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 2018

Financial Highlights

- Revenue for the year ended 31 December 2018 increased by 3.7% from RMB1,576.6 million for 2017 to RMB1,635.6 million;
- Gross profit for the year ended 31 December 2018 increased by 3.2% from RMB955.3 million for 2017 to RMB985.8 million, with a decrease in gross profit margin from 60.6% for 2017 to 60.3% for the year ended 31 December 2018;
- Profit for the year ended 31 December 2018 increased by 10.3% from RMB243.5 million for 2017 to RMB268.6 million, which corresponded to an increase in net profit margin from 15.4% for 2017 to 16.4% for the year ended 31 December 2018;
- Basic earnings per share for the year ended 31 December 2018 was RMB0.22; and
- The Board proposed a final dividend of HKD0.14 per share (equivalent to RMB0.12 per share).

The board (the "**Board**") of directors (the "**Directors**") of Tenfu (Cayman) Holdings Company Limited (the "**Company**" or "**Tenfu**", together with its subsidiaries, the "**Group**") is pleased to announce the consolidated results of the Group for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017 as below.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Revenue	3	**1,635,562**	1,576,561
Cost of sales		**(649,812)**	(621,288)
Gross profit		**985,750**	955,273
Distribution costs		**(415,460)**	(432,360)
Administrative expenses		**(224,734)**	(205,555)
Other income	4	**23,486**	15,489
Other gains/(losses) – net	5	**764**	(121)
Operating profit		**369,806**	332,726
Finance income		**13,077**	13,882
Finance costs		**(13,998)**	(11,211)
Finance (costs)/income – net	6	**(921)**	2,671
Share of profits less losses of investments accounted for using the equity method		**2,387**	(291)
Profit before income tax		**371,272**	335,106
Income tax expense	7	**(102,654)**	(91,595)
Profit for the year, all attributable to the owners of the Company		**268,618**	243,511
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year, all attributable to the owners of the Company		**268,618**	243,511
Earnings per share for profit attributable to the owners of the Company			
– Basic earnings per share	8	**RMB0.22**	RMB0.20
– Diluted earnings per share	8	**RMB0.22**	RMB0.20

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	**2018**	2017
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Land use rights		**280,419**	269,703
Investment properties		**9,460**	10,011
Property, plant and equipment		**700,364**	717,325
Intangible assets		**3,203**	4,151
Investments accounted for using the equity method		**108,492**	5,984
Deferred income tax assets		**42,583**	38,050
Prepayments – non-current portion	*10(b)*	**1,989**	34,623
		1,146,510	1,079,847
Current assets			
Inventories		**648,687**	544,194
Trade and other receivables	*10(a)*	**243,778**	279,165
Prepayments	*10(b)*	**75,053**	72,720
Time deposits		**56,800**	223,981
Cash and cash equivalents		**666,820**	496,684
		1,691,138	1,616,744
Total assets		**2,837,648**	2,696,591

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	*11*	**98,593**	100,816
Treasury shares	*11*	**(1,735)**	–
Other reserves	*12*	**409,316**	516,288
Retained earnings		**1,531,504**	1,484,818
Total equity		**2,037,678**	2,101,922
LIABILITIES			
Non-current liabilities			
Borrowings	*14*	**6,703**	7,489
Deferred income on government grants	*15*	**36,057**	31,216
Deferred income tax liabilities		**16,413**	20,504
		59,173	59,209
Current liabilities			
Trade and other payables	*13*	**255,579**	287,418
Current income tax liabilities		**64,525**	56,560
Borrowings	*14*	**343,088**	172,543
Contract liabilities	*16*	**77,605**	–
Other liabilities		**–**	18,939
		740,797	535,460
Total liabilities		**799,970**	594,669
Total equity and liabilities		**2,837,648**	2,696,591

NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION

The Group is engaged in the classification, packaging and sales of tea leaves, manufacture and sales of tea snacks, sales of tea ware, 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 have been listed on the main board of The Stock Exchange of Hong Kong Limited since 26 September 2011.

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 2019.

2 BASIS OF PREPARATION

The financial information is extracted from the consolidated financial statements of the Company which have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and requirements of the Hong Kong Companies Ordinance Cap. 622 under the historical cost convention.

(a) New and amended standards adopted by the Group

The following new amendments of HKFRSs are relevant to the Group's operations and are mandatory for the first time for the Group's financial year beginning on 1 January 2018.

HKFRS 2 (Amendments)	Amendments to "Share-based Payment" regarding classification and measurement of share-based payment transactions
HKAS 28 (Amendments)	Amendments to "Investments in Associates and Joint Ventures" on allowing venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL)
HKAS 40 (Amendments)	Amendments to "Investment Property" on clarifying that to transfer to, or from, investment properties there must be a change in use
HKFRS 9	"Financial Instruments"
HKFRS 15	"Revenue from Contracts with Customers"
HKFRIC 22	"Foreign Currency Transactions and Advance Consideration"

The Group had to change its accounting policies and make certain adjustments following the adoption of HKFRS 9 and HKFRS 15. Other newly adopted standards or amendments listed above did not have material impact on the amounts recognised in prior periods and are not expected to significantly affect the amounts for the current or future period.

HKFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The Group used modified retrospective approach while adopting HKFRS 9. The reclassification and adjustments arising from the new impairment rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the consolidated balance sheet as at 1 January 2018.

The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as at 1 January 2018 and the comparative figures are not be restated.

The following tables show the adjustments recognised for each individual line item. The adjustments are explained in more details by standard below.

Relevant balance sheet items	31 December 2017 As originally presented	HKFRS 9	HKFRS 15	1 January 2018 Restated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade and other payables	287,418	–	(55,180)	232,238
Contract liabilities	–	–	74,119	74,119
Other liabilities	18,939	–	(18,939)	–

There is no impact on the statement of comprehensive income and other comprehensive income by adopting HKFRS 9 and HKFRS 15.

(i) HKFRS 9 Financial Instruments – Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities which are subject to HKFRS 9.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated as the Group does not have any hedge instrument.

