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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 2020

Financial Highlights

- Revenue for the year ended 31 December 2020 decreased by 4.7% from RMB1,796.8 million for 2019 to RMB1,712.6 million;
- Gross profit for the year ended 31 December 2020 decreased by 1.1% from RMB1,057.6 million for 2019 to RMB1,045.8 million, with an increase in gross profit margin from 58.9% for 2019 to 61.1% for the year ended 31 December 2020;
- Profit for the year ended 31 December 2020 increased by 11.8% from RMB273.1 million for 2019 to RMB305.4 million, which corresponded to an increase in net profit margin from 15.2% for 2019 to 17.8% for the year ended 31 December 2020;
- Basic earnings per share for the year ended 31 December 2020 was RMB0.28; and
- The Board proposed a final dividend of HKD0.2 per share (equivalent to RMB0.17 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 2020, together with the comparative figures for the year ended 31 December 2019 as below.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	Year ended 31 December	
		2020	2019
		RMB'000	RMB'000
Revenue	3	1,712,595	1,796,834
Cost of sales		<u>(666,755)</u>	<u>(739,231)</u>
Gross profit		1,045,840	1,057,603
Distribution costs		(365,258)	(410,690)
Administrative expenses		(222,486)	(232,971)
Other income	4	30,091	26,497
Other (losses)/gains – net	5	<u>(421)</u>	<u>2,318</u>
Operating profit		487,766	442,757
Finance income		8,470	7,260
Finance costs		<u>(31,306)</u>	<u>(36,414)</u>
Finance costs – net	6	<u>(22,836)</u>	<u>(29,154)</u>
Share of profits less losses of investments accounted for using the equity method		<u>2,161</u>	<u>2,376</u>
Profit before income tax		467,091	415,979
Income tax expense	7	<u>(161,682)</u>	<u>(142,842)</u>
Profit for the year, all attributable to the shareholders of the Company		<u>305,409</u>	<u>273,137</u>
Other comprehensive income for the year		<u>–</u>	<u>–</u>
Total comprehensive income for the year, all attributable to the shareholders of the Company		<u>305,409</u>	<u>273,137</u>
Earnings per share for profit attributable to the shareholders of the Company			
– Basic earnings per share	8	RMB0.28	RMB0.24
– Diluted earnings per share	8	<u>RMB0.28</u>	<u>RMB0.24</u>

CONSOLIDATED BALANCE SHEET

As at 31 December 2020

	Note	As at 31 December	
		2020	2019
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		644,146	681,568
Right-of-use assets	10	394,751	427,643
Investment properties		7,621	6,942
Intangible assets		4,003	3,442
Investments accounted for using the equity method		112,969	117,594
Deferred income tax assets		47,745	50,866
Prepayments – non-current portion	11(b)	273	467
Restricted cash		110,000	110,000
Long-term time deposits		20,000	20,000
		<u>1,341,508</u>	<u>1,418,522</u>
Current assets			
Inventories		875,976	782,635
Trade and other receivables	11(a)	321,354	320,000
Prepayments	11(b)	62,884	61,090
Financial assets at fair value through profit or loss		1,000	2,714
Time deposits		–	123,185
Restricted cash		4,000	4,000
Cash and cash equivalents		360,999	190,966
		<u>1,626,213</u>	<u>1,484,590</u>
Total assets		<u><u>2,967,721</u></u>	<u><u>2,903,112</u></u>

		As at 31 December	
	Note	2020	2019
		RMB'000	RMB'000
EQUITY			
Capital and reserves attributable to the shareholders of the Company			
Share capital	12	90,571	91,274
Treasure shares	12	(11,871)	(8,336)
Other reserves	13	19,275	41,926
Retained earnings		1,653,549	1,569,434
Total equity		1,751,524	1,694,298
LIABILITIES			
Non-current liabilities			
Borrowings	15	–	5,877
Lease liabilities	10	102,912	95,770
Deferred income on government grants	16	32,793	33,925
Deferred income tax liabilities		50,052	27,937
		185,757	163,509
Current liabilities			
Trade and other payables	14	275,979	345,502
Dividends payable		251	–
Current income tax liabilities		54,710	54,084
Borrowings	15	586,600	510,826
Contract liabilities	17	75,438	85,831
Lease liabilities	10	37,462	49,062
		1,030,440	1,045,305
Total liabilities		1,216,197	1,208,814
Total equity and liabilities		2,967,721	2,903,112

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 began to list on the main board of The Stock Exchange of Hong Kong Limited on 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 17 March 2021.

