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)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

Financial Highlights

- Revenue for the year ended 31 December 2013 decreased by 2.6% from RMB1,706.6 million for 2012 to RMB1,661.6 million;
- Gross profit for the year ended 31 December 2013 decreased by 7.1% from RMB1,094.7 million for 2012 to RMB1,017.2 million, with a decrease in gross profit margin from 64.1% for 2012 to 61.2% for the year ended 31 December 2013;
- Profit for the year ended 31 December 2013 decreased by 9.3% from RMB294.6 million for 2012 to RMB267.1 million, which corresponded to a decrease in net profit margin from 17.3% for 2012 to 16.1% for the year ended 31 December 2013;
- Basic earnings per share for the year ended 31 December 2013 was RMB0.22; and
- The Board proposed a final dividend of HKD0.13 per share (equivalent to RMB0.10 per share).

The board of directors (the "**Board**") of Tenfu (Cayman) Holdings Company Limited (the "**Company**" or "**Tenfu**" and together with its subsidiaries, the "**Group**") is pleased to announce the consolidated results of the Group for the year ended 31 December 2013, together with the comparative figures for the year ended 31 December 2012, as below.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2013	2012
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**1,661,577**	1,706,598
Cost of sales		**(644,388)**	(611,894)
Gross profit		**1,017,189**	1,094,704
Distribution costs		**(487,639)**	(491,467)
Administrative expenses		**(192,443)**	(204,697)
Other income	*4*	**16,367**	12,848
Other gains/(losses) – net	*5*	**2,613**	(3,841)
Operating profit		**356,087**	407,547
Finance income		**13,079**	6,739
Finance costs		**(1,915)**	(8,558)
Finance income/(costs) – net	*6*	**11,164**	(1,819)
Share of profit of a joint venture		**1,784**	1,407
Profit before income tax		**369,035**	407,135
Income tax expense	*7*	**(101,902)**	(112,538)
Profit for the year, all attributable to the owners of the Company		**267,133**	294,597
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year, all attributable to the owners of the Company		**267,133**	294,597
Earnings per share for profit attributable to the owners of the Company			
– Basic earnings per share	*8*	**RMB0.22**	RMB0.24
– Diluted earnings per share	*8*	**RMB0.22**	RMB0.24

		Year ended 31 December	
		2013	2012
		RMB'000	*RMB'000*
Dividends	*9*	**194,689**	217,065

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2013	2012
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Land use rights		**138,504**	90,065
Investment properties		**4,456**	4,743
Property, plant and equipment		**587,591**	494,243
Intangible assets		**3,902**	1,780
Investment in a joint venture		**4,791**	4,341
Deferred income tax assets		**43,354**	37,756
Prepayments – non-current portion	*10(b)*	**81,429**	95,897
		864,027	728,825
Current assets			
Inventories		**423,691**	431,437
Trade and other receivables	*10(a)*	**239,893**	212,244
Prepayments	*10(b)*	**85,531**	86,123
Restricted cash		**45,975**	27,500
Time deposits		**480,000**	89,400
Cash and cash equivalents		**202,277**	558,841
		1,477,367	1,405,545
Total assets		**2,341,394**	2,134,370

	Note	As at 31 December 2013 RMB'000	2012 RMB'000
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	*11*	**100,816**	100,816
Share premium	*11*	**472,704**	678,625
Other reserves	*12*	**437,069**	406,784
Retained earnings		**879,768**	642,353
Total equity		**1,890,357**	1,828,578
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**17,453**	11,963
Current liabilities			
Trade and other payables	*14*	**271,692**	161,965
Dividends payable		**–**	1,642
Current income tax liabilities		**26,491**	22,445
Borrowings	*15*	**121,454**	104,283
Other liabilities	*16*	**13,947**	3,494
		433,584	293,829
Total liabilities		**451,037**	305,792
Total equity and liabilities		**2,341,394**	2,134,370
Net current assets		**1,043,783**	1,111,716
Total assets less current liabilities		**1,907,810**	1,840,541

NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION

The Group is engaged in the classification, packaging of tea leaves, manufacture of tea snacks, and sales of tea leaves, tea snacks and tea ware offline and online, and catering management, beverage production and sales of pre-packaged food. The Group has manufacturing plants in Fujian Province, Sichuan Province and Zhejiang 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 Companies 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 on 26 September 2011 (the "Listing").

The financial information is presented in Renminbi ("RMB"), unless otherwise stated. The financial information has been approved for issue by the board of directors (the "Board") of the Company on 27 March 2014.

2 BASIS OF PREPARATION

The financial information is extracted from the consolidated financial statements of the Company which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") under the historical cost convention.

Changes in accounting policies and disclosures

New standards and amendments adopted by the Group in 2013

The following new standards and amendments which are relevant to the Group's operations are effective for the first time for the financial year beginning on 1 January 2013.

- Amendments to HKAS 1 'Presentation of Financial Statements' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment does not address which items are presented in OCI.

- Amendments to HKFRS 7 'Financial Instruments: Disclosures' on financial asset and liability offsetting. The amendments require new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the balance sheet, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset.

- Amendments to HKFRSs 10, 11 and 12 on transition guidance. These amendments provide additional transition relief to HKFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

- HKFRS 10 'Consolidated Financial Statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.

- HKFRS 11 'Joint Arrangements' changes the definitions to reduce the types of joint arrangements to two, joint operations and joint ventures. The jointly controlled assets classification in HKAS 31 'Interests in Joint Ventures' has been merged into joint operations, as both types of arrangements generally result in the same accounting outcome.

  A joint operation is a joint arrangement that gives parties to the arrangement direct rights to the assets and obligations for the liabilities. A joint operator will recognise its interest based on its involvement in the joint operation (that is, based on its direct rights and obligations) rather than on the participation interest it has in the joint arrangement.

  A joint venture, in contrast, gives the parties rights to the net assets or outcome of the arrangement. A joint venturer does not have rights to individual assets or obligations for individual liabilities of the joint venture. Instead, joint venturers share the net assets and, in turn, the outcome (profit or loss) of the activity undertaken by the joint venture. Joint ventures are accounted for using the equity method in accordance with HKAS 28, 'Investments in Associates'. Entities can no longer account for an interest in a joint venture using the proportionate consolidation method.

- HKFRS 12 'Disclosure of Interests in Other Entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

- HKFRS 13 'Fair Value Measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs.

