# 天福(開曼)控股有限公司

# Tenfu (Cayman) Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

*Stock Code: 6868*


# Annual Report 2011

# Contents

# Corporate Profile

We are a leading traditional Chinese tea-product enterprise in the People's Republic of China (the "PRC") engaged in the sale and marketing of a comprehensive range of tea products and the development of product concepts, tastes and packaging designs. Our key products are tea leaves, tea snacks and tea ware, which we sell through a nationwide network of self-owned and third-party owned retail outlets and retail points.

According to a commissioned report by Euromonitor International, as of 31 March 2011, we had the largest sales network amongst all branded traditional Chinese tea-product companies in the PRC in terms of the number of self-owned and third-party owned retail outlets and retail points that exclusively sell our products, and our Tenfu (天福) brand has one of the highest levels of brand awareness amongst tea-product consumers in the PRC.

We presently offer over 1,100 varieties of traditional Chinese tea-leaf products. Our branded traditional Chinese tea leaves had the largest market share in terms of retail sales value of all branded traditional Chinese tea leaves in the PRC and our Oolong tea and green tea dominated the respective market segments.

We offer over 160 varieties of tea snacks, most of which are infused with the flavor of tea leaves and are produced at our own facilities. As part of our business, we also sell tea ware under our own brands.

We adopt a multi-brand strategy to capture different segments of the traditional Chinese tea market in the PRC. Our most popular and well-known brand is the Tenfu brand. Our Tenfu brand tea products are primarily sold in our self-owned and third-party owned retail outlets and retail points where we strive to offer a personalised tea shopping experience. We also offer a separate line of products under the Tenfu Ten Xin (天福天心), Danfeng (丹峰) and Uncle Lee (安可李) brands which are primarily sold through our concession points at hypermarkets in the PRC.

As of 31 December 2011, our tea products were sold in 1,207 retail outlets and retail points across 31 provinces, autonomous regions and municipalities in the PRC, including stores with shop fronts at street level and in shopping malls and concession counters in department stores and hypermarkets.

# Corporate Information

## DIRECTORS

### Executive Directors

LEE Rie-Ho (Chairman)
LEE Shih-Wei
LEE Chia Ling (Chief Executive Officer)
LEE Kuo-Lin
LEE Min-Zun

### Non-executive Director

TSENG Ming-Sung

### Independent Non-executive Directors

LO Wah Wai
LEE Kwan Hung
FAN Ren Da, Anthony

## BOARD COMMITTEES

### Audit Committee

LO Wah Wai (Chairman)
TSENG Ming-Sung
FAN Ren Da, Anthony
LEE Kwan Hung

### Remuneration Committee

FAN Ren Da, Anthony (Chairman)
LEE Rie-Ho
LO Wah Wai
LEE Kwan Hung
LEE Chia Ling

### Nomination Committee

LEE Kwan Hung (Chairman)
LEE Kuo-Lin
FAN Ren Da, Anthony
LO Wah Wai

## REGISTERED OFFICE

P.O. Box 2681
Cricket Square Hutchins Drive
Grand Cayman KY1-1111
Cayman Islands

## HEADQUARTERS IN THE PEOPLE'S REPUBLIC OF CHINA

2901 Building C
Xinjing Commerce Center
No. 25 Jiahe Road
Xiamen
the PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Flat A, 24/F
Wing Hang Finance Centre
60 Gloucester Road
Wanchai
Hong Kong

## AUTHORIZED REPRESENTATIVES

LEE Min-Zun
MOK Ming Wai

## COMPANY SECRETARY

MOK Ming Wai (FCS, FCIS)

## PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P. O. Box 609
Grand Cayman KY1-1107
Cayman Islands

## HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

# Corporate Information

## PLACE OF LISTING

The main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

## NAME OF STOCK

Tenfu (Cayman) Holdings Company Limited

## STOCK CODE

6868 (listed on the Stock Exchange on 26 September 2011)

## PRINCIPAL BANKERS

Bank of China Limited, Zhangpu Sub-branch
Bank of Communications Co. Ltd., Xiamen Branch

## AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central
Hong Kong

## LEGAL ADVISORS

### As to Hong Kong law:

Sidley Austin
Level 39, Two International Finance Centre
8 Finance Street
Central
Hong Kong

### As to Cayman Islands law:

Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Central
Hong Kong

## COMPLIANCE ADVISOR

Yuanta Securities (Hong Kong) Company Limited

## WEBSITE

www.tenfu.com

# Financial Highlights

- Revenue for the year ended 31 December 2011 increased by 40.6% to RMB1,753.3 million from RMB1,247.0 million for the year ended 31 December 2010;
- Gross profit for the year ended 31 December 2011 increased by 56.5% to RMB1,079.5 million from RMB689.7 million for the year ended 31 December 2010, which translated to an increase in gross profit margin to 61.6% for the year ended 31 December 2011 from 55.3% for the year ended 31 December 2010;
- Profit for the year ended 31 December 2011 increased by 31.6% to RMB293.5 million from RMB223.0 million for the year ended 31 December 2010, which corresponded to a decrease in net profit margin to 16.7% for the year ended 31 December 2011 from 17.9% for the year ended 31 December 2010; and
- Diluted earnings per share for the year ended 31 December 2011 were RMB0.27. The Board proposed a final dividend of HKD0.16 per share (equivalent to RMB0.13 per share) and a special dividend of HKD0.12 per share (equivalent to RMB0.10 per share).

## Comparison of Key Financial Figures

### Results

| | For the year ended 31 December (RMB'000) | | | |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | **2011** |
| Revenue | 570,963 | 692,715 | 1,246,993 | **1,753,317** |
| Gross profit | 256,116 | 303,372 | 689,729 | **1,079,558** |
| Gross profit margin (%) | 44.9 | 43.8 | 55.3 | **61.6** |
| Profit before income tax | 142,694 | 193,233 | 313,707 | **408,706** |
| Profit for the year, all attributable to the owners of the Company | 109,224 | 138,932 | 223,024 | **293,510** |
| Net profit margin (%) | 19.1 | 20.1 | 17.9 | **16.7** |

### Assets and liabilities

| | As at 31 December (RMB'000) | | | |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | **2011** |
| Total assets | 716,170 | 1,034,597 | 1,526,728 | **2,477,927** |
| Total equity | 413,513 | 552,459 | 663,692 | **1,890,482** |
| Total liabilities | 302,657 | 482,138 | 863,036 | **587,445** |
| Gearing ratio (%) | 26 | 32 | 38 | **15** |
| Trade receivables turnover days (days) | 80 | 109 | 179 | **126** |
| Trade payables turnover days (days) | 33 | 42 | 49 | **58** |
| Inventories turnover days (days) | 127 | 157 | 158 | **187** |

# Chairman's Statement

Dear Shareholders,

On behalf of the board of directors (the "Board") and the management of Tenfu (Cayman) Holdings Company Limited (the "Company"), I am pleased to present you the report on the development and operating results of the Company, together with its subsidiaries (the "Group") for 2011, and extend our gratitude for your support.

## Results and dividends

For the year ended 31 December 2011, the Group achieved revenue of RMB1,753.3 million, representing an increase of 40.6% over the previous year. Revenue from all three of our key traditional Chinese tea products also increased over the previous year, with revenue from tea leaves increasing by 40.8% to RMB1,233.9 million, revenue from tea snacks increasing by 31.3% to RMB263.6 million, and revenue from tea ware increasing by 64.3% to RMB221.1 million. Profit for the year increased by 31.6% over the previous year to RMB293.5 million.

The Board has proposed a final dividend of HKD16 cents per share for 2011. In view of the Group's excellent results for 2011, and after taking into account the Group's earnings, financial position, capital expenditure requirements and other factors, the Board has also proposed a special dividend of HKD12 cents per share. Subject to the approval of the shareholders of the Company, the proposed final dividend and special dividend will be paid after 18 May 2012.

## Market review for 2011

In 2011, the PRC's economy reached new heights, growing 9.2% to become the second-largest economy in the world, with a gross domestic product of RMB47.2 trillion. In addition, the PRC consumer price index increased by 5.4% over the previous year. Notwithstanding such progress, the PRC's economy faces a number of challenges, including the increasing complexity of the global economic environment, which has slowed export growth, inflation caused by a growing number of factors, as well as rising domestic levels of income disparity.

Amid such challenging market conditions, the Group adhered to a flexible and prudent sales strategy emphasizing traditional Chinese tea culture, actively expanded our network of retail outlets and retail points, and maintained our customer-oriented approach to retail sales service, together enabling us to achieve record revenues of RMB1,753.3 million, representing an increase of 40.6% over the previous year. At the same time, we focused on optimizing cost management by increasing procurement and production efficiency and controlling costs related to marketing and the establishment of new retail outlets. These successes have enabled us to maintain profit growth in an environment of increasing prices for raw materials and other cost items, translating to growth in earnings before interest, tax, depreciation and amortization (EBITDA) of 35.4% to RMB480.4 million for the year ended 31 December 2011.

In 2011, we implemented a number of measures to ensure our tea products and brands further take root with our customer base and sales channels, allowing us to maintain our superior position at the forefront of the PRC's intensively-competitive market for tea leaves. Most importantly, we actively expanded our network of retail outlets and retail points for our tea products to reach a total of 1,207 such stores as of 31 December 2011, a net increase of 165 stores over the previous year. Of this total, 490 stores were self-owned and the remaining 717 stores were third-party owned. In addition, as part of our commitment to employee development and to ensure we continue to offer our customers the most sophisticated retail service, we also strengthened our service- and product-related education and training for our employees.

# Chairman's Statement

Over the past year, we developed a variety of new products to satisfy the ever-changing demands of our discerning customers. Our traditional Chinese tea leaves, tea snacks and tea ware now include:

- Tea leaves: tieguanyin tea, black tea, pu'erh tea, rock tea, oolong tea, green tea, flower teas, as well as tea gift boxes and a variety of other tea-leaf products.
- Tea snacks: pastries, preserved fruits, dried fruits, candies, tea bags and instant teas, most of which are infused with the flavor of tea leaves.
- Tea ware: porcelain, pottery, tea trays, electric tea pots and other tea making utensils.

We currently offer over 1,100 varieties of tea-leaf products, over 160 varieties of tea snacks and over 2,690 varieties of tea ware. Our broad portfolio of product offerings allows us to target customers at different spending levels and cater to different customer tastes.

We also made several improvements to our retail sales network. We optimized our retail sales network to ensure that our stores in each region are well-stocked with the teas most liked by that region's customers, and in general made continuing adjustments to the each store's product offerings based on our marketing research. We also significantly upgraded the style of our retail outlets to meet the demands of our discerning high-end customers. In addition, in recognition of the invaluable contributions made by our employees, we implemented a new employee benefits and incentives policy.

On 26 September 2011, the Company was successfully listed on the Stock Exchange and received immense support from the investing public, demonstrating a recognition of the strength and over 18 years of history of the Tenfu brand. Having reached this milestone, my colleagues and I are deeply honored and encouraged, and fully aware that 2012 will be a new starting point for the Group.

## Outlook for 2012

The PRC set its official growth target for nominal gross domestic product for 2012 to 7.5%, marking the first time this target has come in under 8% in eight years. Taking into consideration this economic forecast, in 2012 we plan to continue our strategy of building upon our leading brand image and competitive strengths. In addition to our ongoing retail network expansion within first- and second-tier cities, we plan to focus additional effort on actively expanding into third- and fourth-tier cities. Our expansion plans will continue to be driven by our goal of building the number-one brand image in traditional Chinese tea leaves in each region and for each store.

As part of our commitment to employee satisfaction and development, we plan to comprehensively upgrade our incentives system for service personnel. We also plan to upgrade the employee benefits we give to our core personnel in order to strengthen team spirit and build our leadership pipeline, and allow our highest-achieving personnel to focus on performing their best. Finally, we plan to strengthen our education and training programs in order to offer our discerning customers the most sophisticated retail service.

For our tea product lineup, we plan to develop new traditional Chinese tea leaf, tea snack and tea ware products, upgrade the packaging of our existing products, and continue our efforts to offer customers of our tea products an excellent value for their money.

# Chairman's Statement

Another goal for 2012 is to expand our production and packaging capacity in line with the demands of our expanding sales network and to cater for future growth. We will also continue integrating our enterprise resource planning and point-of-sale systems over the next year, as we believe that computerized information systems are important for ensuring the efficient management of our operations by enabling real-time data flow. In particular, we believe these computerization efforts will enhance our processing and distribution efficiency, allowing our retail sales personnel to focus on meeting our customers' sales and service needs.

Our Group is committed to maintaining our leading position and further expanding our market share in the branded traditional Chinese tea leaves market. We believe we are well-positioned to capitalize on the recent trends of consumers switching from unbranded to branded traditional Chinese tea leaves, and we will continue to embrace such opportunities with our passion for promoting traditional Chinese tea culture.

## Acknowledgement

On behalf of the Board, I would like to extend my heartfelt appreciation for the full trust and support of our shareholders, customers and partners, as well as the dedicated efforts of all our staff members, which enabled Tenfu to achieve steady growth over the past year.

**LEE Rie-Ho**

*Chairman*

Hong Kong, 20 March 2012

# Management Discussion and Analysis

## Business review and outlook

In 2011, the Group achieved revenue of RMB1,753.3 million, up 40.6% from 2010, and recorded profit for the year of RMB293.5 million, up 31.6% from 2010. The increase in the Group's revenue for the year was mainly driven by the expansion of the Group's sales network, in particular the growth in the number of its self-owned retail outlets and retail points.

In 2011, the Group further strengthened its market position and the efficiency of its operations, including by completing the restructuring of its sales network, laying a solid foundation for further increases in market share.

1. **Leading brand position.** According to a recent report commissioned by Euromonitor International, an independent third party, the "Tenfu" (天福) brand has one of the highest levels of brand awareness amongst tea product consumers in the PRC. The Group views the increased sales of its tea products in 2011 as reflecting, in part, the recent trend of Chinese consumers switching from unbranded to branded traditional Chinese tea leaves. With its high level of brand awareness and more than 18 years of presence in the market, the Group believes it is in a strong position to continue capturing such expected growth in the market for branded traditional Chinese tea leaves.

2. **Expanding sales network.** The Group has continued adding retail outlets and retail points with a view to expanding the reach of its sales network for its tea products in the PRC. As of 31 December 2011, the Group had a total of 1,207 self-owned and third-party owned retail outlets and retail points, up a net of 165 retail outlets and retail points from a total of 1,042 as of 31 December 2010.

3. **Completion of retail sales network restructuring.** In March 2011, the Group completed the strategic restructuring of its retail sales network, allowing the Group to better manage, monitor and optimize its sales network, product development, marketing and inventory management. In line with the goals of the restructuring, 84 of the 165 net additional retail outlets and retail points in 2011 were self-owned. As of 31 December 2011, the Group had a total of 490 self-owned retail outlets and retail points in the PRC.

4. **Continuous double-digit growth in each tea product category.** In 2011, revenue from sales of the Group's tea leaves, tea snacks and tea ware grew by 40.8%, 31.3% and 64.3%, respectively, from 2010.

# Management Discussion and Analysis

In addition, the successful initial public offering on the Stock Exchange on 26 September 2011 provided the Company with a fully-integrated financial platform to support its future development. In 2012, the Group plans to continue to expand and optimize its network of self-owned retail outlets and retail points and acquire store premises for the operation of self-owned retail outlets. In particular, the Group plans to:

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

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

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

4. **Enhance processing and distribution efficiency and effectiveness.** The Group expects to implement during 2012 a fully-integrated ERP (Enterprise Resource Planning) system to provide real-time sales and inventory data from retail outlets, allowing the Group to more efficiently and effectively plan its processing schedules, manage resources and monitor sales and inventory information.

5. **Expand production capacity.** 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.

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 2011, the Group engaged in the sale and marketing of a comprehensive range of tea products and the development of product concepts, tastes and packaging designs. The Group has manufacturing plants in Fujian province and Sichuan province, China. 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.

# Management Discussion and Analysis

During the year ended 31 December 2011, the Group derived substantially all of its revenue from sales of tea leaves, tea snacks and tea ware. The revenue of the Group increased by 40.6% to RMB1,753.3 million for the year ended 31 December 2011, from RMB1,247.0 million for the year ended 31 December 2010. The following table sets forth a breakdown of revenue by product category for the years indicated:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2011** | | 2010 | |
| | **RMB'000** | **%** | RMB'000 | % |
| Revenue contributed from: | | | | |
| Tea leaves | **1,233,912** | **70.4** | 876,566 | 70.3 |
| Tea snacks | **263,570** | **15.0** | 200,786 | 16.1 |
| Tea ware | **221,066** | **12.6** | 134,589 | 10.8 |
| Others[(1)] | **34,769** | **2.0** | 35,052 | 2.8 |
| Total | **1,753,317** | **100.0** | 1,246,993 | 100.0 |

*Note:*

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

Revenue from sales of the Group's tea leaves increased by 40.8% to RMB1,233.9 million for the year ended 31 December 2011 from RMB876.6 million for the year ended 31 December 2010. Revenue from sales of the Group's tea snacks increased by 31.3% to RMB263.6 million for the year ended 31 December 2011 from RMB200.8 million for the year ended 31 December 2010. Revenue from sales of the Group's tea ware increased by 64.3% to RMB221.1 million for the year ended 31 December 2011 from RMB134.6 million for the year ended 31 December 2010. The revenue increases across all three of these product categories were primarily driven by the expansion of the Group's sales network, in particular the growth in the number of its self-owned retail outlets and retail points.

### Cost of sales

Cost of sales of the Group primarily comprises costs of inventory (mainly including costs of raw materials) and labor costs. Cost of sales of the Group increased by 20.9% to RMB673.8 million for the year ended 31 December 2011 from RMB557.3 million for the year ended 31 December 2010, primarily due to greater sales of its tea products, as reflected by the 40.6% increase in its revenue for the year, and partially offset by an increase in the proportion of revenue derived from retail sales of the Group's tea products, which generally have a higher profit margin than wholesales of its tea products.

### Gross profit and gross profit margin

As a result of the foregoing factors, gross profit of the Group increased by 56.5% to RMB1,079.5 million for the year ended 31 December 2011 from RMB689.7 million for the year ended 31 December 2010, with gross profit margin increasing to 61.6% for the year ended 31 December 2011 from 55.3% for the year ended 31 December 2010.

# Management Discussion and Analysis

### Distribution costs

The distribution costs of the Group increased by 76.2% to RMB480.2 million for the year ended 31 December 2011 from RMB272.6 million for the year ended 31 December 2010. The increase was primarily due to (i) an increase in expenditure on sales personnel to RMB147.9 million for the year ended 31 December 2011 from RMB81.1 million for the year ended 31 December 2010 as a result of increased self-owned retail outlets and retail points, (ii) an increase in operating lease payments to RMB120.3 million for the year ended 31 December 2011 from RMB76.9 million for the year ended 31 December 2010 as a result of increased self-owned retail outlets and retail points, and (iii) an increase in concession fees to RMB55.5 million for the year ended 31 December 2011 from RMB22.3 million for the year ended 31 December 2010 as a result of the increased number of self-owned retail points located in hypermarkets and department stores, whose sales are subject to concession fees, in turn primarily due to the Group's acquisition of Xiamen Apex Trading Co., Ltd. ("Xiamen Apex") in January 2011, which sold tea leaves and tea snacks under the Group's Ten Sin (天心), Uncle Lee (安可李) and Danfeng (丹峰) brands through its concession points within hypermarkets.

### Administrative expenses

Administrative expenses for the Group increased by 64.8% to RMB176.5 million for the year ended 31 December 2011 from RMB107.1 million for the year ended 31 December 2010. The increase was primarily due to the expansion of the Group's business operations. The Group employed a greater number of administrative personnel, leading to higher salary costs. The increasing number of the Group's self-owned retail outlets and retail points also resulted in higher expenditures on utilities, pre-opening costs and office expenses as well as greater depreciation of property, plant and equipment.

### Other income

Other income of the Group decreased by 17.8% to RMB7.4 million for the year ended 31 December 2011 from RMB9.0 million for the year ended 31 December 2010. The decrease was primarily due to the decrease in PRC local government grants to RMB4.2 million for the year ended 31 December 2011 from RMB5.1 million for the year ended 31 December 2010, and the decrease in investment property rental income to RMB1.3 million for the year ended 31 December 2011 from RMB1.7 million for the year ended 31 December 2010.

### Other losses and gains, net

The Group recorded other losses of RMB3.6 million for the year ended 31 December 2011, primarily due to net foreign exchange losses and losses from the disposal of property, plant and equipment, partially offset by gains from the amount by which the fair value of the net assets acquired exceeded the acquisition price paid to acquire Xiamen Apex. The Group recorded other gains of RMB2.3 million for the year ended 31 December 2010, primarily due to foreign exchange gains and gains from the amount by which the fair value of the net assets acquired exceeded the acquisition price paid to acquire Beijing Tenfu Tea Co., Ltd., partially offset by losses from the disposal of property, plant and equipment.

### Finance income

Finance income of the Group was RMB1.5 million and RMB1.0 million for the years ended 31 December 2011 and 2010, respectively.

### Finance costs

Finance costs of the Group increased by 110.1% to RMB20.8 million for the year ended 31 December 2011 from RMB9.9 million for the year ended 31 December 2010, reflecting an increase in interest expenses on the Group's bank borrowings.

### Share of profit of a jointly controlled entity

Share of profit of a jointly controlled entity of the Group was RMB1.3 million and RMB1.2 million for the years ended 31 December 2011 and 2010, respectively.