The Group has trade receivables for sales of products that are subject to HKFRS 9's new expected credit loss model, and the Group was required to revise its impairment methodology under HKFRS 9 for these receivables.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables from initial recognition. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The adoption of new approach did not result in any impact on the amounts reported in the opening balance sheet on 1 January 2018.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 140 days past due (credit terms).

While cash and cash equivalents and financial assets at amortised cost are also subject to the impairment requirements of HKFRS 9, no significant impairment loss was identified.

(ii) ***HKFRS 15 Revenue from Contracts with Customers – Impact of adoption***

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies. The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated. Following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

	HKAS 18 Carrying amount 31 December 2017	Reclassification	HKFRS 15 Carrying amount 1 January 2018
	RMB'000	*RMB'000*	*RMB'000*
Trade and other payables	287,418	(55,180)	232,238
Contract liabilities	–	74,119	74,119
Other liabilities	18,939	(18,939)	–

There was no impact on the Group's retained earnings as at 1 January 2018 and 1 January 2017.

(1) *Accounting for refunds*

The Group's obligations to provide a refund for faulty products are under the standard warranty terms. Accumulated experience is used to estimate such returns at the time of sale. Because of the large size and low value of each individual product, the amount of products returned were immaterial. It is highly probable that a significant reversal in the cumulative revenue recognised will not occur. Therefore, no refund liability for goods return was recognised. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. As a result, no accounting impact for refunds while applying HKFRS 15.

(2) *Accounting for customer loyalty programme*

In previous reporting periods, the consideration received from the sales of goods was allocated to the points and the goods sold based on the relative stand-alone selling prices, which aligns with the requirement of HKFRS 15. As a consequence, the contract liability recognised in relation to the customer loyalty programme on 1 January 2018 was RMB18,939,000, the same as the amount recognised as deferred revenue under the previous policy.

(3) *Presentation of assets and liabilities related to contracts with customers*

Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15:

- Contract liabilities in relation to advance receipts from customers were previously included in trade and other payables (RMB55,180,000 as at 1 January 2018).

- Contract liabilities in relation to the customer loyalty programme were previously presented as deferred revenue, see (2) above.

(b) New standards and interpretations not yet adopted

The following new standards, amendments and interpretations which have been issued but are not effective for the financial year beginning on 1 January 2018 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
HKFRS 9 (Amendments)	Prepayment features with negative compensation	1 January 2019
HKFRS 16	Leases (i)	1 January 2019
HKAS 19 (Amendments)	Plan amendment, curtailment or settlement	1 January 2019
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
HKFRS 17	Insurance contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

(i) HKFRS 16, Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB153,132,000. Of these commitments, approximately 30% relate to short-term leases and low value leases which will be both recognised on a straightline basis as expense in profit or loss.

For the remaining lease commitments, the Group expects to recognise right-of-use assets and lease liabilities (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018) on 1 January 2019.

The Group expects that profit before income tax will decrease for 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows will decrease as repayment of the lease liabilities will be classified as cash flows from financing activities.

The amounts impacted by the standard as mentioned above are still under assessment.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the cumulative catch-up approach and will not restate comparative amounts for the year prior to first adoption. The method will recognise the cumulative effect of applying the new standard as an adjustment to the opening balance of equity on adoption which is the difference between the amount of right-of-use assets and the lease liability (adjusted by the amount of any previously recognised prepaid or accrued lease payments relating to that lease).

Apart from HKFRS 16, there are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3 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 and sales of tea leaves, manufacture and sales of tea snacks, and sales of tea ware.

Others include revenue from restaurant, hotel, tourist, management services and catering management, beverage production and sales and wholesale 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.

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 investments accounted for using equity method 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, current income tax liabilities, dividends payable and other payables due to related parties and directors' and senior management's emoluments payable.

Revenue

Revenue of the Group consists of the following revenues for the years ended 31 December 2018 and 2017. All revenues are derived from external customers.

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Sales of tea leaves	**1,117,338**	1,082,566
Sales of tea snacks	**241,997**	227,791
Sales of tea ware	**194,135**	184,106
Others	**82,092**	82,098
	1,635,562	1,576,561

The segment results for the year ended 31 December 2018:

	Tea leaves *RMB'000*	Tea snacks *RMB'000*	Tea ware *RMB'000*	All other segments *RMB'000*	Total *RMB'000*
Segment revenue	**1,117,338**	**241,997**	**194,135**	**82,092**	**1,635,562**
Segment results	**304,438**	**30,659**	**38,149**	**(7,320)**	**365,926**
Unallocated administrative expenses					**(20,370)**
Other income					**23,486**
Other losses – net					**764**
Finance income – net					**(921)**
Share of profits less losses of investments accounted for using the equity method					**2,387**
Profit before income tax					**371,272**
Income tax expense					**(102,654)**
Profit for the year					**268,618**

Other segment items included in the 2018 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	**35,786**	**12,152**	**6,837**	**9,920**	**8,832**	**73,527**
Depreciation of investment properties	**–**	**–**	**–**	**–**	**609**	**609**
Amortisation of land use rights	**9,127**	**2,194**	**1,849**	**813**	**–**	**13,983**
Amortisation of intangible assets	**378**	**80**	**68**	**18**	**420**	**964**
Losses on disposal of property, plant and equipment, net	**31**	**28**	**4**	**66**	**–**	**129**
Gains on disposal of land use rights, net	**–**	**–**	**–**	**(34)**	**–**	**(34)**

The segment assets and liabilities as at 31 December 2018 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	**1,634,648**	**273,564**	**244,855**	**306,481**	**378,100**	**2,837,648**
– Investments in associates and joint ventures	**374**	**–**	**465**	**107,653**	**–**	**108,492**
– Additions to non-current assets	**41,015**	**9,429**	**7,069**	**26,468**	**–**	**83,981**
Segment liabilities	**259,762**	**52,342**	**17,895**	**18,827**	**451,144**	**799,970**

The segment results for the year ended 31 December 2017:

