	–	139	139
Amortization of leasehold land and land use rights	178	45	37	18	–	278
Losses on disposal of property, plant and equipment, net	124	4	–	–	33	161

The segment assets and liabilities as at 30 June 2011 are as follows:

	Unaudited					
	Tea leaves *RMB'000*	Tea snacks *RMB'000*	Tea ware *RMB'000*	All other segments *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment assets	881,469	163,747	132,936	36,209	209,551	1,423,912
Segment liabilities	118,352	19,129	17,485	589	450,260	605,815

6 OTHER (LOSSES)/GAINS – NET

	Six months ended 30 June	
	2012 **Unaudited** ***RMB'000***	2011 Unaudited *RMB'000*
Losses on disposal of property, plant and equipment, net	**(721)**	(161)
Net foreign exchange losses	**(3,036)**	(740)
Gain from acquisition of a subsidiary	**–**	1,048
	(3,757)	147

7 OTHER INCOME

	Six months ended 30 June	
	2012 **Unaudited** ***RMB'000***	2011 Unaudited *RMB'000*
Government grants	**8,578**	3,919
Investment property rental income	**1,347**	1,342
Others	**344**	358
	10,269	5,619

8 INCOME TAX EXPENSE

	Six months ended 30 June	
	2012	2011
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong profits tax	**176**	–
– PRC corporate income tax	**56,685**	55,225
Deferred income tax	**1,127**	355
Income tax expense	**57,988**	55,580

9 EARNINGS PER SHARE

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2012	2011
	Unaudited	Unaudited
Profit attributable to the owners of the Company (RMB'000)	**160,147**	153,124
Weighted average number of ordinary shares in issue	**1,227,207,460**	1,018,587,460
Basic earnings per share (RMB per share)	**0.13**	0.15

(b) Diluted

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's potentially dilutive ordinary shares comprise share options.

Performance-related employee share options are treated as contingently issuable shares. Contingently issuable shares are considered outstanding and where applicable, included in the calculation of diluted earnings per share as if the conditions of the contingency are deemed to have been met, based on the information available, at the end of reporting period.

As at 30 June 2012, none of the performance conditions of the share options were met, and thus the potentially dilutive ordinary shares are not included in the calculation of diluted earnings per share. As a result, diluted earnings per share is the same as basic earnings per share.

10 DIVIDENDS

2011 final dividend and special dividend of HKD16 cents (equivalent to RMB13 cents) per share and HKD12 cents (equivalent to RMB10 cents) per share respectively, totalling HKD196,353,000 (equivalent to RMB158,889,000) and HKD147,265,000 (equivalent to RMB119,167,000) respectively, were paid in May 2012.

In addition, an interim dividend of HKD 8 cents (equivalent to RMB 6.5 cents) per share was declared by the Board on 27 August 2012 using the share premium account. This interim dividend, amounting to HKD98,177,000 (equivalent to RMB80,239,000), has not been recognised as liability in this condensed consolidated interim financial information. It will be reflected as an appropriation of share premium for the year ending 31 December 2012.

11 TRADE AND OTHER RECEIVABLES

	As at 30 June 2012 Unaudited *RMB'000*	As at 31 December 2011 Audited *RMB'000*
Current		
Trade receivables – due from third parties	**270,321**	285,626
Less: Provision for impairment of trade receivables	**–**	–
Trade receivables – net	**270,321**	285,626
Amounts due from related parties	**67**	448
Others	**30,436**	28,657
	300,824	314,731

Most of Group's sales are settled in cash or in bills by its customers. Credit sales are made to selected customers with good credit history with a credit term of 140 days.

The ageing analysis of the trade receivables is as follows:

	As at 30 June 2012 Unaudited *RMB'000*	As at 31 December 2011 Audited *RMB'000*
Up to 140 days	**245,248**	259,966
141 days to 6 months	**17,202**	16,094
6 months to 1 year	**7,304**	9,504
1 year to 2 years	**567**	62
	270,321	285,626

12 OTHER RESERVES

	Unaudited				
	Merger reserve *RMB'000*	Capital reserve *RMB'000*	Statutory reserve *RMB'000*	Share-based payment reserve *RMB'000*	Total *RMB'000*
At 1 January 2011 and 30 June 2011	278,811	231	63,368	–	342,410
At 1 January 2012	278,811	231	96,855	–	375,897
Share option scheme – value of services from directors employees and independent third party distributors	–	–	–	1,391	1,391
At 30 June 2012	278,811	231	96,855	1,391	377,288

13 SHARE-BASED PAYMENTS

On 17 December 2010, the Company adopted a share option scheme whereby the Board can grant options for the subscription of the Company's shares to the directors, eligible employees and independent third party distributors that the Board considers that they will contribute or have contributed to the Group.