- HKAS 27 (Revised 2011) 'Separate Financial Statements' includes the provisions on separate financial statements that are left after the control provisions of HKAS 27 have been included in the new HKFRS 10.

- HKAS 28 (Revised 2011) 'Investments in Associates and Joint Ventures' includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of HKFRS 11.

- Annual improvements 2011 – These annual improvements address six issues in the 2009 – 2011 reporting cycle, primarily with a view to removing inconsistencies and clarifying wording. They include changes to the following standards which are relevant to the Group's operations:

  HKAS 1 'Presentation of Financial Statements'
  HKAS 16 'Property, Plant and Equipment'
  HKAS 32 'Financial Instruments: Presentation'
  HKAS 34 'Interim Financial Reporting'

- Annual improvement 2012 – Amendment to HKFRS 13 'Fair Value Measurement'. This amendment is a classification that there is no change in measurement requirements for short-term receivables and payables when the effect of not discounting is immaterial.

The adoption of the above new standards and amendments starting from 1 January 2013 did not give rise to any significant impact on the Group's results of operations and financial position for year ended 31 December 2013. The new principle of control did not change the classification of the subsidiaries which had been consolidated in the Group's consolidated financial statements and there was no additional subsidiary arising from such a change in the concept of control. The jointly controlled entity of the Group continued to be equity accounted for and changed to be called joint venture.

3 REVENUE AND 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 sales of tea leaves, tea snacks and tea ware.

Others include revenue from restaurant, hotel, tourist, management services and catering management, beverage production and sales of pre-packaged food. 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 almost all the operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

During 2013, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

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 consolidated financial statements. The common administrative expenses, other gains or losses, other income, financing (including finance costs and interest income), share of results of a joint venture and income taxes are managed on a group basis and are not allocated to operating segments.

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

Segment liabilities comprise operating liabilities. They exclude borrowings, deferred income tax liabilities, tax liabilities, dividends payable and other payables due to related parties and directors' and senior management's emoluments payable.

Revenue

Turnover of the Group consists of the following revenues for the years ended 31 December 2013 and 2012. All revenues are derived from external customers.

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Sales of tea leaves	**1,198,155**	1,108,889
Sales of tea snacks	**222,942**	239,691
Sales of tea ware	**204,697**	326,466
Others	**35,783**	31,552
	1,661,577	1,706,598

The segment results for the year ended 31 December 2013:

	Tea leaves *RMB'000*	**Tea snacks** *RMB'000*	**Tea ware** *RMB'000*	**All other segments** *RMB'000*	**Total** *RMB'000*
Segment revenue	**1,198,155**	**222,942**	**204,697**	**35,783**	**1,661,577**
Segment results	**287,885**	**25,945**	**35,811**	**7,669**	**357,310**
Common administrative expenses					**(20,203)**
Other income					**16,367**
Other gains – net					**2,613**
Finance income – net					**11,164**
Share of results of a joint venture					**1,784**
Profit before income tax					**369,035**
Income tax expense					**(101,902)**
Profit for the year					**267,133**

Other segment items included in the 2013 consolidated statement of comprehensive income:

	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	**33,524**	**10,391**	**6,653**	**2,203**	**10,192**	**62,963**
Depreciation of investment properties	**–**	**–**	**–**	**–**	**287**	**287**
Amortization of land use rights	**2,538**	**550**	**427**	**69**	**–**	**3,584**
Losses on disposal of property, plant and equipment, net	**122**	**119**	**115**	**–**	**–**	**356**

The segment assets and liabilities as at 31 December 2013 are as follows:

	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	**1,307,800**	**279,148**	**267,256**	**39,049**	**448,141**	**2,341,394**
Segment liabilities	**193,987**	**21,323**	**27,917**	**4,912**	**202,898**	**451,037**

The segment results for the year ended 31 December 2012:

	Tea leaves *RMB'000*	Tea snacks *RMB'000*	Tea ware *RMB'000*	All other segments *RMB'000*	Total *RMB'000*
Segment revenue	1,108,889	239,691	326,466	31,552	1,706,598
Segment results	316,277	30,448	67,659	5,934	420,318
Common administrative expenses					(21,778)
Other income					12,848
Other losses – net					(3,841)
Finance costs – net					(1,819)
Share of results of a joint venture					1,407
Profit before income tax					407,135
Income tax expense					(112,538)
Profit for the year					294,597

Other segment items included in the 2012 consolidated statement of comprehensive income:

	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	32,654	9,814	6,624	2,183	10,648	61,923
Depreciation of investment properties	–	–	–	–	287	287
Amortization of land use rights	1,350	340	404	67	–	2,161
Losses/(gains) on disposal of property, plant and equipment, net	643	117	147	(9)	–	898

The segment assets and liabilities as at 31 December 2012 are as follows:

	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	1,126,059	236,838	275,675	29,797	466,001	2,134,370
Segment liabilities	89,096	15,175	27,638	900	172,983	305,792

4 OTHER INCOME

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Government grants	**13,057**	10,066
Investment property rental income	**1,726**	1,407
Others	**1,584**	1,375
	16,367	12,848

5 OTHER GAINS/(LOSSES) – NET

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Losses on disposal of property, plant and equipment, net	**(356)**	(898)
Net foreign exchange losses	**(615)**	(2,943)
Gain from acquisition of a subsidiary *(Note 17(a))*	**3,584**	–
	2,613	(3,841)

6 FINANCE INCOME/(COSTS) – NET

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Finance costs		
– Interest expenses on bank borrowings	**(1,915)**	(8,177)
– Net foreign exchange losses	**–**	(381)
Total finance costs	**(1,915)**	(8,558)
Finance income		
– Interest income on short-term bank deposits and time deposits	**12,694**	6,739
– Net foreign exchange gains	**385**	–
Total finance income	**13,079**	6,739
Net finance income/(costs)	**11,164**	(1,819)

7 INCOME TAX EXPENSE

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong profits tax	**18**	62
– PRC corporate income tax	**101,728**	104,476
Deferred income tax	**156**	8,000
Income tax expense	**101,902**	112,538

(i) Cayman Islands profits tax

The Company is not subject to any taxation in the Cayman Islands.

(ii) Hong Kong profits tax

For the year ended 31 December 2013, Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profit for the year.

(iii) PRC corporate income tax ("CIT")

CIT is provided on the assessable income of entities within the Group incorporated in the PRC.