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

A number of new or amended standards became applicable for the current reporting period. The Group did not change its accounting policies or make retrospective adjustments as a result of adopting these standards:

		Effective for annual periods beginning on or after
HKAS 1 and HKAS 8 (Amendments)	Definition of Material	1 January 2020
HKFRS3 (Amendments)	Definition of a Business	1 January 2020
Revised Conceptual Framework	Revised Conceptual Framework for Financial Reporting	1 January 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	IBOR Reform and its Effects on Financial Reporting-Phase 1	1 January 2020
HKFRS 16 (Amendments)	Covid-19-related Rent Concessions	1 June 2020

(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 2020 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

		Effective for annual periods beginning on or after
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2022
HKFRS 3 (Amendments)	Reference to the Conceptual Framework	1 January 2022
HKAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
HKAS 37 (Amendments)	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Annual Improvements to HKFRS Standards 2018-2020		1 January 2022

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

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 of pre-packaged food and liquor. 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 2020 and 2019, 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 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 2020 and 2019. All revenues are derived from external customers.

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of tea leaves	1,222,145	1,214,954
Sales of tea snacks	213,420	220,651
Sales of tea ware	182,588	205,337
Others	94,442	155,892
	<u>1,712,595</u>	<u>1,796,834</u>

Segment information

The segment results for the year ended 31 December 2020:

	Tea leaves <i>RMB'000</i>	Tea snacks <i>RMB'000</i>	Tea ware <i>RMB'000</i>	All other segments <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	<u>1,222,145</u>	<u>213,420</u>	<u>182,588</u>	<u>94,442</u>	<u>1,712,595</u>
Segment results	<u>380,638</u>	<u>53,508</u>	<u>46,145</u>	<u>1,807</u>	<u>482,098</u>
Unallocated administrative expenses					(24,002)
Other income					30,091
Other losses – net					(421)
Finance costs – net					(22,836)
Share of profits less losses of investments accounted for using the equity method					<u>2,161</u>
Profit before income tax					<u>467,091</u>
Income tax expense					<u>(161,682)</u>
Profit for the year					<u><u>305,409</u></u>

Other segment items included in the 2020 consolidated statement of comprehensive income:

	Tea leaves <i>RMB'000</i>	Tea snacks <i>RMB'000</i>	Tea ware <i>RMB'000</i>	All other segments <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
Depreciation of property, plant and equipment	30,364	13,830	6,735	7,879	13,383	72,191
Depreciation of investment properties	–	–	–	–	560	560
Depreciation and amortisation of right-of-use assets	61,532	10,955	9,063	1,745	–	83,295
Amortisation of intangible assets	436	80	87	24	298	925
Losses on disposal of property, plant and equipment, net	<u>598</u>	<u>170</u>	<u>99</u>	<u>18</u>	<u>–</u>	<u>885</u>

The segment assets and liabilities as at 31 December 2020 are as follows:

	Tea leaves <i>RMB'000</i>	Tea snacks <i>RMB'000</i>	Tea ware <i>RMB'000</i>	All other segments <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	<u>1,796,358</u>	<u>237,709</u>	<u>288,225</u>	<u>340,312</u>	<u>305,117</u>	<u>2,967,721</u>
– Investments in associates and joint ventures	826	–	1,782	110,361	–	112,969
– Additions to non-current assets	66,191	8,801	10,667	18,138	–	103,797
Segment liabilities	<u>632,675</u>	<u>103,235</u>	<u>87,405</u>	<u>61,407</u>	<u>331,475</u>	<u>1,216,197</u>

The segment results for the year ended 31 December 2019:

	Tea leaves <i>RMB'000</i>	Tea snacks <i>RMB'000</i>	Tea ware <i>RMB'000</i>	All other segments <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	<u>1,214,954</u>	<u>220,651</u>	<u>205,337</u>	<u>155,892</u>	<u>1,796,834</u>
Segment results	<u>339,268</u>	<u>43,504</u>	<u>39,709</u>	<u>12,913</u>	435,394
Unallocated administrative expenses					(21,452)
Other income					26,497
Other gains – net					2,318
Finance costs – net					(29,154)
Share of net profit of investments accounted for using the equity method					<u>2,376</u>
Profit before income tax					415,979
Income tax expense					<u>(142,842)</u>
Profit for the year					<u><u>273,137</u></u>

Other segment items included in the 2019 consolidated statement of comprehensive income:

	Tea leaves <i>RMB'000</i>	Tea snacks <i>RMB'000</i>	Tea ware <i>RMB'000</i>	All other segments <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
Depreciation of property, plant and equipment	30,662	14,550	5,980	9,015	9,535	69,742
Depreciation of investment properties	–	–	–	–	581	581
Depreciation and amortisation of right-of-use assets	53,285	9,857	9,097	1,463	–	73,702
Amortisation of intangible assets	481	81	75	38	481	1,156
Losses on disposal of property, plant and equipment, net	<u>194</u>	<u>55</u>	<u>57</u>	<u>44</u>	<u>–</u>	<u>350</u>

The segment assets and liabilities as at 31 December 2019 are as follows:

	Tea leaves <i>RMB'000</i>	Tea snacks <i>RMB'000</i>	Tea ware <i>RMB'000</i>	All other segments <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Total <i>RMB'000</i>
Segment assets	<u>1,712,498</u>	<u>251,208</u>	<u>314,088</u>	<u>356,623</u>	<u>268,695</u>	<u>2,903,112</u>
– Investments in associates and joint ventures	461	–	1,320	115,813	–	117,594
– Additions to non-current assets	198,150	29,067	36,343	16,234	–	279,794
Segment liabilities	<u>615,982</u>	<u>105,854</u>	<u>89,664</u>	<u>65,306</u>	<u>332,008</u>	<u>1,208,814</u>

4 OTHER INCOME

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	23,516	20,274
Income from investment properties	2,442	2,621
Amortisation of deferred income (<i>Note 16</i>)	2,132	2,132
Others	2,001	1,470
	<u>30,091</u>	<u>26,497</u>

5 OTHER (LOSSES)/GAINS – NET

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Losses on disposal of land use rights and property, plant and equipment, net	(885)	(350)
Net foreign exchange gains	177	2,178
Gains from sale of financial assets at fair value through profit or loss	287	490
	<u>(421)</u>	<u>2,318</u>

6 FINANCE COSTS – NET

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income		
– Interest income on bank deposits and time deposits	8,470	7,260
Total finance income	<u>8,470</u>	<u>7,260</u>
Finance costs		
– Interest expenses on bank borrowings	(22,135)	(21,559)
– Less: amounts capitalised in qualifying assets	44	275
– Net foreign exchange losses	(1,364)	(6,683)
– Interest expenses for lease liabilities	(7,851)	(8,447)
Total finance costs	<u>(31,306)</u>	<u>(36,414)</u>
Net finance costs	<u>(22,836)</u>	<u>(29,154)</u>

7 **INCOME TAX EXPENSE**

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax		
– PRC corporate income tax	117,446	120,759
Deferred income tax	44,236	22,083
	<hr/>	<hr/>
Income tax expense	161,682	142,842
	<hr/> <hr/>	<hr/> <hr/>

(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% (2019: 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 2019, Tenfu (Hong Kong) Holdings Co., Ltd. (“Tenfu HK”), a subsidiary of the Company, obtained qualification for the lower tax rate of 5% for dividend received from its subsidiaries in mainland China. During the year ended 31 December 2020, the Group applied the 5% withholding tax rate for Tenfu HK and 10% withholding tax rate for Ten Rui (Hong Kong) Sales Holdings Co., Ltd., a subsidiary of the Company, on its estimate of deferred income tax.

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	
	2020	2019
Profit attributable to the owners of the Company (RMB' 000)	<u>305,409</u>	<u>273,137</u>
Weighted average number of ordinary shares in issue (' 000)	<u>1,106,534</u>	<u>1,155,770</u>
Basic earnings per share (RMB)	<u>0.28</u>	<u>0.24</u>

Diluted earnings per share for the year ended 31 December 2020 and 2019 were the same as the basic earnings per share as there were no dilutive instruments during the periods.

9 DIVIDENDS

	Year ended 31 December	
	2020	2019
	RMB' 000	RMB' 000
Interim dividend declared	59,727	61,971
Proposed final dividend	<u>184,003</u>	<u>141,977</u>
	<u>243,730</u>	<u>203,948</u>

At a meeting held on 17 March 2021, the Board proposed a final dividend for 2020 of Hong Kong Dollar (“HKD”) 220,362,000 (equivalent to RMB184,003,000) (2019: HKD155,457,000 (equivalent to RMB141,977,000)), representing HKD20 cents (equivalent to RMB17 cents) (2019: HKD14 cents (equivalent to RMB13 cents)) per share, to be appropriated from retained earnings.

The proposed final dividend for 2020 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 2021.

The interim dividend for 2020 of HKD6 cents (equivalent to RMB5.4 cents) (2019: HKD6 cents (equivalent to RMB5.4 cents) per share was declared by the Board on 18 August 2020. This interim dividend, amounting to HKD66,476,000 (equivalent to RMB59,727,000) (2019: HKD69,011,000 (equivalent to RMB61,971,000)), has been reflected as an appropriation of retained earnings for the year ended 31 December 2020.

The dividends paid in 2020 amounted to RMB201,704,000 (2019: RMB208,300,000).