Share Option Scheme

Pursuant to the share option scheme of the Company in relation to the grant of options under the Share Option Scheme, the Company granted options to subscribe for an aggregate of 7,046,000 shares and 1,307,000 shares on 6 January 2012 and 12 January 2012 respectively to the directors, employees, managerial staff and senior employees and those other persons that the Board considers that they will contribute or have contributed to the Group. The options have a contractual option term of 10 years. The Group has no legal or constructive obligation to repurchase or settle the options in cash. These options vest in tranches over a period of up to 3 years.

The options are exercisable during the following periods, subject to the Group achieving its target growth in revenue and net profit and the employees and independent third party distributors meeting their performance target as well. The employees should remain in the Group's employ and the independent third party distributors should keep their businesses with the Group until that performance condition is satisfied.

(i) up to 35% on or after 5 January 2013 and 11 January 2013 respectively;

(ii) up to 35% on or after 5 January 2014 and 11 January 2014 respectively;

(iii) all the remaining options on or after 5 January 2015 and 11 January 2015 respectively.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Average exercise price in HKD per share	Options (thousands)
As at 1 January 2012	–	–
Granted on 6 January 2012	5.41	7,046
Granted on 12 January 2012	5.60	1,307
As at 30 June 2012	5.44	8,353

Share options outstanding at 30 June 2012 have the following expiry dates and exercise prices:

	Exercise price HKD per share	**Number of options**
Expiry date		
5 January 2022	5.41	7,046
11 January 2022	5.60	1,307

The total fair value, which was determined by using Binomial option price model, of the options granted under the Share Option Scheme as at the grant dates are approximately HKD17,615,000 (equivalent to RMB14,330,000) and HKD3,685,000 (equivalent to RMB2,999,000) on 6 January 2012 and 12 January 2012 respectively. The following assumptions were adopted to calculate the fair value of the options on the grant dates:

	Granted on 6 January 2012	**Granted on 12 January 2012**
Exercise price	HKD5.41	HKD5.60
Expected volatility	53.95%	53.93%
Expected dividend yield	2.00%	2.00%
Risk free rate	1.52%	1.49%

The expected volatility is determined by calculating the historical volatility of the price of listed companies with business similar to the Group. The expected dividend yield is determined by the directors based on the expected future performance and dividend policy of the Group.

The share option expense charged to the condensed consolidated statement of comprehensive income during the six months ended 30 June 2012 was approximately HKD1,704,000 (equivalent to RMB1,391,000).

14 TRADE AND OTHER PAYABLES

	As at 30 June 2012 Unaudited *RMB'000*	As at 31 December 2011 Audited *RMB'000*
Trade payables – due to third parties	**91,648**	107,757
Trade payables – due to related parties	**3,166**	4,048
Other payables for property, plant and equipment	**1,288**	2,812
Other payables for share issuance costs	**–**	2,370
Other taxes payable	**11,267**	18,312
Employee benefit payables	**26,551**	31,336
Accrued operating expenses	**24,312**	20,255
Advances from customers	**11,423**	11,289
Amounts due to related parties	**654**	2,056
Others	**16,034**	12,799
	186,343	213,034

The ageing analysis of trade payables (including amounts due to related parties of trading in nature, if any) based on invoice date is as follows:

	As at 30 June 2012 Unaudited *RMB'000*	As at 31 December 2011 Audited *RMB'000*
Up to 6 months	**92,292**	92,992
6 months to 1 year	**2,509**	13,741
1 year to 2 years	**–**	1,958
Over 2 years	**13**	3,114
	94,814	111,805

15 OTHER LIABILITIES

	As at 30 June 2012 Unaudited *RMB'000*	As at 31 December 2011 Audited *RMB'000*
Deferred revenue: customer loyalty programme	**2,141**	–

The Group operates a loyalty programme where customers accumulate points for purchases made which entitle them to redeem products of the Group in the future. Accordingly certain portion of the revenue from sale transaction is required to be deferred. Revenue from the reward points is recognised when the points are redeemed. Reward points will expire till the end of next year after the initial sale.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

In the first half of 2012, the Group achieved revenue of RMB905.2 million, up 8.4% from the corresponding period in 2011, and recorded profit for the period of RMB160.1 million, up 4.6% from the corresponding period in 2011. The increase in the Group's revenue for the period was driven by the expansion of the Group's sales network as well as same store sales growth.