8 EARNINGS PER SHARE

(a) Basic

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

	Year ended 31 December	
	2013	2012
Profit attributable to the owners of the Company (RMB'000)	**267,133**	294,597
Weighted average number of ordinary shares in issue	**1,227,207,460**	1,227,207,460
Basic earnings per share (RMB)	**0.22**	0.24

(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 31 December 2013, 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.

9 DIVIDENDS

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Interim dividend declared	**68,320**	79,464
Proposed final dividend	**126,369**	137,601
	194,689	217,065

At a meeting held on 27 March 2014, the Board proposed a final dividend for 2013 of HKD159,537,000 (equivalent to RMB126,369,000), representing HKD13 cents (equivalent to RMB10 cents) per share using the share premium account.

The proposed final dividend for 2013 is to be approved by the shareholders at the forthcoming Annual General Meeting. The proposed dividend is not reflected as a dividend payable in the consolidated financial statements, but will be reflected as an appropriation of share premium for the year ending 31 December 2014.

The interim dividend for 2013 of HKD7 cents (equivalent to RMB5.6 cents) per share was declared by the Board on 26 August 2013 using the share premium account. This interim dividend, amounting to HKD85,905,000 (equivalent to RMB68,320,000), has been reflected as an appropriation of share premium for the year ended 31 December 2013.

The 2012 final dividend of HKD14 cents (equivalent to RMB11 cents) per share, totalling HKD171,809,000 (equivalent to RMB137,601,000), to be distributed using the share premium account was approved by the shareholders at the Annual General Meeting held on 14 May 2013.

The interim dividend for 2012 of HKD8 cents (equivalent to RMB6.5 cents) per share, totalling HKD98,177,000 (equivalent to RMB79,464,000), was declared by the Board on 27 August 2012 using the share premium account.

The dividends paid in 2013 and 2012 were RMB207,563,000 and RMB355,878,000 respectively.

10 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

(a) Trade and other receivables

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Trade receivables due from third parties	**232,438**	191,948
Interest receivable on time deposits	**4,571**	–
Others	**2,884**	20,296
	7,455	20,296
	239,893	212,244

Most of the 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.

As at 31 December 2013 and 2012, the ageing analysis of the trade receivables of the Group based on invoice date is as follows:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Up to 140 days	**219,574**	177,684
141 days to 6 months	**9,987**	9,437
6 months to 1 year	**2,614**	4,619
1 year to 2 years	**263**	208
	232,438	191,948

As at 31 December 2013, trade receivables of RMB12,864,000 (31 December 2012: RMB14,264,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Past due within 40 days	**9,987**	9,437
Past due over 40 days and within 220 days	**2,614**	4,619
Past due over 220 days	**263**	208
	12,864	14,264

As at 31 December 2013, no trade receivables was impaired and provided for (31 December 2012: nil).

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
RMB	**236,351**	209,483
USD	**3,542**	2,761
	239,893	212,244

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

(b) Prepayments and deposits

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Non-current		
Prepayments for property, plant and equipment	**81,429**	95,897
Current		
Prepayments for lease of property and lease deposits	**61,165**	60,852
Prepayments for raw materials and packaging materials	**13,901**	18,543
Prepaid taxes	**10,465**	6,728
	85,531	86,123
	166,960	182,020

11 SHARE CAPITAL AND PREMIUM

	Number of authorized shares *(thousands)*	Number of issued shares	Ordinary shares *RMB*	Share premium *RMB*	Total *RMB*
At 1 January 2013	**8,000,000**	**1,227,207,460**	**100,815,647**	**678,625,268**	**779,440,915**
Dividends (i)	**–**	**–**	**–**	**(205,921,075)**	**(205,921,075)**
At 31 December 2013	**8,000,000**	**1,227,207,460**	**100,815,647**	**472,704,193**	**573,519,840**
Representing:					
Proposed final dividend (i)				**126,369,000**	
Others				**346,335,193**	
At 31 December 2013				**472,704,193**	
At 1 January 2012	8,000,000	1,227,207,460	100,815,647	1,036,145,418	1,136,961,065
Dividends (i)	–	–	–	(357,520,150)	(357,520,150)
At 31 December 2012	8,000,000	1,227,207,460	100,815,647	678,625,268	779,440,915
Representing:					
Proposed final dividend (i)				138,908,000	
Others				539,717,268	
At 31 December 2012				678,625,268	

(i) Pursuant to Section 34 of the Cayman Companies Law (2003 Revision) and the Articles of Association of the Company, share premium of the Company is available for distribution to shareholders subject to a solvency test on the Company and the provision of the Articles of Association of the Company. Details of the proposed final dividend are set out in Note 9.

12 OTHER RESERVES

	Merger reserve RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Share-based payment reserve RMB'000	Total RMB'000
At 1 January 2013	**278,811**	**231**	**126,723**	**1,019**	**406,784**
Appropriation to statutory reserves	**–**	**–**	**29,718**	**–**	**29,718**
Share option scheme – value of services from directors, employees and independent third party distributors *(Note 13)*	**–**	**–**	**–**	**567**	**567**
At 31 December 2013	**278,811**	**231**	**156,441**	**1,586**	**437,069**
At 1 January 2012	278,811	231	96,855	–	375,897
Appropriation to statutory reserves	–	–	29,868	–	29,868
Share option scheme – value of services from directors, employees and independent third party distributors *(Note 13)*	–	–	–	1,019	1,019
At 31 December 2012	278,811	231	126,723	1,019	406,784

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, employees, managerial staff and senior employees and those other persons 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, 1,307,000 shares and 8,353,000 shares on 6 January 2012, 12 January 2012 and 19 March 2013 respectively to certain directors, employees and independent third party distributors. 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 targets 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, 11 January 2013, 18 March 2014 respectively;

(ii) up to 35% on or after 5 January 2014, 11 January 2014 and 18 March 2015 respectively;

(iii) all the remaining options on or after 5 January 2015, 11 January 2015 and 18 March 2016 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	Number of options *(thousands)*
As at 1 January 2013	**5.44**	**8,338**
Granted on 19 March 2013	**4.28**	**8,353**
Forfeited *(Note (a))*	**5.24**	**(189)**
As at 31 December 2013	**4.86**	**16,502**
As at 1 January 2012	–	–
Granted on 6 January 2012	5.41	7,046
Granted on 12 January 2012	5.60	1,307
Forfeited *(Note (a))*	5.41	(15)
As at 31 December 2012	5.44	8,338

(a) Options were forfeited during the years ended 31 December 2013 and 2012 due to employees' resignation.