10 LEASES

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at 31 December 2020 <i>RMB'000</i>	As at 31 December 2019 <i>RMB'000</i>
Right-of-use assets		
– Land use rights	259,724	274,318
– Retail shops	135,027	153,325
	<u>394,751</u>	<u>427,643</u>
Lease liabilities		
– Current	37,462	49,062
– Non-current	102,912	95,770
	<u>140,374</u>	<u>144,832</u>

(ii) Amounts recognised in the statement of comprehensive income

The statement of comprehensive income shows the following amounts relating to leases:

	2020			2019		
	Retail Shops <i>RMB'000</i>	Land use rights <i>RMB'000</i>	Total <i>RMB'000</i>	Retail Shops <i>RMB'000</i>	Land use rights <i>RMB'000</i>	Total <i>RMB'000</i>
Depreciation and amortisation charge of right-of-use assets						
Distribution costs	62,894	12,004	74,898	56,645	11,693	68,338
Administrative expenses	5,807	313	6,120	3,065	313	3,378
Cost of sales	–	2,277	2,277	–	1,986	1,986
	<u>68,701</u>	<u>14,594</u>	<u>83,295</u>	<u>59,710</u>	<u>13,992</u>	<u>73,702</u>
Interest expense (including in finance cost) (<i>Note 6</i>)			7,851			8,447
Expense relating to short-term leases			29,205			42,097
Exemption of lease expenses due to COVID-19			<u>(8,770)</u>			<u>–</u>
Total charges to the statement of comprehensive income			<u>111,581</u>			<u>124,246</u>

The total cash outflow for leases in 2020 was RMB46,091,000 (2019: RMB65,974,000).

11 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

(a) Trade and other receivables

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables from third parties	309,288	307,289
Less: provision for impairment	<u>(4,190)</u>	–
Trade receivables, net	<u>305,098</u>	<u>307,289</u>
Interest receivable on time deposits	9,088	6,048
Others	<u>7,168</u>	<u>6,663</u>
	<u>16,256</u>	<u>12,711</u>
Total of trade and other receivables	<u><u>321,354</u></u>	<u><u>320,000</u></u>

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 2020 and 2019, the ageing analysis of the trade receivables of the Group based on invoice date is as follows:

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Up to 140 days	303,005	299,189
141 days to 6 months	861	5,432
6 months to 1 year	2,559	1,357
1 year to 2 years	2,046	606
2 years to 3 years	<u>817</u>	<u>705</u>
	<u>309,288</u>	<u>307,289</u>

As at 31 December 2020, trade receivables of RMB6,283,000 (2019: RMB8,100,000) 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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Past due within 40 days	861	5,432
Past due over 40 days and within 220 days	2,559	1,357
Past due over 220 days	<u>2,863</u>	<u>1,311</u>
	<u>6,283</u>	<u>8,100</u>

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

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

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	324,725	319,724
USD	819	276
	<u>325,544</u>	<u>320,000</u>

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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current		
Prepayments for property, plant and equipment	<u>273</u>	467
Current		
Prepayments for lease of property and lease deposits	23,354	23,520
Prepayments to related parties	942	549
Prepaid taxes	31,293	21,623
Prepayments for raw materials and packaging materials	<u>7,295</u>	15,398
	<u>62,884</u>	61,090
	<u>63,157</u>	<u>61,557</u>

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

12 SHARE CAPITAL AND TREASURY SHARES

	Number of authorised shares <i>(thousands)</i>	Number of issued shares <i>(thousands)</i>	Ordinary shares (nominal value) <i>RMB'000</i>	Treasury shares ⁽ⁱ⁾ <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2019	8,000,000	1,199,997	98,593	(1,735)	96,858
Repurchase of shares	–	–	–	(407,678)	(407,678)
Cancellation of shares	–	(89,587)	(7,319)	401,077	393,758
At 31 December 2019	<u>8,000,000</u>	<u>1,110,410</u>	<u>91,274</u>	<u>(8,336)</u>	<u>82,938</u>
At 1 January 2020	<u>8,000,000</u>	<u>1,110,410</u>	<u>91,274</u>	<u>(8,336)</u>	<u>82,938</u>
Repurchase of shares	–	–	–	(46,617)	(46,617)
Cancellation of shares	–	(8,598)	(703)	43,082	42,379
At 31 December 2020	<u>8,000,000</u>	<u>1,101,812</u>	<u>90,571</u>	<u>(11,871)</u>	<u>78,700</u>

(i) Details of treasury shares

	Number of issued shares <i>(thousands)</i>
At 1 January 2019	358
Repurchase of shares	90,770
Cancellation of shares	(89,587)
At 31 December 2019	<u>1,541</u>
At 1 January 2020	1,541
Repurchase of shares	9,391
Cancellation of shares	(8,598)
At 31 December 2020	<u>2,334</u>

The Company repurchased 90,770,000 ordinary shares of its own through the Stock Exchange from 1 January 2019 to 31 December 2019. The total value of shares repurchased was approximately HKD460,515,000 and has been deducted from shareholders' equity. The payment made for the repurchase was RMB401,778,000 due to the dividends received by the Company for shares repurchased before ex-dividend date.

As at 31 December 2019, the Company cancelled 89,587,000 shares. After the cancellation, the Company's ordinary shares in issue were reduced from 1,199,997,460 to 1,110,410,460. The amount of share capital was deducted accordingly.

The Company repurchased 9,391,000 ordinary shares of its own through the Stock Exchange from 1 January 2020 to 31 December 2020. The total value of shares repurchased was approximately HKD54,029,000 and has been deducted from shareholders' equity. The payment made for the repurchase was RMB46,479,000 due to the dividends received by the Company for shares repurchased before ex-dividend date.