In the first half of 2012, the Group further strengthened its market position and the efficiency of its operations, laying a solid foundation for further increases in market share.

1. **Leading brand position.** According to a report commissioned by Euromonitor International, an independent third party, the "Tenfu" (天福) brand has one of the highest levels of brand awareness amongst tea product consumers in the PRC. The Group views the increased sales of its tea products in the first half of 2012 as reflecting, in part, the recent trend of Chinese consumers switching from unbranded to branded traditional Chinese tea leaves. With its high level of brand awareness and more than 19 years of presence in the market, the Group believes it is in a strong position to continue capturing such expected growth in the market for branded traditional Chinese tea leaves.

2. **Expanding sales network.** The Group has continued adding retail outlets and retail points with a view to expanding the reach of its sales network for its tea products in the PRC. As of 30 June 2012, the Group had a total of 1,267 self-owned and third-party owned retail outlets and retail points, up a net of 60 retail stores and retail points from a total of 1,207 as of 31 December 2011.

3. **Continuous growth in each tea product category.** In the first half of 2012, revenue from sales of the Group's tea leaves and tea ware grew by 8.0% and 21.1%, respectively, from the corresponding period in 2011. Revenue from sales of the Group's tea snacks also grew marginally over the same period.

4. **Enhanced processing and distribution efficiency and effectiveness.** The Group completed the implementation of a point-of-sale (POS) system and intends to implement an ERP (Enterprise Resource Planning) system in the second half of 2012 to provide real-time sales and inventory data from retail outlets, allowing the Group to more efficiently and effectively plan its processing schedules, manage resources and monitor sales and inventory information.

In addition, the successful initial public offering on the main board of the Stock Exchange on 26 September 2011 provided the Company with a fully-integrated financial platform to support its future development. The Company raised net proceeds of RMB933.3 million from the listing. The table below sets out the Company's planned use of the net proceeds at the time of Listing and its use of such net proceeds as of 30 June 2012:

	Planned use of net proceeds at Listing	**Net proceeds used as of 30 June 2012**
Expand and optimize network of self-owned retail outlets and retail points	40.0%	20.2%
Acquire store premises for self-owned retail outlets	25.0%	14.6%
Working capital and other general corporate purposes	10.0%	10.0%
Maintain and promote brands	15.0%	6.0%
Expand production capacity	10.0%	2.6%
Total	100.0%	53.4%

As of 30 June 2012, the Company had used RMB188.9 million (or 20.2%) to expand its network of self-owned retail outlets, RMB136.0 million (or 14.6%) to acquire store premises for the operation of self-owned retail outlets, RMB93.3 million (or 10.0%) to finance its working capital, RMB56.1 million (or 6.0%) to maintain and promote its brands and enhance consumer awareness of its brands in the PRC through effective targeted marketing and promotional activities, and RMB23.8 million (or 2.6%) to expand its production capacity through the construction of additional production facilities, primarily for its tea leaves packaging and tea snacks production and packaging facilities. The Company plans to use the remaining net proceeds as stated in the section headed "Future Plans and Use of Proceeds" of the Company's prospectus dated 14 September 2011.

In the second half of 2012, despite the estimated slowdown in the economic growth of China, the Group plans to continue to expand and optimize its network of self-owned retail outlets and retail points and acquire store premises for the operation of self-owned retail outlets. In particular, the Group plans to:

1. **Continue to expand and optimize retail sales network.** The Group plans to achieve a net increase of 150 retail outlets and retail points per year over the next four years, including both self-owned and third-party owned retail outlets and retail points. As part of this goal, the Group plans to establish new retail outlets on high-traffic streets in the central business districts of selected cities, as well as retail points in popular shopping malls. In addition, the Group plans to strengthen its business relationships with major department stores and hypermarkets by entering into further cooperation agreements to expand the circulation of its tea products.