Share options outstanding at 31 December 2013 have the following expiry dates and exercise prices:

Expiry date	**Exercise price in HKD per share**	**Number of options *(thousands)***
5 January 2022	5.41	6,875
11 January 2022	5.60	1,307
18 March 2023	4.28	8,320

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), HKD3,685,000 (equivalent to RMB2,999,000) and HKD16,249,000 (equivalent to RMB13,139,000) on 6 January 2012, 12 January 2012 and 19 March 2013 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	**Granted on 19 March 2013**
Exercise price	HKD5.41	HKD5.60	**HKD4.28**
Expected volatility	53.95%	53.93%	**56.79%**
Expected dividend yield	2.00%	2.00%	**3.00%**
Risk free rate	1.52%	1.49%	**1.20%**

The expected volatility is determined by calculating the historical volatility of the price of listed companies with businesses 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 consolidated statement of comprehensive income during the year ended 31 December 2013 was approximately HKD721,000 (equivalent to RMB567,000), including an amount of HKD687,000 (equivalent to RMB540,000) for the directors and employees of the Group.

The share option expense charged to the consolidated statement of comprehensive income during the year ended 31 December 2012 was approximately HKD1,256,000 (equivalent to RMB1,019,000), including an amount of HKD1,016,000 (equivalent to RMB824,000) for the directors and employees of the Group.

14 TRADE AND OTHER PAYABLES

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Trade payables – due to third parties	**129,457**	69,509
Trade payables – due to related parties	**18,323**	12,609
Other payables for property, plant and equipment	**5,445**	3,426
Other taxes payable	**17,299**	14,886
Employee benefit payables	**22,965**	18,597
Accrued operating expenses	**18,821**	17,303
Advances from customers	**23,424**	10,233
Amounts due to related parties	**29**	2,147
Other payables for business combinations *(Note 17(a))*	**19,129**	–
Others	**16,800**	13,255
	271,692	161,965

As at 31 December 2013 and 2012, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date is as follows:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Up to 6 months	**138,757**	78,596
6 months to 1 year	**8,643**	3,002
1 year to 2 years	**161**	507
Over 2 years	**219**	13
	147,780	82,118

15 BORROWINGS

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Short-term bank borrowings		
– Unsecured bank borrowings (i)	**75,727**	80,000
– Secured bank borrowings (ii)	**45,727**	24,283
	121,454	104,283

(i) As at 31 December 2013, bank borrowings of RMB45,727,000 are guaranteed by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, all of them are directors of the Company (31 December 2012: nil).

(ii) As at 31 December 2013, bank borrowings of RMB45,727,000 are secured by bank deposits of RMB45,975,000 of the Group.

As at 31 December 2012, bank borrowings of RMB24,283,000 are secured by bank deposits of RMB27,500,000 of the Group.

The exposure of the Group's borrowings to interest rate changes and the contractual pricing dates as at the end of the year are as follows:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
3 months or less	**91,454**	54,283
4-6 months	**–**	30,000
7-12 months	**30,000**	20,000
	121,454	104,283

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
RMB	**30,000**	80,000
HKD	**–**	24,283
USD	**91,454**	–
	121,454	104,283

The weighted average effective interest rate at the balance sheet date was as follows:

	As at 31 December	
	2013	2012
Short-term bank borrowings	**2.11%**	5.33%

The fair value of short-term bank borrowings approximate their carrying amount.

16 OTHER LIABILITIES

	As at 31 December	
	2013	2012
	RMB'000	*RMB'000*
Deferred revenue: customer loyalty programme	**13,947**	3,494

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. Unused reward points will expire after one year.

17 BUSINESS COMBINATIONS

(a) Acquisition of Zhejiang Tianfu Tea Industry Co., Ltd. ("Zhejiang Tenfu")

Pursuant to the equity transfer agreement entered into between Tenfu (Hong Kong) Holdings Co., Ltd. ("Tenfu HK"), an indirectly wholly-owned subsidiary of the Company, and Ten Yuan (Singapore) Holdings Co. Pte. Ltd. ("Ten Yuan Singapore"), a related party, dated 17 July 2013, Ten Yuan Singapore transferred its entire equity interests in Zhejiang Tenfu to Tenfu HK at a consideration of RMB39,128,821. The transaction was completed on 26 September 2013 which is regarded as the acquisition date. The fair value of the net assets of Zhejiang Tenfu at the acquisition date is higher than the consideration paid, hence a gain of RMB3,584,000 is recognized from the purchase. The acquired revenue and net loss of Zhejiang Tenfu is RMB4,139,000 and RMB267,000 respectively during the period from acquisition date to 31 December 2013. As all the revenue of Zhejiang Tenfu are derived from companies within the Group, which will be eliminated in the consolidated financial statements, the acquired businesses totally contributed net loss of RMB267,000 to the Group during the period from acquisition date to 31 December 2013.

Had Zhejiang Tenfu been consolidated from 1 January 2013, the consolidated statement of comprehensive income of the Group would show pro-forma revenue of RMB1,661,577,000 and net profit of RMB259,333,000 for the year ended 31 December 2013.

Through the acquisition of Zhejiang Tenfu, the Group will be able to have a production facility strategically located in Zhejiang, where it is the production base of Longjing tea and close to the retail outlets and retail points in Central and Northeast China, as well as to achieve optimization in procurement costs.