# Management Discussion and Analysis

### Income tax expense

Income tax expense of the Group increased by 27.0% to RMB115.2 million for the year ended 31 December 2011 from RMB90.7 million for the year ended 31 December 2010, primarily due to an increase in the Group's profit before tax to RMB408.7 million for the year ended 31 December 2011 from RMB313.7 million for the year ended 31 December 2010, partially offset by a decrease in withholding income tax on distributable profits that Tenfu (Hong Kong) Holdings Co., Limited and Ten Rui (Hong Kong) Sales Holdings Co., Limited, the Group's Hong Kong subsidiaries, will receive from the Group's PRC subsidiaries as dividends for the corresponding year.

### Profit for the year

As a result of the foregoing factors, profit of the Group, all of which was attributable to the owners of the Company, increased by RMB70.5 million, or 31.6%, to RMB293.5 million for the year ended 31 December 2011 from RMB223.0 million for the year ended 31 December 2010. Net profit margin of the Group decreased to 16.7% from 17.9% for the corresponding years, primarily due to increases in distribution costs and administrative expenses of the Group as it expanded its sales network, in particular the increase in the number of its self-owned retail outlets and retail points.

### Liquidity and capital resources

#### *Cash position*

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

The Group's cash and cash equivalents increased by RMB669.2 million, or 148.5%, to RMB1,119.9 million as of 31 December 2011 from RMB450.7 million as of 31 December 2010.

The Group had net cash inflow from operating activities of RMB309.7 million, net cash outflow from investing activities of RMB250.3 million and net cash inflow from financing activities of RMB610.4 million for the year ended 31 December 2011.

#### *Bank borrowings and gearing ratio*

The Group had total bank borrowings of RMB324.8 million as of 31 December 2011, compared to RMB399.7 million as of 31 December 2010. As of 31 December 2011, the weighted average effective interest rate of the Group's bank borrowings was 5.4%, and 91.2% of the Group's bank borrowings were denominated in Renminbi ("RMB"), while 8.8% were denominated in United States Dollars ("USD").

As of 31 December 2011, bank borrowings of RMB100.0 million were secured by the land use rights and property, plant and equipment of the Group, bank borrowings of RMB11.4 million were secured by bank deposits of RMB11.5 million of the Group, and bank borrowings of RMB50.0 million were secured by bank deposits of RMB5.0 million of the Group. As of 31 December 2010, RMB89.9 million of the Group's bank borrowings were guaranteed by related parties of the Group, which guarantees were subsequently released during the year ended 31 December 2011.

# Management Discussion and Analysis

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

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Total RMB'000 |
|---|---|---|---|
| **As of 31 December 2011** | | | |
| Bank borrowings | **334,295** | **–** | **334,295** |
| Trade and other payables | **131,842** | **–** | **131,842** |
| | **466,137** | **–** | **466,137** |
| **As of 31 December 2010** | | | |
| Bank borrowings | 404,050 | 774 | 404,824 |
| Trade and other payables | 190,603 | – | 190,603 |
| | 594,653 | 774 | 595,427 |

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 2011, the gearing ratio of the Group was 15%, compared to 38% as of 31 December 2010. The decrease in the gearing ratio during 2011 was primarily due to the increase in equity resulting from the issuance of ordinary shares pursuant to the initial public offering of the Company's shares on 26 September 2011, together with the repayment of the Group's bank borrowings and increases in its total capital driven by higher net profit earned during the year.

***Capital and other commitments***

As of 31 December 2011, the Group had total investment, capital and operating lease commitments of RMB353.8 million, as compared to RMB240.4 million as of 31 December 2010. The Group plans to fund these commitments primarily with available cash.

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

| | As of 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Investment in subsidiaries | **55,763** | – |

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

| | As of 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Property, plant and equipment | **43,221** | – |

# Management Discussion and Analysis

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 | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| No later than 1 year | **86,559** | 73,734 |
| Later than 1 year and no later than 5 years | **152,675** | 136,687 |
| Later than 5 years | **15,561** | 30,025 |
| | **254,795** | 240,446 |

***Working capital***

| | As of 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Trade and other receivables | **314,731** | 354,069 |
| Trade and other payables | **213,034** | 260,232 |
| Inventories | **380,026** | 299,173 |
| Trade receivables turnover days[(1)] | **126** | 179 |
| Trade payables turnover days[(2)] | **58** | 49 |
| Inventories turnover days[(3)] | **187** | 158 |

*Note:*

*(1) Trade receivables turnover days = the average of the beginning and ending trade receivables balances for the year, divided by revenue from wholesales to third-party retailers plus sales from the Group's self-owned retail points located in hypermarkets and department stores (including Xiamen Apex (after the acquisition of it in January 2011)) and sales through other sales channel mainly representing sales to Tenfu Group (Samoa) Holdings Co., Limited (prior to 26 September 2011), Xiamen Apex (prior to the acquisition of it in January 2011) and Ten Ren Tea and Group Co., Inc. U.S.A. 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 RMB39.4 million to RMB314.7 million as of 31 December 2011 from RMB354.1 million as of 31 December 2010, primarily due to the settlement of trade receivables due from third parties, a financial investor and related parties.

# Management Discussion and Analysis

The Group's trade and other payables principally comprise payables to its raw material suppliers, employee benefit payables, other taxes payable, accrued operating expenses and amounts due to related parties. The Group's trade and other payables decreased by RMB47.2 million to RMB213.0 million as of 31 December 2011 from RMB260.2 million as of 31 December 2010, primarily due to decreases in non-trade related and trade related amounts due to related parties, partially offset by increases in trade payables due to third parties, accrued operating expenses and other taxes payable.

The Group's inventories comprise raw materials (including packaging materials), work-in-progress and finished products. The Group's inventories increased by RMB80.8 million to RMB380.0 million as of 31 December 2011 from RMB299.2 million as of 31 December 2010, primarily reflecting increased procurement.

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 2011, 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 Hong Kong Dollars ("HKD"). The opinion of the Directors is that the Group does not have significant foreign currency risk exposure.

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

### Contingent liabilities

The Group had no material contingent liabilities as of 31 December 2011.

## Employee and Remuneration Policy

As of 31 December 2011, the Group had a total of 6,901 employees, with 6,898 employees in the PRC and 3 employees in Hong Kong. For the year ended 31 December 2011, the staff cost of the Group was RMB271.9 million.

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

The Group also provides continuous learning and training programs to its employees to enhance their skills and knowledge, so as to maintain their competitiveness and improve customer service. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or any material labor dispute during the year ended 31 December 2011.

The Company adopted a share option scheme on 17 December 2010. During the years ended 31 December 2011 and 2010, no options were granted. Subsequently, the Company granted options to subscribe for an aggregate of 7,046,000 shares on 6 January 2012 to certain directors, employees and independent third party distributors of the Group and an aggregate of 1,307,000 shares on 12 January 2012 to certain directors of the Group. These options vest in tranches over a period of up to 3 years.

# Directors and Senior Management

## Directors

### Executive Directors

**LEE Rie-Ho (李瑞河),** aged 76, is an executive Director and the Chairman of the Group. He was appointed as the Director and Chairman on 22 April 2010 and was redesignated as an executive Director on 31 August 2011. Mr. Lee is also a member of the remuneration committee of the Company. He is primarily responsible for the overall corporate strategy, expansion and investment decisions of the Group. Mr. Lee has over 60 years of experience in the tea industry. He is one of the founders of the Group and has served as the Chairman since 1993. Before co-founding the Group in 1993, Mr. Lee founded Ten Ren Tea Co., Ltd. (天仁茶業股份有限公司) ("Ten Ren") in 1975 in Taiwan. Ten Ren is in the business of the manufacturing and retail sales of tea leaves and various tea products through its self-operated and franchise stores in Taiwan, the United States of America (the "United States") and Canada. Ten Ren has been listed on the main board of the Taiwan Stock Exchange (Stock code: 1233) since 1999. Mr. Lee has extensive personal and business connections in the tea industry. He was named "Worldwide King of Tea (世界茶王)" by People's Daily (人民日報) in 2000. Mr. Lee is the father of Mr. Lee Chia Ling and Mr. Lee Kuo-Lin and the uncle of Mr. Lee Shih-Wei and Mr. Lee Min-Zun. With extensive experience in the tea industry, Mr. Lee has led the Group to become a leader in the tea industry in the PRC by promoting the Group's business and developing a well-known premium brand. In recognition of Mr. Lee's character, integrity and contribution to the local development of Zhangzhou, Mr. Lee Rie-Ho was awarded honorary citizenship by the People's Government of Zhangzhou in 2000. Since 2000, Mr. Lee has also been appointed as the Citizen Supervisor of Police Discipline (警風廉政監督員) in Zhangzhou. As part of the selection criteria of the PRC authorities, preferable candidates of Citizen Supervisor of Police Discipline include deputies of People's Congress, members of People's Political Consultative Conference, journalists and well-known persons in the community and only candidates with a strong sense of responsibility, care and support for public security work may be reappointed.

**LEE Shih-Wei (李世偉),** aged 52, is an executive Director and the Vice Chairman of the Group. He was appointed as the executive Director on 31 August 2011. Mr. Lee is one of the founders of the Group, and is primarily responsible for the management of the Group and coordination of the factory operations and retail businesses of the Group. He has been a director of the Group since 1997. Mr. Lee has more than 25 years of experience in the tea industry. Between 1987 and 1998, he worked for Ten Ren in Taiwan, and acted as the head of the international trading department of Ten Ren since 1987. Mr. Lee has been a director of Ten Ren since 2007. Mr. Lee joined the Group in 1993 and served as the general manager of 福州天福茶業有限公司(Fuzhou Tianfu Tea Industry Co., Ltd.) from 1993 to 1997. Mr. Lee is a nephew of Mr. Lee Rie-Ho and a cousin of both Mr. Lee Kuo-Lin and Mr. Lee Chia Ling. He graduated from National Chung Hsing High School (previously known as Taiwan Provincial Chung Hsing High School) in 1978.

# Directors and Senior Management

**LEE Chia Ling (李家麟)**, aged 49, is an executive Director and the Chief Executive Officer of the Group. He was appointed as the Director on 22 April 2010 and was designated as an executive Director on 31 August 2011. He is also a member of the remuneration committee of the Company. Mr. Lee is one of the founders of the Group and is primarily responsible for the overall management, business development and the daily operations of the Group as well as the implementation of the business strategies. He has more than 20 years of experience in the tea industry. Mr. Lee joined Ten Ren as an executive assistant to the manager of tea business development in 1991 and was then appointed as the executive assistant to the chairman (董事長特別助理) in Taiwan, responsible for assisting the chairman with the overall management of Ten Ren, and subsequently became a director of the domestic sales department of Ten Ren in Taiwan in the same year. Mr. Lee joined the Group as the deputy general manager (副總經理) in 1996 and was appointed as general manager in 1997. Mr. Lee is the son of Mr. Lee Rie-Ho and the younger brother of Mr. Lee Kuo-Lin and a cousin of both Mr. Lee Shih-Wei and Mr. Lee Min Zun. He obtained a master's degree in business administration from Oklahoma City University in the United States in 1990.

**LEE Kuo-Lin (李國麟)**, aged 50, is an executive Director and the Chief Operating Officer of the Group. He was appointed as the executive Director on 31 August 2011. Mr. Lee is also a member of the nomination committee of the Company. He is primarily responsible for the overall management of the tea processing operations. Mr. Lee has more than 20 years of experience in the tea industry. Before joining the Group, between 1989 to 1997, Mr. Lee worked for and eventually became the chief executive officer of Uncle Lee's Tea Inc. based in the United States. Mr. Lee is the chairman of certain subsidiaries of the Group, including 漳州天福茶業有限公司(Zhangzhou Tianfu Tea Industry Co., Ltd.) since 1998, and 漳浦天福觀光茶園有限公司(Zhangpu Tian Fu Tea Garden Co., Ltd.) since 1999. Mr. Lee is the son of Mr. Lee Rie-Ho and the elder brother of Mr. Lee Chia Ling and a cousin of both Mr. Lee Shih-Wei and Mr. Lee Min Zun. He received his associate in arts degree from Los Angeles City College in the United States in 1988.

**LEE Min-Zun (李銘仁)**, aged 47, is an executive Director and the Chief Financial Officer of the Group. He is also one of the authorised representatives of the Company. He was appointed as the executive Director on 31 August 2011. Mr. Lee is primarily responsible for the corporate finance operations and the overall financial and accounting affairs of the Group. He has over 10 years of finance experience. Before joining the Group, Mr. Lee was the assistant and deputy general manager of the corporate finance department of Ten Ren in 1999 and 2000, respectively and was responsible for its general financial affairs. Mr. Lee has been the supervisor (監察人) of Ten Ren since 2004. Mr. Lee is a nephew of Mr. Lee Rie-Ho and a cousin of both Mr. Lee Kuo-Lin and Mr. Lee Chia Ling. He graduated from Northrop University in the United States with a master's degree in business administration in 1989.

# Directors and Senior Management

### Non-executive Director

**TSENG Ming-Sung (曾明順)**, aged 55, is a non-executive Director. He was appointed as the non-executive Director on 31 August 2011. Mr. Tseng is also a member of the audit committee of the Company. Mr. Tseng is one of the founders of the Group and is responsible for advising on the overall corporate finance plans of the Group. Mr. Tseng has been the chief executive officer of 天心中醫醫院(Ten Xin Traditional Chinese Medicine Hospital) since 1998. He is also the director of the following entities: 天心堂參藥股份有限公司(Ten Xin Ginseng Company Limited) since 1998, 天廬育樂事業股份有限公司(Ten Lu Entertainment Co. Ltd.) since 2003, 太仁開發事業股份有限公司(Tai Ren Development Co., Ltd.) since 2003, 天仁茶藝文化基金會(Ten Ren Tea Culture Foundation) since 1994, and 天福投資股份有限公司(Ten Fu Investment Co. Ltd.) since 2010. Mr. Tseng obtained a bachelor's degree in mechanical engineering from Chung Yuan Christian University in Taiwan in 1979.

### Independent Non-executive Directors

**Mr. LO Wah Wai (盧華威)**, aged 48, is an independent non-executive Director. He was appointed as the independent non-executive Director on 31 August 2011. Mr. Lo is the chairman of the audit committee of the Company. He is also a member of the nomination committee and the remuneration committee of the Company. Mr. Lo holds a bachelor's degree in business administration from the Chinese University of Hong Kong and a master's degree in management science from New Jersey Institute of Technology in the United States. He is a practising member of the Hong Kong Institute of Certified Public Accountants and is a member of the American Institute of Certified Public Accountants. Mr. Lo has more than 20 years' service experience in auditing and business consulting services, in which he had more than seven years' experience in auditing and business consulting services in an international accounting firm (Deloitte Touche Tohmatsu), of which two years were spent in the United States. Mr. Lo is also the independent non-executive director of Chongqing Machinery & Electric Co., Ltd. (Stock Code: 2722), a company listed on the main board of the Stock Exchange.

## Directors and Senior Management

**LEE Kwan Hung (李均雄)**, aged 46, is an independent non-executive Director of the Company. Mr. Lee received his Bachelor of Laws (Honours) degree and Postgraduate Certificate in Laws from the University of Hong Kong in 1988 and 1989 respectively. He was then admitted as a solicitor in Hong Kong in 1991 and the United Kingdom in 1997. Mr. Lee was a senior manager of the Listing Division of the Stock Exchange from 1993 to 1994 and was a partner of a leading law firm in Hong Kong from 2001 to 2011. He currently a practicing lawyer and serves as an independent non-executive director of some listed companies including GZI REIT Asset Management (a company listed on the main board of the Stock Exchange); Embry Holdings Limited (a company listed on the main board of the Stock Exchange); NetDragon Websoft Inc. (a company listed on the main board of the Stock Exchange); Asia Cassava Resources Holdings Limited (a company listed on the main board of the Stock Exchange); Futong Technology Development Holdings Limited (a company listed on the main board of the Stock Exchange); New Universe International Group Limited (a company listed on the Growth Enterprise Market of the Stock Exchange); Newton Resources Ltd (a company listed on the main board of the Stock Exchange); Far East International Holdings Limited (a company listed on the main board of the Stock Exchange) and Walker Group Holdings Limited (a company listed on the main board of the Stock Exchange). Mr. Lee was also formerly a non-executive director GST Holdings Limited prior to their privatisations and delisted from the Main Board of the Stock Exchange.

**FAN Ren Da, Anthony (范仁達)**, aged 52, is an independent non-executive Director of the Company. Mr. Fan holds a master's degree in business administration from the University of Dallas in the United States. He is currently the chairman of AsiaLink Capital Limited (東源資本有限公司). Mr. Fan serves as an independent non-executive director of several listed companies including Raymond Industrial Limited (a company listed on the main board of the Stock Exchange); Citic Resources Holdings Limited (a company listed on the main board of the Stock Exchange); Uni President China Holdings Limited (a company listed on the main board of the Stock Exchange); Renhe Commercial Holdings Company Limited (a company listed on the main board of the Stock Exchange); Hong Kong Resources Holdings Company Limited (a company listed on the main board of the Stock Exchange); Shanghai Industrial Urban Development Group (a company listed on the main board of the Stock Exchange); Guodian Technology & Environment Group Corporation Limited (a company listed on the main board of the Stock Exchange); Technovator International Limited (a company listed on the main board of the Stock Exchange) and Shenzhen World Union Properties Consultancy Co., Ltd (a company listed on the Shenzhen Stock Exchange).

# Directors and Senior Management

## Senior management

**LEE Shen-Chih (李勝治)**, aged 67, is the Deputy President of the Company. He is responsible for procurement of raw materials, market research, and formulating and executing the overall production and procurement strategies of the Group. He joined the Group in 2007. He graduated from the University of Texas at Austin in the United States with a master's degree in social work studies in 1985. Mr. Lee was the chairman of Ten Ren between 1990 and 2007, and has been the director of 天仁茶藝文化基金會(Ten Ren Tea Culture Foundation) since 1991, 陸羽茶藝股份有限公司(Lu Yu Tea Artcraft Co., Ltd.) since September 1993, and 天廬育樂事業股份有限公司(Tenlu Leisure Business Co., Ltd.) from November 2004 to August 2007. Mr. Lee is a founder of the Rotary Club of Taipei Hsin-Yi branch in 1987. He is a cousin of Mr. Lee Rie-Ho.

**LEE Mao-Ling (李茂林)**, aged 50, is the Deputy General Manager of the General Administration Department of the Company. He is responsible for assisting in the overall corporate management and marketing planning and development of the Group. Between 1987 and 1995, he was the executive assistant to the chairman of 陸羽茶藝股份有限公司(Lu Yu Tea Artcraft Co., Ltd.), and the director and assistant manager of the Enterprise Resources Planning Department and Business Development Department of Ten Ren respectively. Before joining the Group in 2001, Mr. Lee worked for 雅博股份有限公司(Apex Medical Corp.) as manager of its Domestic Sales Division. Mr. Lee graduated from National Chung Hsing University in Taiwan 1985, majoring in agricultural transportation and sales.

**LEE Yen-Ping (李彥屏)**, aged 42, is the Head of the Marketing and Enterprise Planning Department of the Company. He is responsible for the business positioning, brand development, product research and development and the overall marketing initiatives of the Group. He joined the Group as the manager of the sale planning department in 2004. Mr. Lee was the manager of the Procurement and Research and Development Division of Ten Ren in 1996 and 2001, respectively. In 2003, he worked as the sales manager of Ten Ren Tea & Ginseng Co., Ltd. in Toronto, Canada. Mr. Lee graduated from Tsoying Senior High School (高雄市立左營高中) in Taiwan in 1988.

# Corporate Governance Report

**The Board is pleased to present this Corporate Governance Report in the Group's Annual Report for the year ended 31 December 2011.**

## Corporate governance practices

The Group strives to maintain high standards of corporate governance to enhance shareholder value and safeguard shareholder interests. The Group's corporate governance principles emphasize the importance of a quality Board, effective internal controls and accountability to shareholders.

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In the opinion of the Directors, the Company has complied with all the code provisions as set out in the CG Code during the period between the listing of the shares of the Company on the Stock Exchange on 26 September 2011 (the "Listing Date") and 31 December 2011.

The Company reviews its corporate governance practices regularly to ensure compliance with the CG Code.

## The board of directors

### Responsibilities

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has delegated to the Chief Executive Officer, of which the Directors also undertake, and through him, to the senior management the authority and responsibility for the day-to-day management and operation of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All Directors shall ensure that they carry out duties in good faith, in compliance with applicable laws and regulations, and in the interests of the Company and its shareholders at all times.

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

# Corporate Governance Report

## Board composition

Membership of the Board is currently made up of nine members in total, with five executive Directors, one non-executive Director and three independent non-executive Directors.

The Company has adopted the recommended best practice under the CG Code for the Board to have at least one-third of its membership comprising independent non-executive Directors. The composition of the Board is set out below:

### Executive Directors

| | |
|---|---|
| Mr. LEE Rie-Ho | *Chairman* |
| Mr. LEE Shih-Wei | *Vice Chairman* |
| Mr. LEE Chia Ling | *Chief Executive Officer* |
| Mr. LEE Kuo-Lin | *Chief Operation Officer* |
| Mr. LEE Min-Zun | *Chief Finance Officer* |

### Non-executive Director

Mr. TSENG Ming-Sung

### Independent Non-executive Directors

Mr. LO Wah Wai

Mr. LEE Kwan Hung

Mr. FAN Ren Da, Anthony

The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The relationships among the members of the Board are disclosed under "Directors and Senior Management" on page 17 of this report.

During the period between the Listing Date and 31 December 2011, the Board at all times complied with the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines as set out in the Listing Rules.

All Directors, including non-executive Director and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. Independent non-executive Directors are invited to serve on the Audit, Remuneration and Nomination Committees of the Company.