	Tea leaves *RMB'000*	Tea snacks *RMB'000*	Tea ware *RMB'000*	All other segments *RMB'000*	Total *RMB'000*
Segment revenue	1,082,566	227,791	184,106	82,098	1,576,561
Segment results	273,954	30,878	34,672	(2,994)	336,510
Unallocated administrative expenses					(19,152)
Other income					15,489
Other losses – net					(121)
Finance income – net					2,671
Share of profits less losses of investments accounted for using the equity method					(291)
Profit before income tax					335,106
Income tax expense					(91,595)
Profit for the year					243,511

Other segment items included in the 2017 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	35,174	11,927	6,679	9,553	8,171	71,504
Depreciation of investment properties	–	–	–	–	391	391
Amortisation of land use rights	8,116	1,996	1,617	782	–	12,511
Amortisation of intangible assets	417	84	69	18	424	1,012
Losses on disposal of property, plant and equipment, net	69	50	11	40	–	170

The segment assets and liabilities as at 31 December 2017 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	1,712,532	307,980	275,579	181,514	218,986	2,696,591
– Investments in associates and joint ventures	–	–	250	5,734	–	5,984
– Additions to non-current assets	50,738	9,124	8,164	34,318	–	102,344
Segment liabilities	206,218	50,896	21,872	16,467	299,216	594,669

The Group has recognised following liabilities related to contracts with customers:

	As at 31 December 2018 ***RMB'000***	As at 1 January 2018 *RMB'000*
Contract liabilities – advances	**61,952**	55,180
Contract liabilities – customer loyalty programme	**15,653**	18,939
Total contract liabilities	**77,605**	74,119

The following table shows how much of the revenue recognised for the year ended 31 December related to carried-forward contract liabilities that were satisfied in a prior year.

	Year ended 31 December 2018 ***RMB'000***
Contract liabilities – advances	**55,180**
Contract liabilities – customer loyalty programme	**18,939**
	74,119

4 OTHER INCOME

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Government grants	**17,093**	11,611
Income from investment properties	**2,546**	1,959
Amortisation of deferred income on government grants *(Note 15)*	**2,659**	1,028
Others	**1,188**	891
	23,486	15,489

5 OTHER GAINS/(LOSSES) – NET

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Losses on disposal of land use rights and property, plant and equipment, net	**(95)**	(170)
Net foreign exchange gains	**859**	49
	764	(121)

6 FINANCE (COSTS)/INCOME – NET

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Finance income		
– Interest income on short-term bank deposits and time deposits	**13,077**	11,095
– Net foreign exchange gains	**–**	2,787
Total finance income	**13,077**	13,882
Finance costs		
– Interest expenses on bank borrowings	**(13,931)**	(11,596)
– Less: amounts capitalised in qualifying assets	**41**	385
– Net foreign exchange losses	**(108)**	–
Total finance costs	**(13,998)**	(11,211)
Net finance (costs)/income	**(921)**	2,671

7 INCOME TAX EXPENSE

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Current income tax		
– PRC corporate income tax	**98,762**	87,017
Deferred income tax	**3,892**	4,578
Income tax expense	**102,654**	91,595

(i) Cayman Islands profits tax

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

(ii) Hong Kong profits tax

Hong Kong profits tax has not been provided for subsidiaries incorporated or operated in Hong Kong as these subsidiaries did not have estimated assessable profit for the year.

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

CIT is provided at the rate of 25% (2017: 25%) on the assessable income of entities within the Group incorporated in mainland China.

(iv) PRC withholding income tax

According to the CIT Law, starting from 1 January 2008, a 10% withholding tax will be levied on the immediate holding companies established outside the PRC when their PRC subsidiaries declare dividends out of their profits earned after 1 January 2008. A lower withholding tax rate of 5% may be applied if there is a tax treaty arrangement between the PRC and the jurisdiction of the foreign immediate holding companies, including those incorporated in Hong Kong.

Such withholding tax is recorded under deferred income tax. During the year ended 31 December 2018, the Company and Ten Rui (Hong Kong) Sales Holdings Co., Ltd. ("Ten Rui HK"), a subsidiary of the Group, acquired qualification for the lower tax rate of 5% for dividend received from its subsidiaries in mainland China. The Group revised its estimate of Ten Rui HK and Tenfu (Hong Kong) Holdings Co., Ltd. for the accrual based on 5% instead of 10% and reversed previous years' charge to current year profit or loss.

8 EARNINGS PER SHARE

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	
	2018	2017
Profit attributable to the owners of the Company (RMB'000)	**268,618**	243,511
Weighted average number of ordinary shares in issue ('000)	**1,222,585**	1,227,207
Basic earnings per share (RMB)	**0.22**	0.20

Diluted earnings per share for the year ended 31 December 2018 and 2017 were the same as the basic earnings per share as there were no dilutive instruments during the periods.

9 DIVIDENDS

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Interim dividend declared	**63,815**	52,770
Proposed final dividend	**143,957**	139,578
	207,772	192,348

At a meeting held on 27 March 2019, the Board proposed a final dividend for 2018 of Hong Kong Dollar ("HKD") 167,950,000 (equivalent to RMB143,957,000) (2017: HKD171,809,000 (equivalent to RMB139,578,000)), representing HKD14 cents (equivalent to RMB12 cents) (2017: HKD14 cents (equivalent to RMB11 cents)) per share, to be appropriated from retained earnings.

The proposed final dividend for 2018 is to be approved by the shareholders at the forthcoming Annual General Meeting. The proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2019.

The interim dividend for 2018 of HKD6 cents (equivalent to RMB5.2 cents) (2017: HKD5 cents (equivalent to RMB4.3 cents) per share was declared by the Board on 27 August 2018. This interim dividend, amounting to HKD73,632,000 (equivalent to RMB63,815,000) (2017: HKD61,360,000 (equivalent to RMB52,770,000)), has been reflected as an appropriation of retained earnings for the year ended 31 December 2018.

The dividends paid in 2018 were RMB203,393,000 (2017: RMB128,478,000).