2. **Continue to enhance brand reputation and consumer awareness.** The Group plans to maintain and promote its high level of brand awareness through targeted marketing and promotional activities. As part of these promotional activities, the Group plans to continue its participation in international events, such as Asia-Pacific Economic Cooperation (APEC) events, make further efforts to promote its products and brands during major Chinese traditional festivals, and continue opening tea cultural flagship stores in order to maintain and promote the well-known "Tenfu" (天福) brand. The Group also plans to introduce an enhanced rewards program for its customers in order to encourage repeating business and increase customer loyalty.

3. **Continue to expand tea-related products portfolio.** The Group believes that a broad portfolio of products will help it maintain its leading brand awareness and keep pace with constantly changing consumer preferences and trends. To this end, the Group plans to develop and introduce new concepts for tea-related products and expand its product portfolio.

4. **Expand production capacity.** The Group is in the process of constructing additional production facilities, which are expected to be in use by the end of 2012, and will consider further expansion by acquisition when suitable acquisition opportunities arise, in order to satisfy the anticipated increases in the demand for tea and tea-related products.

5. **Quality assurance.** The Group considers product quality assurance to be essential to its operations, and places particular emphasis on inspecting and controlling the quality of raw materials in its supply chain. The Group will continue its commitment to quality assurance going forward by further enhancing its internal testing capabilities.

Looking forward, the Group's primary goal is to continue growing its business and increasing its market share by leveraging its strong market position and sales network and the anticipated economic growth in the PRC tea market.

FINANCIAL REVIEW

Revenue

During the six months ended 30 June 2012, the Group engaged in the sale and marketing of a comprehensive range of tea products and the development of product concepts, tastes and packaging designs. The Group has manufacturing plants in Fujian province and Sichuan province, PRC. The Group's key products are tea leaves, tea snacks and tea ware, which it sells through a nationwide network of self-owned and third-party owned retail outlets and retail points.

During the six months ended 30 June 2012, the Group derived substantially all of its revenue from sales of tea leaves, tea snacks and tea ware. The revenue of the Group increased by 8.4% to RMB905.2 million for the six months ended 30 June 2012, from RMB835.3 million for the corresponding period in 2011. The following table sets forth a breakdown of revenue by product category for the periods indicated:

	Six months ended 30 June			
	2012		2011	
	RMB'000	**%**	*RMB'000*	%
Revenue contributed from:				
Tea leaves	**673,389**	**74.5**	623,740	74.6
Tea ware	**115,363**	**12.7**	95,237	11.4
Tea snacks	**99,908**	**11.0**	99,857	12.0
Others[1]	**16,529**	**1.8**	16,436	2.0
Total	**905,189**	**100.0**	835,270	100.0

Note:

(1) "Others" include revenue from restaurant, hotel, tourist and management service. The Group derived its revenue from these operations through the provision of accommodation, food and beverages and other ancillary services and ticket sales from its tea museums and sightseeing facilities.

Revenue from sales of the Group's tea leaves increased by 8.0% to RMB673.4 million for the six months ended 30 June 2012 from RMB623.7 million for the corresponding period in 2011. Revenue from sales of the Group's tea ware increased by 21.1% to RMB115.4 million, from RMB95.2 million for the corresponding period in 2011. Revenue from sales of the Group's tea snacks grew marginally, remaining stable at RMB99.9 million for the six months ended 30 June 2012 and the corresponding period in 2011. The revenue increases across all three product categories were driven by the expansion of the Group's sales network as well as same store sales growth.

Cost of sales

Cost of sales of the Group primarily comprises costs of inventory (mainly including costs of raw materials) and labor costs. Cost of sales of the Group decreased by 3.7% to RMB312.7 million for the six months ended 30 June 2012 from RMB324.8 million for the corresponding period in 2011, primarily due to a decrease in the sales quantity of the Group's tea products.

Gross profit and gross profit margin

As a result of the foregoing factors, gross profit of the Group increased by 16.1% to RMB592.5 million for the six months ended 30 June 2012 from RMB510.4 million for the corresponding period in 2011, with gross profit margin increasing to 65.5% for the six months ended 30 June 2012 from 61.1% for the corresponding period in 2011.