	Zhejiang Tenfu *RMB'000*
Total purchase consideration to be settled in cash	39,129

Details of the net assets acquired as at 26 September 2013, the gain arising from the acquisition and cash outflow on acquisition are as follows:

	Fair value *RMB'000*	**Acquiree's carrying amount** *RMB'000*
Cash and cash equivalents	1,025	1,025
Land use rights	4,856	2,672
Property, plant and equipment	25,475	22,713
Inventories	8,281	8,281
Trade and other receivables	9,452	9,452
Trade and other payables	(5,140)	(5,140)
Deferred tax liabilities	(1,236)	–
	42,713	39,003
Gain from acquisition *(Note 5)*	3,584	
Purchase consideration already settled in cash		39,129
Purchase consideration not yet settled *(Note 14)*		(19,129)
Cash and cash equivalents in subsidiary acquired		(1,025)
Net cash outflow on acquisition		18,975

(b) Acquisition of Xiamen Tianyu Commerce and Trading Co., Limited ("Tian Yu") and Tianqia Catering Management Co., Limited ("Tian Qia")

During the year ended 31 December 2013, Fujian Tian Fu Sales Co., Ltd. ("Fujian Tenfu"), an indirectly wholly-owned subsidiary of the Company, has acquired 100% equity interests of Tian Yu and Tian Qia from Ming Feng Holdings Co., Limited, a related party, and Ten Yuan (Hong Kong) Holdings Co. Limited., a third party, respectively, which are regarded as the respective acquisition dates. The equity transfers have been completed by 25 September 2013 and 21 October 2013, respectively, which are regarded as the respective acquisition dates. The fair value of the net assets of Tian Yu at the acquisition date is equal to the consideration paid. The fair value of the net assets of Tian Qia at the acquisition date is lower than the consideration paid, hence a goodwill of RMB1,740,000 was recognised for the acquisition of Tian Qia. The acquired businesses totally contributed revenue of RMB8,437,000 and net profit of RMB1,464,000 to the Group during the period from the respective acquisition dates to 31 December 2013.

Had the Tian Yu and Tian Qia been consolidated from 1 January 2013, the consolidated statement of comprehensive income of the Group would show pro-forma revenue of RMB1,688,229,000 and net profit of RMB268,545,000 for the year ended 31 December 2013.

Through the acquisition of Tian Yu, the Group will be able to have multi-channel sales and distribution network, which enables the Group to access a broad market audience and penetrate into different regions in the PRC, and continue to rapidly expand their sales.

Through the acquisition of Tian Qia, the Group will enter into the tea drink industry.

	Tian Yu	**Tian Qia**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Total purchase consideration to be settled in cash	2,062	837	2,899

Details of the net assets/(liabilities) acquired/(assumed) as at the respective acquisition dates, the goodwill generated and cash inflow on acquisition are as follows:

	Fair value/Acquiree's carrying amount		
	Tian Yu	**Tian Qia**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents	3,993	1,413	5,406
Property, plant and equipment	289	381	670
Intangible assets	–	152	152
Inventories	1,155	834	1,989
Trade and other receivables	7,924	2,440	10,364
Borrowings	(9,300)	–	(9,300)
Trade and other payables	(1,999)	(6,123)	(8,122)
	2,062	(903)	1,159
Goodwill	–	1,740	1,740
Cash and cash equivalents in subsidiaries acquired	3,993	1,413	5,406
Purchase consideration already settled in cash	(2,062)	(837)	(2,899)
Net cash inflow on acquisition	1,931	576	2,507

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Outlook

In 2013, the Group achieved revenue of RMB1,661.6 million, down 2.6% from 2012, and recorded profit for the year of RMB267.1 million, down 9.3% from 2012. The decrease in the Group's revenue for the year was mainly due to the economic slowdown in China.

In 2013, the Group further strengthened its market position and the efficiency of its operations, including further expanding its network, actively promoting the customer loyalty programme, consolidating and developing customer base, increasing release of marketing program and education and training for the employees, improving employees' benefits, while controlling expenditures.

1. **Leading brand position**. Being ranked first among 2013 China's Top 100 tea industry enterprises in terms of comprehensive strength, the "Tenfu" (天福) brand has one of the highest levels of brand awareness amongst tea product consumers in the PRC. With its high level of brand awareness and more than 20 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 31 December 2013, the Group had a total of 1,347 self-owned and third-party owned retail outlets and retail points, increased by a net of 32 retail outlets and retail points from a total of 1,315 as of 31 December 2012.

In 2014, the Group plans to continue to expand and optimize its network of self-owned retail outlets and retail points, expand its market share in first-tier and second-tier cities, further penetrate into third-tier and fourth-tier cities, ride on the urbanisation progress of townships 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 further expand retail outlets and retail points per year over the next five 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, actively expand networks in third-tier and fourth-tier and smaller cities, and develop quality distributors to increase sales of its tea products. As disclosed in the Company's announcement dated 17 July 2013, Fujian Tian Fu Sales Co., Ltd. (福建天福茗茶銷售有限公司), an indirectly wholly-owned subsidiary of the Company, and Ming Feng Holdings Co., Limited (銘峰控股有限公司) entered into an equity transfer agreement, pursuant to which Fujian Tian Fu Sales Co., Ltd has conditionally agreed to purchase, and Ming Feng Holdings Co., Limited has conditionally agreed to sell, the entire equity interest in Xiamen Tianyu Commerce and Trading Co., Limited (廈門天鈺商貿有限公司) at the purchase price of RMB2,061,600. Through the completion of acquisition of Xiamen Tianyu Commerce and Trading Co., Limited in September 2013, the Group has multi-channel sales and distribution network, which enables the Group to access a broad market audience and penetrate into different regions in the PRC, and continue to rapidly expand its sales.

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 make further efforts to promote its products and brands during traditional Chinese festivals, and actively hold tea ware exhibition, incense lore expo, new tea tasting events and tea art education activities for enhancement of communications and interactions with customers in order to maintain and promote the well-known Tenfu brand.

3. **Continue to develop new concepts for tea-related products**. The Group believes that a broad portfolio of products will help it to maintain its leading brand position and keep pace with constantly changing consumer preferences and trends. To this end, the Group will continue the development of tea and tea-related products to meet market requirements, as well as creating the trend and leading the trend. On 17 July 2013, Fujian Tian Fu Sales Co., Ltd. (福建天福茗茶銷售有限公司), an indirectly wholly-owned subsidiary of the Company and TenYuan (HongKong) Holdings Co. Limited. (天元（香港）控股有限公司), a third party independent of the Company and its connected persons, entered into an equity transfer agreement, pursuant to which Fujian Tian Fu Sales Co., Ltd. has conditionally agreed to purchase, and TenYuan (HongKong) Holdings Co. Limited has conditionally agreed to sell, the entire equity interest in Xiamen Tianqia Catering Management Co., Limited (廈門天洽餐飲管理有限公司) at the purchase price of RMB837,200. Through the completion of acquisition of Xiamen Tianqia Catering Management Co., Limited in October 2013, the Group enters into the tea drink (including milk tea) industry with the trademark of "放牛斑". On 13 November 2013, Fujian Tian Fu Sales Co., Ltd. (福建天福茗茶銷售有限公司), an indirectly wholly-owned subsidiary of the Company and Ten Ren Tea (Hong Kong) Limited (天仁茶業股份有限公司), a subsidiary of Ten Ren Tea Co., Ltd. (天仁茶業股份有限公司) entered into a joint venture agreement to establish a joint venture company, Xiamen Daily Plus Food Beverage Management Co., Ltd. (廈門天天飲餐飲管理有限公司) with the registered capital of US$2,100,000 and held directly by each of Fujian Tian Fu Sales Co., Ltd. and Ten Ren Tea (Hong Kong) Limited as to 50%, respectively, to cooperate in the development and operation of the tea drink business with the trademark of "喫茶趣 TO GO". Through the establishment of the joint venture company, Xiamen Daily Plus Food Beverage Management Co., Ltd., the Group will expand its market share in tea drink (including milk tea) industry by cooperation with Ten Ren Tea Co., Ltd. and leveraging experience of Ten Ren Tea Co., Ltd. in Taiwan and international market.