10 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

(a) Trade and other receivables

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade receivables from third parties	**233,851**	258,597
Interest receivable on time deposits	**2,053**	17,044
Others	**7,874**	3,524
	9,927	20,568
Total of trade and other receivables	**243,778**	279,165

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 2018 and 2017, the ageing analysis of the trade receivables of the Group based on invoice date is as follows:

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Up to 140 days	**229,901**	256,555
141 days to 6 months	**1,079**	746
6 months to 1 year	**2,073**	1,113
1 year to 2 years	**760**	183
2 years to 3 years	**38**	–
	233,851	258,597

As at 31 December 2018, trade receivables of RMB3,950,000 (2017: RMB2,042,000) 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	
	2018	2017
	RMB'000	*RMB'000*
Past due within 40 days	**1,079**	746
Past due over 40 days and within 220 days	**2,073**	1,113
Past due over 220 days	**798**	183
	3,950	2,042

As at 31 December 2018, no trade receivables were impaired and provided for (2017: nil).

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
RMB	**236,295**	278,241
USD	**7,483**	924
	243,778	279,165

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Non-current		
Prepayments for property, plant and equipment	**1,989**	18,973
Prepayments for land use rights	**–**	15,650
	1,989	34,623
Current		
Prepayments for lease of property and lease deposits	**54,300**	49,720
Prepayments to related parties	**2,246**	744
Prepaid taxes	**13,444**	12,630
Prepayments for raw materials and packaging materials	**5,063**	9,626
	75,053	72,720
	77,042	107,343

During the year ended 31 December 2016, Fujian Tian Fu Sales Co., Ltd., a subsidiary of the Group entered into an agreement to acquire a store premise under construction. Prepayments amounted to RMB17,355,000 and a long-term bank borrowing of RMB8,236,000 (Note 14) were recorded as at 31 December 2017. During the year ended 31 December 2018, the Group completed the acquisition of the store premise, and RMB8,876,000 in land use rights and RMB8,883,000 in property, plant and equipment were transferred from prepayments accordingly.

The carrying amounts of trade and other receivables and prepayments approximate their fair value as at the balance sheet date.

11 SHARE CAPITAL AND TREASURY SHARES

	Number of authorised shares *(thousands)*	Number of issued shares *(thousands)*	Ordinary shares (nominal value) *RMB'000*	Treasury shares *RMB'000*	Total *RMB'000*
At 1 January 2018	**8,000,000**	**1,227,207**	**100,816**	**–**	**100,816**
Repurchase of shares	**–**	**–**	**–**	**(129,487)**	**(129,487)**
Cancellation of shares	**–**	**(27,210)**	**(2,223)**	**127,752**	**125,529**
At 31 December 2018	**8,000,000**	**1,199,997**	**98,593**	**(1,735)**	**96,858**
At 1 January 2017 and At 31 December 2017	8,000,000	1,227,207	100,816	–	100,816

The Company repurchased 27,568,000 ordinary shares of its own through The Stock Exchange of Hong Kong Limited from 29 August 2018 to 31 December 2018. The total amount paid to repurchase the shares was approximately HKD146,845,000 (approximately RMB129,487,000) and has been deducted from shareholders' equity.

At the end of year 2018, the Company cancelled 27,210,000 shares repurchased from 29 August 2018 to 17 December 2018. After the cancellation, the Company's ordinary shares in issue were reduced from 1,227,207,460 to 1,199,997,460. The amount of share capital was deducted accordingly.

12 OTHER RESERVES

	Merger reserve *RMB'000*	Capital reserve *RMB'000*	Statutory reserves *RMB'000*	Other *RMB'000*	Total *RMB'000*
At 1 January 2018	**278,811**	**231**	**237,246**	**–**	**516,288**
Appropriation to statutory reserves	**–**	**–**	**18,539**	**–**	**18,539**
Cancellation of shares	**–**	**–**	**–**	**(125,511)**	**(125,511)**
At 31 December 2018	**278,811**	**231**	**255,785**	**(125,511)**	**409,316**
At 1 January 2017	278,811	231	220,717	–	499,759
Appropriation to statutory reserves	–	–	16,529	–	16,529
At 31 December 2017	278,811	231	237,246	–	516,288

At the end of year 2018, the Company cancelled 27,210,000 shares repurchased, resulted in a reduction to other reserve by RMB125,511,000 including the expenses attributable to the cancellation.

13 TRADE AND OTHER PAYABLES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade payables – due to third parties	**107,560**	88,779
Trade payables – due to related parties	**36,343**	26,925
Total trade payables	**143,903**	115,704
Payables for property, plant and equipment	**2,823**	1,966
Other taxes payable	**20,304**	42,067
Employee benefit payables	**27,817**	23,668
Advances from customers	**–**	55,180
Others	**60,732**	48,833
	255,579	287,418

As at 31 December 2018 and 2017, 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	
	2018	2017
	RMB'000	*RMB'000*
Up to 6 months	**141,789**	108,585
6 months to 1 year	**542**	4,551
1 year to 2 years	**601**	2,092
Over 2 years	**971**	476
	143,903	115,704

The carrying amounts of trade and other payables approximate their fair value as at the balance sheet date.

14 BORROWINGS

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Long-term bank borrowing		
– Secured (i)	**7,489**	8,236
Less: Current portion	**(786)**	(747)
	6,703	7,489
Short-term bank borrowings		
– Secured (ii)	**–**	30,000
– Unsecured (iii)	**342,302**	141,796
Add: Current portion of long-term bank borrowing	**786**	747
	343,088	172,543
Total borrowings	**349,791**	180,032

(i) The long-term bank borrowing of RMB7,489,000 represented the mortgage loan for the purchase of a store premise under construction (Note 10(b)). The borrowing bears interest at the rates quoted by People's Bank of China from time to time and requires monthly instalment of repayment up to November 2026.

(ii) The secured short-term bank borrowings of the Group of RMB30,000,000 as at 31 December 2017 were secured by the pledge of land use rights and property, plant and equipment of the Group.

(iii) As at 31 December 2018, short-term bank borrowings of the Group of RMB172,302,000 (2017: RMB41,796,000) were guaranteed by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, all of them are directors of the Company (2017: Mr. Lee Rie-Ho, director of the Company).