# Corporate Governance Report

## Chairman and chief executive officer

The roles and duties of the Chairman and the Chief Executive Officer of the Company are carried out by different individuals and have been clearly defined in writing.

The Chairman of the Board is Mr. Lee Rie-Ho and the Chief Executive Officer is Mr. Lee Chia Ling. The positions of Chairman and Chief Executive Officer are held by separate persons in order to preserve independence and a balance of views and judgement. With the support of the senior management, the Chairman is responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board's approval.

## Appointment and re-election of directors

Each of our Directors is engaged on a service contract for a term of three years, and the appointment may be terminated by not less than three months' notice in writing.

In accordance with the Company's Articles of Association, all Directors are subject to retirement by rotation at least once every three years and any new Director appointed by the Board to fill a causal vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment or in case as an addition to the Board, the new Director shall hold office only until the next following annual general meeting of the Company and then be eligible for re-election.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Articles of Association. The Nomination Committee established on 31 August 2011 is to be responsible for reviewing the Board composition, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive Directors.

### Nomination committee

The Nomination Committee comprises four members, namely Mr. Lee Kwan Hung (Chairman), Mr. Lee Kuo-Lin, Mr. Fan Ren Da, Anthony and Mr. Lo Wah Wai, the majority of which are independent non-executive Directors.

The principal duties of the Nomination Committee include reviewing the Board composition, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of the independent non-executive Directors.

In accordance with the Company's Articles of Association, one-third of the Directors of the Company, shall retire by rotation and being eligible, offer themselves for re-election at the next forthcoming annual general meeting and every Director shall be subject to retirement at the annual general meeting at least once every three years.

The Company's circular dated 26 March 2012 contains detailed information of the Directors standing for re-election.

During the year ended 31 December 2011, no meeting has been convened by the Nomination Committee because the Company was only listed on 26 September 2011, and seven of the nine Directors were elected on 31 August 2011. The Nomination Committee therefore considers that it is not necessary to review the size and composition of the Board and identify any new Board member for the year ended 31 December 2011.

# Corporate Governance Report

## Induction and continuing development of directors

Each newly appointed Director receives formal, comprehensive and tailored induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors are continually updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for Directors will be arranged where necessary.

## Board meetings

### Board practices and conduct of meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notice of regular Board meetings is served to all Directors at least 14 days before the meeting. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management where necessary.

The senior management, including Chief Executive Officer and Chief Financial Officer, attend all regular Board meetings and where necessary, other Board and committee meetings, to advise on business developments, financial and accounting matters, statutory and regulatory compliance, corporate governance and other major aspects of the Company.

Draft minutes of all Board meetings and committee meetings are normally circulated to Directors for comment within a reasonable time after each meeting and final versions are open for Directors' inspection.

The Company's Articles of Association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

### Directors' attendance records

During the year ended 31 December 2011, 4 regular Board meetings were held, including for approval of listing matters, reviewing and approving the interim results for the six months ended 30 June 2011, and considering and approving the overall strategies and policies of the Company.

# Corporate Governance Report

The attendance records of each Director at the Board meetings during the year ended 31 December 2011 are set out below:

| Name of Director | Attendance/Number of Meetings[1] |
|---|---|
| Mr. LEE Rie-Ho | 3/4 |
| Mr. LEE Shih-Wei | 2/2 |
| Mr. LEE Chia Ling | 4/4 |
| Mr. LEE Kuo-Lin | 2/2 |
| Mr. LEE Min-Zun | 2/2 |
| Mr. TSENG Ming-Sung | 2/2 |
| Mr. LO Wah Wai | 1/2 |
| Mr. LEE Kwan Hung | 2/2 |
| Mr. FAN Ren Da, Anthony | 2/2 |

*Note:*

*(1) For the 4 Board meetings held in 2011, there were 2 Board meetings at which only Mr. Lee Rie-Ho and Mr. Lee Chia Ling were Directors.*

## Model code for securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules (the "Appendix 10") and devised its own code of conduct regarding Directors' dealings in the Company's securities (the "Company Code") on terms no less exacting than the Model Code as set out in Appendix 10.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Model Code and the Company Code from the Listing Date to 31 December 2011.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

## Delegation by the Board

The Board undertakes responsibility for decision making in major Company matters, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

# Corporate Governance Report

The Board has established three committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are available to shareholders upon request.

The Board also has the full support of the Chief Executive Officer and the senior management for the discharge of its responsibilities.

## Remuneration of Directors and senior management

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group. Details of the remuneration of each of the Directors of the Company for the year ended 31 December 2011 are set out in note 25 to the Consolidated Financial Statements.

## Remuneration committee

The Remuneration Committee comprises five members, namely, Mr. Fan Ren Da, Anthony (Chairman), Mr. Lee Rie-Ho, Mr. Lo Wah Wai, Mr. Lee Kwan Hung and Mr. Lee Chia Ling, the majority of which are independent non-executive Directors.

The primary objectives of the Remuneration Committee include making recommendations on and approving the remuneration policy and structure and remuneration packages of the executive Directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions.

During the year ended 31 December 2011, no meeting has been convened by the Remuneration Committee because the Company was only listed on 26 September 2011. The Remuneration Committee therefore considers that it is not necessary to review the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and the senior management for the year ended 31 December 2011.

## Accountability and audit

### Directors' responsibilities for financial reporting in respect of Consolidated Financial Statements

The Directors acknowledge their responsibility for preparing the Consolidated Financial Statements of the Company for the year ended 31 December 2011.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

The Management has provided to the Board such explanation and information as are necessary to enable the Board to carry out an informed assessment of the Company's Consolidated Financial Statements, which are put to the Board for approval.

# Corporate Governance Report

## Internal controls

During the period from the Listing Date to 31 December 2011, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Company including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets and with the support of the Audit Committee, reviewing the effectiveness of such system on an annual basis.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks and to safeguard assets of the Group. The internal auditor and senior management reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures to address the variances and identified risks.

## Audit committee

The Audit Committee comprises four members, namely, Mr. Lo Wah Wai (Chairman), Mr. Tseng Ming-Sung, Mr. Fan Ren Da, Anthony and Mr. Lee Kwan Hung, the majority of which are independent non-executive Directors and of which one of the independent non-executive Directors possesses the appropriate professional qualifications or accounting or related financial management expertise.

The main duties of the Audit Committee include the following:

- To review the Consolidated Financial Statements and reports and consider any significant or unusual items raised by the internal auditor or external auditors before submission to the Board;
- To review the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditors; and
- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee oversees the internal control system of the Group, reports to the Board on any material issues, and makes recommendations to the Board.

During the year ended 31 December 2011, the Audit Committee held 1 meeting for the approval of interim results for the six months ended 30 June 2011 and the attendance records are set out below:

| Name of Director | Attendance/Number of Meetings |
|---|---|
| Mr. LO Wah Wai | 1/1 |
| Mr. TSENG Ming-Sung | 1/1 |
| Mr. FAN Ren Da, Anthony | 1/1 |
| Mr. LEE Kwan Hung | 1/1 |

# Corporate Governance Report

## External auditor and auditor's remuneration

The statement of the external auditor of the Company about their reporting responsibilities for the Consolidated Financial Statements is set out in the "Independent Auditor's Report" on page 42.

During the year under review ended 31 December 2011, the remuneration paid/payable to the Company's external auditor, PricewaterhouseCoopers, is set out below:

| Service Category | Amount (RMB'000) |
|---|---|
| Annual audit services | 3,750 |
| Non-audit services | |
| – Interim review services | 1,000 |
| – Other non-audit services | 672 |
| Total | 5,422 |

Other non-audit services mainly represented the professional fee payable by the Group for the services related to share option scheme planning and the service of tax consultation.

## Communication with shareholders and investors/investor relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The general meetings of the Company provide a forum for communication between the Board and the shareholders face-to-face dialogue with the shareholders. The Chairman of the Board as well as chairmen of the Nomination Committee, Remuneration Committee and Audit Committee or, in their absence, other members of the respective committees and, where applicable, the chairman of the independent Board committee, are available to answer questions at shareholder meetings.

The 2012 Annual General Meeting will be held on 27 April 2012 (Friday) (the "AGM"). The notice of AGM will be sent to shareholders at least 20 clear business days before the AGM.

To promote effective communication, the Company maintains a website at www.tenfu.com, where up-to-date information and updates on the Company's business operations and developments, financial information, corporate governance practices and other information are posted are available for public access.

## Shareholder rights

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at shareholder meetings, including the election of individual directors.

All resolutions put forward at shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholder meeting.

# Report of the Board of Directors

The Directors are pleased to present their report and the audited Consolidated Financial Statements for the year ended 31 December 2011 of the Group.

## Major business

The Company is a PRC-based company that engaged in the sale and marketing of a comprehensive range of tea products and the development of product concepts, tastes and packaging designs. The analysis of the revenue of the Group for the year is set out in Note 5 to the Consolidated Financial Statements.

## Financial statements

The results of the Group for the year are set out in the Consolidated Statement of Comprehensive Income. The financial position as of 31 December 2011 of the Group is set out in the Consolidated Balance Sheet. The cash flow position of the Group during the year is set out in the Consolidated Cash Flow Statement.

## Share capital

The changes in the share capital of the Company during the year are set out in Note 14 to the Consolidated Financial Statements.

## Final dividend and special dividend

At the Board meeting held on 20 March 2012 (Tuesday), it was proposed that a final dividend of HKD16 cents per share and a special dividend of HKD12 cents per share be paid after 18 May 2012 to the shareholders of the Company whose names appear on the Company's register of members on 8 May 2012 (Tuesday). The proposed dividends are subject to approval by the shareholders at the AGM.

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

## Closure of register of members

For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from 25 April (Wednesday) to 27 April 2012 (Friday), both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, 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 24 April 2012 (Tuesday).

For determining the entitlement to the proposed final and special dividends, the register of members of the Company will be closed from 4 May 2012 (Friday) to 8 May 2012 (Tuesday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed dividends, 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 3 May 2012 (Thursday).

## Reserves

Details of the changes in reserves of the Group during the year ended 31 December 2011 are set out in Notes 14, 15 and 16 to the Consolidated Financial Statements.

# Report of the Board of Directors

## Distributable reserves

Under the Companies Law of the Cayman Islands, the share premium of the Company is available for distribution of dividends to the shareholders subject to the provisions of the Company's Articles of Associations. With the sanction of an ordinary resolution, dividend may be declared and paid out of share premium account of any other fund or account which can be authorised for this propose. As at 31 December 2011, the Company had distributable reserve amounting to approximately RMB1,025,610,000.

## Property, plant and equipment

The changes in property, plant and equipment during the year ended 31 December 2011 are set out in Note 8 to the Consolidated Financial Statements.

## Major customers and suppliers

During the year, the aggregate percentage of purchases attributable to the Group's five largest suppliers accounted for approximately 19% of the Group's total purchase. The percentage of turnover attributable to the Group's five largest customers accounted for approximately 5% of the Group's total turnover.

None of the Directors or his/her associates and none of the shareholders possessing over 5% of the interest in the capital of the Company possessed any interest in the above-mentioned suppliers and customers.

### Directors

The Directors in office during the year and as of the date of this report are as follows:

### Executive Directors

LEE Rie-Ho

LEE Shih-Wei

LEE Chia Ling

LEE Kuo-Lin

LEE Min-Zun

### Non-executive Director

TSENG Ming-Sung

### Independent Non-executive Directors

LO Wah Wai

LEE Kwan Hung

FAN Ren Da, Anthony

Details of the resume of the Directors are set forth in the section "Directors and Senior Management" of this report.

In accordance with article 83(3) of the Articles of Association, Mr. Lee Shih-Wei, Mr. Lee Kuo-Lin, Mr. Lee Min-Zun, Mr. Tseng Ming-Sung, Mr. Lo Wah Wai, Mr. Lee Kwan Hung and Mr. Fan Ren Da, Anthony will retire and being eligible, have offered themselves for re-election at the AGM. In accordance with article 84(1) of the Articles of Association, Mr. Lee Chia Ling will retire by rotation and being eligible, has offered himself for re-election at the AGM.

# Report of the Board of Directors

## Service contracts of directors

Details of service contracts for the executive Directors and non-executive Directors are set out under the section headed "Appointment and Re-election of Directors" of the Corporate Governance Report. There was no service contract entered by the Company and any Directors to be re-elected in the coming annual general meeting stipulating that the Company may not terminate the appointment without compensation payment (other than the statutory compensation).

## Directors' interests in contracts

Other than those transactions disclosed in Note 34 to the Consolidated Financial Statements and in the section "Connected transactions" below, there was no other significant contract with any member of the Group as the contracting party and in which the Directors of the Company possessed direct or indirect substantial interests, and which was still valid on the year end date or any time during the year and related to the business of the Group.

## Directors' interests in competitive business

A deed of non-competition dated 31 August 2011 (the "Deed") was entered into by and among other parties and the controlling shareholders, including Directors namely Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Shih-Wei (collectively, the "Covenators") in favor of the Company. The Company have received an annual written confirmation from each of the Covenantors in respect of the compliance by them and their associates with the Deed.

The independent non-executive Directors have reviewed the Deed and whether the controlling shareholders have abided by the non-competition undertaking. The independent non-executive Directors confirmed that they had determined that the controlling shareholders have not been in breach of the non-competition undertaking during the year ended 31 December 2011.

Save as disclosed above, none of the Directors held any interests in any business that compete directly against the Company or any of its jointly controlled entities and subsidiaries during the year.

## Share option scheme

On 17 December 2010, the Company adopted a share option scheme (the "Share Option Scheme") whereby the Board can grant options for the subscription of the Company's shares to the employees, managerial staff and senior employees and those other persons that the Board considers that they will contribute or have contributed to the Group (the "Participants") as described in the Share Option Scheme in order to serve as compliment and to reciprocate their contribution to the Group. The maximum number of shares that can be issued according to the Share Option Scheme was 122,720,746 shares, which is equivalent to 10% of the issued capital of the Company after completion of the Global Offering (as defined in the prospectus of the Company (the "Prospectus") dated 14 September 2011, but without taking into consideration the issue of any shares that may be issued under the Over-allotment Option (as defined in the Prospectus). The number of options that may be granted pursuant to the terms of the Share Option Scheme shall not exceed 10% of the issued shares immediately after the completion of the Global Offering. Unless otherwise approved by the shareholders of the Company in general meeting, the number of shares that may be granted to a Participant under the options shall not exceed 1% within any 12-month period (other than those granted to the substantial shareholders (as defined in the Listing Rules), or the total number of shares that may be granted under the options to the independent non-executive Directors or any of their respective connected persons shall not exceed 0.1% of the shares in issue of the Company from time to time. There is no minimum period that the options must be held before they become exercisable, and the options granted shall be exercised within the period decided by the Board, however no options shall be exercised 10 years after they have been granted. The exercise price of the option shall be the higher of (a) the closing price of the shares on the daily quotation sheet of the Stock Exchange on the date of grant; (b) the average closing price of the shares on the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) nominal value of the share. Each grantee shall pay a consideration of HKD1.00 at the time the option is granted. The Share Option Scheme shall take effect from the date it is adopted and shall remain effective within a period of 10 years from that date. Since the Share Option Scheme was adopted and up to 31 December 2011, no options have been granted.

# Report of the Board of Directors

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

## Debenture

At any time during the year the Company, its holding company or its subsidiaries were not the contracting parties of any arrangements from which the Directors could make a profit by purchasing the shares or debentures of the Company or any other companies.

## Interest and short positions of Directors in the shares, underlying shares or debentures

As at the date 31 December 2011, the interests or short positions of the Directors or chief executives of the Company in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required, pursuant to Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules, are as follows:

### (i) Interest in the Company

| Name of Director | Nature of Interest | Number of Securities | Approximate percentage of Shareholding |
|---|---|---|---|
| Mr. Lee Rie-Ho[(1)] | Interest in a controlled Corporation | 188,760,000 (L)[(3)] | 15.38% |
| Mr. Lee Shih-Wei | Personal Interest/individual | 4,719,000 (L)[(3)] | 0.38% |
| Mr. Lee Chia Ling[(2)] | Settlor of The KCL Trust | 377,520,000 (L)[(3)] | 30.76% |
| Mr. Tseng Ming-Sung | Personal Interest/individual | 4,719,000 (L)[(3)] | 0.38% |
| Mr. Lee Min-Zun | Personal Interest/individual | 1,000,000 (L)[(3)] | 0.08% |

*Notes:*

*(1) Discerning Group Limited is wholly-owned by Mr. Lee Rie-Ho, Mr. Lee Rie-Ho is deemed to be interested in the Shares held by Discerning Group Limited for the purpose of the SFO. Ms. Lee Tsai Li-Li is the wife of Mr. Lee Rie-Ho and is deemed to be interested in the Shares in which Mr. Lee Rie-Ho is deemed or taken to be interested for the purpose of the SFO.*

*(2) The entire issued share capital of Trackson Investments Limited is held by Tiger Nature Holdings Limited ("Tiger Nature") which is in turn ultimately held by Credit Suisse Trust Limited (the "Trustee") (through two nominee companies) as the trustee of The KCL Trust. The KCL Trust is a discretionary trust established by Mr. Lee Chia Ling as settler and the Trustee as trustee on 12 April 2011. The beneficiaries of The KCL Trust include family members of Mr. Lee Chia Ling. Mr. Lee Chia Ling is deemed to be interested in 377,520,000 Shares held by The KCL Trust, Tiger Nature and Trackson Investments Limited immediately upon completion of the Global Offering pursuant to Part XV of the SFO. Ms. Zhou Nan Nan is the spouse of Mr. Lee Chia Ling and is deemed to be interested in all the Shares of Mr. Lee Chia Ling by virtue of the SFO.*

*(3) The letter "L" denotes long position in such securities.*

# Report of the Board of Directors

### (ii) Interest in associated corporations

None of our Directors or chief executives has any interests and short positions in the Shares, underlying Shares and debentures of any associated corporations of our Company.

## Substantial shareholders' interests and short positions

As at the date 31 December 2011, to the best of the Directors' knowledge, the following persons (other than the Directors and chief executives of the Company) had or deemed or taken to have an interests and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO:

| Name | Capacity in which Interests are held | Number of Shares | Percentage of Shareholding (%) |
|---|---|---|---|
| Discerning Group Limited[1] | Beneficial interest | 188,760,000 (L)[5] | 15.38 |
| Ms. Lee Tsai Li-Li[1] | Interest in spouse | 188,760,000 (L)[5] | 15.38 |
| Credit Suisse Trustee Limited[2] [3] | Trustee | 377,520,000 (L)[5] | 30.76 |
| Trackson Investments Limited[2] | Registered owner | 377,520,000 (L)[5] | 30.76 |
| Tiger Nature Holdings Limited[2] | Interest in a controlled Corporation | 377,520,000 (L)[5] | 30.76 |
| The KCL Trust[2] | Interest in a controlled Corporation | 377,520,000 (L)[5] | 30.76 |
| Mr. Lee John L[2] | Beneficiary of The KCL Trust | 377,520,000 (L)[5] | 30.76 |
| Ms. Zhou Nan Nan[2] | Interest in spouse | 377,520,000 (L)[5] | 30.76 |
| General Atlantic Singapore Fund Pte. Ltd.[4] | Registered owner | 93,049,000 (L)[5] | 7.58 |
| General Atlantic Singapore Fund Interholdco Ltd.[4] | Interest in a controlled Corporation | 93,049,000 (L)[5] | 7.58 |
| General Atlantic Partners (Bermuda) II, L.P.[4] | Interest in a controlled Corporation | 93,049,000 (L)[5] | 7.58 |
| General Atlantic GenPar (Bermuda), L.P.[4] | Interest in a controlled Corporation | 93,049,000 (L)[5] | 7.58 |
| GAP (Bermuda) Limited[4] | Interest in a controlled Corporation | 93,049,000 (L)[5] | 7.58 |

*Note:*

*(1) Discerning Group Limited is wholly-owned by Mr. Lee Rie-Ho, Mr. Lee Rie-Ho is deemed to be interested in the Shares held by Discerning Group Limited for the purpose of the SFO. Ms. Lee Tsai Li-Li is the wife of Mr. Lee Rie-Ho and is deemed to be interested in the Shares in which Mr. Lee Rie-Ho is deemed or taken to be interested for the purpose of the SFO.*

*(2) The entire issued share capital of Trackson Investments Limited is held by Tiger Nature which is in turn ultimately held by the Trustee (through two nominee companies) as the trustee of The KCL Trust. The KCL Trust is a discretionary trust established by Mr. Lee Chia Ling as settlor and the Trustee as trustee on 12 April 2011. The beneficiaries of The KCL Trust include family members of Mr. Lee Chia Ling. Mr. Lee Chia Ling is deemed to be interested in 377,520,000 Shares held by The KCL Trust, Tiger Nature and Trackson Investments Limited immediately upon completion of the Global Offering pursuant to Part XV of the SFO. Ms. Zhou Nan Nan is the spouse of Mr. Lee Chia Ling and is deemed to be interested in all the Shares of Mr. Lee Chia Ling by virtue of the SFO.*

# Report of the Board of Directors

*(3) Credit Suisse Trustee Limited is the trustee of The KCL Trust, it is deemed to be interested in 377,520,000 Shares held by The KCL Trust.*

*(4) General Atlantic Singapore Fund Pte. Ltd. is managed and controlled on day-to-day basis by its board of directors comprised solely of Abhay Havaldar and Nicholas Nash, both of whom are residents of Singapore and investment professionals who work on a full-time basis in Singapore. The sole shareholder of General Atlantic Singapore Fund Pte. Ltd. is General Atlantic Singapore Fund Interholdco Ltd. ("GA Interholdco") and the controlling shareholder of GA Interholdco is General Atlantic Partners (Bermuda) II, L.P. ("GAP LP"). The general partner of GAP LP is General Atlantic GenPar (Bermuda), L.P. ("GA GenPar") and the general partner of GA GenPar is GAP (Bermuda) Limited.*

*(5) The letter "L" denotes long position in such securities.*

## Subsidiaries

Details of the major subsidiaries of the Company as of 31 December 2011 are set out in Note 30 to the Consolidated Financial Statements.

## Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## Connected transactions

Following the listing of the Group on 26 September 2011, the transactions between the Group and certain connected persons of the Group became continuing connected transactions. The Company has applied and the Stock Exchange has on 2 September 2011 granted a waiver from, among others, strict compliance with the announcement and/or shareholders' approval requirements under Rule 14A.42(3) of the Listing Rules for the continuing connected transactions set out in the Prospectus.

Details of the continuing connected transactions of the Company are as follows:

# Report of the Board of Directors

## Continuing connected transactions exempt from the reporting, announcement and independent shareholders' approval requirements

### *Lease agreements with various connected persons of the Company*

The Company has been leasing properties in the PRC from various connected persons of the Company since 2009.

The details of the written lease agreements between the Group and each of the connected persons of the Company (the "Exempt Lease Agreements") and the connected relationship are set out in the table below:

| No. | Location | Member of the Group as tenant | Connected Party as landlord | Term and Rental (RMB) | Type of Premises |
|---|---|---|---|---|---|
| 1. | Fujian[1] | 福州天福茗茶銷售有限公司 (Fu Zhou Tian Fu Tea Sales Co., Ltd.) | Ms. Chen Xiu-Duan 陳秀端 (daughter-in-law of the Director, Mr. Lee Rie-Ho and wife of the Director, Mr. Lee Kuo-Lin) | Term: Three years from 10 September 2009 to 9 September 2012 Rental: 15,000/month | Store premises with a gross floor area of approximately 158.0 square meters |
| 2. | Fujian[1] | 福州天福茗茶銷售有限公司 (Fu Zhou Tian Fu Tea Sales Co., Ltd.) | Mr. Lee Min-Zun (the Director and cousin of Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, the Directors) | Term: Two years from 1 September 2010 to 31 August 2012 Rental: 40,000/month | Store premises with a gross floor area of approximately 87.9 square meters |
| 3. | Henan | 福州天福茗茶銷售有限公司 (Fu Zhou Tian Fu Tea Sales Co., Ltd.) | Xiamen Tenfu Industry Co., Ltd. (廈門天福實業有限公司) (a subsidiary of Samoa Group, which is wholly owned by Mr. Lee Chia Ling, the Director) | Term: Five years from 1 October 2009 to 30 September 2014 Rental: 66,666.67/month | Store premises with a gross floor area of approximately 275.5 square meters |
| 4. | Hainan[1] | 廣東天福茗茶銷售有限公司 (Guang Dong Tian Fu Tea Sales Co., Ltd.) | Mr. Lee Min-Zun (the Director and cousin of Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, the Directors) | Term: One year from 1 January 2011 to 31 December 2011 Rental: 30,000/month | Store premises with a gross floor area of approximately 376.3 square meters |

# Report of the Board of Directors

| No. | Location | Member of the Group as tenant | Connected Party as landlord | Term and Rental (RMB) | Type of Premises |
|---|---|---|---|---|---|
| 5. | Hubei | 湖北天福茗茶銷售有限公司 (Hu Bei Tian Fu Tea Sales Co., Ltd.) | Mr. Lee Kuo-Lin (the Director and son of Mr. Lee Rie-Ho, the Director and Chairman) | Term: Three years from 1 July 2010 to 30 June 2013 Rental: 1 July 2010 to 30 June 2011: 70,000/month; 1 July 2011 to 30 June 2012: 72,100/month; 1 July 2012 to 30 June 2013: 74,263/month. | Store premises with a gross floor area of approximately 584.3 square meters |
| 6. | Shandong | 濟南天福茗茶有限公司 (Jinan Tenfu Tea Co., Ltd.) | Mr. Lee Shih-Wei (the Director and nephew of Mr. Lee Rie-Ho the Director and Chairman) | Term: Two years from 1 November 2009 to 31 October 2011 Rental: 17,500/month | Store premises with a gross floor area of approximately 158.9 square meters |
| 7. | Heilongjiang | 吉林省天福茗茶銷售有限公司 (Jilin Province Tian Fu Tea Sales Co., Ltd.) | Ms. Zhou Nan-Nan 周楠楠 (daughter-in-law of the Director, Mr. Lee Rie-Ho and wife of the Director, Mr. Lee Chia Ling) | Term: Three years from 15 August 2010 to 14 August 2013 Rental: 29,000/month | Store premises with a gross floor area of approximately 643.6 square meters |
| 8. | Shanghai[1] | 上海天福茗茶銷售有限公司 (Shanghai Tenfu Tea Co., Ltd.) | Ms. Chen Xiu-Duan 陳秀端 (daughter-in-law of the Director, Mr. Lee Rie-Ho and wife of the Director, Mr. Lee Kuo-Lin) | Term: Two years from 1 September 2010 to 31 August 2012 Rental: 7,900/month | Store premises with a gross floor area of approximately 143.6 square meters |
| 9. | Xinjiang | 新疆天福茗茶銷售有限公司 (Xin Jiang Tian Fu Tea Sales Co., Ltd.) | Mr. Lee Chien-Te 李建德 (cousin of Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, the Directors) | Term: Three years from 1 August 2009 to 30 July 2012 Rental: 35,000/month | Store premises with a gross floor area of approximately 70.0 square meters |

*Note 1: As the continuing connected transactions under items 1 and 8; and items 2 and 4 are with the same landlord, their respective applicable ratios have been aggregated.*

# Report of the Board of Directors

## Continuing connected transactions which are subject to the reporting, annual review and announcement requirements but exempt from independent shareholders' approval requirement

### *Master Purchase Agreement with Lu Yu*

The Company has been purchasing tea ware from Lu Yu Tea Artcraft Co., Ltd. ("Lu Yu") as part of the ordinary and usual course of business of the Group. As Lu Yu is wholly owned by Tensin Investment Corporation Limited, which is held as to approximately 31.25% by Mr. Lee Shih-Wei, the Director, the purchase of tea ware by the Group from Lu Yu constitute a continuing connected transaction for the Company upon Listing.

On 31 August 2011, the Company entered into a master purchase agreement with Lu Yu (the "Lu Yu Master Purchase Agreement") which was effective on the Listing Date, pursuant to which the Company agreed to purchase or procure members of the Group to purchase tea ware from Lu Yu for an initial term of three years subject to an annual cap not exceeding RMB20,000,000, RMB22,000,000 and RMB24,000,000 for each of the three financial years ending 31 December 2011, 2012 and 2013, respectively. The annual caps have been determined based on the projected 30% increase in the market demand of tea ware with reference to the market rates for similar tea ware, which the Company or the Group purchased from independent third parties. The substantial increase in transaction volume is a result of the expected increase in the market demand for tea ware and the expected increase of sales of tea ware by the Group. In arriving at the annual caps, the Directors have considered (1) the historical transaction amount for the supply of tea ware by Lu Yu; (2) the market recognition and acceptance of the Lu Yu brand; (3) the actual sales of Lu Yu tea ware in 2011; and (4) the expected future growth of the tea ware business of the Group. Subject to compliance with the Listing Rules, the Group has an option to renew the Lu Yu Master Purchase Agreement indefinitely.

During the year, the amounts that the Group paid to Lu Yu for the purchase of tea ware were approximately RMB16,870,000.

### *Master Processing Agreement with Tenfu Group (Samoa) Holdings Co., Limited and its subsidiaries (the "Samoa Group")*

On 31 August 2011, the Company entered into a master processing agreement with Samoa Group (the "Master Processing Agreement") which was effective on the Listing Date, pursuant to which Samoa Group agreed to provide processing services to enhance the quality of such tea leaves for a term of three years subject to an annual cap not exceeding RMB3,000,000, RMB3,000,000 and RMB3,000,000 for each of the three financial years ending 31 December 2011, 2012 and 2013, respectively. As Samoa Group is wholly owned by Mr. Lee Chia Ling, the Director, the provision of processing services by Samoa Group to the Group is a continuing connected transaction for the Company. The annual caps have been determined based on the market price charged by independent third parties for provision of similar services and the estimated annual aged tea leaves in the amount of 200,000 kg to be identified by the Company and returned from third-party retailers. In arriving at the annual caps, the Directors have considered (1) the tea leaves processed by Samoa Company are of good quality and are suitable for use of the Group; (2) the processing fee of RMB15.0 per kilogram, which was agreed between the Group and Samoa Group after arm's length negotiation and based on the market price charged by independent third parties for provision of similar services; and (3) the annual historical amount of aged tea leaves that require processing in the previous year, which is expected to remain steady.

During the year, the amount of services fees received by the Group in respect of the Master Processing Agreement was RMB2,553,000.

# Report of the Board of Directors

*Lease Agreements with Mr. Lee Chia Ling*

The Company has been leasing various properties in the PRC from Mr. Lee Chia Ling, the Director, since 2009. As Mr. Lee Chia Ling is the connected person of the Company, each of the lease agreements is a continuing connected transaction of the Company.

During the year, the amount of rental paid by the Group in respect of the lease agreements between the Group and Mr. Lee Chia Ling were RMB1,063,000.

Details of the written lease agreements between the Group and Mr. Lee Chia Ling (the "Non-exempt Lease Agreements") are set out in the table below:

| No. | Location | Member of the Group as tenant | Landlord(s) | Term and Rental (RMB) | Type of Premises |
|---|---|---|---|---|---|
| 1. | Fujian | 福建天福茗茶銷售有限公司 (Fujian Tenfu Sales) | Mr. Liu Chang-An and Mr. Lee Chia Ling | Term: Three years from 18 September 2009 to 17 September 2012 Rental: 25,000/month | Store premises with a gross floor area of approximately 166.6 square meters |
| 2. | Liaoning | 吉林省天福茗茶銷售有限公司 (Jilin Province Tian Fu Tea Sales Co., Ltd.) | Mr. Lee Chia Ling | Term: Three years from 23 September 2009 to 23 September 2012 Rental: 30,000/month | Store premises with a gross floor area of approximately 690.8 square meters |
| 3. | Sichuan | 四川天福茗茶銷售有限公司 (Sichuan Tenfu Tea Sales Co., Ltd.) | Mr. Lee Chia Ling | Term: Two years from 19 May 2011 to 18 May 2013 Rental: 57,500/month | Store premises with a gross floor area of approximately 627.8 square meters |

## Continuing connected transactions which are subject to the reporting, annual review and independent shareholders' approval requirements

*Master Purchase Agreement with Samoa Group*

The Company has been purchasing tea leaves from Samoa Group as part of the ordinary and usual course of business. As Samoa Group is wholly owned by Mr. Lee Chia Ling, the Director, the purchase of tea leaves by the Group from Samoa Group is a continuing connected transaction for the Company.

On 31 August 2011, the Company entered into a master purchase agreement with Samoa Group (the "Samoa Master Purchase Agreement") which was effective on the date of the Listing Date, pursuant to which the Company agreed to purchase or procure members of the Group to purchase tea leaves from Samoa Group for an initial term of three years subject to an annual cap not exceeding RMB94,000,000, RMB108,100,000 and RMB124,300,000 for each of the three financial years ending 31 December 2011, 2012 and 2013, respectively. The annual caps have been determined based on the projected 15.0% increase in demand of tea leaves by the Group with reference to the market rates for tea leaves, which the Group purchased from independent third parties. In arriving at the annual caps, the Directors have considered (1) the actual transaction amount for the purchase of tea leaves from Samoa Group for the year ended 31 December 2010; and (2) the expected amount of growth of tea leaves market in the future. Subject to compliance with the Listing Rules, the Group has option to renew the Samoa Master Purchase Agreement for a further term of three years indefinitely.

# Report of the Board of Directors

During the year, the amounts that the Group paid to Samoa Group for the purchase of tea leaves were RMB92,624,000.

All independent non-executive Directors have reviewed the above continuing connected transactions, and confirmed that the transactions were entered into:

1. in the ordinary and usual course of business of the Group;
2. under normal commercial terms or not less favourable terms that the Group receives or provides services from an independent third party or obtains from an independent third party; and
3. in accordance with the agreements related to the above continuous connected transactions, the terms of which are fair and reasonable and for the overall benefit of the shareholders of the Company.

Based on the work performed, the Auditor of the Company confirmed to the Board that the aforesaid continuing connected transactions:

1. have been approved by the Board;
2. are in accordance with the pricing policy of the Group;
3. have been entered into under the terms of the related agreements governing the transactions; and
4. save as otherwise disclosed, have not exceeded the relevant cap allowed by the Stock Exchange in the previous waiver.

## Employee and remuneration policies

As of 31 December 2011 the Group had an aggregate of 6,901 full-time employees, with 6,898 employees in the PRC and 3 employees in Hong Kong. The Group recruited and promoted individual persons according to their strength and development potential. The Group determined the remuneration packages of all employees (including the Directors) with reference to corporate performance, individual performance and current market salary scale.

## Confirmation of independent status

The Company received the letters of confirmation of independency issued by all the independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Board was satisfied with the independent status of all the independent non-executive Directors.

## Use of proceeds from initial public offering

In September 2011, the Group completed its listing on the main board of the Stock Exchange and raised net proceeds of approximately RMB933.3 million. As of 31 December 2011, the Company has not used any of such proceeds. The Company plans to use such proceeds to expand and optimize its network of self-owned retail outlets and retail points, including through establishing and refurbishing self-owned and acquiring third-party owned retail outlets and retail points, as well as to acquire new store premises, maintain and promote its brands, increase production capacity, and for general working capital purposes.

## Corporate governance

The Company strived to maintain a high standard of corporate governance and complied with the CG Code set out in Appendix 14 of the Listing Rules. To the knowledge of the Board, the Company had fully complied with the code provisions in the CG Code since the Listing Date up to 31 December 2011, and there has been no deviation from any of the code provisions.

# Report of the Board of Directors

## Purchase, sale and re-purchase of shares

There was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries between the period since the Listing Date up to 31 December 2011.

## Disclosure under Rule 13.20 of the Listing Rules

The Directors are not aware of any circumstances resulting in the responsibility of disclosure under Rule 13.20 of the Listing Rules regarding the provision of advances by the Company to an entity.

## Events after the reporting period

Details of significant events after the reporting period of the Group are set out in Note 35 to the Consolidated Financial Statements.

## Four year financial summary

The summary of the results, assets and liabilities of the Group in the past four years is set out on page 5 of this report.

## Pre-emptive rights

There is no provision regarding pre-emptive rights in the Articles of Association of the Company or the ordinance of Cayman Islands. It is stipulated that any new shares shall be offered according to the respective shareholding of the existing shareholders of the Company when new shares are issued by the Company.

## Adequate public float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed minimum percentage of public float under the Listing Rules throughout the period ended 31 December 2011 since the Listing Date.

## Auditor

The Company appointed PricewaterhouseCoopers as the Auditor of the Company for the year ended 31 December 2011. The Company will submit a resolution in the coming AGM to re-appoint PricewaterhouseCoopers as the Auditor of the Company.

For and on behalf of the Board of Directors

**LEE Rie-Ho**

*Chairman*

Hong Kong, 20 March 2012

# Independent Auditor's Report

羅兵咸永道

**TO THE SHAREHOLDERS OF**
**TENFU (CAYMAN) HOLDINGS COMPANY LIMITED**
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tenfu (Cayman) Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 44 to 110, which comprise the consolidated and Company balance sheets as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong*
*T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*

# Independent Auditor's Report

(continued)

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 20 March 2012

# Consolidated Balance Sheet

As at 31 December 2011

| | | As at 31 December | |
|---|---|---|---|
| | | **2011** | 2010 |
| | Note | **RMB'000** | RMB'000 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Leasehold land and land use rights | 6 | **19,119** | 19,377 |
| Investment properties | 7 | **5,030** | 5,313 |
| Property, plant and equipment | 8 | **383,544** | 278,562 |
| Intangible assets | 9 | **2,670** | 2,910 |
| Investment in a jointly controlled entity | 10 | **4,061** | 3,748 |
| Deferred income tax assets | 19 | **42,008** | 30,331 |
| Prepayments – non-current portion | 11(a) | **31,134** | 8,462 |
| | | **487,566** | 348,703 |
| **Current assets** | | | |
| Inventories | 12 | **380,026** | 299,173 |
| Trade and other receivables | 11(a),34(c) | **314,731** | 354,069 |
| Prepayments | 11(a),34(c) | **103,605** | 70,638 |
| Restricted cash | 13 | **72,070** | 3,460 |
| Cash and cash equivalents | 13 | **1,119,929** | 450,685 |
| | | **1,990,361** | 1,178,025 |
| **Total assets** | | **2,477,927** | 1,526,728 |
| **EQUITY** | | | |
| **Capital and reserves attributable to owners of the Company** | | | |
| Share capital | 14(b) | **100,816** | 8,875 |
| Share premium | 14(b) | **1,036,145** | 194,806 |
| Other reserves | 16 | **375,897** | 342,410 |
| Retained earnings | 15(a) | **377,624** | 117,601 |
| **Total equity** | | **1,890,482** | 663,692 |

## Consolidated Balance Sheet

As at 31 December 2011
(continued)

| | | As at 31 December | |
|---|---|---|---|
| | | **2011** | 2010 |
| | Note | **RMB'000** | RMB'000 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 18 | **–** | 738 |
| Deferred income tax liabilities | 19 | **14,497** | 14,477 |
| | | **14,497** | 15,215 |
| **Current liabilities** | | | |
| Trade and other payables | 17(a),34(c) | **213,034** | 260,232 |
| Dividend payable | 29,34(c) | **–** | 157,749 |
| Current income tax liabilities | | **35,143** | 30,864 |
| Borrowings | 18 | **324,771** | 398,976 |
| | | **572,948** | 847,821 |
| **Total liabilities** | | **587,445** | 863,036 |
| **Total equity and liabilities** | | **2,477,927** | 1,526,728 |
| **Net current assets** | | **1,417,413** | 330,204 |
| **Total assets less current liabilities** | | **1,904,979** | 678,907 |

The notes on pages 50 to 110 are an integral part of these consolidated financial statements.

**LEE Chia Ling**
*Director*

**LEE Min-Zun**
*Director*

# Balance Sheet of the Company

As at 31 December 2011

| | | As at 31 December | |
|---|---|---|---|
| | | **2011** | 2010 |
| | Note | **RMB'000** | RMB'000 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investments in subsidiaries | 30 | **860,388** | 41,348 |
| **Current assets** | | | |
| Trade and other receivables | 11(b) | **2,766** | 163,969 |
| Cash and cash equivalents | | **275,077** | 158,911 |
| | | **277,843** | 322,880 |
| **Total assets** | | **1,138,231** | 364,228 |
| **EQUITY** | | | |
| **Capital and reserves attributable to owners of the Company** | | | |
| Share capital | 14(b) | **100,816** | 8,875 |
| Share premium | 14(b) | **1,036,145** | 194,806 |
| Accumulated losses | 15(b) | **(10,535)** | (1,492) |
| **Total equity** | | **1,126,426** | 202,189 |
| **LIABILITIES** | | | |
| Other payables | 17(b) | **11,805** | 4,423 |
| Dividend payable | 29 | **–** | 157,616 |
| | | **11,805** | 162,039 |
| **Total equity and liabilities** | | **1,138,231** | 364,228 |
| **Net current assets** | | **266,038** | 160,841 |
| **Total assets less current liabilities** | | **1,126,426** | 202,189 |

The notes on pages 50 to 110 are an integral part of these consolidated financial statements.

**LEE Chia Ling**
*Director*

**LEE Min-Zun**
*Director*

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2011** | 2010 |
| | Note | **RMB'000** | RMB'000 |
| Revenue | 20 | **1,753,317** | 1,246,993 |
| Cost of sales | 23 | **(673,759)** | (557,264) |
| **Gross profit** | | **1,079,558** | 689,729 |
| Distribution costs | 23 | **(480,189)** | (272,621) |
| Administrative expenses | 23 | **(176,506)** | (107,143) |
| Other income | 22 | **7,416** | 9,019 |
| Other (losses)/gains – net | 21 | **(3,622)** | 2,322 |
| **Operating profit** | | **426,657** | 321,306 |
| Finance income | 26 | **1,532** | 1,045 |
| Finance costs | 26 | **(20,830)** | (9,890) |
| Finance costs – net | 26 | **(19,298)** | (8,845) |
| Share of profit of a jointly controlled entity | 10 | **1,347** | 1,246 |
| **Profit before income tax** | | **408,706** | 313,707 |
| Income tax expense | 27 | **(115,196)** | (90,683) |
| **Profit for the year, all attributable to the owners of the Company** | | **293,510** | 223,024 |
| **Other comprehensive income for the year** | | **–** | – |
| **Total comprehensive income for the year, all attributable to the owners of the Company** | 15 | **293,510** | 223,024 |
| **Earnings per share for profit attributable to the owners of the Company (expressed in RMB)** | | | |
| – Basic earnings per share | 28 | **0.27** | 0.22 |
| – Diluted earnings per share | 28 | **0.27** | 0.22 |

The notes on pages 50 to 110 are an integral part of these consolidated financial statements.