Distribution costs

The distribution costs of the Group increased by 23.3% to RMB271.1 million for the six months ended 30 June 2012 from RMB219.9 million for the corresponding period in 2011. The increase of distribution costs was primarily due to (i) an increase in expenditure on sales personnel to RMB89.5 million for the six months ended 30 June 2012 from RMB66.8 million for the six months ended 30 June 2011 as a result of the increased number of self-owned retail outlets and retail points and increased staff compensation, (ii) an increase in operating lease payments to RMB73.7 million for the six months ended 30 June 2012 from RMB55.3 million for the six months ended 30 June 2011 as a result of the increased number of self-owned retail outlets and retail points, and (iii) an increase in depreciation of fixed assets, including store premises acquired, to RMB14.1 million for the six months ended 30 June 2012 from RMB9.2 million for the corresponding period in 30 June 2011, as a result of the increased number of self-owned retail outlets and retail points.

Administrative expenses

Administrative expenses for the Group increased by 39.6% to RMB110.6 million for the six months ended 30 June 2012 from RMB79.2 million for the corresponding period in 2011. The increase was primarily due to the expansion of the Group's business operations. The increasing number of the Group's self-owned retail outlets and retail points also resulted in higher expenditures on utilities, pre-opening costs and office expenses, increased labor costs, as well as greater depreciation of property, plant and equipment.

Other income

Other income of the Group increased by 83.9% to RMB10.3 million for the six months ended 30 June 2012 from RMB5.6 million for the corresponding period in 2011. The increase was primarily due to an increase in PRC local government grants to RMB8.6 million for the six months ended 30 June 2012 from RMB3.9 million for the corresponding period in 2011.

Other losses/gains, net

Other losses of the Group was RMB3.8 million for the six months ended 30 June 2012, as compared to an other gain of RMB0.1 million for the six months ended 30 June 2011, primarily due to (i) net foreign exchange losses of RMB3.0 million for the six months ended 30 June 2012, as a result of the dividends payment in May 2012 and from daily operations, and (ii) a one-time gain from the acquisition of a subsidiary of RMB1.0 million for the six months ended 30 June 2011.

Finance income

Finance income of the Group increased to RMB5.6 million for the six months ended 30 June 2012, from RMB0.8 million for the corresponding period in 2011, primarily due to an increase in interest income on bank deposits to RMB3.0 million for the six months ended 30 June 2012 from RMB0.1 million for the corresponding period in 2011.

Finance costs

Finance costs of the Group decreased by 48.0%, to RMB5.1 million for the six months ended 30 June 2012 from RMB9.8 million for the corresponding period in 2011, primarily due to a decrease in interest expenses on bank borrowings to RMB5.1 million for the six months ended 30 June 2012 from RMB9.8 million for the corresponding period in 2011, reflecting a decrease in the Group's bank borrowings to RMB110.5 million as at 30 June 2012 from RMB324.8 as at 31 December 2011.

Share of profit of a jointly controlled entity

Share of profit of a jointly controlled entity of the Group was RMB0.3 million and RMB0.5 million for the six months ended 30 June 2012 and 2011, respectively.

Income tax expense

Income tax expense of the Group increased by 4.3% to RMB58.0 million for the six months ended 30 June 2012 from RMB55.6 million for the corresponding period in 2011, primarily due to an increase in the Group's profit before tax to RMB218.1 million for the six months ended 30 June 2012 from RMB208.7 million for the corresponding period in 2011.

Profit for the period

As a result of the foregoing factors, profit of the Group, all of which was attributable to the owners of the Company, increased by RMB7.0 million, or 4.6%, to RMB160.1 million for the six months ended 30 June 2012 from RMB153.1 million for the corresponding period in 2011. Net profit margin of the Group decreased to 17.7% from 18.3% for the relevant periods, primarily due to increases in distribution costs, administrative expenses and labor costs of the Group as it expanded its sales network and increased the number of its self-owned retail outlets and retail points.

Liquidity and capital resources

Cash position

The operations of the Group are capital intensive, and its liquidity requirements arise principally from the need for working capital to finance its operations and expansions. The Group has historically met its working capital and other capital requirements principally from cash generated from its operations, bank borrowings and capital contributions by its shareholders.

The Group's cash and cash equivalents decreased by RMB656.9 million, or 58.7%, to RMB463.0 million as of 30 June 2012 from RMB1,119.9 million as of 31 December 2011, primarily due to the acquisition of store premises, repayment of bank borrowings and payment of dividends.