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
6 months or less	**192,690**	172,166
7-12 months	**150,398**	377
1-5 years	**3,583**	3,400
Over 5 years	**3,120**	4,089
	349,791	180,032

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

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
RMB	**349,791**	138,236
USD	**–**	41,796
	349,791	180,032

The Group's weighted average effective interest rates on borrowings at the balance sheet date were as follows:

	As at 31 December	
	2018	2017
Short-term bank borrowings	**3.79%**	4.33%
Long-term bank borrowings	**5.15%**	5.15%

The fair value of short-term and long-term bank borrowings of the Group approximate their carrying amounts as at the balance sheet date. The fair value of the long-term bank borrowing is not significant.

15 DEFERRED INCOME ON GOVERNMENT GRANTS

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
At beginning of year	**31,216**	21,435
Granted during the year	**7,500**	10,809
Amortised as income *(Note 4)*	**(2,659)**	(1,028)
At end of year	**36,057**	31,216

These represent government grants received from certain municipal governments of mainland China as an encouragement for the Group's construction of properties. Such government grants are being recognised as income on a straight line basis over the expected lives of the related properties.

16 CONTRACT LIABILITIES

	As at 31 December	
	2018	2017
	RMB'000	*RMB'000*
Advance receipts from customers	**61,952**	–
Deferred revenue: customer loyalty programme	**15,653**	–
	77,605	–

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Outlook

In 2018, the Group achieved revenue of RMB1,635.6 million, up 3.7% from 2017, and recorded profit for the year of RMB268.6 million, up 10.3% from 2017. The increase in the Group's revenue for the year was mainly due to adjustment of sales network to maximize the profitability.

In 2018, 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 2016 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 25 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. **Adjusting sales network.** While the whole consumption declines under the current economic conditions in the PRC, the Group has adjusted their retail outlets and retail points to keep the profitable ones and shut down the unprofitable ones in the PRC. As of 31 December 2018, the Group had a total of 1,120 self-owned and third-party owned retail outlets and retail points, compared with a total of 1,129 as of 31 December 2017.

3. **Growth in net profit margin.** In 2018, net profit margin increased to 16.4% from 15.4% for 2017 mainly due to the increase of sales and cost control policy.

4. **Keeping legal compliance.** The tea leaves and tea snacks industries are heavily regulated in the PRC, operation of which includes product approvals, product processing, formulation, manufacturing, packaging, labelling, distribution and sale and maintenance of manufacturing facilities, and the Group kept in compliance with the relevant laws and regulations applicable to the Group, including Food Safety Law, Regulations on Food Production Permits, Regulations on Sale of Food Permits, Product Quality Law, Consumer Protection Law, Trademark Law, Patent Law, Labour Contract Law of the PRC, etc. The Group is also subject to the PRC laws and regulations concerning the discharge of waste water and solid waste during manufacturing processes, which require the Group to obtain certain clearances and authorisations from government authorities for the treatment and disposal of such discharge. The PRC Government may take steps towards the adoption of more stringent environmental regulations, the Group may need to invest more for future environmental expenditures to install, replace, upgrade or supplement pollution control equipment or make operational changes to limit any adverse impact or potential adverse impact on the environment in order to comply with the new environmental regulations.

5. **Guarantee of food safety.** The Group paid high attention on food safety and conducted various quality inspection and testing procedures during the Group's production process, to ensure compliance with applicable quality requirements promulgated by the relevant authorities. In October 2015, the Group got the qualification certification for its egg roll and candy production line and related auxiliary areas, reaching the consolidated standards for prerequisite and food safety programs of American Institute of Baking.

6. **Relationships with customers and suppliers.** The Group always maintains good relationship with customers and suppliers. For the year ended 31 December 2018, the aggregate percentage of purchases attributable to the Group's five largest suppliers accounted for approximately 23.9% of the Group's total purchase. The Group selects suppliers carefully to ensure the quality of raw materials and packaging materials through maintaining appraisal records for suppliers and grading them on a declining scale according to the quality of material supplied, price, ability to meet demand and punctuality of delivery time. The percentage of revenue attributable to the Group's five largest customers accounted for approximately 4.4% of the Group's total revenue. The credit terms granted to the top five customers are in line with those granted to other customers. The top five customers made subsequent settlement of trade receivables within the credit term. The Group has historically depended on sales to the third-party retailers, and third-party retailers are expected to remain important in sales network. If the third-party retailers are not able to operate successfully or the Group fails to maintain good relationships with such parties, the business, financial condition and results of operations of the Group could be materially and adversely affected. Since 2008, the Group has acquired a number of retail outlets and retail points from third-party retailers and operated the self-owned retail outlets and retail points. In order to keep good customer services, the Group maintains a customer service hotline to handle general service inquiries and ensure a timely response to all customer concerns. The Group's internal policy requires that all complaints be reported and resolved promptly. If a complaint is not resolved during the call, the customer service representative is required to timely report such complaint to the local sales office which covers the region where the complaining customer is located. For the year ended 31 December 2018, the Group did not incur any material costs in relation to these complaints and there had not been any material product recall.

In 2019, the Group plans to continue to adjust and optimise its network of self-owned retail outlets and retail points, including both self-owned and third-party owned retail outlets and retail points, tap the profitability of existing self-owned retail outlets and retail points and maximize the enthusiasm of the third-party.

In particular, the Group plans to:

1. **Continue to adjust and optimise retail sales network.** The Group plans to further adjust retail outlets and retail points, including both self-owned and third-party owned retail outlets and retail points. In order to achieve this goal, the Group plans to identify, establish and keep 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. To capture more customers who prefer to buy their tea products on-line, the Group continues to monitor the opportunity to increase internet sales after completion of acquisition of Xiamen Tianyu Commerce and Trading Co., Limited (廈門天鈺商貿有限公司) in September 2013. The Group will continue to monitor other opportunities for 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.