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2011** | 2010 |
| | Note | **RMB'000** | RMB'000 |
| Dividends | 29 | **282,258** | 307,238 |

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

| | Attributable to the owners of the Company | | | | |
|---|---|---|---|---|---|
| | **Par value of ordinary shares** RMB'000 | **Share premium** RMB'000 | **Other reserves** RMB'000 | **Retained earnings** RMB'000 | **Total equity** RMB'000 |
| Balance at 1 January 2010 | – | – | 322,152 | 230,307 | 552,459 |
| **Comprehensive income** | | | | | |
| Profit/Total comprehensive income for the year | – | – | – | 223,024 | 223,024 |
| **Transactions with owners** | | | | | |
| Issuance of ordinary shares (Note 14(b)) | 8,875 | 194,806 | – | – | 203,681 |
| Share swap (Note 14(b)) | – | – | (8,234) | – | (8,234) |
| Profit appropriation to statutory reserves (Note 16) | – | – | 28,492 | (28,492) | – |
| Dividends declared (Note 29) | – | – | – | (307,238) | (307,238) |
| **Total transactions with owners** | 8,875 | 194,806 | 20,258 | (335,730) | (111,791) |
| **Balance at 31 December 2010** | 8,875 | 194,806 | 342,410 | 117,601 | 663,692 |
| Balance at 1 January 2011 | **8,875** | **194,806** | **342,410** | **117,601** | **663,692** |
| **Comprehensive income** | | | | | |
| Profit/Total comprehensive income for the year | **–** | **–** | **–** | **293,510** | **293,510** |
| **Transactions with owners** | | | | | |
| Capitalisation issue (Note 14(b)) | **74,897** | **(74,897)** | **–** | **–** | **–** |
| Issuance of ordinary shares (Note 14(b)) | **17,044** | **916,236** | **–** | **–** | **933,280** |
| Profit appropriation to statutory reserves (Note 16) | **–** | **–** | **33,487** | **(33,487)** | **–** |
| **Total transactions with owners** | **91,941** | **841,339** | **33,487** | **(33,487)** | **933,280** |
| **Balance at 31 December 2011** | **100,816** | **1,036,145** | **375,897** | **377,624** | **1,890,482** |

The notes on pages 50 to 110 are an integral part of these consolidated financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2011

| | | Year ended 31 December | |
|---|---|---|---|
| | | **2011** | 2010 |
| | Note | **RMB'000** | RMB'000 |
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 31 | **453,133** | 161,661 |
| Interest paid | 26 | **(20,830)** | (9,890) |
| Income tax paid | | **(122,574)** | (109,440) |
| Net cash inflow from operating activities | | **309,729** | 42,331 |
| **Cash flows from investing activities** | | | |
| Acquisition of businesses, net of cash acquired | 33 | **(9,236)** | (26,722) |
| Purchase of land use rights | 6 | **(181)** | (4,660) |
| Purchase of property, plant and equipment | 8 | **(196,175)** | (79,610) |
| Purchase of intangible assets | 9 | **(504)** | (2,090) |
| Investments in time deposits with maturity more than 3 months | 13 | **(55,600)** | – |
| Proceeds from disposal of property, plant and equipment | 31 | **9,309** | 3,688 |
| Interest received | 26 | **1,532** | 782 |
| Dividends received from a jointly controlled entity | 10 | **1,034** | 756 |
| Decrease in amounts due from third parties | | **–** | 146,589 |
| (Increase)/decrease in amounts due from related parties | 34(c) | **(448)** | 34,709 |
| Net cash (outflow)/inflow from investing activities | | **(250,269)** | 73,442 |
| **Cash flows from financing activities** | | | |
| Capital contribution from the financial investors | 14 | **2,292** | 193,155 |
| Proceeds from issuance of ordinary shares, net | 14 | **935,651** | – |
| Proceeds from borrowings | | **347,312** | 446,026 |
| Repayments of borrowings | | **(422,255)** | (306,049) |
| Dividends paid to the owners of the Company | | **(157,749)** | (149,489) |
| Changes in restricted cash pledged for borrowings | 13 | **(13,010)** | 2,047 |
| (Decrease)/increase in amounts due to related parties | 34(c) | **(81,867)** | 9,435 |
| Net cash inflow from financing activities | | **610,374** | 195,125 |
| **Net increase in cash and cash equivalents** | | **669,834** | 310,898 |
| Effect of foreign exchange rate changes | | **(590)** | (1,384) |
| Cash and cash equivalents at beginning of the year | | **450,685** | 141,171 |
| **Cash and cash equivalents at end of the year** | 13 | **1,119,929** | 450,685 |

The notes on pages 50 to 110 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 1 General information

Tenfu (Cayman) Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") are engaged in the classification, packaging of tea leaves, manufacture of tea snacks, and sale of tea leaves, tea snacks and tea ware. The Group has manufacturing plants in Fujian Province and Sichuan Province, the People's Republic of China (the "PRC") and sells mainly to customers located in the PRC.

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

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

The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements set out on pages 44 to 110 have been approved for issue by the Board of Directors (the "Board") of the Company on 20 March 2012.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention.

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

## 2 Summary of significant accounting policies *(continued)*

### 2.1 Basis of preparation *(continued)*

(a) New and amended standards adopted by the Group in 2011

The following revised standard is mandatory for the first time for the financial year beginning on 1 January 2011.

- HKAS 24 (Revised) "Related Party Disclosures" is effective for annual periods beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:

  - o The name of the government and the nature of their relationship;
  - o The nature and amount of any individually significant transactions; and
  - o The extent of any collectively-significant transactions qualitatively or quantitatively.

  It also clarifies and simplifies the definition of a related party. The Group applied the revised standard on 1 January 2011 and it does not have any impact on the Group's consolidated financial statements. Further information in respect of the related party transactions and balances is disclosed in Note 34.

(b) New and amended standards which have been issued and are relevant to the Group's operations but are not yet effective for the financial year beginning on 1 January 2011 and have not been early adopted by the Group

- HKFRS 9 'Financial Instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010, and revised in December 2011. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than as a profit or loss item, unless this creates an accounting mismatch. HKFRS 9 is effective for annual periods beginning on or after 1 January 2015.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 2 Summary of significant accounting policies *(continued)*

### 2.1 Basis of preparation *(continued)*

(b) New and amended standards which have been issued and are relevant to the Group's operations but are not yet effective for the financial year beginning on 1 January 2011 and have not been early adopted by the Group *(continued)*

- HKFRS 10 'Consolidated Financial Statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. HKFRS 10 is effective for annual periods beginning on or after 1 January 2013.

- HKFRS 11, 'Joint Arrangements'. It changes the definitions to reduce the types of joint arrangements to two, joint operations and joint ventures. The jointly controlled assets classification in HKAS 31, 'Interests in Joint Ventures', has been merged into joint operations, as both types of arrangements generally result in the same accounting outcome. The standard will be applied at the beginning of the earliest period presented upon adoption according to transitional provisions of HKFRS 11.

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

  A joint venture, in contrast, gives the parties rights to the net assets or outcome of the arrangement. A joint venturer does not have rights to individual assets or obligations for individual liabilities of the joint venture. Instead, joint venturers share the net assets and, in turn, the outcome (profit or loss) of the activity undertaken by the joint venture. Joint ventures are accounted for using the equity method in accordance with HKAS 28, 'Investments in Associates'. Entities can no longer account for an interest in a joint venture using the proportionate consolidation method. The standard is applicable to annual periods beginning on or after 1 January 2013 with early adoption permitted, and HKFRS 10, HKFRS 12, HKAS 27 (as amended in 2011) and HKAS 28 (as amended in 2011) shall be applied at the same time.

- HKFRS 12 'Disclosures of Interests in Other Entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. HKFRS 12 is effective for periods beginning on or after 1 January 2013.

## 2 Summary of significant accounting policies *(continued)*

### 2.1 Basis of preparation *(continued)*

(b) New and amended standards which have been issued and are relevant to the Group's operations but are not yet effective for the financial year beginning on 1 January 2011 and have not been early adopted by the Group *(continued)*

- HKFRS 13 'Fair Value Measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRS. HKFRS 13 is effective for annual periods beginning on or after 1 January 2013.

The Group will apply the new/revised standards described above when they become effective. The Group is in the process of making an assessment on the impact of these new/revised standards and 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.

### 2.2 Consolidation

***(a) Subsidiaries***

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Different methods of accounting are used for acquisition of subsidiaries through common control and non-common control business combinations, as described below.

(i) Common control business combination

The Group applies merger accounting to account for the business combination (including acquisition of subsidiaries) under common control, where all assets and liabilities are recorded at predecessor carrying amounts, as if the combining entities have been consolidated from the date when they first came under the control of the controlling party, and the difference between consideration payable and the net assets value are taken to the merger reserve.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 2 Summary of significant accounting policies *(continued)*

### 2.2 Consolidation *(continued)*

#### *(a) Subsidiaries (continued)*

(ii) Non-common control business combination

The Group uses the acquisition method of accounting to account for business combinations (including acquisition of subsidiaries) which are not under common control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as profit or loss in the consolidated statement of comprehensive income.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

## 2 Summary of significant accounting policies *(continued)*

### 2.2 Consolidation *(continued)*

#### *(b) Jointly controlled entities*

A jointly controlled entity is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

A jointly controlled entity is an entity established as a corporation, partnership or other entity in which the venturers have their respective interests and establish a contractual arrangement among them to define their joint control over the economic activity of the entity.

The Group's share of its jointly controlled entity's post-acquisition profits or losses is recognized as profit or loss in the consolidated statement of comprehensive income, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Group and its jointly controlled entity are eliminated to the extent of the Group's interest in the jointly controlled entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the jointly controlled entity have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board that makes strategic decisions.

### 2.4 Foreign currency translation

#### *(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 2 Summary of significant accounting policies *(continued)*

### 2.4 Foreign currency translation *(continued)*

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized as profit or loss in the consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'other (losses)/gains – net'.

### 2.5 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property. Starting from 1 January 2009, investment property also includes property that is being constructed or developed for future use as investment property.

Land held under operating leases is classified and accounted for by the Group as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs and borrowing costs. Borrowing costs that are incurred for the purpose of acquiring, constructing or producing a qualifying investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway and cease once the asset is substantially complete, or suspended if the development of the asset is suspended.

After initial recognition, investment property is carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation of investment properties is calculated using the straight-line method to allocate their costs over their estimated useful lives of 20 years.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognized.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 2 Summary of significant accounting policies *(continued)*

### 2.6 Property, plant and equipment

Construction-in-progress represents properties under construction and is stated at cost less accumulated impairment losses. This includes cost of construction and other direct costs. Construction-in-progress is not depreciated until such time as the assets are completed and are ready for operational use.

Property, plant and equipment include buildings, vehicles and machinery, furniture, fittings and equipment, and sculpture and exhibits. All property, plant and equipment is stated at historical cost less depreciation and impairment (if any). Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance costs are charged as expenses to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| – Buildings | 20 years |
| – Machinery | 10 years |
| – Vehicles | 5-10 years |
| – Furniture, fittings and equipment | 3-10 years |
| – Sculpture | 20 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'other (losses)/gains – net' in the consolidated statement of comprehensive income.

### 2.7 Land use rights

All land in mainland China is state-owned and no individual land ownership right exists. The Group acquired the rights to use certain land and the premiums paid for such rights are recorded as land use rights, which are amortised over the use terms of 36 to 50 years using the straight-line method.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 2 Summary of significant accounting policies *(continued)*

### 2.8 Intangible assets

#### *(a) Trademarks*

Trademarks are initially recognized at cost and are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 10 years.

#### *(b) Acquired computer software licences*

Acquired computer software licences are initially capitalised on the basis of costs incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software programmes are recognized as an expense as incurred.

Computer software licences are subsequently carried at cost less accumulated amortisation and accumulated impairment losses. The cost are amortised using the straight-line method over their estimated useful lives of 5 years.

The amortisation period and amortisation method of intangible assets are reviewed at each reporting period. The effects of any revision are recognized as profit or loss in the consolidated statement of comprehensive income when the changes arise.

### 2.9 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

### 2.10 Financial assets – Classification

The Group classifies all its financial assets under the category of loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the consolidated balance sheet date which are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the consolidated balance sheet (Notes 2.13 and 2.14).

## 2 Summary of significant accounting policies *(continued)*

### 2.11 Impairment of financial assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio;
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognized as profit or loss in the consolidated statement of comprehensive income. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized as profit or loss in the consolidated statement of comprehensive income.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 2 Summary of significant accounting policies *(continued)*

### 2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the moving weighted average cost method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services rendered in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### 2.14 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Restricted cash is excluded from cash and cash equivalents.

### 2.15 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### 2.16 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.17 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized as profit or loss in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

## 2 Summary of significant accounting policies *(continued)*

### 2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### 2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred income tax.

***(a) Current income tax***

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the consolidated balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

***(b) Deferred income tax***

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, and the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the consolidated balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and jointly controlled entity, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 2 Summary of significant accounting policies *(continued)*

### 2.19 Current and deferred income tax *(continued)*

#### *(c) Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 2.20 Employee benefits – pension obligations

The Group entities in mainland China participate in defined contribution retirement benefit plans organised by relevant government authorities for its employees in mainland China and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions to these plans are recognized as employee benefits expenses when incurred and contributions paid to the defined-contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leave the Group.

### 2.21 Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

## 2 Summary of significant accounting policies *(continued)*

### 2.22 Government grants

Government grants are recognized at their fair value, when there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized as income in the consolidated statement of comprehensive income over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognized as income in the consolidated statement of comprehensive income on a straight line basis over the expected lives of the related assets.

### 2.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

***(a) Sales of goods – wholesale***

The Group processes/manufactures and sells a range of tea products in the wholesale market. Sales of goods are recognized when a Group entity has delivered products to the wholesaler, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Revenue from the sales of goods is recognized when the risk and reward of the goods has been transferred to the wholesaler, which is usually at the date when an entity of the Group has delivered products to the wholesaler, the wholesaler has accepted the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products.

Customers have a right to return faulty products in the wholesale market. Sales are recorded based on the price specified in the sales contracts, net of returns at the time of sale. Accumulated experience is used to estimate and provide for the returns. No element of financing is deemed present as the sales are made with a credit term of 140 days, which is consistent with the market practice.

***(b) Sales of goods – retail***

The Group operates a chain of retail outlets for selling tea products. Sales of goods are recognized when a Group entity sells a product to the customer. Retail sales are usually in cash or by credit card.

It is the Group's policy to sell its products to the retail customer with a right to return. Accumulated experience is used to estimate and provide for such returns at the time of sale. The Group does not operate any loyalty programmes.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 2 Summary of significant accounting policies *(continued)*

### 2.23 Revenue recognition *(continued)*

#### *(c) Sales from hotel accommodation, restaurant and tourism*

Sales from hotel accommodation, restaurant, tourism and other ancillary services is recognized when the services are rendered.

#### *(d) Investment property rental income*

Rental income from operating leases is recognized as income on a straight-line basis over the lease term. When the Group provides incentives to its customers, the cost of incentives are recognized over the lease term, on a straight-line basis, as a reduction of rental income.

#### *(e) Interest income*

Interest income is recognized on a time-proportion basis using the effective interest method.

#### *(f) Dividend income*

Dividend income is recognized when the right to receive payment is established.

### 2.24 Operating leases

#### *(a) A Group company is the lessee*

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged as expenses to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

#### *(b) A Group company is the lessor*

Properties leased out under operating leases are included in 'investment property' in the consolidated balance sheet (Note 7). See Note 2.23(d) for the recognition of rental income.

### 2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

## 3 Financial risk management

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

***(a) Market risk***

(i) Foreign exchange risk

The Group mainly operates in mainland China with most of the revenue and expenditures transactions denominated and settled in RMB, where its foreign exchange risk is limited.

The Group's exposure to foreign exchange risk is mainly on its sales and purchase transactions (i.e., export or import of products) denominated in United States Dollar ("USD"), and financing activities (i.e. issuances of ordinary shares, certain borrowings) denominated in USD and Hong Kong Dollar ("HKD"). The exchange rate of HKD is pegged to USD. Given the general expectations about the strengthening of RMB, the Group has not used any financial instrument to hedge foreign exchange risk.

The following table summarises the sensitivity of the Group's financial assets to foreign exchange risk based on the assumption that USD and HKD (pegged with USD) had strengthened/weakened by 5% against RMB with all other variables held constant:

| | **Year ended 31 December** | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Profit before income tax increase/(decrease) | | |
| – Strengthened 5% | **11,826** | 7,840 |
| – Weakened 5% | **(11,826)** | (7,840) |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 3 Financial risk management *(continued)*

### 3.1 Financial risk factors *(continued)*

#### *(a) Market risk (continued)*

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets and liabilities other than its bank deposits and borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Bank deposits and borrowings at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risk. Details of the Group's bank deposits and borrowings have been disclosed in Note 13 and Note 18 respectively.

The sensitivity analysis for interest rate risk is based on the assumption that average interest rates on bank borrowings which bear fixed rates had been 10% higher/lower with all other variables held constant:

| | **Year ended 31 December** | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Post-tax profit increase/(decrease) | | |
| – 10% higher | **(2,194)** | (813) |
| – 10% lower | **2,194** | 813 |

#### *(b) Credit risk*

Credit risk arises from cash and cash equivalents and trade and other receivables. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage the risk with respect to cash and cash equivalents, bank deposits are placed with highly reputable financial institutions.

Most of Group's sales are settled in cash or in bills by its customers. Credit sales are made to selected customers with good credit history with a credit term of 140 days (2010: 180 days). The Group performs credit assessment on customers before making credit sales to customers and credit risks in connection with trade receivables are monitored on an on-going basis.

## 3 Financial risk management *(continued)*

### 3.1 Financial risk factors *(continued)*

#### *(c) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the Group aims at maintaining flexibility in funding by maintaining adequate amount of cash and cash equivalents.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the consolidated balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| **As at 31 December 2011** | **Less than 1 year RMB'000** | **Between 1 and 2 years RMB'000** | **Between 2 and 5 years RMB'000** | **Total RMB'000** |
|---|---|---|---|---|
| Borrowings | **334,295** | **–** | **–** | **334,295** |
| Trade and other payables | **131,842** | **–** | **–** | **131,842** |
| | **466,137** | **–** | **–** | **466,137** |

| As at 31 December 2010 | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Borrowings | 404,050 | 774 | – | 404,824 |
| Trade and other payables | 190,603 | – | – | 190,603 |
| | 594,653 | 774 | – | 595,427 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 3 Financial risk management *(continued)*

### 3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital. Total debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet). Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus total debt.

During 2011, the Group's strategy is to maintain the gearing ratio below 50% (2010: below 50%). The gearing ratios at 31 December 2011 and 2010 were as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Total debt – Total borrowings (Note 18) | **324,771** | 399,714 |
| Total equity | **1,890,482** | 663,692 |
| Total capital | **2,215,253** | 1,063,406 |
| Gearing ratio | **15%** | 38% |

The decrease in the gearing ratio for the year ended 31 December 2011 is the combined result of increase of equity upon the issuance of ordinary shares and repayment of borrowings.

### 3.3 Fair value estimation

The carrying amount of the Group's financial assets (including trade and other receivables, cash and cash equivalents and restricted cash) and short term liabilities (including trade and other payables and short term borrowings) are assumed to approximate their fair values due to their short-term maturities. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### 4.1 Critical accounting estimates and assumptions

#### *(a) Impairment of trade and other receivables*

The management estimates the provision of impairment of trade and other receivables by assessing their recoverability. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible and require the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivables and impairment charge in the period in which such estimate has been changed.

#### *(b) Current and deferred income taxes*

The Group is subject to income taxes in a few jurisdictions. Judgement is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determination are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 5 Segment information

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

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

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

Other services include revenue from restaurant, hotel, tourist and management services. 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 2011, 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 (losses)/gains, other income, financing (including finance costs and interest income), share of results of a jointly controlled entity and income taxes are managed on a group basis and are not allocated to operating segments.

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

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

## 5 Segment information *(continued)*

### (a) Revenue

Turnover of the Group consists of the following revenues for the years ended 31 December 2011 and 2010.