4. **Enhance processing and distribution efficiency and effectiveness**. The Group continues to optimize and implement a fully-integrated ERP (Enterprise Resource Planning) system in 2013 so as to collect real-time sales and inventory data from retail outlets. The Group intends to continue proper implementation and usage of the ERP system, aiming to streamline its distribution operation and improve collection of information, so that the Group can plan its processing schedules, manage resources and monitor sales and inventory information more efficiently and effectively.

5. **Expand production capacity through the increase of the number of processing facilities**. The Group plans to cater for future growth and anticipated increases in the demand for tea and tea-related products by expanding production capacity when suitable acquisition opportunities arise or suitable construction sites can be acquired. As disclosed in the

Company's announcement dated 17 July 2013, Tenfu (Hong Kong) Holdings Co., Limited (天福(香港)控股有限公司), an indirectly wholly-owned subsidiary of the Company, and Ten Yuan (Singapore) Holdings Co. Pte. Ltd. entered into an equity transfer agreement, pursuant to which Tenfu (Hong Kong) Holdings Co., Limited has conditionally agreed to purchase, and Ten Yuan (Singapore) Holdings Co. Pte. Ltd. has conditionally agreed to sell, the entire equity interest in Zhejiang Tianfu Tea Industry Co., Ltd. (浙江天福茶業有限公司) ("Zhejiang Tenfu") at the purchase price of RMB39,128,821. Through the completion of acquisition of Zhejiang Tianfu Tea Industry Co., Ltd. in September 2013, the Group has a production facility strategically located in Zhejiang, where it is the production base of Longjing tea and close to the retail outlets and retail points in Central and Northeast China, as well as to achieve optimization in procurement costs.

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 year ended 31 December 2013, 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, Sichuan province and Zhejiang 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. The Group has started the sale of tea drink (including milk tea) since completion of the acquisition of Xiamen Tianqia Catering Management Co., Limited with the trademark of "放牛斑" on 21 October 2013.

During the year ended 31 December 2013, the Group derived substantially all of its revenue from the sales of tea leaves, tea snacks and tea ware. The revenue of the Group decreased by 2.6% from RMB1,706.6 million for the year ended 31 December 2012 to RMB1,661.6 million for the year ended 31 December 2013. The following table sets forth a breakdown of revenue by product category for the years indicated:

	Year ended 31 December			
	2013		2012	
	RMB'000	*%*	*RMB'000*	*%*
Revenue contributed from:				
Sales of tea leaves	**1,198,155**	**72.1**	1,108,889	65.0
Sales of tea snacks	**222,942**	**13.4**	239,691	14.0
Sales of tea ware	**204,697**	**12.3**	326,466	19.1
Others[1]	**35,783**	**2.2**	31,552	1.9
Total	**1,661,577**	**100.0**	1,706,598	100.0

Note:

(1) *"Others" include revenue from restaurant, hotel, tourist, management services and catering management, beverage production and sales of pre-packaged food. 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.*

Revenue from sales of the Group's tea leaves increased by 8.1% from RMB1,108.9 million for the year ended 31 December 2012 to RMB1,198.2 million for the year ended 31 December 2013. Revenue from sales of the Group's tea snacks decreased by 7.0% from RMB239.7 million for the year ended 31 December 2012 to RMB222.9 million for the year ended 31 December 2013. Revenue from sales of the Group's tea ware decreased by 37.3% from RMB326.5 million for the year ended 31 December 2012 to RMB204.7 million for the year ended 31 December 2013. The revenue increase from sales of the Group's tea leaves was primarily due to a vigorous marketing of new tea and tea exhibition held. The revenue decrease from sales of the Group's tea ware was primarily driven by an economic slowdown and a decline of sales in high-end product, such as artis teapot due to the policy.

Cost of sales

Cost of sales of the Group primarily comprises costs of inventory (mainly including costs of raw materials) and labour costs. Cost of sales of the Group increased by 5.3% from RMB611.9 million for the year ended 31 December 2012 to RMB644.4 million for the year ended 31 December 2013, primarily due to a change in the product structure offered by the Group.

Gross profit and gross profit margin

As a result of the foregoing factors, gross profit of the Group decreased by 7.1% from RMB1,094.7 million for the year ended 31 December 2012 to RMB1,017.2 million for the year ended 31 December 2013, with gross profit margin decreasing by 2.9% from 64.1% for the year ended 31 December 2012 to 61.2% for the year ended 31 December 2013.

Distribution costs

The distribution costs of the Group decreased by 0.8% from RMB491.5 million for the year ended 31 December 2012 to RMB487.6 million for the year ended 31 December 2013. The decrease was primarily due to a decrease in expenditure on sales personnel to RMB140.7 million for the year ended 31 December 2013 as compared to RMB147.9 million for the year ended 31 December 2012 as a result of a strengthened control on staff costs of the Company through tighted human resource management, and the reduced number of sales personnel due to a temporary drop in demand for them.

Administrative expenses

Administrative expenses for the Group decreased by 6.0% from RMB204.7 million for the year ended 31 December 2012 to RMB192.4 million for the year ended 31 December 2013. The decrease was primarily due to further cost control on labour by effective use of human resources and further cost control on utilities, pre-opening costs and office expenses.

Other income

Other income of the Group increased by 28.1% from RMB12.8 million for the year ended 31 December 2012 to RMB16.4 million for the year ended 31 December 2013. The increase was primarily due to the increase in PRC local government grants from RMB10.1 million for the year ended 31 December 2012 to RMB13.1 million for the year ended 31 December 2013.