As at 31 December 2020, the Company cancelled 8,598,000 shares. After the cancellation, the Company's ordinary shares in issue were reduced from 1,110,410,460 to 1,101,812,460. The amount of share capital was deducted accordingly.

13 OTHER RESERVES

	Merger reserve RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Other RMB'000	Total RMB'000
At 1 January 2019	278,811	231	255,785	(125,511)	409,316
Appropriation to statutory reserves	–	–	20,468	–	20,468
Cancellation of shares	–	–	–	(387,858)	(387,858)
At 31 December 2019	<u>278,811</u>	<u>231</u>	<u>276,253</u>	<u>(513,369)</u>	<u>41,926</u>
At 1 January 2020	278,811	231	276,253	(513,369)	41,926
Appropriation to statutory reserves	–	–	19,590	–	19,590
Cancellation of shares	–	–	–	(42,241)	(42,241)
At 31 December 2020	<u>278,811</u>	<u>231</u>	<u>295,843</u>	<u>(555,610)</u>	<u>19,275</u>

At the end of year 2020, the Company cancelled 8,598,000 shares (2019: 89,587,000 shares) repurchased, resulted in a reduction to other reserve by RMB42,241,000 (2019: RMB387,858,000) including the expenses attributable to the cancellation.

14 TRADE AND OTHER PAYABLES

	As at 31 December	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade payables – due to third parties	105,130	160,246
Trade payables – due to related parties	39,609	47,919
	<hr/>	<hr/>
Total trade payables	144,739	208,165
	<hr/> <hr/>	<hr/> <hr/>
Notes payable	–	10,000
Payables for property, plant and equipment	2,330	2,567
Other taxes payable	20,539	25,938
Employee benefit payables	29,806	28,091
Others	78,565	70,741
	<hr/>	<hr/>
	275,979	345,502
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2020 and 2019, 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	
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Up to 6 months	128,503	207,510
6 months to 1 year	14,535	204
1 year to 2 years	1,286	28
Over 2 years	415	423
	<hr/>	<hr/>
	144,739	208,165
	<hr/> <hr/>	<hr/> <hr/>

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

15 BORROWINGS

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Long-term bank borrowing		
– Secured (i)	–	6,703
Less: Current portion	–	(826)
	–	5,877
Short-term bank borrowings		
– Secured (ii)	110,000	110,000
– Unsecured (iii)	476,600	400,000
Add: Current portion of long-term bank borrowing	–	826
	586,600	510,826
Total borrowings	586,600	516,703

- (i) The long-term bank borrowing represented the mortgage loan of original amount of RMB9,000,000 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. As at 31 December 2020, the remaining balance of the loan was prepaid in advance.
- (ii) As at 31 December 2020, short-term bank borrowings of RMB110,000,000 (2019: RMB110,000,000) were secured by the pledge of time deposits of RMB110,000,000 (2019: RMB110,000,000) as collateral.
- (iii) As at 31 December 2020, short-term bank borrowings of RMB450,000,000 (2019: RMB380,000,000) were guaranteed by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, all of them are directors of the Company, either separately or jointly.

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	
	2020	2019
	RMB'000	RMB'000
6 months or less	256,600	330,407
7-12 months	330,000	180,419
1-5 years	–	3,772
Over 5 years	–	2,105
	586,600	516,703

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
RMB	586,600	516,703

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

	As at 31 December	
	2020	2019
Short-term bank borrowings	3.60%	3.81%
Long-term bank borrowing	–	5.15%

The fair value of short-term bank borrowings of the Group approximate their carrying amounts as at the balance sheet date.

16 DEFERRED INCOME ON GOVERNMENT GRANTS

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
At beginning of year	33,925	36,057
Granted during the year	1,000	–
Amortised as income (<i>Note 4</i>)	(2,132)	(2,132)
At end of year	32,793	33,925

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.

17 CONTRACT LIABILITIES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Advance receipts from customers	65,976	72,978
Deferred revenue: customer loyalty programme	9,462	12,853
	75,438	85,831

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 2020, the Group achieved revenue of RMB1,712.6 million, down 4.7% from 2019, and recorded profit for the year of RMB305.4 million, up 11.8% from 2019. The decrease in the Group's revenue for the year was mainly due to the general market conditions affected by COVID-19.