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Tea leaves | **1,233,912** | 876,566 |
| Tea snacks | **263,570** | 200,786 |
| Tea ware | **221,066** | 134,589 |
| Others | **34,769** | 35,052 |
| | **1,753,317** | 1,246,993 |

The segment results for the year ended 31 December 2011:

| | Tea leaves RMB'000 | Tea snacks RMB'000 | Tea ware RMB'000 | All other segments RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Segment revenue | **1,233,912** | **263,570** | **221,066** | **34,769** | **1,753,317** |
| Segment results | **373,323** | **34,811** | **31,345** | **2,996** | **442,475** |
| Common administrative expenses | | | | | **(19,612)** |
| Other losses – net | | | | | **(3,622)** |
| Other income | | | | | **7,416** |
| Finance costs | | | | | **(19,298)** |
| Share of results of a jointly controlled entity | | | | | **1,347** |
| Profit before income tax | | | | | **408,706** |
| Income tax expense | | | | | **(115,196)** |
| Profit for the year | | | | | **293,510** |

Other segment items included in the 2011 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 | **28,871** | **8,830** | **3,823** | **1,764** | **7,687** | **50,975** |
| Depreciation of investment properties | **–** | **–** | **–** | **–** | **283** | **283** |
| Amortization of leasehold land and land use rights | **252** | **84** | **49** | **54** | **–** | **439** |
| Losses on disposal of property, plant and equipment, net | **178** | **121** | **8** | **3** | **887** | **1,197** |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 5 Segment information *(continued)*

### (a) Revenue *(continued)*

The segment assets and liabilities as at 31 December 2011 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 |
|---|---|---|---|---|---|---|
| Total assets | **892,407** | **228,951** | **158,126** | **44,861** | **1,153,582** | **2,477,927** |
| Total liabilities | **131,655** | **29,427** | **26,310** | **1,605** | **398,448** | **587,445** |

The segment results for the year ended 31 December 2010:

| | Tea leaves RMB'000 | Tea snacks RMB'000 | Tea ware RMB'000 | All other segments RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| Segment revenue | 876,566 | 200,786 | 134,589 | 35,052 | 1,246,993 |
| Segment results | 259,528 | 49,970 | 14,524 | 6,676 | 330,698 |
| Common administrative expenses | | | | | (20,733) |
| Other gains – net | | | | | 2,322 |
| Other income | | | | | 9,019 |
| Finance costs | | | | | (8,845) |
| Share of results of a jointly controlled entity | | | | | 1,246 |
| Profit before income tax | | | | | 313,707 |
| Income tax expense | | | | | (90,683) |
| Profit for the year | | | | | 223,024 |

Other segment items included in the 2010 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 | 14,909 | 6,618 | 1,544 | 970 | 7,145 | 31,186 |
| Depreciation of investment properties | – | – | – | – | 293 | 293 |
| Amortization of leasehold land and land use rights | 232 | 81 | 45 | 39 | – | 397 |
| Losses on disposal of property, plant and equipment, net | 20 | – | – | – | 158 | 178 |
| Losses on disposal of investment properties | – | – | – | – | 932 | 932 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 5 Segment information *(continued)*

### (a) Revenue *(continued)*

The segment assets and liabilities as at 31 December 2010 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 |
|---|---|---|---|---|---|---|
| Total assets | 789,486 | 186,873 | 104,898 | 43,466 | 402,005 | 1,526,728 |
| Total liabilities | 109,036 | 25,045 | 19,795 | 881 | 708,279 | 863,036 |

## 6 Leasehold land and land use rights

Land use rights represent the net book amount of prepaid operating lease payments. All the land use rights of the Group are located in mainland China and are held on leases from 36 to 50 years.

Movements in land use rights are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| At beginning of year | | |
| Cost | **21,727** | 17,067 |
| Accumulated amortisation | **(2,350)** | (1,953) |
| Net book amount | **19,377** | 15,114 |
| Opening net book amount | **19,377** | 15,114 |
| Additions | **181** | 4,660 |
| Amortisation for the year (Note 23) | **(439)** | (397) |
| Closing net book amount | **19,119** | 19,377 |
| At end of year | | |
| Cost | **21,908** | 21,727 |
| Accumulated amortisation | **(2,789)** | (2,350) |
| Net book amount | **19,119** | 19,377 |

Amortisation expense have been charged to the consolidated statement of comprehensive income as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Cost of sales | **303** | 319 |
| Distribution costs | **136** | 78 |
| | **439** | 397 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 6 Leasehold land and land use rights *(continued)*

Land use rights have been pledged as securities for bank borrowings as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Cost of land use rights | **17,175** | 14,487 |
| Net book value of land use rights | **15,334** | 13,077 |
| Pledged bank borrowings (Note 18) | **100,000** | 90,000 |

## 7 Investment properties

| | Investment properties RMB'000 |
|---|---|
| **At 1 January 2011** | |
| Cost | 6,704 |
| Accumulated depreciation | (1,391) |
| Net book amount | 5,313 |
| **Year ended 31 December 2011** | |
| Opening net book amount | 5,313 |
| Depreciation (Note 23) | (283) |
| Closing net book amount | 5,030 |
| **At 31 December 2011** | |
| Cost | 6,704 |
| Accumulated depreciation | (1,674) |
| Net book amount | 5,030 |
| **At 1 January 2010** | |
| Cost | 6,704 |
| Accumulated depreciation | (1,098) |
| Net book amount | 5,606 |
| **Year ended 31 December 2010** | |
| Opening net book amount | 5,606 |
| Depreciation (Note 23) | (293) |
| Closing net book amount | 5,313 |
| **At 31 December 2010** | |
| Cost | 6,704 |
| Accumulated depreciation | (1,391) |
| Net book amount | 5,313 |

Depreciation expenses of RMB283,000 have been charged in 'administrative expenses' for the year ended 31 December 2011 (2010: RMB293,000).

The fair value of the investment properties is RMB6,020,000 as at 31 December 2011 (31 December 2010: RMB6,114,325), with carrying amount of RMB5,030,300 (31 December 2010: RMB5,313,000). The fair value represents open market value determined at each balance sheet date by an external valuer.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 8 Property, plant and equipment

| | Buildings RMB'000 | Machinery RMB'000 | Vehicles RMB'000 | Furniture, fittings and equipment RMB'000 | Sculpture RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2011** | | | | | | | |
| Cost | 273,362 | 46,662 | 18,067 | 50,513 | 2,408 | 3,167 | 394,179 |
| Accumulated depreciation | (65,336) | (19,810) | (6,868) | (22,846) | (757) | – | (115,617) |
| Net book amount | 208,026 | 26,852 | 11,199 | 27,667 | 1,651 | 3,167 | 278,562 |
| **Year ended 31 December 2011** | | | | | | | |
| Opening net book amount | 208,026 | 26,852 | 11,199 | 27,667 | 1,651 | 3,167 | 278,562 |
| Additions resulting from business combinations (Note 33) | 197 | 209 | 206 | 546 | – | – | 1,158 |
| Other additions | 44,308 | 11,459 | 7,430 | 22,551 | – | 90,567 | 176,315 |
| Transfers | 88,167 | – | – | – | – | (88,167) | – |
| Disposals (Note 31) | (17,028) | (1,396) | (489) | (996) | (1,607) | – | (21,516) |
| Depreciation (Note 23) | (27,955) | (5,092) | (3,908) | (13,976) | (44) | – | (50,975) |
| Closing net book amount | 295,715 | 32,032 | 14,438 | 35,792 | – | 5,567 | 383,544 |
| **At 31 December 2011** | | | | | | | |
| Cost | 385,719 | 62,746 | 22,341 | 68,536 | – | 5,567 | 544,909 |
| Accumulated depreciation | (90,004) | (30,714) | (7,903) | (32,744) | – | – | (161,365) |
| Net book amount | 295,715 | 32,032 | 14,438 | 35,792 | – | 5,567 | 383,544 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 8 Property, plant and equipment *(continued)*

| | Buildings RMB'000 | Machinery RMB'000 | Vehicles RMB'000 | Furniture, fittings and equipment RMB'000 | Sculpture RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2010** | | | | | | | |
| Cost | 227,346 | 41,545 | 10,213 | 33,822 | 11,229 | 775 | 324,930 |
| Accumulated depreciation | (48,035) | (16,986) | (5,603) | (14,491) | (2,871) | – | (87,986) |
| Net book amount | 179,311 | 24,559 | 4,610 | 19,331 | 8,358 | 775 | 236,944 |
| **Year ended 31 December 2010** | | | | | | | |
| Opening net book amount | 179,311 | 24,559 | 4,610 | 19,331 | 8,358 | 775 | 236,944 |
| Additions resulting from business combinations (Note 33) | 5,463 | – | 626 | 6,977 | – | – | 13,066 |
| Other additions | 41,032 | 5,812 | 7,837 | 9,852 | – | 6,615 | 71,148 |
| Transfers | 4,197 | 26 | – | – | – | (4,223) | – |
| Disposals (Note 31) | (4,538) | (314) | (156) | (220) | (6,182) | – | (11,410) |
| Depreciation (Note 23) | (17,439) | (3,231) | (1,718) | (8,273) | (525) | – | (31,186) |
| Closing net book amount | 208,026 | 26,852 | 11,199 | 27,667 | 1,651 | 3,167 | 278,562 |
| **At 31 December 2010** | | | | | | | |
| Cost | 273,362 | 46,662 | 18,067 | 50,513 | 2,408 | 3,167 | 394,179 |
| Accumulated depreciation | (65,336) | (19,810) | (6,868) | (22,846) | (757) | – | (115,617) |
| Net book amount | 208,026 | 26,852 | 11,199 | 27,667 | 1,651 | 3,167 | 278,562 |

Depreciation expenses have been charged to the consolidated statement of comprehensive income as follows:

| | Year ended 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Cost of sales | **7,779** | 7,295 |
| Administrative expenses | **17,480** | 11,164 |
| Distribution costs | **25,716** | 12,727 |
| | **50,975** | 31,186 |

Property, plant and equipment have been pledged as securities for bank borrowings as follows:

| | Year ended 31 December 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Cost of property, plant and equipment | **47,663** | 47,663 |
| Net book value of property, plant and equipment | **31,381** | 33,584 |
| Pledged bank borrowings (Note 18) | **100,000** | 90,000 |

As at the date of these consolidated financial statements, the certificate of certain property, plant and equipment with carrying amount of RMB3,093,440 is under application process.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 9 Intangible assets

| | Software | Trademark | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| **At 1 January 2011** | | | |
| Cost | **3,741** | **425** | **4,166** |
| Accumulated amortisation | **(1,118)** | **(138)** | **(1,256)** |
| Net book amount | **2,623** | **287** | **2,910** |
| **Year ended 31 December 2011** | | | |
| Opening net book amount | **2,623** | **287** | **2,910** |
| Additions | **496** | **8** | **504** |
| Amortisation charge (Note 23) | **(681)** | **(63)** | **(744)** |
| Closing net book amount | **2,438** | **232** | **2,670** |
| **At 31 December 2011** | | | |
| Cost | **4,237** | **433** | **4,670** |
| Accumulated amortisation | **(1,799)** | **(201)** | **(2,000)** |
| Net book amount | **2,438** | **232** | **2,670** |
| **At 1 January 2010** | | | |
| Cost | 1,636 | 415 | 2,051 |
| Accumulated amortisation | (677) | (100) | (777) |
| Net book amount | 959 | 315 | 1,274 |
| **Year ended 31 December 2010** | | | |
| Opening net book amount | 959 | 315 | 1,274 |
| Additions | 2,080 | 10 | 2,090 |
| Additions resulting from business combinations (Note 33) | 23 | – | 23 |
| Amortisation charge (Note 23) | (439) | (38) | (477) |
| Closing net book amount | 2,623 | 287 | 2,910 |
| **At 31 December 2010** | | | |
| Cost | 3,741 | 425 | 4,166 |
| Accumulated amortisation | (1,118) | (138) | (1,256) |
| Net book amount | 2,623 | 287 | 2,910 |

Amortisation expenses of RMB744,000 have been charged in 'administrative expenses' for the year ended 31 December 2011 (2010: RMB477,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 10 Investment in a jointly controlled entity

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| At beginning of year | **3,748** | 3,258 |
| Share of profit | **1,347** | 1,246 |
| Cash dividends declared | **(1,034)** | (756) |
| At end of year | **4,061** | 3,748 |

The particulars of the jointly controlled entity of the Group at 31 December 2011 and 2010, which is unlisted, were set out as follows:

| Company name | Country/place and date of incorporation | Paid-up capital | Attributable equity interests to the Group as at 31 December 2011 | 2010 | Principal activities |
|---|---|---|---|---|---|
| Zhangzhou Tenfu Oil Limited ("Fujian Petrol") | PRC, 28 March 2002 | RMB3,000,000 | **50%** | 50% | Before 1 May 2009, retail of oil; After 1 May 2009, lease of assets |

The Group's 50% share of the results of the jointly controlled entity, which is unlisted, and its aggregated assets and liabilities, are as follows:

| | Assets | Liabilities | Revenue | Profit | % interest held |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | |
| Year ended 31 December 2011 | **4,134** | **73** | **2,053** | **1,347** | **50%** |
| Year ended 31 December 2010 | 3,918 | 170 | 2,086 | 1,246 | 50% |

## 11 Trade and other receivables and prepayments

### (a) Group

#### *(i) Trade and other receivables*

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Trade receivables – due from third parties | **285,626** | 331,010 |
| Trade receivables – due from related parties (Note 34) | **–** | 5,872 |
| | **285,626** | 336,882 |
| Other receivables due from related parties (Note 34) | **448** | – |
| Other receivables from a financial investor (i) | **–** | 6,715 |
| Others | **28,657** | 10,472 |
| | **29,105** | 17,187 |
| | **314,731** | 354,069 |

(i) On 15 December 2010, certain financial investors, including Pearl Ever Group Limited as the lead investor (collectively, the "Financial Investors"), entered into a share subscription agreement with the Company, and two shareholders of the Company, Mr. Lee Rie-Ho and Mr. Lee Chia Ling, pursuant to which the Financial Investors subscribed to an aggregate of 7,478,746 shares in the Company for a total consideration of USD30,000,000. Such shares were issued to the Financial Investors on 20 December 2010. The other receivables from a financial investor represents the receivable from Tsai Song Maw in connection with the share subscription.

As at 31 December 2011 and 2010, the ageing analysis of the trade receivables is as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Up to 140 days | **259,966** | 189,868 |
| 141 days to 6 months | **16,094** | 102,471 |
| 6 months to 1 year | **9,504** | 24,800 |
| 1 year to 2 years | **62** | 19,743 |
| | **285,626** | 336,882 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 11 Trade and other receivables and prepayments *(continued)*

### (a) Group *(continued)*

#### *(i) Trade and other receivables (continued)*

As at 31 December 2011, trade receivables of RMB25,660,000 (31 December 2010: RMB44,543,000) 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 2011 RMB'000 | | As at 31 December 2010 RMB'000 |
|---|---|---|---|
| Past due within 40 days | **16,094** | Past due within 6 months | 24,800 |
| Past due within 220 days | **9,504** | Past due within | |
| Past due over 220 days | **62** | 6 months to 2 years | 19,743 |
| | **25,660** | | 44,543 |

As at 31 December 2011, no trade receivables was impaired and provided for (31 December 2010: nil).

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

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| RMB | **313,987** | 347,287 |
| USD | **744** | 6,782 |
| | **314,731** | 354,069 |

Movements on the Group's provision for impairment of trade receivables are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| At 1 January | **–** | 641 |
| Reversal of impairment provision (Note 23) | **–** | (641) |
| At 31 December | **–** | – |

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the consolidated statement of comprehensive income. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

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

## 11 Trade and other receivables and prepayments *(continued)*

### (a) Group *(continued)*

#### *(ii) Prepayments*

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| **Non-current** | | |
| Prepayments for property, plant and equipment | **31,134** | 8,462 |
| **Current** | | |
| Prepayments for lease of property and lease deposits – current portion | **63,247** | 56,021 |
| Prepayments to related parties (Note 34(c)) | **14,342** | – |
| Prepayments to third parties | **21,322** | 9,038 |
| Prepaid taxes | **4,694** | 5,579 |
| | **103,605** | 70,638 |
| | **134,739** | 79,100 |

### (b) Company

#### *(i) Trade and other receivables*

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| **Current** | | |
| Dividends receivable from subsidiaries | **2,766** | 157,254 |
| Other receivables from a Financial Investor | **–** | 6,715 |
| | **2,766** | 163,969 |

## 12 Inventories

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Raw materials and packaging materials | **95,476** | 78,733 |
| Work in progress | **76,219** | 68,697 |
| Finished goods | **208,331** | 151,743 |
| | **380,026** | 299,173 |

The cost of inventories recognized as expenses and included in 'cost of sales' amounted to RMB615,887,000 for the year ended 31 December 2011 (2010: RMB525,998,000) (Note 23).

The Group did not have any losses on obsolete inventories or write-down of inventories for the year ended 31 December 2011 (2010: nil).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 13 Cash and cash equivalents and restricted cash

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Cash at bank and on hand (a) | **1,191,999** | 454,145 |
| Less: Restricted cash (b) | **(72,070)** | (3,460) |
| Cash and cash equivalents | **1,119,929** | 450,685 |

(a) All cash at bank are deposits with original maturity within 3 months, except for a total amount of RMB55,600,000 (31 December 2010: nil) which are more than 3 months. The Group earns interest on cash at bank, including restricted cash, at floating bank deposit rates.

(b) Fixed deposits of RMB16,470,000 as at 31 December 2011 (31 December 2010: RMB3,460,000) are pledged as collateral for the Group's bank borrowings of RMB61,444,000 (31 December 2010: RMB3,457,000) (Note 18).

Cash and cash equivalents are denominated in the following currencies:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| RMB | **913,926** | 184,942 |
| HKD | **153,298** | 30 |
| USD | **52,705** | 265,713 |
| | **1,119,929** | 450,685 |

All restricted cash is denominated in RMB.

## 14 Share capital and premium – Group and Company

### (a) Authorized shares

| | **Number of authorized shares (thousands)** |
|---|---|
| At 22 April 2010 (date of incorporation) (i) | 3,800 |
| Capital increase on 10 August 2010 (ii) | 96,200 |
| Capital increase on 15 December 2010 (iii) | 7,900,000 |
| At 31 December 2011 and 2010 | 8,000,000 |

(i) Upon incorporation on 22 April 2010, the authorized share capital was HKD380,000 divided into 3,800,000 ordinary shares of HKD0.1 each.

(ii) On 10 August 2010, the Company increased its authorized share capital from HKD380,000 to HKD10,000,000 divided into 100,000,000 ordinary shares of par value HKD0.1 each.

(iii) On 15 December 2010, the Company increased its authorized share capital from HKD10,000,000 to HKD800,000,000 divided into 8,000,000,000 ordinary shares of par value HKD0.1 each.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

### 14 Share capital and premium – Group and Company *(continued)*

#### (b) Issued shares

| | Number of issued shares | Ordinary shares RMB | Share premium RMB | Total |
|---|---|---|---|---|
| At 1 January 2011 | **101,858,746** | **8,874,657** | **194,806,000** | **203,680,657** |
| Capitalisation issue (v) | **916,728,714** | **74,896,736** | **(74,896,736)** | **–** |
| Issuance of ordinary shares (vi) | **208,620,000** | **17,044,254** | **1,005,610,986** | **1,022,655,240** |
| Share issuance costs (vi) | **–** | **–** | **(89,374,832)** | **(89,374,832)** |
| At 31 December 2011 | **1,227,207,460** | **100,815,647** | **1,036,145,418** | **1,136,961,065** |
| Representing: | | | | |
| Proposed dividends (vii) | | | **282,258,000** | |
| Others | | | **753,887,418** | |
| At 31 December 2011 | | | **1,036,145,418** | |
| At 22 April 2010 (date of incorporation) | – | – | – | – |
| Issuance of ordinary shares to the then shareholders (i) | 1,000 | 88 | – | 88 |
| Issuance of ordinary shares to Mr. Lee Rie-Ho (ii) | 100 | 9 | – | 9 |
| Share swap (iii) | 94,378,900 | 8,234,560 | – | 8,234,560 |
| Issuance of ordinary shares to the Financial Investors (iv) | 7,478,746 | 640,000 | 194,806,000 | 195,446,000 |
| At 31 December 2010 | 101,858,746 | 8,874,657 | 194,806,000 | 203,680,657 |

(i) Upon incorporation on 22 April 2010, the Company issued 1,000 ordinary shares to the then shareholders at the par value of HKD0.1 per share, with a total consideration of HKD100 (RMB88).

(ii) On 4 August 2010, the Company issued 100 ordinary shares to Mr. Lee Rie-Ho at the par value of HKD0.1 per share, with a total consideration of HKD10 (RMB9).

(iii) On 4 August 2010, the Company issued 94,378,900 ordinary shares to the then shareholders at the par value of HKD0.1 per share to transfer their entire equity interests in Ten Rui (BVI) Holdings Co., Ltd. ("Ten Rui BVI") and Tenfu Holdings Co., Ltd., ("Tenfu BVI") to the Company, with a total consideration of HKD9,437,890 (RMB8,234,560). After the share swap, the Company became the holding company of the Group. After the share swap in August 2010, the Company's issued ordinary shares were 94,380,000 shares, with a par value of HKD0.1 per share; and its share capital amounted to HKD9,438,000 (RMB8,234,657).

(iv) On 20 December 2010, the Company issued 7,478,746 ordinary shares to the Financial Investors at a price of USD4.0114 per share, with an aggregated price of USD30 million (RMB199,869,000). The excess over the par value of RMB640,000 for the 7,478,746 ordinary share issued to the Financial Investors net of transaction costs RMB4,423,000 was credited to "share premium" with amount of RMB194,806,000.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 14 Share capital and premium – Group and Company *(continued)*

### (b) Issued shares *(continued)*

(v) On 26 September 2011, pursuant to a shareholders' resolution dated 31 August 2011, conditional on the share premium account of the Company being credited as a result of the issue of the offer shares pursuant to the global offering, the Company capitalised an amount of HKD91,672,871 (equivalent to RMB74,896,736), standing to the credit of its share premium account by applying such sum to pay up in full at par a total of 916,728,714 shares for allotment and issue to the persons whose names appear on the then register of members of the Company prior to the Listing of the Company in accordance with their respective shareholdings in the Company (as nearly as possible without involving fractions).

(vi) On 26 September 2011, the Company issued 208,620,000 new ordinary shares of HKD0.1 each at HKD6.0 per share in connection with its global offering and the commencement of the Listing of its shares on the SEHK, and raised gross proceeds of approximately HKD1,251,720,000 (equivalent to RMB1,022,655,240). The excess over the par value of RMB17,044,254 for the 208,620,000 ordinary share issued net of transaction costs RMB89,374,832 was credited to "share premium" with amount of RMB916,236,154.

(vii) Pursuant to Section 34 of the Cayman Companies Law (2003 Revision) and the Articles of Association of the Company, share premium of the Company is available for distribution to shareholders subject to a solvency test on the Company and the provision of the Articles of Association of the Company. Details of the proposed dividends are set out in Note 29.