The Group had net cash inflow from operating activities of RMB96.2 million, net cash outflow from investing activities of RMB265.9 million and net cash outflow from financing activities of RMB487.3 million for the six months ended 30 June 2012.

Bank borrowings and gearing ratio

The Group had total bank borrowings of RMB110.5 million as of 30 June 2012 compared to RMB324.8 million as of 31 December 2011. As of 30 June 2012, the weighted average effective interest rate of the Group's bank borrowings was 6.3%, and 96.0% of the Group's bank borrowings were denominated in Renminbi ("**RMB**"), while 4.0% were denominated in United States Dollars ("**USD**").

As of 30 June 2012, bank borrowings of RMB50.0 million were secured by land use rights and property, plant and equipment of the Group with net book values of RMB13.0 million and RMB6.4 million, respectively, and bank borrowings of RMB4.5 million were secured by a bank deposit of RMB4.5 million.

The Group regularly monitors its gearing ratio, which represents total debt as a percentage of total capital. Total debt is calculated as total current borrowings. Total capital is calculated as total equity plus total debt. As of 30 June 2012, the gearing ratio of the Group was 5.9%, compared to 14.7% as of 31 December 2011. The decrease during the first half of 2012 was primarily due to repayment of the Group's bank borrowings and increase in its total capital driven by higher net profit earned during this period.

Working capital

	As at 30 June 2012 *RMB'000*	As at 31 December 2011 *RMB'000*
Trade and other receivables	**300,824**	314,731
Trade and other payables	**186,343**	213,034
Inventories	**415,985**	380,026
Trade receivables turnover days[(1)]	**135**	126
Trade payables turnover days[(2)]	**63**	58
Inventories turnover days[(3)]	**238**	187

Notes:

(1) *The average of the beginning and ending balances for the period, divided by revenue from wholesales to third-party retailers plus sales from the Group's self-owned retail points and sales through other sales channels, mainly representing sales to Ten Ren Tea Co., Ltd. (天仁茶業股份有限公司), for the period, multiplied by the number of days in the period.*

(2) *The average of the beginning and ending trade payables balances for the period, divided by cost of sales for the period, multiplied by the number of days in the period.*

(3) *The average of the beginning and ending inventory balances for the period, divided by the cost of sales for the period, multiplied by the number of days in the period.*

The Group's trade and other receivables represent primarily balances due from third-party retailers. The Group's trade and other receivables decreased by RMB13.9 million to RMB300.8 million as of 30 June 2012 from RMB314.7 million as of 31 December 2011, primarily due to the settlement of trade receivables due from third parties.

The Group's trade and other payables principally comprise payables to its raw material suppliers, employee benefit payables, other taxes payable, accrued operating expenses and advances from customers. The Group's trade and other payables decreased to RMB186.3 million as of 30 June 2012 from RMB213.0 million as of 31 December 2011, primarily due to (i) a decrease in trade payables to third parties, including raw material suppliers, of RMB16.2 million, and (ii) a decrease in other taxes payable of RMB7.0 million, as a result of the decrease in value added tax payable as of 30 June 2012, compared with that as of 31 December 2011.

The Group's inventories comprise raw materials (including packaging materials), work-in-progress and finished goods. The Group's inventories increased to RMB416.0 million as of 30 June 2012 from RMB380.0 million as of 31 December 2011, primarily reflecting increased procurement in the first half of 2012 to satisfy the sales demand for the full year of 2012, primarily in anticipation of increased sales attributable to the Mid-Autumn Festival holiday.

The Group has sufficient working capital and financial resources to support for regular operation.

Foreign exchange risk

The Group's normal operating activities are principally conducted in RMB, since all of its operating subsidiaries are based in the PRC. As of 30 June 2012, most of the operating entities' revenues, expenses, assets and liabilities were denominated in RMB. The Group's foreign exchange risk mainly arises from the portion of its sales and purchases of products denominated in USD and financing activities denominated in USD and Hong Kong Dollars ("**HKD**"). The opinion of the directors is that the Group does not have significant foreign currency risk exposure.

Any future depreciation of RMB would adversely affect the value of any dividends the Group pays to its shareholders. The Group currently does not engage in hedging activities designed or intended to manage such exchange rate risk. Because RMB is not freely convertible, the Group's ability to reduce foreign exchange rate risk is limited.