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, Pu'er tea 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. Through the completion of acquisition of Xiamen Tianqia Catering Management Co., Limited (廈門天洽餐飲管理有限公司) in October 2013, the Group entered into the tea drink (including milk tea) industry with the trademark of "放牛斑". Xiamen Daily Plus Food Beverage Management Co., Ltd. (廈門天天佳盈餐飲管理有限公司), a joint venture company with Ten Ren Tea Co., Ltd. (天仁茶業股份有限公司) was established in January 2014 to further develop the tea drink business with the trademark of "喫茶趣 TO GO". Through the establishment of Xiamen Daily Plus Food Beverage Management Co., Ltd., the Group has expanded 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 markets. In December 2017, the Group cooperated with Caffaina Coffee Gallery, a Taiwan dessert and coffee restaurant brand, to open a restaurant in Shanghai, with a total investment amount of RMB12,000,000 by the Group as the registered capital of the Shanghai Caffaina Coffee Gallery. Through cooperation with Caffaina Coffee Gallery, the Group will expand its sale channel and achieve in-depth market involvement in food and beverage.

4. **Enhance processing and distribution efficiency and effectiveness.** The Group has implemented a fully-integrated ERP (Enterprise Resource Planning) system since 2012 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. The Group has production facilities strategically located in different parts of China, which would achieve optimisation in procurement costs.

In 2018, coping with the external and internal uncertainties and changes, the Group gained valuable experience, and also strengthened the planning, management and operation abilities of the Board, the management, and the staff. Such experience will help the Group to face and overcome challenges of the future. The Company's sustainable development depends on the supports and efforts of all the parties involved, including the customers, the suppliers, the business partners and the shareholders, and in particular the efforts and contributions and dedication of all staff of the Group.

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 2018, the Group engaged in the sales 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, the 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 sales of tea drink (including milk tea) with the trademark of "放牛斑" and "喫茶趣 TO GO".

During the year ended 31 December 2018, the Group derived substantially all of its revenue from the sales of tea leaves, tea snacks and tea ware. The revenue of the Group increased by 3.7% from RMB1,576.6 million for the year ended 31 December 2017 to RMB1,635.6 million for the year ended 31 December 2018. The following table sets forth a breakdown of revenue by product category for the years indicated:

	Year ended 31 December			
	2018		2017	
	RMB'000	*%*	*RMB'000*	*%*
Revenue contributed from:				
Sales of tea leaves	**1,117,338**	**68.3**	1,082,566	68.7
Sales of tea snacks	**241,997**	**14.8**	227,791	14.4
Sales of tea ware	**194,135**	**11.9**	184,106	11.7
Others(1)	**82,092**	**5.0**	82,098	5.2
Total	**1,635,562**	**100.0**	1,576,561	100.0

Note:

(1) *"Others" include revenue from restaurant, hotel, tourist, management service 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 3.2% from RMB1,082.6 million for the year ended 31 December 2017 to RMB1,117.3 million for the year ended 31 December 2018. Revenue from sales of the Group's tea snacks increased by 6.2% from RMB227.8 million for the year ended 31 December 2017 to RMB242.0 million for the year ended 31 December 2018. Revenue from sales of the Group's tea ware increased by 5.4% from RMB184.1 million for the year ended 31 December 2017 to RMB194.1 million for the year ended 31 December 2018. The revenue increases from sales of the Group's tea leaves and tea ware were primarily due to a change in product structure and a success in sales promotion. The revenue increase from sales of the Group's tea snacks was primarily driven by the variety of tea snacks newly developed to accommodate the taste of city people.

As of 31 December 2018, the Group had approximately 278 self-owned retail outlets and approximately 200 wholesalers throughout Mainland China accounted for approximately 51.4% and 43.6% of total revenue respectively, compared with approximately 323 self-owned retail outlets and approximately 200 wholesalers as of 31 December 2017.

Cost of sales

Cost of sales of the Group primarily comprises costs of inventories (mainly including costs of raw materials) and labour costs. Cost of sales of the Group increased by 4.6% from RMB621.3 million for the year ended 31 December 2017 to RMB649.8 million for the year ended 31 December 2018, primarily due to the increase in sales and different sales mix.

Gross profit and gross profit margin

As a result of the foregoing factors, gross profit of the Group increased by 3.2% from RMB955.3 million for the year ended 31 December 2017 to RMB985.8 million for the year ended 31 December 2018, with gross profit margin decreased by 0.5% from 60.6% for the year ended 31 December 2017 to 60.3% for the year ended 31 December 2018.

Distribution costs

The distribution costs of the Group decreased by 3.9% from RMB432.4 million for the year ended 31 December 2017 to RMB415.5 million for the year ended 31 December 2018. The decrease was primarily due to optimisation of self-owned retail outlets.

Administrative expenses

Administrative expenses for the Group increased by 9.3% from RMB205.6 million for the year ended 31 December 2017 to RMB224.7 million for the year ended 31 December 2018. The increase was primarily due to an increase of labour costs.

Other income

Other income of the Group increased by 51.6% from RMB15.5 million for the year ended 31 December 2017 to RMB23.5 million for the year ended 31 December 2018. The increase was primarily due to the increase in PRC local government grants which were recognised as income immediately from RMB11.6 million for the year ended 31 December 2017 to RMB17.1 million for the year ended 31 December 2018.

Other gains and losses - net

The Group recorded other gains of RMB0.8 million for the year ended 31 December 2018, primarily due to an increase in foreign exchange gains. The Group recorded other losses of RMB0.1 million for the year ended 31 December 2017, primarily due to net foreign exchange gains of RMB0.1 million which were offset by losses on the disposal of property, plant and equipment of RMB0.2 million.

Finance income

Finance income of the Group decreased by 5.8% from RMB13.9 million for the year ended 31 December 2017 to RMB13.1 million for the year ended 31 December 2018. The decrease was primarily due to the decrease in foreign exchange gains from cash and cash equivalent.

Finance costs

Finance costs of the Group increased by 24.1% from RMB11.2 million for the year ended 31 December 2017 to RMB13.9 million for the year ended 31 December 2018, reflecting an increase in interest expenses on the Group's bank borrowings.