## 15 Retained earnings/Accumulated losses

### (a) Retained earnings – Group

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| At 1 January | **117,601** | 230,307 |
| Profit for the year | **293,510** | 223,024 |
| Dividends declared (Note 29) | **–** | (307,238) |
| Appropriation to statutory reserves (Note 16) | **(33,487)** | (28,492) |
| At 31 December | **377,624** | 117,601 |

### (b) Accumulated losses – Company

| | **Year ended 31 December 2011 RMB'000** | Period from 22 April 2010 (date of incorporation) to 31 December 2010 RMB'000 |
|---|---|---|
| At beginning of the year/period | **(1,492)** | – |
| (Loss)/Profit for the year/period | **(9,043)** | 305,746 |
| Dividends declared (Note 29) | **–** | (307,238) |
| At end of the year/period | **(10,535)** | (1,492) |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 16 Other reserves – Group

| | Merger reserve (I) RMB'000 | Capital reserve (II) RMB'000 | Statutory reserves (III) RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| At 1 January 2011 | **278,811** | **231** | **63,368** | **342,410** |
| Appropriation to statutory reserves (Note 15) | **–** | **–** | **33,487** | **33,487** |
| At 31 December 2011 | **278,811** | **231** | **96,855** | **375,897** |
| At 1 January 2010 | 287,045 | 231 | 34,876 | 322,152 |
| Share swap (Note 14(b)) | (8,234) | – | – | (8,234) |
| Appropriation to statutory reserves (Note 15) | – | – | 28,492 | 28,492 |
| At 31 December 2010 | 278,811 | 231 | 63,368 | 342,410 |

**(I)** Merger reserve comprises the differences between the cost of investments in subsidiaries and net assets of the subsidiaries acquired under common control.

**(II)** Capital reserve mainly comprised exchange difference relating to foreign currency capital injection.

### (III) Statutory reserves

The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the net profit (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to equity holder. All statutory reserves are created for specific purposes. PRC companies are required to appropriate 10% of statutory net profits to statutory surplus reserves, upon distribution of their post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the companies, to expand the companies' production operations, or to increase the capital of the companies. In addition, a company may make further contribution to the discretional surplus reserve using its post-tax profits in accordance with resolutions of the board of directors.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 17 Trade and other payables

### (a) Group

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Trade payables – due to third parties | **107,757** | 73,152 |
| Trade payables – due to related parties (Note 34(c)) | **4,048** | 21,559 |
| Other payables for property, plant and equipment | **2,812** | – |
| Other payables for share issuance costs | **2,370** | 4,423 |
| Other taxes payable | **18,312** | 15,073 |
| Employee benefit payables | **31,336** | 31,375 |
| Accrued operating expenses | **20,255** | 14,945 |
| Advances from customers | **11,289** | 8,236 |
| Amounts due to related parties (Note 34(c)) | **2,056** | 83,923 |
| Others | **12,799** | 7,546 |
| | **213,034** | 260,232 |

As at 31 December 2011 and 2010, the ageing analysis of the trade payables (including amounts due to related parties of trading nature) based on invoice date is as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Up to 6 months | **92,992** | 91,584 |
| 6 months to 1 year | **13,741** | 13 |
| 1 year to 2 years | **1,958** | – |
| Over 2 years | **3,114** | 3,114 |
| | **111,805** | 94,711 |

### (b) Company

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Other payables for share issuance costs | **2,370** | 4,423 |
| Other payables to subsidiaries | **9,435** | – |
| | **11,805** | 4,423 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 18 Borrowings

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| **Non-current** | | |
| Non-current portion of long-term bank borrowings | | |
| – Mortgaged bank borrowings (i) | **–** | 738 |
| **Current** | | |
| Current portion of long-term bank borrowings | | |
| – Mortgaged bank borrowings (i) | **–** | 2,950 |
| Short-term bank borrowings | | |
| – Unsecured bank borrowings (ii) | **163,327** | 302,568 |
| – Mortgaged bank borrowings (i) | **161,444** | 93,458 |
| | **324,771** | 396,026 |
| Total borrowings | **324,771** | 399,714 |

(a) As at 31 December 2011, the bank borrowings comprised:

(i) Bank borrowings of RMB100,000,000 are secured by the land use rights (Note 6) and property, plant and equipment (Note 8) of the Group. Bank borrowings of RMB61,444,000 are secured by bank deposits of RMB16,470,000 (Note 13).

(b) As at 31 December 2010, the bank borrowings comprised:

(i) Bank borrowings of RMB90,000,000 which are secured by the land use rights (Note 6) and property, plant and equipment (Note 8) of the Group. Bank borrowings of RMB3,688,000 are secured by a property of Mr. Lin Mingxi, a third party. Bank borrowings of RMB3,458,000 are secured by bank deposits (Note 13).

(ii) Bank borrowings of RMB70,000,000 which are guaranteed by Mr. Lee Kuo-Lin, a related party (Note 34). Bank borrowings of RMB19,868,100 are guaranteed by Mr. Lee Rie-Ho, Mr. Lee Shih-Wei and Mr. Lee Chia Ling, all of them are related parties (Note 34).

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

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| RMB | **296,090** | 376,388 |
| USD | **28,681** | 23,326 |
| | **324,771** | 399,714 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 18 Borrowings *(continued)*

The weighted average effective interest rates at balance sheet date were as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| Bank borrowings – long-term | **–** | 5.40% |
| Bank borrowings – short-term | **5.44%** | 5.07% |

The fair value of current and non-current bank borrowings approximate their carrying amount.

## 19 Deferred income tax assets and deferred income tax liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset and when the deferred income taxes related to the same tax authority. The net deferred income tax balances after offsetting are as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Deferred tax assets: | | |
| – to be recovered after more than 12 months | **264** | 249 |
| – to be recovered within 12 months | **41,744** | 30,082 |
| | **42,008** | 30,331 |
| Deferred tax liabilities: | | |
| – to be settled after more than 12 months | **–** | – |
| – to be settled within 12 months | **14,497** | 14,477 |
| | **14,497** | 14,477 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 19 Deferred income tax assets and deferred income tax liabilities *(continued)*

The gross movement on the deferred income tax account is as follows:

| | Provision for impairment RMB'000 | Temporary differences in respect of accruals RMB'000 | Tax losses RMB'000 | Unrealised profit on inventories RMB'000 | Withholding tax on unremitted earnings of certain subsidiaries RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2011 | **–** | **7,031** | **172** | **22,107** | **(14,477)** | **1,021** | **15,854** |
| Paid out | **–** | **–** | **–** | **–** | **8,152** | **–** | **8,152** |
| Credited/(charged) to the consolidated statement of comprehensive income (Note 27) | **–** | **3,519** | **2,844** | **5,383** | **(8,172)** | **(69)** | **3,505** |
| At 31 December 2011 | **–** | **10,550** | **3,016** | **27,490** | **(14,497)** | **952** | **27,511** |
| At 1 January 2010 | 160 | 1,885 | 481 | 5,251 | (13,771) | 1,011 | (4,983) |
| Paid out | – | – | – | – | 9,596 | – | 9,596 |
| Credited/(charged) to the consolidated statement of comprehensive income (Note 27) | (160) | 5,146 | (309) | 16,856 | (10,302) | 10 | 11,241 |
| At 31 December 2010 | – | 7,031 | 172 | 22,107 | (14,477) | 1,021 | 15,854 |

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2011, deferred income tax assets were recognized for all tax losses of the Group. As at 31 December 2010, the Group did not recognize deferred income tax assets of RMB89,000 in respect of tax losses amounting to RMB538,000 which will expire in 2015.

As at 31 December 2011, the unrealised profit on inventories sold by the inter-companies within the Group amounted to RMB109,960,000 (31 December 2010: RMB88,426,000), and were eliminated in the Group's consolidated financial statements. Deferred tax assets were recognised for the unrealised profits.

As at 31 December 2011, deferred income tax liabilities of RMB20,783,000 (31 December 2010: RMB11,309,000) have not been recognized for the PRC withholding tax. Such amounts are intended to be reinvested. Unremitted earnings totalled RMB268,988,000 as at 31 December 2011 (31 December 2010: RMB142,194,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 20 Revenue

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Revenue from sale of tea leaves, tea snacks and tea ware | **1,718,548** | 1,211,941 |
| Revenue from hotel accommodation, restaurant and tourism services | **34,769** | 35,052 |
| | **1,753,317** | 1,246,993 |

## 21 Other (losses)/gains – net

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Losses on disposal of plant and equipment, net (Note 31) | **(1,197)** | (1,110) |
| Net foreign exchange (loss)/gain | **(3,473)** | 2,244 |
| Gains from acquisition of subsidiaries (Note 33) | **1,048** | 1,188 |
| | **(3,622)** | 2,322 |

## 22 Other income

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Government grants | **4,155** | 5,067 |
| Investment property rental income | **1,347** | 1,745 |
| Others | **1,914** | 2,207 |
| | **7,416** | 9,019 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 23 Expenses by nature

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Cost of inventories (Note 12) | **615,887** | 525,998 |
| Employee benefit expenses – including directors' emoluments (Note 24) | **271,877** | 153,099 |
| Amortisation of land use rights (Note 6) | **439** | 397 |
| Depreciation of investment properties (Note 7) | **283** | 293 |
| Depreciation of property, plant and equipment (Note 8) | **50,975** | 31,186 |
| Amortisation of intangible assets (Note 9) | **744** | 477 |
| Concession fees | **55,544** | 22,250 |
| Transportation expenses | **28,950** | 18,332 |
| Utilities | **20,004** | 19,327 |
| Travelling expenses | **3,578** | 2,621 |
| Advertising costs | **11,247** | 5,239 |
| Operating lease payments | **122,970** | 78,624 |
| Reversal of impairment of trade receivables (Note 11) | **–** | (641) |
| Tax charges | **24,084** | 3,325 |
| Pre-operating expenses | **27,590** | 15,355 |
| Free trial expenses | **35,984** | 18,542 |
| Office expenses | **13,527** | 7,523 |
| Maintenance and repairing costs | **4,242** | 5,046 |
| Entertainment expenses | **6,253** | 4,958 |
| Auditor's remuneration for annual audit and interim review services | **4,750** | 1,348 |
| Other expenses | **31,526** | 23,729 |
| Total cost of sales, distribution costs and administrative expenses | **1,330,454** | 937,028 |

## 24 Employee benefit expenses (including directors' emoluments)

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Wages and salaries | **245,724** | 139,497 |
| Social security costs | **19,868** | 10,989 |
| Other benefits | **6,285** | 2,613 |
| | **271,877** | 153,099 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 25 Directors' emoluments

### (a) Directors' emoluments

The remuneration of each director of the Company for the years ended 31 December 2011 and 2010 are set out as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Mr. Lee Rie-Ho | | |
| – Salary | **754** | 2,723 |
| – Other benefits | **–** | – |
| Mr. Lee Chia Ling | | |
| – Salary | **584** | 3,820 |
| – Other benefits | **–** | – |
| Mr. Lee Kuo-Lin | | |
| – Salary | **668** | 1,449 |
| – Other benefits | **–** | – |
| Mr. Lee Shih-Wei | | |
| – Salary | **220** | 2,288 |
| – Other benefit | **–** | – |
| Mr. Lee Min-Zun | | |
| – Salary | **200** | 160 |
| – Other benefits | **–** | – |
| Mr. Tseng Ming-Sung | | |
| – Salary | **45** | – |
| – Other benefits | **–** | – |
| Mr. Lo Wah Wai* | | |
| – Salary | **64** | – |
| – Other benefits | **–** | – |
| Mr. Lee Kwan Hung* | | |
| – Salary | **64** | – |
| – Other benefits | **–** | – |
| Mr. Fan Ren-Da, Anthony* | | |
| – Salary | **64** | – |
| – Other benefits | **–** | – |
| | **2,663** | 10,440 |

* *Mr. Lo Wah Wai, Mr. Lee Kwan Hung and Mr. Fan Ren-Da, Anthony were appointed on 31 August 2011.*

For the years ended 31 December 2011 and 2010, no directors received emoluments from the Group as inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or had agreed to waive any emoluments.

### (b) Five highest paid individuals

During the years ended 31 December 2011 and 2010, all the five highest paid individuals are directors of the Company, whose emoluments are reflected in the analysis presented above.

For the years ended 31 December 2011 and 2010, no emoluments were paid by the Group to the five highest individuals as inducement to join or upon joining the Group or as compensation for loss of office.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 26 Finance costs – net

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Finance costs | | |
| – Interest expenses on bank borrowings (Note 31) | **20,830** | 9,890 |
| Finance income | | |
| – Interest income on short-term bank deposits (Note 31) | **(1,532)** | (782) |
| – Net foreign exchange gain | **–** | (263) |
| Net finance costs | **19,298** | 8,845 |

## 27 Income tax expense

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Current income tax | | |
| – Hong Kong profits tax | **225** | – |
| – PRC corporate income tax | **118,476** | 101,924 |
| Deferred income tax (Note 19) | **(3,505)** | (11,241) |
| Income tax expense | **115,196** | 90,683 |

### (i) Cayman Islands profits tax

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

### (ii) Hong Kong profits tax

For the year ended 31 December 2011, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the year. For the year ended 31 December 2010, no Hong Kong profits tax has been provided, as the Group has no taxable profit earned or derived in Hong Kong.

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

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

Pursuant to the PRC Corporate Income Tax Law (the "New CIT Law"), the CIT is unified at 25% for all types of entities, effective from 1 January 2008.

Jiajiang Tian Fu Tea Garden Co., Ltd. ("Jiajiang Tenfu"), a subsidiary of the Company, is qualified as a foreign investment manufacturing enterprise. Jiajiang Tenfu's applicable CIT rate is 25% according to the New CIT Law. Under the relevant regulations of the new CIT Law, Jiajiang Tenfu was entitled to enjoy a 5-year tax holiday from the first tax profitable year, with 2 years exemption from CIT followed by 3 years 50% reduction in CIT (the "Tax Holiday"). As approved by the tax authorities, the Tax Holiday began from 2008. For the year ended 31 December 2011, the applicable income tax rate of Jiajiang Tenfu is 12.5% (2010: 12.5%).

### (iv) PRC withholding income tax

According to the new 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 27 Income tax expense *(continued)*

### (iv) PRC withholding income tax *(continued)*

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Profit before income tax | **408,706** | 313,707 |
| Tax calculated at domestic tax rates applicable to profits in the respective jurisdiction | **105,185** | 80,928 |
| Tax effects of: | | |
| Tax holiday | **(540)** | (1,401) |
| Expenses not deductible for tax purposes | **2,724** | 1,462 |
| Income not subject to tax | **(345)** | (608) |
| Withholding tax on the expected distributable profits of the subsidiaries in mainland China | **8,172** | 10,302 |
| Tax charges | **115,196** | 90,683 |

## 28 Earnings per share

Basic earnings per share for the years ended 31 December 2011 and 2010 is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue. In determining the weighted average number of ordinary shares in issue during the year ended 31 December 2011 and 2010, the 916,728,714 shares issued and allotted through capitalisation of the share premium account of the Company upon Listing on 26 September 2011 (Note 14(b)(v)) have been regarded as if these shares were in issue since 1 January 2010.

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| Profit attributable to the owners of the Company (RMB'000) | **293,510** | 223,024 |
| Weighted average number of ordinary shares in issue | **1,073,457,378** | 1,011,333,735 |
| Basic earnings per share (RMB) | **0.27** | 0.22 |

As there were no dilutive options and other dilutive potential shares in issue during the year ended 31 December 2011 and 2010, diluted earnings per share is the same as basic earnings per share.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 29 Dividends

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Final and special dividends, proposed | **282,258** | 307,238 |

At a meeting held on 20 March 2012, the Board proposed a final dividend of HKD196,329,000 (equivalent to RMB159,537,000), representing HKD16 cents (equivalent to RMB13 cents) per share using the share premium account.

In view of the Group's excellent results in 2011 and after taking into account of the Group's earnings, financial positions, capital expenditure requirements and etc, the Board proposed a special dividend of HKD151,022,000 (equivalent to RMB122,721,000), representing HKD12 cents (equivalent to RMB10 cents) per share using the share premium account.

Such dividends are to be approved by the shareholders at the forthcoming Annual General Meeting. These proposed dividends are not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation of share premium for the year ending 31 December 2012.

On 29 November 2010, the Company declared a cash dividend of USD46,181,076 (RMB307,238,000) in favour of all the then owners of the Company.

## 30 Investments in subsidiaries – Company

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Due from subsidiaries (i) | **852,154** | 33,114 |
| Unlisted equity investments, at cost | **8,234** | 8,234 |
| | **860,388** | 41,348 |

(i) These amounts due from subsidiaries represent equity funding by the Company to the subsidiaries and are measured in accordance with the Company's accounting policy for investments in subsidiaries. They are unsecured and non-interest bearing.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 30 Investments in subsidiaries – Company *(continued)*

Particulars of the subsidiaries of the Group as at 31 December 2011 and 2010 are as follows:

| Company name | Place/Date of incorporation | Legal status | Registered capital | Issued and fully paid share capital | Effective interest held as at 31 December 2011 | 2010 | Principal activities |
|---|---|---|---|---|---|---|---|
| **Subsidiaries – established in the mainland China** | | | | | | | |
| Zhangzhou Tianfu Tea Industry Co., Ltd. ("Zhangzhou Tenfu") | PRC, 24 December 1998 | Foreign investment enterprise | USD15,000,000 | USD15,000,000 | **100%** | 100% | Classification, packaging of tea leaves, manufacture of tea snacks, and sale of tea leaves, tea snacks and tea ware |
| Zhangpu Tian Fu Tea Garden Co., Ltd. ("Zhangpu Tenfu") | PRC, 17 November 1999 | Foreign investment enterprise | USD12,000,000 | USD12,000,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware and provision of sightseeing and related service |
| Minhou Tianyuan Tea Products Co., Ltd. ("Minhou Tianyuan") | PRC, 23 October 1993 | Foreign investment enterprise | USD3,640,000 | USD3,640,000 | **100%** | 100% | Classification, packaging of tea leaves, manufacture of tea snacks, and sale of tea leaves, tea snacks and tea ware |
| Jiajiang Tian Fu Tea Garden Co., Ltd. | PRC, 17 October 2002 | Foreign investment enterprise | USD4,000,000 | USD4,000,000 | **100%** | 100% | Classification, packaging of tea leaves, manufacture of tea snacks, and sale of tea leaves, tea snacks and tea ware |
| Sichuan Tenfu Tea Sales Co., Ltd. ("Sichuan Tenfu") | PRC, 10 February 2009 | Foreign investment enterprise | USD250,000 | USD250,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Guizhou Tenfu Tea Sales Co., Ltd. | PRC, 26 March 2009 | Foreign investment enterprise | USD1,000,000 | USD1,000,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Xin Jiang Tian Fu Tea Sales Co., Ltd. | PRC, 14 April 2009 | Foreign investment enterprise | USD1,000,000 | USD1,000,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Shan Xi Tian Fu Tea Sales Co., Ltd. | PRC, 29 April 2009 | Foreign investment enterprise | USD750,000 | USD750,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Fu Zhou Tian Fu Tea Sales Co., Ltd. | PRC, 30 April 2009 | Foreign investment enterprise | USD2,000,000 | USD2,000,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Jiang Xi Tian Fu Tea Sales Co., Ltd. ("Jiangxi Tenfu") | PRC, 7 May 2009 | Foreign investment enterprise | USD1,650,000 | USD1,650,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Shaan Xi Tian Fu Tea Sales Co., Ltd. | PRC, 18 May 2009 | Foreign investment enterprise | USD2,300,000 | USD2,300,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Guang Dong Tian Fu Tea Sales Co., Ltd. | PRC, 10 June 2009 | Foreign investment enterprise | USD1,500,000 | USD1,500,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Jilin Province Tian Fu Tea Sales Co., Ltd. ("Jilin Tenfu") | PRC, 12 June 2009 | Foreign investment enterprise | USD2,250,000 | USD2,250,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 30 Investments in subsidiaries – Company *(continued)*

Particulars of the subsidiaries of the Group as at 31 December 2011 and 2010 are as follows *(continued)*:

| Company name | Place/Date of incorporation | Legal status | Registered capital | Issued and fully paid share capital | Effective interest held as at 31 December 2011 | Effective interest held as at 31 December 2010 | Principal activities |
|---|---|---|---|---|---|---|---|
| **Subsidiaries – established in the mainland China** *(continued)* | | | | | | | |
| Nanjing Tian Fu Tea Sales Co., Ltd. | PRC, 22 June 2009 | Foreign investment enterprise | USD2,600,000 | USD2,600,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Guangxi Tenfu Tea Sales Co., Ltd. | PRC, 26 June 2009 | Foreign investment enterprise | USD300,000 | USD300,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Hebei Tenfu Tea Sales Co., Ltd. | PRC, 9 June 2009 | Foreign investment enterprise | USD500,000 | USD500,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Hu Bei Tian Fu Tea Sales Co., Ltd. | PRC, 10 July 2009 | Foreign investment enterprise | USD500,000 | USD500,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Hunan Tenfu Tea Sales Co., Ltd. | PRC, 26 August 2009 | Foreign investment enterprise | USD1,000,000 | USD1,000,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Fujian Tian Fu Sales Co., Ltd. | PRC, 4 July 2008 | Foreign investment enterprise | USD8,000,000 | USD8,000,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| An Hui Tian Fu Tea Sales Co., Ltd. | PRC, 10 September 2009 | Foreign investment enterprise | USD300,000 | USD300,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Jinan Tenfu Tea Co., Ltd. | PRC, 8 June 1999 | Foreign investment enterprise | USD3,000,000 | USD3,000,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Yantai Tenfu Tea Co., Ltd. | PRC, 27 August 1996 | Foreign investment enterprise | USD1,500,000 | USD1,500,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Tianjin Tenfu sales Co., Ltd. ("Tianjin Tenfu") | PRC, 25 March 2009 | Foreign investment enterprise | USD500,000 | USD500,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Beijing Tenfu Tea Co., Ltd. ("Beijing Tenfu") | PRC, 25 January 2002 | Foreign investment enterprise | USD1,050,000 | USD1,050,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Suzhou Tenfu Tea Co., Ltd. | PRC, 9 August 2010 | Foreign investment enterprise | USD1,000,000 | USD1,000,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Wuxi Tenfu Tea Co., Ltd. | PRC, 18 October 2010 | Foreign investment enterprise | USD1,000,000 | USD1,000,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Hangzhou Tenfu Tea Co., Ltd. | PRC, 27 October 2010 | Foreign investment enterprise | USD500,000 | USD500,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Shanghai Tenfu Tea Co., Ltd. | PRC, 22 November 2010 | Foreign investment enterprise | USD2,000,000 | USD400,000 | **100%** | 100% | Sale of tea leaves, tea snacks and tea ware |
| Inner Mongolia Tenfu Tea Co., Ltd | PRC, 10 January 2011 | Foreign investment enterprise | USD500,000 | USD500,000 | **100%** | N/A | Sale of tea leaves, tea snacks and tea ware |
| Xiamen Apex Trading Co., Ltd. ("Xiamen Apex") | PRC, 29 May 2006 | Foreign investment enterprise | USD2,000,000 | USD2,000,000 | **100%** | – | Sale of tea leaves and tea snacks |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 30 Investments in subsidiaries – Company *(continued)*