In 2020, 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.** Pursuant to the data of Chinese Enterprises Brands Research Centre (中國企業品牌研究中心), Tenfu ranked first among 2019 China's chain stores of tea in terms of brand index, the "Tenfu" (天福) brand has one of the highest levels of brand awareness amongst tea product consumers in the PRC. Mr. Lee Rie-Ho, the chairman of the Board, obtained the honorary title of Outstanding Chinese Tea People (Lifetime Achievement) in November 2020. With its high level of brand awareness and more than 25 years of presence in the market, the Group believes that 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 2020, the Group had a total of 1,243 self-owned and third-party owned retail outlets and retail points, compared with a total of 1,172 as of 31 December 2019.
3. **Adjustment in each tea product category and development of diversified product lines.** In the first half of 2020, the Group adjusted its tea product categories, increasing the sales percentage of middle- and higher-ended products to meet Chinese consumers' need. Additionally, the Group established cooperation with Kinmen Kaoliang Liquor Inc. of Taiwan to sell the sorghum liquor with double brands, i.e. Tenfu and Kinmen Kaoliang Liquor Inc. in the PRC from mid of 2019.

4. **Growth in net profit margin.** In 2020, net profit margin increased to 17.8% from 15.2% for 2019 mainly due to decrease of cost and expenses.
5. **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.
6. **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. Tea mooncakes of the Group have obtained the titles of "high quality mooncakes" and "China mooncakes" of China Mooncakes Culture Festival since 2012 for eight consecutive years. In the meanwhile, the Company also implemented one product, one Bar-code anti-counterfeiting traceability system at all factories. Longjing tea of the Group was regarded as the raw materials of Longjing tea sensory grading standard samples developed according to GB/T18650-2008 geographical indication product Longjing tea.
7. **Relationships with customers and suppliers.** The Group always maintains good relationship with customers and suppliers. For the year ended 31 December 2020, the aggregate percentage of purchases attributable to the Group's five largest suppliers accounted for approximately 23.1% 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 3.3% 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.

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 2020, the Group did not incur any material costs in relation to these complaints and there had not been any material product recall.

In 2021, 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 retailers.

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.
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 2020, 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 2020, 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, Zhejiang province and Guizhou 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 2020, 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 4.7% from RMB1,796.8 million for the year ended 31 December 2019 to RMB1,712.6 million for the year ended 31 December 2020. The following table sets forth a breakdown of revenue by product category for the years indicated:

	Year ended 31 December			
	2020		2019	
	RMB'000	%	RMB'000	%
Revenue contributed from:				
Sales of tea leaves	1,222,145	71.4	1,214,954	67.6
Sales of tea snacks	213,420	12.5	220,651	12.3
Sales of tea ware	182,588	10.7	205,337	11.4
Others ⁽¹⁾	94,442	5.4	155,892	8.7
Total	<u>1,712,595</u>	<u>100.0</u>	<u>1,796,834</u>	<u>100.0</u>

Note:

(1) “Others” include revenue from restaurant, hotel, tourist, management service and catering management, beverage production and sales of pre-packaged food and liquor. 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 0.6% from RMB1,215.0 million for the year ended 31 December 2019 to RMB1,222.1 million for the year ended 31 December 2020. Revenue from sales of the Group's tea snacks decreased by 3.3% from RMB220.6 million for the year ended 31 December 2019 to RMB213.4 million for the year ended 31 December 2020. Revenue from sales of the Group's tea ware decreased by 11.1% from RMB205.3 million for the year ended 31 December 2019 to RMB182.6 million for the year ended 31 December 2020. The revenue increases from sales of the Group's tea leaves was primarily due to a change in product structure and a success in sales promotion. The revenue decreases from sales of the Group's tea snacks and tea ware were primarily driven by consumption reduction affected by COVID-19.

As of 31 December 2020, the Group had approximately 238 self-owned retail outlets and approximately 549 wholesalers throughout Mainland China accounted for approximately 49.2% and 47.8% of total revenue respectively, compared with approximately 251 self-owned retail outlets and approximately 458 wholesalers as of 31 December 2019.

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 decreased by 9.8% from RMB739.2 million for the year ended 31 December 2019 to RMB666.8 million for the year ended 31 December 2020, primarily due to the decrease of labor cost and different sales mix.

Gross profit and gross profit margin

As a result of the foregoing factors, gross profit of the Group decreased by 1.1% from RMB1,057.6 million for the year ended 31 December 2019 to RMB1,045.8 million for the year ended 31 December 2020, with gross profit margin increased by 2.2% from 58.9% for the year ended 31 December 2019 to 61.1% for the year ended 31 December 2020 primarily due to increase of wholesale revenue and change in product structure.

Distribution costs

The distribution costs of the Group decreased by 11.1% from RMB410.7 million for the year ended 31 December 2019 to RMB365.3 million for the year ended 31 December 2020. The decrease was primarily due to the rent concessions and a decrease in employee benefit expenses during the period affected by COVID-19.

Administrative expenses

Administrative expenses for the Group decreased by 4.5% from RMB233.0 million for the year ended 31 December 2019 to RMB222.5 million for the year ended 31 December 2020. 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 13.6% from RMB26.5 million for the year ended 31 December 2019 to RMB30.1 million for the year ended 31 December 2020. The increase was primarily due to the increase in PRC local government grants which were recognised as income immediately from RMB20.3 million for the year ended 31 December 2019 to RMB23.5 million for the year ended 31 December 2020.