Other gains/losses, net

The Group recorded other gains of RMB2.6 million for the year ended 31 December 2013, primarily due to the fair value of Zhejiang Tenfu's net assets at the acquisition date is higher than the consideration paid, hence a gain of RMB3.6 million is recognised from the purchase. The Group recorded other losses of RMB3.8 million for the year ended 31 December 2012, primarily due to net foreign exchange losses and losses from the disposal of property, plant and equipment.

Finance income

Finance income of the Group increased by 95.5% from RMB6.7 million for the year ended 31 December 2012 to RMB13.1 million for the year ended 31 December 2013. The increase was primarily due to the increase in interest income as a result of placing capital with bank deposits.

Finance costs

Finance costs of the Group decreased by 77.9% from RMB8.6 million for the year ended 31 December 2012 to RMB1.9 million for the year ended 31 December 2013, reflecting a decrease in interest expenses on the Group's bank borrowings.

Share of profit of a joint venture

Share of profit of a joint venture of the Group was RMB1.8 million and RMB1.4 million for the years ended 31 December 2013 and 2012, respectively.

Income tax expense

Income tax expense of the Group decreased by 9.4% from RMB112.5 million for the year ended 31 December 2012 to RMB101.9 million for the year ended 31 December 2013, primarily due to a decrease in the Group's profit before tax from RMB407.1 million for the year ended 31 December 2012 to RMB369.0 million for the year ended 31 December 2013.

Profit for the year

As a result of the foregoing factors, profit of the Group, all of which was attributable to the owners of the Company, decreased by RMB27.5 million, or 9.3%, to RMB267.1 million for the year ended 31 December 2013 as compared to RMB294.6 million for the year ended 31 December 2012. Net profit margin of the Group decreased from 17.3% to 16.1% for the corresponding years, primarily due to changes in the structure of products sold which had led to a drop in gross profit margin.

Liquidity and capital resources

Cash position

The operations of the Group are capital intensive, and its liquidity requirements arise principally from the need of 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 RMB356.5 million, or 63.8%, from RMB558.8 million as of 31 December 2012 to RMB202.3 million as of 31 December 2013, primarily due to an increase in security deposits resulted from an increase in borrowings and greater efficiency on the capital used by the Group through better management, ie, different saving terms based on capital use demand, including time deposits.

The Group had net cash inflow from operating activities of RMB405.1 million, net cash outflow from investing activities of RMB542.1 million and net cash outflow from financing activities of RMB219.1 million for the year ended 31 December 2013.

Bank borrowings and gearing ratio

The Group had total bank borrowings of RMB121.5 million as of 31 December 2013, compared to RMB104.3 million as of 31 December 2012. As of 31 December 2013, the weighted average effective interest rate of the Group's bank borrowings was 2.1%, and 24.7% of the Group's bank borrowings were denominated in RMB, while 75.3% were denominated in United States Dollar ("USD"). Bank borrowings as at 31 December 2013 and those in corresponding period were charged at variable interest rate.

As of 31 December 2013, bank borrowings of RMB45.7 million were secured by bank deposits of RMB46.0 million of the Group. As of 31 December 2012, bank borrowings of RMB24.3 million were secured by bank deposits of RMB27.5 million of the Group.

The table below summarizes the maturity profile of the Group's non-derivative financial liabilities as of the dates indicated, based on undiscounted contractual payments:

	Less than 1 year *RMB'000*	**Between 1 and 2 years** *RMB'000*	**Total** *RMB'000*
As of 31 December 2013			
Borrowings	**121,454**	**–**	**121,454**
Interest payments on borrowings *(Note)*	**1,842**	**–**	**1,842**
Trade and other payables	**189,183**	**–**	**189,183**
	312,479	**–**	**312,479**
As of 31 December 2012			
Borrowings	104,283	–	104,283
Interest payments on borrowings *(Note)*	2,406	–	2,406
Trade and other payables	100,946	–	100,946
	207,635	–	207,635

Note: The interest payments on borrowing are calculated based on borrowings held as at 31 December 2013 and 2012 without taking into account future borrowings.

The Group regularly monitors its gearing ratio, which represents total debt as a percentage of total capital. Total debt is calculated as total borrowings (including current and non-current borrowings). Total capital is calculated as total equity plus total debt. As of 31 December 2013, the gearing ratio of the Group was 6%, compared to 5% as of 31 December 2012. The increase in the gearing ratio during 2013 was primarily due to increases in its total capital driven by higher net profit earned during the year.

Capital and other commitments

As of 31 December 2013, the Group had total investment, capital and operating lease commitments of RMB263.4 million, as compared to RMB288.6 million as of 31 December 2012. The Group plans to fund these commitments primarily with available cash.

The Group's investment commitments comprise commitments to inject registered capital into new and existing subsidiaries and a joint venture of the Group. The table below sets forth the investment commitments of the Group as of the dates indicated:

	As of 31 December	
	2013	2012
	RMB'000	*RMB'000*
Investment in a joint venture	**6,402**	–
Investments in subsidiaries	**–**	12,571
	6,402	12,571

The Group's capital commitments comprise unpaid amounts under executed agreements for purchasing property, plant and equipment, primarily in relation to the construction of plants. The table below sets forth capital expenditure contracted for but not yet incurred as of the dates indicated:

	As of 31 December	
	2013	2012
	RMB'000	*RMB'000*
Property, plant and equipment	**2,706**	17,309

The Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between one to five years, and the majority of the Group's lease agreements are renewable at the end of the lease period at market rate. The table below sets forth the operating lease commitments of the Group as of the dates indicated:

	As of 31 December	
	2013	2012
	RMB'000	*RMB'000*
No later than 1 year	**110,729**	102,619
Later than 1 year and no later than 5 years	**136,749**	143,949
Later than 5 years	**6,798**	12,122
	254,276	258,690

Working capital

	As of 31 December	
	2013	2012
	RMB'000	*RMB'000*
Trade and other receivables	**239,893**	212,244
Trade and other payables	**271,692**	161,965
Inventories	**423,691**	431,437
Trade receivables turnover days(1)	**99**	111
Trade payables turnover days(2)	**64**	58
Inventories turnover days(3)	**222**	239

Note:

(1) Trade receivables turnover days = the average of the beginning and ending trade receivables balances for the year, divided by revenue from wholesales to third-party retailers plus sales from the Group's self-owned retail points located in hypermarkets and department stores and sales through other sales channel mainly representing wholesales to other end customers for the year, multiplied by the number of days in the year.