Particulars of the subsidiaries of the Group as at 31 December 2011 and 2010 are as follows *(continued)*:

| Company name | Place/Date of incorporation | Legal status | Registered capital | Issued and fully paid share capital | Effective interest held as at 31 December | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | | | **2011** | 2010 | |
| **Subsidiaries – incorporated in the Hong Kong** | | | | | | | |
| Ten Rui (Hong Kong) Sales Holdings Co., Ltd. ("Ten Rui HK") | Hong Kong, 7 March 2008 | Investment enterprise | USD1,000,000 | USD1,000,000 | **100%** | 100% | Investment holding |
| Tenfu (Hong Kong) Holdings Co., Ltd. | Hong Kong, 17 August 2009 | Investment enterprise | USD1,000 | USD1,000 | **100%** | 100% | Investment holding |
| **Subsidiaries – incorporated in the British Virgin Islands** | | | | | | | |
| Ten Rui (BVI) | British Virgin Islands (the "BVI"), 19 August 2009 | Investment enterprise | USD1,000 | USD1,000 | **100%** | 100% | Investment holding |
| Tenfu (BVI) | BVI, 2 July 2009 | Investment enterprise | USD1,000 | USD1,000 | **100%** | 100% | Investment holding |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 31 Cash generated from operations

### (a) Reconciliation of profit before income tax to net cash generated from operations

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Profit before income tax | **408,706** | 313,707 |
| Adjustments for: | | |
| – Share of profit of a jointly controlled entity (Note 10) | **(1,347)** | (1,246) |
| – Depreciation of property, plant and equipment (Notes 8) | **50,975** | 31,186 |
| – Depreciation of investment properties (Notes 7) | **283** | 293 |
| – Amortisation of land use rights (Notes 6) | **439** | 397 |
| – Amortisation of intangible assets (Notes 9) | **744** | 477 |
| – Losses on disposal of property, plant and equipment (Note 21) | **1,197** | 1,110 |
| – Reversal of impairment of receivables (Note 11) | **–** | (641) |
| – Finance income (Note 26) | **(1,532)** | (1,045) |
| – Finance costs (Note 26) | **20,830** | 9,890 |
| – Gains from business combinations based on acquisition method (Note 33) | **(1,048)** | (1,188) |
| Changes in working capital: | | |
| – Inventories | **(69,424)** | (72,440) |
| – Trade and other receivables and prepayments | **13,854** | (158,419) |
| – Trade and other payables | **29,456** | 39,580 |
| Cash generated from operations | **453,133** | 161,661 |

### (b) Proceeds from sale of property, plant and equipment

In the consolidated cash flow statement, proceeds from sale of property, plant and equipment comprise:

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Net book amount | | |
| – Property, plant and equipment (Note 8) | **21,516** | 11,410 |
| Losses on disposal of property, plant and equipment (Note 21) | **(1,197)** | (1,110) |
| Increase of trade and other receivables | **(17,622)** | (6,612) |
| Proceeds from disposal of property, plant and equipment | **2,697** | 3,688 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 32 Commitments

### (a) Investment commitments

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Investment in subsidiaries | **55,763** | – |

Pursuant to the resolution of Ten Rui HK's board of directors meeting, dated 28 December 2011, and approved by Ministry of Commerce of the PRC through Zheng Shang Wai Zi (2012) No.9, Ten Rui HK is committed to establish a subsidiary, Henan Tenfu Tea Co., Ltd. in Zhengzhou, Henan Province, with registered capital of USD2,000,000 (equivalent to RMB12,602,000). As at the issue date of these consolidated financial statements, the subsidiary hasn't been set-up.

Pursuant to the resolution of Ten Rui HK's board of directors meeting, dated 15 November 2011, the registered capital of Jilin Tenfu, subsidiary of Ten Rui HK, will be increased from USD2,250,000 (equivalent to RMB14,933,000) to USD2,500,000 (equivalent to RMB16,508,000), which had been approved by Ministry of Commerce of the PRC through Jilin He Shen Ban Zi (2011) No.205. As at the issue date of these consolidated financial statements, the capital injection has been completed.

Pursuant to the resolution of Ten Rui HK's board of directors meeting, dated 21 November 2011, the registered capital of Jiangxi Tenfu, subsidiary of Ten Rui HK, will be increased from USD1,650,000 (equivalent to RMB10,895,000) to USD2,000,000 (equivalent to RMB13,100,000), which had been approved by Ministry of Commerce of the PRC through Hong Wai Jin Mao Wei Shen Pi Zi (2011) No.211. As at the issue date of these consolidated financial statements, the capital injection has been completed.

Pursuant to the resolution of Ten Rui HK's board of directors meeting, dated 28 November 2011, the registered capital of Tianjin Tenfu, subsidiary of Ten Rui HK, will be increased from USD500,000 (equivalent to RMB3,333,000) to USD4,000,000 (equivalent to RMB25,386,000), which had been approved by Ministry of Commerce of the PRC through Nan Kai Shang Wu Shen (2011) No.97. As at the issue date of these consolidated financial statements, the capital injection has been completed.

Pursuant to the resolution of Ten Rui HK's board of directors meeting, dated 15 November 2011, the registered capital of Xiamen Apex, subsidiary of Ten Rui HK, will be increased from USD2,000,000 (equivalent to RMB14,390,000) to USD4,000,000 (equivalent to RMB26,992,000), which had been approved by Ministry of Commerce of the PRC through Xia Tou Cu Shen (2011) No.789. As at the issue date of these consolidated financial statements, the capital injection has been completed.

Pursuant to the resolution of Ten Rui HK's board of directors meeting, dated 21 November 2011, the registered capital of Sichuan Tenfu, subsidiary of Ten Rui HK, will be increased from USD250,000 (equivalent to RMB1,706,000) to USD1,000,000 (equivalent to RMB6,432,000), which had been approved by Ministry of Commerce of the PRC through Chuan Shen (2012) No.45. As at the issue date of these consolidated financial statements, the increased capital hasn't been injected.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 32 Commitments *(continued)*

### (b) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Property, plant and equipment | **43,221** | – |

### (c) Operating lease commitments

The Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 and 5 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| No later than 1 year | **86,559** | 73,734 |
| Later than 1 year and no later than 5 years | **152,675** | 136,687 |
| Later than 5 years | **15,561** | 30,025 |
| | **254,795** | 240,446 |

## 33 Business combinations

### (a) Acquisition of Beijing Tenfu

During the year ended 31 December 2010, the Group has acquired 100% equity interest of Beijing Tenfu from third party individuals. The equity transfer has been completed by 3 February 2010. The fair value of the net assets at the above acquisition date is higher than the consideration paid, hence a gain of RMB1,188,000 is recognized from the bargain purchase. The acquired business contributed revenues of RMB105,736,000 and net profit of RMB2,005,000 to the Group during the period from acquisition date to 31 December 2010.

| | Beijing Tenfu |
|---|---|
| | RMB'000 |
| Purchase consideration | 3,898 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 33 Business combinations *(continued)*

### (a) Acquisition of Beijing Tenfu *(continued)*

Details of the net assets acquired as at 3 February 2010 and the gain arising from the acquisition are as follows:

| | **Fair value** | **Acquiree's carrying amount** |
|---|---|---|
| | RMB'000 | RMB'000 |
| Cash and cash equivalents | 3,202 | 3,202 |
| Property, plant and equipment (Note 8) | 7,205 | 7,205 |
| Intangible assets (Note 9) | 23 | 23 |
| Inventories | 15,631 | 15,631 |
| Trade and other receivables | 5,821 | 5,821 |
| Trade and other payables | (26,796) | (26,796) |
| | 5,086 | 5,086 |
| Gain from acquisition (Note 21) | (1,188) | |
| Total purchase consideration | 3,898 | |
| Purchase consideration settled in cash | | 3,898 |
| Cash and cash equivalents in subsidiary acquired | | (3,202) |
| Cash outflow on acquisition | | 696 |

### (b) Acquisition of Xiamen Apex

Pursuant to the equity transfer agreement entered into between Ten Rui HK and Ming-Feng (Singapore) Holdings Pte. Ltd. ("Ming-Feng"), dated 10 November 2010, Ming-Feng transferred its entire equity interests in Xiamen Apex to Ten Rui HK at a consideration benchmark against the fair value of the identifiable net assets of Xiamen Apex at the acquisition date. The transaction was completed on 10 January 2011. The fair value of the net assets at the above acquisition date is higher than the consideration paid, hence a gain of RMB1,048,000 is recognized from the bargain purchase. The acquired business contributed revenues of RMB68,781,000 and net profit of RMB680,000 to the Group during the period from acquisition date to 31 December 2011.

| | **Xiamen Apex** |
|---|---|
| | RMB'000 |
| Purchase consideration | 16,343 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 33 Business combinations *(continued)*

### (b) Acquisition of Xiamen Apex *(continued)*

Details of the net assets acquired as at 10 January 2011 and the gain arising from the acquisition are as follows:

| | **Fair value** RMB'000 | **Acquiree's carrying amount** RMB'000 |
|---|---|---|
| Cash and cash equivalents | 8,041 | 8,041 |
| Property, plant and equipment (Note 8) | 707 | 707 |
| Inventories | 10,946 | 10,946 |
| Trade and other receivables | 2,740 | 2,740 |
| Trade and other payables | (5,043) | (5,043) |
| | 17,391 | 17,391 |
| Gain from acquisition (Note 21) | (1,048) | |
| Total purchase consideration | 16,343 | |
| Purchase consideration settled in cash | | 16,343 |
| Cash and cash equivalents in subsidiary acquired | | (8,041) |
| Cash outflow on acquisition | | 8,302 |

### (c) Acquisition of other retail businesses

During the years ended 31 December 2011 and 2010, the Group also acquired certain retail outlets. The fair value of the net assets at the acquisition dates equalled the consideration, hence there is no goodwill or gain recognized.

The aggregated assets acquired as at the acquisition dates arising from these acquisitions are as follows:

| | **Year ended 31 December** | |
|---|---|---|
| | **2011** **RMB'000** | 2010 RMB'000 |
| Property, plant and equipment (Note 8) | **451** | 5,861 |
| Inventories | **483** | 20,165 |
| | **934** | 26,026 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 34 Related-party transactions

The following is a summary of the significant transactions carried out between the Group and its related parties in the ordinary course of business during the years ended 31 December 2011 and 2010, and balances arising from related party transactions as at 31 December 2011 and 2010.

### (a) Name and relationship with related parties

| Company name | Relationships |
|---|---|
| Mr. Lee Rie-Ho (i) | Original owner of the Company, key management |
| Mr. Tsai Shan Jen (iii) | Original owner of the Company |
| Mr. Lee Shih-Wei (i) | Original owner of the Company, key management, nephew of Mr. Lee Rie-Ho |
| Mr. Lee Chia Ling (i) | Original owner of the Company, key management, son of Mr. Lee Rie-Ho |
| Mr. Lee Kuo-Lin | Key management, son of Mr. Lee Rie-Ho |
| Mr. Lee Hsien-Mo | Brother of Mr. Lee Rie-Ho |
| Ms. Chen Xiu Duan | Spouse of Mr. Lee Kuo-Lin |
| Ms. Zhou Nan Nan | Spouse of Mr. Lee Chia Ling |
| Mr. Lee Min-Zun | Key management |
| Mr. Tseng Ming-Sung | Key management |
| Mr. Lee Shen-Chih | Key management |
| Mr. Lee Mao-Ling | Key management |
| Mr. Lee Yen-Ping | Key management |
| Discerning Group Limited (ii) | 100% held by Mr. Lee Rie-Ho |
| Trackson Investments Limited (ii) | 100% held by Mr. Lee Chia Ling |
| Tenfu Group (SAMOA) Holdings Co., Ltd. ("SAMOA") | Controlled by key management of the Company |
| Ming-Feng | Jointly controlled by key management of the Company |
| Ten Ren Tea and Ginseng Co., Inc. U.S.A. ("Ten Ren U.S.A.") | Nominee of the owners with respect to Zhangzhou Tenfu, Zhangpu Tenfu, Minhou Tianyuan and Jiajiang Tenfu |
| Anxi Tianfu Tea Industry Co., Ltd. ("Anxi Tenfu") | Subsidiary of SAMOA |
| Huaan Tianfu Tea Industry Co., Ltd. ("Huaan Tenfu") | Subsidiary of SAMOA |
| Kun Ming Tianfu Tea Industry Co., Ltd. ("Kunming Tenfu") | Subsidiary of SAMOA |
| Zhejiang Tianfu Tea Industry Co., Ltd. ("Zhejiang Tenfu") | Subsidiary of SAMOA |
| XiaMen Tenfu Tea Industry Co., Ltd. ("Xiamen Tenfu Tea Industry") | Subsidiary of SAMOA |
| XiaMen Tenfu Industry Co., Ltd. ("Xiamen Tenfu Industry") | Subsidiary of SAMOA |
| Uncle Lee's Tea Inc. ("Uncle Lee's Tea") | Subsidiary of SAMOA |
| Tenyuan (Singapore) Holdings Co., Ltd. ("Tenyuan Singapore) | Subsidiary of SAMOA |
| Xiamen Apex (iv) | Subsidiary of Ming-Feng |
| Fujian Petrol | Jointly controlled entity |
| Luyu Tea Artcraft Co., Ltd. ("Taiwan Luyu") | Controlled by key management of the Company |
| Xiamen Tenfu Tenmax Trade Co., Ltd. ("Tenmax") | Controlled by key management of the Group |
| Xiamen Tianyu Trade Co., Ltd. ("Tianyu Trade) (iii) | Controlled by original owner of the Company |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 34 Related-party transactions *(continued)*

### (a) Name and relationship with related parties *(continued)*

(i) Mr. Lee Rie-Ho, Mr. Lee Shih-Wei and Mr. Lee Chia Ling form the persons acting in concert.

(ii) On 23 December 2010, Mr. Lee Rie-Ho transferred all 18,876,000 of his shares in the Company to Discerning Group Limited for nil consideration, and Mr. Lee Chia Ling transferred all 37,752,000 of his shares in the Company to Trackson Investments Limited for nil consideration. Discerning Group Limited is wholly owned by Mr. Lee Rie-Ho and Trackson Investments Limited is wholly owned by Mr. Lee Chia Ling. Therefore, both Discerning Group Limited and Trackson Investments Limited became related parties of the Group.

(iii) On 23 December 2010, Mr. Tsai Shan Jen transferred an aggregate of 30,387,918 shares of the Company to the New Investors. After the transfer, Mr. Tsai Shan Jen held 6.3% equity interest in the Group. Therefore, Mr. Tsai Shan Jen ceased to be the related party of the Group. Tianyu Trade was controlled by Mr. Tsai Shan Jen and therefore Tianyu Trade ceased to be a related party of the Group since 23 December 2010.

(iv) On 10 January 2011, pursuant to the equity transfer agreement entered into between Ten Rui HK and Ming-Feng, Ming-Feng transferred its entire equity interests in Xiamen Apex to Ten Rui HK. Therefore, Xiamen Apex ceased to be a related party of the Group.

### (b) Transactions with related parties

#### *(i) Sales of goods and services*

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Anxi Tenfu | **11,195** | 14,643 |
| Uncle Lee's Tea | **1,895** | 4,112 |
| Kunming Tenfu | **203** | 185 |
| Huaan Tenfu | **82** | – |
| Tenmax | **–** | 2,977 |
| Xiamen Apex | **–** | 14,196 |
| TianYu Trade | **–** | 1,362 |
| Ten Ren U.S.A | **–** | 615 |
| | **13,375** | 38,090 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 34 Related-party transactions *(continued)*

### (b) Transactions with related parties *(continued)*

#### *(ii) Purchases of goods and services*

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Xiamen Tenfu Tea Industry | **40,010** | – |
| Anxi Tenfu | **27,036** | 57,842 |
| Huaan Tenfu | **18,440** | 15,819 |
| Taiwan Luyu | **16,870** | 14,606 |
| Kunming Tenfu | **7,138** | 10,209 |
| | **109,494** | 98,476 |

#### *(iii) Processing fee expenses*

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Huaan Tenfu | **1,595** | – |
| Anxi Tenfu | **958** | – |
| | **2,553** | – |

#### *(iv) Rental expenses*

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Mr. Lee Chia Ling | **1,063** | 1,025 |
| Mr. Lee Kuo-Lin | **853** | 420 |
| Mr. Lee Min-Zun | **840** | 630 |
| Xiamen Tenfu Tea Industry | **800** | 800 |
| Ms. Zhou Nan Nan | **348** | 116 |
| Ms. Chen Xiu Duan | **275** | 180 |
| Mr. Lee Shih-Wei | **175** | 210 |
| | **4,354** | 3,381 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 34 Related-party transactions *(continued)*

### (b) Transactions with related parties *(continued)*

#### *(v) Key management compensation*

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Salaries, social security costs and other benefits | **3,756** | 11,241 |

#### *(vi) Dividend declared to the original owners of the Company*

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Mr. Lee Rie-Ho | **–** | 61,448 |
| Mr. Lee Chia Ling | **–** | 119,822 |
| Mr. Lee Shih-Wei | **–** | 1,536 |
| Mr. Tseng Ming-Sung | **–** | 1,536 |
| Mr. Tsai Shan Jen | **–** | 122,896 |
| | **–** | 307,238 |

#### *(vii) Dividend received from a jointly controlled entity*

| | Year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Fujian Petrol | **1,347** | 756 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 34 Related-party transactions *(continued)*

### (c) Balances with related parties

#### *(i) Due from related parties (Note 11):*

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Trade related | | |
| – Xiamen Apex | **–** | 3,388 |
| – Uncle Lee's Tea | **–** | 881 |
| – Tenmax | **–** | 697 |
| – Ten Ren | **–** | 514 |
| – Tianyu Trade | **–** | 392 |
| | **–** | 5,872 |
| Non-trade related | | |
| – Mr. Lee Shih-Wei | **381** | – |
| – Tenyuan Singapore | **67** | – |
| | **448** | – |
| | **448** | 5,872 |

#### *(ii) Prepayment to related parties:*

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Trade related | | |
| – Anxi Tenfu | **8,415** | – |
| – Huaan Tenfu | **5,927** | – |
| | **14,342** | – |

## 34 Related-party transactions *(continued)*

### (c) Balances with related parties *(continued)*

#### *(iii) Due to related parties (Note 17):*

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Trade related | | |
| – Taiwan Luyu | **2,274** | 467 |
| – Xiamen Tenfu Tea Industry | **1,700** | – |
| – Kunming Tenfu | **74** | 2,838 |
| – Anxi Tenfu | **–** | 9,835 |
| – Ten Ren | **–** | 3,777 |
| – Ten Ren U.S.A | **–** | 3,114 |
| – Huaan Tenfu | **–** | 1,528 |
| | **4,048** | 21,559 |
| Non-trade related | | |
| – Xiamen Tenfu Tea Industry | **253** | – |
| – Mr. Lee Chia Ling | **1,423** | 82,210 |
| – Anxi Tenfu | **380** | – |
| – Mr. Lee Kuo-Lin | **–** | 1,713 |
| | **2,056** | 83,923 |
| | **6,104** | 105,482 |

#### *(iv) Dividend payable:*

| | As at 31 December | |
|---|---|---|
| | **2011** | 2010 |
| | **RMB'000** | RMB'000 |
| Discerning Group Limited | **–** | 31,550 |
| Trackson Investments Limited | **–** | 61,522 |
| Mr. Lee Shih-Wei | **–** | 789 |
| Mr. Tseng Ming-Sung | **–** | 789 |
| Mr. Tsai Shan Jen | **–** | 63,099 |
| | **–** | 157,749 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

## 34 Related-party transactions *(continued)*

### (c) Balances with related parties *(continued)*

The receivables from related parties arise mainly from sale transactions and lendings. The receivables are unsecured and bear no interest. There are no provisions made against receivables from related parties.

The payables to related parties arise mainly from purchase transactions and borrowings. The payables bear no interest and are repayable on demand.

### (d) Borrowings guaranteed by a related party

There was no such borrowing as at 31 December 2011 while bank borrowings of RMB70,000,000 were guaranteed by Mr. Lee Kuo-Lin as at 31 December 2010 (Note 18).

## 35 Subsequent events

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