Other (losses)/gains – net

Other losses of the Group amounted to RMB0.4 million for the year ended 31 December 2020 primarily due to the disposal of property, plant and equipment. Other gains of the group amounted to RMB2.3 million for the year ended 31 December 2019 primarily due to foreign exchange gains.

Finance income

Finance income of the Group increased by 16.4% from RMB7.3 million for the year ended 31 December 2019 to RMB8.5 million for the year ended 31 December 2020. 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 14.0% from RMB36.4 million for the year ended 31 December 2019 to RMB31.3 million for the year ended 31 December 2020, reflecting a decrease in foreign exchange losses.

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

Share of profit less losses of investments accounted for using the equity method of the Group was a net gain amounting to RMB2.2 million and RMB2.4 million for the years ended 31 December 2020 and 2019, respectively. The decrease was primarily due to the impact of COVID-19.

Income tax expense

Income tax expense of the Group increased by 13.2% from RMB142.8 million for the year ended 31 December 2019 to RMB161.7 million for the year ended 31 December 2020, 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 2020 compared with the year ended 31 December 2019.

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 RMB32.3 million, or 11.8%, to RMB305.4 million for the year ended 31 December 2020 as compared to RMB273.1 million for the year ended 31 December 2019. Net profit margin of the Group increased from 15.2% for the year ended 31 December 2019 to 17.8% for the year ended 31 December 2020, primarily due to changes in the structure of products sold which had led to an increase 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 increased by RMB170.0 million, or 89.0%, from RMB191.0 million as of 31 December 2019 to RMB361.0 million as of 31 December 2020.

The Group had net cash inflow from operating activities of RMB304.7 million, net cash inflow from investing activities of RMB91.0 million and net cash outflow from financing activities of RMB224.4 million for the year ended 31 December 2020.

Bank borrowings and gearing ratio

The Group had total bank borrowings of RMB586.6 million as of 31 December 2020, compared to RMB516.7 million as of 31 December 2019. As of 31 December 2020, the weighted average effective interest rate of the Group's bank borrowings was 3.6%, and 100.0% of the Group's bank borrowings were denominated in RMB. Bank borrowings as at 31 December 2020 and those in corresponding period last year were charged at variable interest rate.

The long-term bank borrowing represented the mortgage loan of original amount of RMB9,000,000 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. As at 31 December 2020, the remaining balance of the loan was prepaid in advance.

As at 31 December 2020, short-term bank borrowings of RMB110,000,000 (2019: RMB110,000,000) were secured by the pledge of time deposits of RMB110,000,000 (2019: RMB110,000,000) as collateral.

As at 31 December 2020, short-term bank borrowings of RMB450,000,000 (2019: RMB380,000,000) were guaranteed by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, all of them are directors of the Company, either separately or jointly.

The Directors are of the view that the guarantee of bank borrowings of RMB450 million as at 31 December 2020 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 2020	Less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
Borrowings	586,600	–	–	–	586,600
Interest payments on borrowings (<i>Note</i>)	751	–	–	–	751
Lease liabilities	60,840	37,403	35,275	8,970	142,488
Trade and other payables	225,634	–	–	–	225,634
	<u>873,825</u>	<u>37,403</u>	<u>35,275</u>	<u>8,970</u>	<u>955,473</u>
	Less than 1 year <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>	Total <i>RMB'000</i>
As at 31 December 2019					
Borrowings	510,826	872	2,900	2,105	516,703
Interest payments on borrowings (<i>Note</i>)	612	282	552	119	1,565
Lease liabilities	52,620	47,092	44,605	6,037	150,354
Trade and other payables	291,473	–	–	–	291,473
	<u>855,531</u>	<u>48,246</u>	<u>48,057</u>	<u>8,261</u>	<u>960,095</u>

Note: The interest payments on borrowings are calculated based on borrowings held as at 31 December 2020 and 2019, 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 2020, the gearing ratio of the Group was 25.1%, compared to 23.4% as of 31 December 2019. The increase in the gearing ratio during 2020 was primarily due to increase of bank borrowings.

Capital and other commitments

As of 31 December 2020, the Group had total investment, capital and operating lease commitments of RMB41.0 million, as compared to RMB46.9 million as of 31 December 2019. 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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Investments in joint ventures and associate	<u>5,577</u>	<u>8,397</u>

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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment	27,976	29,901
Intangible assets	<u>521</u>	<u>2,084</u>
	<u>28,497</u>	<u>31,985</u>

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. From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases.

	As of 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
No later than 1 year	<u>6,943</u>	<u>6,533</u>

Working capital

	As of 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade and other receivables	321,354	320,000
Trade and other payables	275,979	345,502
Inventories	875,976	782,635
Trade receivables turnover days ⁽¹⁾	112	94
Trade payables turnover days ⁽²⁾	93	86
Inventories turnover days ⁽³⁾	<u>448</u>	<u>349</u>

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 increased by RMB1.4 million from RMB320.0 million as of 31 December 2019 to RMB321.4 million as of 31 December 2020, primarily due to increase of trade receivables from the third parties because of the large amount of wholesale at the end of 2020.