Share of profits less losses of investments accounted for using the equity method

Share of profits less losses of investments accounted for using the equity method of the Group was each of a net gain and a net loss amounting to RMB2.4 million and RMB0.3 million for the years ended 31 December 2018 and 2017, respectively. The increase was primarily due to the profits gain from newly invested business.

Income tax expense

Income tax expense of the Group increased by 12.1% from RMB91.6 million for the year ended 31 December 2017 to RMB102.7 million for the year ended 31 December 2018, primarily due to an increase in the Group's profit before tax of the subsidiaries of the Group located in mainland China for the year ended 31 December 2018 compared with the year ended 31 December 2017.

Profit for the year

As a result of the foregoing factors and primarily due to optimisation of self-owned retail outlets and cost control, profit of the Group, all of which was attributable to the owners of the Company, increased by RMB25.1 million, or 10.3%, to RMB268.6 million for the year ended 31 December 2018 as compared to RMB243.5 million for the year ended 31 December 2017. Net profit margin of the Group increased from 15.4% for the year ended 31 December 2017 to 16.4% for the year ended 31 December 2018, primarily due to changes in the structure of products sold and cost saving policies.

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 increased by RMB170.1 million, or 34.2%, from RMB496.7 million as of 31 December 2017 to RMB666.8 million as of 31 December 2018.

The Group had net cash inflow from operating activities of RMB278.7 million, net cash inflow from investing activities of RMB54.6 million and net cash outflow from financing activities of RMB163.6 million for the year ended 31 December 2018.

Bank borrowings and gearing ratio

The Group had total bank borrowings of RMB349.8 million as of 31 December 2018, compared to RMB180.0 million as of 31 December 2017. As of 31 December 2018, the weighted average effective interest rate of the Group's bank borrowings was 4.2%, and 100% of the Group's bank borrowings were denominated in RMB. Bank borrowings as at 31 December 2018 and those in corresponding period last year were charged at variable interest rate.

The long-term bank borrowing of RMB7,489,000 represented the mortgage loan for the purchase of a store premise under construction. The borrowing bears interest at the rates quoted by People's Bank of China from time to time and requires monthly instalment of repayment up to November 2026.

The secured short-term bank borrowings of the Group of RMB30,000,000 as at 31 December 2017 were secured by the pledge of land use rights and property, plant and equipment of the Group.

As at 31 December 2018, short-term bank borrowings of the Group of RMB172,302,000 (2017: RMB41,796,000) were guaranteed by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, all of them are directors of the Company (2017: Mr. Lee Rie-Ho, director of the Company).

The Directors are of the view that the guarantee of bank borrowings of RMB172.3 million by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, being a form of financial assistance (as defined in the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchanges of Hong Kong Limited (the "**Stock Exchange**")) for the benefit of the Group, was on normal commercial terms where no security over the assets of the Group was granted in respect of such financial assistance provided by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin. Accordingly, such guarantee is exempt from all reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rules.

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

As at 31 December 2018

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Borrowings	**343,088**	**827**	**2,756**	**3,120**	**349,791**
Interest payments on borrowings *(Note)*	**652**	**326**	**692**	**261**	**1,931**
Trade and other payables	**207,458**	**–**	**–**	**–**	**207,458**
	551,198	**1,153**	**3,448**	**3,381**	**559,180**

As at 31 December 2017

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Borrowings	172,543	785	2,615	4,089	180,032
Interest payments on borrowings *(Note)*	692	367	827	446	2,332
Trade and other payables	166,503	–	–	–	166,503
	339,738	1,152	3,442	4,535	348,867

Note: the interest payments on borrowings are calculated based on borrowings held as at 31 December 2018 and 2017, respectively (excluding the accrued interest payable balance already in trade and other payables) 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 2018, the gearing ratio of the Group was 14.7%, compared to 7.9% as of 31 December 2017. The increase in the gearing ratio during 2018 was primarily due to increase of bank borrowings.

Capital and other commitments

As of 31 December 2018, the Group had total investment, capital and operating lease commitments of RMB198.3 million, as compared to RMB244.6 million as of 31 December 2017. The Group plans to fund these commitments primarily with available cash.

The Group's investment commitments comprise commitments to inject registered capital into joint ventures of the Group. The table below sets forth the investment commitments of the Group as of the dates indicated:

	As of 31 December	
	2018	2017
	RMB'000	*RMB'000*
Investments in joint ventures	**5,577**	16,467

The Group's capital commitments comprise unpaid amounts under executed agreements for purchasing property, plant and equipment and intangible assets, 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	
	2018	2017
	RMB'000	*RMB'000*
Property, plant and equipment	**35,960**	63,901
Intangible assets	**3,647**	3,647
	39,607	67,548

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	
	2018	2017
	RMB'000	*RMB'000*
No later than 1 year	**72,214**	76,693
Later than 1 year and no later than 5 years	**71,914**	77,428
Later than 5 years	**9,004**	6,454
	153,132	160,575

Working capital

	As of 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade and other receivables	**243,778**	279,165
Trade and other payables	**255,579**	287,418
Inventories	**648,687**	544,194
Trade receivables turnover days[(1)]	**96**	116
Trade payables turnover days[(2)]	**72**	59
Inventories turnover days[(3)]	**330**	287

Notes:

(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 decreased by RMB35.4 million from RMB279.2 million as of 31 December 2017 to RMB243.8 million as of 31 December 2018, 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 by RMB31.8 million from RMB287.4 million as of 31 December 2017 to RMB255.6 million as of 31 December 2018, primarily due to (i) advances from customers have been presented as contract liabilities as at 31 December 2018, and (ii) decrease in other tax payable.

The Group's inventories comprise raw materials (including packaging materials), work-in-progress and finished products. The Group's inventories increased by RMB104.5 million from RMB544.2 million as of 31 December 2017 to RMB648.7 million as of 31 December 2018, primarily reflecting increased procurement.

As of 31 December 2018, 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 2018, 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 financing activities denominated in USD and HKD. The Directors are of the view that the Group does not have significant foreign currency risk and RMB will continue to stabilise after going through a downward adjustment in 2018.