(2) Trade payables turnover days = the average of the beginning and ending trade payables balances for the year, divided by cost of sales for the year, multiplied by the number of days in the year.

(3) Inventories turnover days = the average of the beginning and ending inventory balances for the year, divided by the cost of sales for the year, multiplied by the number of days in the year.

The Group's trade and other receivables represent primarily the balances due from third-party retailers. The Group's trade and other receivables increased by RMB27.7 million from RMB212.2 million as of 31 December 2012 to RMB239.9 million as of 31 December 2013, primarily due to increase of trade receivables from the third parties because of a lot of wholesale at the end of 2013 since the Chinese New Year in 2014 came earlier.

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 amounts due to related parties. The Group's trade and other payables increased by RMB109.7 million from RMB162.0 million as of 31 December 2012 to RMB271.7 million as of 31 December 2013, primarily due to decreases in trade payables due to slow payment of third parties.

The Group's inventories comprise raw materials (including packaging materials), work-in-progress and finished products. The Group's inventories decreased by RMB7.7 million from RMB431.4 million as of 31 December 2012 to RMB423.7 million as of 31 December 2013, because there was a decrease in purchase volume.

As of 31 December 2013, the Group has sufficient working capital and financial resources to support its regular operations.

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 31 December 2013, most of the operating entities' revenue, 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 Japanese Yen and financing activities denominated in USD and HKD. The directors of the Company (the "**Directors**") are of the view that the Group does not have significant foreign currency risk.

Any future depreciation of the RMB could 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.

Contingent liabilities

The Group had no material contingent liabilities as of 31 December 2013.

Employee and Remuneration Policy

As of 31 December 2013, the Group had a total of 5,468 employees, with 5,465 employees in the PRC and 3 employees in Hong Kong. For the year ended 31 December 2013, the labour costs of the Group was RMB268.7 million, compared to RMB281.0 million for the year ended 31 December 2012.

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 promotion 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 services. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or any material labour dispute during the year ended 31 December 2013.

The Company adopted a share option scheme on 17 December 2010. During the years ended 31 December 2010 and 2011, no share options were granted. Subsequently, the Company granted share 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 options on 12 January 2012 to certain Directors. On 19 March 2013, the Company granted share options to certain Directors, employees and independent third party distributors of the Group to subscribe for an aggregate of 8,353,000 shares. These share options vest in tranches over a period of up to 3 years.

OTHER INFORMATION

Use of Proceeds from Initial Public Offering

In September 2011, the Group completed its listing (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and raised net proceeds of RMB933.3 million. As at 31 December 2013, the Company has used RMB216.5 million (or 23.1%) from such proceeds to optimize and expand its self-owned retail outlets network, RMB225.2 million (or 24.0%) to acquire store premises for the operation of its self-owned retail outlets, RMB93.3 million (or 10.0%) to finance its working capital, RMB74.5 million (or 7.9%) to maintain and promote its brands and enhance consumer awareness of its brands in the PRC through effective targeted marketing and promotional activities, and RMB93.3 million (or 10.0%) 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.

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 at 31 December 2013:

	Planned use of net proceeds at Listing	**Net proceeds used as at 31 December 2013**
Expand and optimize the network of self-owned retail outlets and retail points	40.0%	23.1%
Acquire store premises for self-owned retail outlets	25.0%	24.0%
Working capital and other general corporate purposes	10.0%	10.0%
Maintain and promote brands	15.0%	7.9%
Expand production capacity	10.0%	10.0%
Total	100.0%	75.0%

Final Dividend

At the Board meeting held on 27 March 2014 (Thursday), it was proposed that a final dividend of HKD0.13 per ordinary share (equivalent to RMB0.10 per ordinary share) be paid on or after 30 May 2014 to the shareholders of the Company whose names appear on the Company's register of members on 21 May 2014 (Wednesday). The proposed final dividend is subject to approval by the shareholders at the annual general meeting of the Company (the "**Annual General Meeting**") to be held on 15 May 2014 (Thursday).

There is no arrangement that a shareholder of the Company has waived or agreed to waive any dividends.

Annual General Meeting

The Annual General Meeting will be held on 15 May 2014 (Thursday). A notice convening the Annual General Meeting will be published and despatched to the shareholders of the Company in the manner required by the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") in due course.

Closure of Register of Members

For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from 13 May 2014 (Tuesday) to 15 May 2014 (Thursday), both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the Annual General Meeting, 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 12 May 2014 (Monday).

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed on 21 May 2014 (Wednesday), during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final 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 20 May 2014 (Tuesday).

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 year ended 31 December 2013, the Company has complied with the code provisions included in the Corporate Governance Code (the "**CG Code**") and there has been no deviation from the code provisions as set forth under the CG Code. Further information of the corporate governance practice of the Company will be set out in the Corporate Governance Report in the annual report of the Company for the year ended 31 December 2013.

Purchase, Sale and Redemption of Shares

There was no purchase, sale or redemption of any listed securities of the Company by the Company or any of its subsidiaries for the year ended 31 December 2013.

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 the dealings in securities transactions by the Directors. The Company has made specific enquiries with all Directors and the Directors have confirmed their compliance with the required standard set out in the Model Code throughout the year ended 31 December 2013.

Audit Committee

The audit committee of the Company (the "**Audit Committee**") consists of Mr. Lo Wah Wai, Mr. Fan Ren Da, Anthony, Mr. Lee Kwan Hung, all of whom are the Company's independent non-executive Directors, and Mr. Tseng Ming-Sung, a non-executive Director. The chairman of the Audit Committee is Mr. Lo Wah Wai. The annual results of the Company for the year ended 31 December 2013 have been reviewed by the Audit Committee.

Publication of Annual Report

This annual results announcement is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.tenfu.com). The annual report of the Company for the year ended 31 December 2013 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 same websites in due course.

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

Hong Kong, 27 March 2014

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 and Mr. Lee Kuo-Lin are the executive Directors; Mr. Tseng Ming-Sung and Mr. Wei Ke are the non-executive Directors and Mr. Lo Wah Wai, Mr. Lee Kwan Hung and Mr. Fan Ren Da, Anthony are the independent non-executive Directors.