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 RMB69.5 million from RMB345.5 million as of 31 December 2019 to RMB276.0 million as of 31 December 2020, primarily due to decrease in trade payables due to third parties.

The Group's inventories comprise raw materials (including packaging materials), work-in-progress and finished products. The Group's inventories increased by RMB93.4 million from RMB782.6 million as of 31 December 2019 to RMB876.0 million as of 31 December 2020, primarily reflecting increased procurement.

As of 31 December 2020, 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 2020, 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.

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 2020.

Employee and Remuneration Policy

As of 31 December 2020, the Group had a total of 3,743 employees, with 3,739 employees based in the PRC and 4 employees based in Hong Kong. For the year ended 31 December 2020, the staff cost of the Group was RMB267.3 million, compared to RMB309.5 million for the year ended 31 December 2019.

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 2020.

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 four years ended 31 December 2020, the Company did not grant any options to subscribe for the shares. The Company has no outstanding share options as at 31 December 2020 and the share option scheme of the Company has been expired on 16 December 2020.

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 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 2020:

	Planned use of net proceeds at Listing		Net proceeds used as of 31 December 2020		Remaining balance as at 31 December 2020		Expected time of full utilisation of remaining balance
	Amount* <i>(million RMB)</i>	Percentage <i>(%)</i>	Amount* <i>(million RMB)</i>	Percentage* <i>(%)</i>	Amount* <i>(million RMB)</i>	Percentage* <i>(%)</i>	
Expand and optimize network of self-owned retail outlets and retail points	373.3	40.0	373.3	40.0	–	–	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	140.0	15.0	–	–	By 31 December 2022
Expand production capacity	93.3	10.0	93.3	10.0	–	–	–
Total	<u>933.3</u>	<u>100.0</u>	<u>933.3</u>	<u>100.0</u>	<u>–</u>	<u>–</u>	

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

The Company has used up all the 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 17 March 2021 (Wednesday), it was proposed that a final dividend of HK\$0.2 per ordinary share (equivalent to RMB0.17 per ordinary share) be paid on or after 31 May 2021 to the shareholders of the Company whose names appear on the Company’s register of members on 20 May 2021 (Thursday). 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 13 May 2021 (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 13 May 2021 (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 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 10 May 2021 (Monday) to 13 May 2021 (Thursday), 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 2021 (Friday).

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed on 20 May 2021 (Thursday), 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 18 May 2021 (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 2020, 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 2020. 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 2020.

Purchase, Sale and Redemption of Shares

The Directors have been granted by the shareholders of the Company at the annual general meeting of the Company held on 14 May 2020 (the “**2020 AGM**”) the general mandate to repurchase up to 110,792,846 shares (the “**Repurchase Mandate**”), being 10% of the total number of the issued shares of the Company as at the date of the 2020 AGM, on the Stock Exchange. During the year ended 31 December 2020, the Company had repurchased a total of 9,391,000 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. During the year ended 31 December 2020, the aggregate consideration of HK\$53,861,750 was paid for the share repurchase. 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. 2,482,000, 2,721,000 and 3,395,000 shares repurchased during the year ended 31 December 2020 were cancelled on 17 March 2020, 11 November 2020 and 29 December 2020, respectively. Subsequently, the Company had repurchased a total of 422,000 shares in the aggregate consideration of HK\$2,537,570 in January 2021. Details of the repurchases during the year under review are as follows:

Month of Shares repurchase	Total number of shares repurchased	Highest price paid per share (HK\$)	Lowest price paid per share (HK\$)	Aggregate consideration (HK\$)
January 2020	941,000	6.05	5.95	5,645,660
March 2020	207,000	5.42	5.19	1,098,080
April 2020	408,000	5.80	5.40	2,266,670
May 2020	228,000	5.54	5.35	1,238,140
June 2020	211,000	5.41	5.30	1,137,540
July 2020	333,000	5.40	5.33	1,791,190
August 2020	102,000	5.38	5.35	548,550
September 2020	975,000	5.38	5.20	5,131,930
October 2020	177,000	5.33	5.20	935,310
November 2020	383,000	5.54	5.15	2,039,410
December 2020	5,426,000	6.08	5.50	32,029,270

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 2020.

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 2020.

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, Eddie, 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 2020 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 2020. 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 2020 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, 17 March 2021

As at the date of this announcement, the Board comprises seven members, of which Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin are the executive Directors; Mr. Tseng Ming-Sung is the non-executive Director; and Mr. Lo Wah Wai, Mr. Lee Kwan Hung, Eddie and Mr. Fan Ren Da, Anthony are the independent non-executive Directors.