Any future depreciation of the RMB could adversely affect the value of any dividends the Group pays to its shareholders. There are limited hedging instruments available in the PRC to reduce our exposure to exchange rate fluctuations between the RMB and other currencies. 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 2018.

Employee and Remuneration Policy

As of 31 December 2018, the Group had a total of 4,337 employees, with 4,333 employees based in the PRC and 4 employees based in Hong Kong. For the year ended 31 December 2018, the staff cost of the Group was RMB312.9 million, compared to RMB293.5 million for the year ended 31 December 2017.

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 2018.

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 18 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. During the three years ended 31 December 2014, 2015 and 2016, no share options were granted. During the year ended 31 December 2015, 8,133,000 and 61,000 share options were lapsed due to unfulfillment of vesting conditions, i.e., unrealisation of performance targets set out for the three years ended 31 December 2014 and the resignation of the employees, respectively, and none of the share options were exercised by the grantees, or cancelled by the Company during the year ended 31 December 2015. During the year ended 31 December 2016, 8,191,000 and 10,000 share options were lapsed due to unfulfilment of vesting conditions, i.e., unrealisation of performance targets set out for the three years ended on 31 December 2015 and the resignation of the employees, respectively, and none of the share options were exercised by the grantees, or cancelled by the Company during the year ended 31 December 2016. During the two years ended 31 December 2017 and 2018, the Company did not grant any options to subscribe for Shares. The Company has no outstanding share options as at 31 December 2018.

OTHER INFORMATION

Use of Proceeds from Initial Public Offering

In September 2011, the Group completed the listing on the Main Board of the Stock Exchange and raised net proceeds of RMB933.3 million. 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 31 December 2018:

	Planned use of net proceeds at listing		Net proceeds used as of 31 December 2018		Remaining balance as at 31 December 2018		Expected time of full utilization of remaining balance
	Amount* *(million RMB)*	Percentage *(%)*	Amount* *(million RMB)*	Percentage* *(%)*	Amount* *(million RMB)*	Percentage* *(%)*	
Expand and optimize network of self-owned retail outlets and retail points	373.3	40.0	246.5	26.4	126.8	13.6	by 31 December 2024
Acquire store premises for self-owned retail outlets	233.3	25.0	233.3	25.0	–	–	–
Working capital and other general corporate purposes	93.3	10.0	93.3	10.0	–	–	–
Maintain and promote brands	140.0	15.0	105.5	11.3	34.5	3.7	by 31 December 2022
Expand production capacity	93.3	10.0	93.3	10.0	–	–	–
Total	933.3	100.0	771.9	82.7	161.3	17.3	

* *Each of the figures is rounded up to one decimal place and may not add up due to rounding.*

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.

Final Dividend

At the Board meeting held on 27 March 2019 (Wednesday), it was proposed that a final dividend of HK$0.14 per ordinary share (equivalent to RMB0.12 per ordinary share) be paid on or after 31 May 2019 to the shareholders of the Company whose names appear on the Company's register of members on 20 May 2019 (Monday). 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 14 May 2019 (Tuesday).

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 14 May 2019 (Tuesday). A notice convening the Annual General Meeting will be published and despatched to the shareholders of the Company in the manner required by 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 8 May 2019 (Wednesday) to 14 May 2019 (Tuesday), both days inclusive, during which period no transfer of shares 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 7 May 2019 (Tuesday).

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed on 20 May 2019 (Monday), during which period no transfer of shares will be registered. In order to qualify for receiving 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 17 May 2019 (Friday).

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 2018, the Company has complied with the code provisions included in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "**CG Code**") and there has been no deviation from the code provisions as set forth under the CG Code for the year ended 31 December 2018. 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 2018.

Purchase, Sale and Redemption of Shares

The Board has been granted by the shareholders of the Company at the annual general meeting of the Company held on 10 May 2018 (the "**2018 AGM**") the general mandate (the "**Repurchase Mandate**") to repurchase up to 122,720,746 shares of the Company, being 10% of the total number of issued shares of the Company as at the date of the 2018 AGM, on the Stock Exchange, as disclosed in the announcement of the Company dated 28 August 2018. During the year ended 31 December 2018, the Company had repurchased a total of 27,568,000 ordinary shares of the Company of HK$0.1 each in compliance with the memorandum and articles of association of the Company, the Listing Rules, the Codes on Takeovers and Mergers and Share Buy-backs, the Companies Law of the Cayman Islands and all applicable laws and regulations to which the Company is subject to. The Company confirms that the shares repurchase has not resulted in the number of the Shares held by the public falling below the relevant minimum percentage prescribed by the Listing Rules. 3,672,000 and 23,538,000 of the repurchased shares were cancelled on 8 October 2018 and 21 December 2018, respectively. Details of the repurchases during the year under review are as follows:

Month of Shares repurchased	**Total number of shares repurchased**	**Highest price paid per share** *(HK$)*	**Lowest price paid per share** *(HK$)*	**Aggregate consideration** *(HK$)*
August 2018	1,216,000	5.29	4.91	6,096,720
September 2018	2,456,000	5.45	5.20	13,240,790
October 2018	14,839,000	5.40	5.15	78,634,330
November 2018	1,758,000	5.60	5.37	9,599,360
December 2018	7,299,000	5.56	5.28	38,821,290

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2018.

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 to 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 2018.

Audit Committee

The audit committee of the Company (the "**Audit Committee**") consists of Mr. Lo Wah Wai, Mr. Fan Ren Da, Anthony and Mr. Lee Kwan Hung, all of whom are the independent non-executive Directors, and Mr. Tseng Ming-Sung, the 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 2018 have been reviewed by the Audit Committee and agreed with the auditor of the Company, namely PricewaterhouseCoopers.

Auditor

The Company appointed PricewaterhouseCoopers as the auditor of the Company for the year ended 31 December 2018. The Company will submit a resolution in the Annual General Meeting to re-appoint PricewaterhouseCoopers as the auditor of the Company.

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 2018 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 2019

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 Ms. Li Jie 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.