Contingent liabilities

The Group had no material contingent liabilities as of 30 June 2012.

No material change

Save as disclosed above, there has been no material change in the Group's financial position or business since the publication of the latest annual report of the Company for the year ended 31 December 2011.

EMPLOYEE AND REMUNERATION POLICY

As of 30 June 2012, the Group had a total of 6,889 employees with 6,886 employees in the PRC and 3 employees in Hong Kong. For the six months ended 30 June 2012, the labor costs of the Group was RMB166.8 million.

The Group's employee remuneration policy is determined by reference to factors such as remuneration in respect of the local market, the overall remuneration standard in the industry, inflation level, corporate operating efficiency and employee performance. The Group conducts performance appraisals once every year for its employees, the results of which are applied in annual salary review and promotional assessment. The Group's employees are considered for annual bonuses according to certain performance criteria and appraisal results. Social insurance contributions are made by the Group for its PRC employees in accordance with the relevant PRC regulations.

The Group also provides continuous learning and training programs to its employees to enhance their skills and knowledge, so as to maintain their competitiveness and improve customer service. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or any material labor dispute during the six month period ended 30 June 2012.

The Company adopted a share option scheme on 17 December 2010. During the six months ended 30 June 2012, the Company granted options to subscribe for an aggregate of 7,046,000 shares on 6 January 2012 to certain directors, employees and independent third party distributors of the Group and an aggregate of 1,307,000 shares on 12 January 2012 to certain directors of the Group. These options vest in tranches over a period of up to 3 years.

OTHER INFORMATION

Purchase, Sales or Redemption of Shares

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance

The Company is committed to the establishment of stringent corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. The Company strives to maintain a high standard of corporate governance. For the six months ended 30 June 2012, the Board is of the view that, for the period from 1 January 2012 till 31 March 2012, the Company has complied with the code provisions in the Code on Corporate Governance Practices (the "**Old Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities of the Stock Exchange (the "**Listing Rules**") and for the period from 1 April 2012 till 30 June 2012, the Company has complied with the code provisions included in the amendments made to the Old Code which took effect and re-named as "Corporate Governance Code" (the "**New Code**") since 1 April 2012 and there has been no deviation from the code provisions as set forth under the Old Code and the New Code for the six months ended 30 June 2012.

Model Code for Securities Transactions by Directors

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as the code for dealings in securities transactions by the directors of the Company. Specific enquiries have been made with all directors of the Company, they have confirmed their compliance with the required standard set out in the Model Code throughout the six months ended 30 June 2012.

Interim Dividend

At the Board meeting held on 27 August 2012, it was proposed that an interim dividend of HKD0.08 per share (equivalent to RMB0.065 per share) be paid after 28 September 2012 to the shareholders of the Company whose names appear on the Company's register of members on 19 September 2012.

Closure of Register of Members

For determining the entitlement to the interim dividend, the register of members of the Company will be closed from 17 September 2012 to 19 September 2012, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the interim dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 14 September 2012.

Review of Accounts

The audit committee of the Company (the "**Audit Committee**") comprises three independent non-executive directors and one non-executive director of the Company. The Audit Committee and the Company's management have reviewed the accounting principles and practices adopted by the Group, and discussed internal control and financial reporting matters including review of the unaudited interim results of the Group for the six months ended 30 June 2012. The condensed consolidated interim financial statements of the Group for the six months ended 30 June 2012 have also been reviewed by PricewaterhouseCoopers, the external auditor of the Company, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

Publication of Interim Report

This interim results announcement is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.tenfu.com). The interim report of the Company for the six months ended 30 June 2012 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and made available for review on the aforesaid websites in due course.

By order of the Board
Tenfu (Cayman) Holdings Company Limited
Lee Chia Ling
Director

Hong Kong, 27 August 2012

As at the date of this announcement, the Board comprises nine members, of which Mr. Lee Rie-Ho, Mr. Lee Shih-Wei, Mr. Lee Chia Ling, Mr. Lee Kuo-Lin and Mr. Lee Min-Zun are the executive directors; Mr. Tseng Ming-Sung is the non-executive director and Mr. Lo Wah Wai, Mr. Lee Kwan Hung and Mr. Fan Ren Da, Anthony are the independent non-executive directors.