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 2012

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 report by Euromonitor International, as at 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 1,300 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 300 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 at 31 December 2012, our tea products were sold in 1,315 retail outlets and retail points across 30 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 (Vice Chairman)
LEE Chia Ling (Chief Executive Officer)
LEE Kuo-Lin (Chief Operating Officer)

Non-executive Directors

TSENG Ming-Sung
WEI Ke

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 PRC

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUTHORIZED REPRESENTATIVES

LEE Chia Ling
MOK Ming Wai

COMPANY SECRETARY

MOK Ming Wai (FCS, FCIS)

PRINCIPAL SHARE REGISTRAR

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

Corporate Information

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

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

Halcyon Capital Limited (Appointed on 3 January 2013)
Yuanta Securities (Hong Kong) Company Limited (Resigned on 1 December 2012)

WEBSITE

www.tenfu.com

Financial Highlights

- Revenue for the year ended 31 December 2012 decreased by 2.7% from RMB1,753.3 million for 2011 to RMB1,706.6 million;
- Gross profit for the year ended 31 December 2012 increased by 1.4% from RMB1,079.5 million for 2011 to RMB1,094.7 million, with an increase in gross profit margin from 61.6% for 2011 to 64.1% for the year ended 31 December 2012;
- Profit for the year ended 31 December 2012 increased by 0.4% from RMB293.5 million for 2011 to RMB294.6 million, which corresponded to an increase in net profit margin from 16.7% for 2011 to 17.3% for the year ended 31 December 2012;
- Basic earnings per share for the year ended 31 December 2012 was RMB0.24; and
- The board of directors ("the Board") proposed a final dividend of HKD0.14 per share (equivalent to RMB0.11 per share).

Comparison of Key Financial Figures

Results

	For the year ended 31 December (RMB '000)				
	2008	2009	2010	2011	**2012**
Revenue	570,963	692,715	1,246,993	1,753,317	**1,706,598**
Gross profit	256,116	303,372	689,729	1,079,558	**1,094,704**
Gross profit margin (%)	44.9	43.8	55.3	61.6	**64.1**
Profit before income tax	142,694	193,233	313,707	408,706	**407,135**
Profit for the year, all attributable to the owners of the Company	109,224	138,932	223,024	293,510	**294,597**
Net profit margin (%)	19.1	20.1	17.9	16.7	**17.3**

Assets and liabilities

	As at 31 December (RMB '000)				
	2008	2009	2010	2011	**2012**
Total assets	716,170	1,034,597	1,526,728	2,477,927	**2,134,370**
Total equity	413,513	552,459	663,692	1,890,482	**1,828,578**
Total liabilities	302,657	482,138	863,036	587,445	**305,792**
Gearing ratio (%)	26	32	38	15	**5**
Trade receivables turnover days (days)	80	109	179	126	**111**
Trade payables turnover days (days)	33	42	49	58	**58**
Inventory turnover days (days)	127	157	158	187	**239**

Chairman's Statement

In 2012, China's economy maintained its progress and development, with its GDP growing at 7.8% over the previous year and its economy remaining the second biggest in the world. Its CPI in 2012 rose by 2.6% over the previous year. While China's economy was growing fast, the problems remained unsolved: the global economy remained weak and sluggish, the debt crisis in Europe was intensifying, the inflationary pressure continued to build up, the external demand was shrinking while the domestic demand was disappointing, too.

In such a challenging economic environment, the Group remained aggressive in expanding its sales network and continued to maintain its customer-oriented service, which rewarded it with an overall turnover of RMB1.7 billion in 2012. Meanwhile, the Group strived to increase its procurement and production efficiency, continuously optimize cost management and effectively control expenses and shop opening costs, which enabled it to keep up the profit against the rising costs of raw materials and other items.

Operational Review for 2012

In order for the Tenfu tea products and brands to plant their roots more deeply in the ultimate markets and distribution channels, enjoy better reputation and for Tenfu Group to maintain its leading position and advantage in the highly competitive Chinese tea market, Tenfu Group rolled out a number of significant operational measures as follows:

1. Continuing to develop new stores and optimize sales network;

   In 2012, the Group opened 219 new stores, shut down 111 stores, with a net increase of 108 and a total of 1,315 sales outlets at the end of the year (including 496 directly-operated stores and 819 dealer stores);

2. Holding Tea Fairs in major cities, promote tea culture and the sales of tea and tea ware;
3. Developing new products to meet the needs of different consumer groups and their changing preferences for fashion;
4. Introducing policies on employee benefits and incentives;
5. Promoting famous teas of different origins by selling them at our sales outlets so as to truly cater for the local consumption preference;
6. Adjusting the product structure to meet the demand of the consumers in accordance with the consumer groups in different areas and shops;
7. Emphasizing on the number of visitors and enhancing the quality of services provided to customers in order to increase the number of successful deals;
8. Introducing loyalty cards to consolidate and develop our customer base; and
9. Continuing with the construction of our new facilities to expand production capacity.

Business Outlook for 2013

Although the international economic prospects remained uncertain, China's economy is expected to maintain steady growth under the leadership and effective control of the Chinese government. With the progress of urbanization and narrowing of the gap between urban and rural consumption, the consumer market will undergo structural changes. Huge business opportunities will arise in the food, beverage and retail industries with the enhancement in the per capita disposable income and the accomplishment of the consumers in terms of relevant culture and knowledge. The Group will continue as usual to strengthen the brand image and competitive advantage of the Company, actively implement the significant operational measures as follows:

1. Actively exploring new outlets;
   (1) In addition to the first and second-tier cities, development of outlets in the third and fourth-tier cities will be accelerated;
   (2) Building No.1 brand image through opening flagship stores across the country;
2. Upgrading the benefits offered to the core management to strengthen corporate solidarity and expand paths of promotion so that our key talents with good performance can work without distraction;
3. Strengthening education and training, so that our employees can master appropriate and applicable management and marketing skills, enhance their awareness of service and quality, so as to ensure that our operating principles and policies can be achieved;
4. Prioritizing product quality and safety, and continuing to develop new products and improve packaging, so as to meet the needs of middle and low-end consumers;
5. Strengthen control over all aspects of the costs, eliminate extravagance and waste;
6. Emphasising computerized operation, make good use of technology to simplify the work at the shops so that the staff can concentrate on sales and service, resulting in improvement on the human output value and the per capita income;
7. Actively promoting OEM business for tea snacks to add to the revenue of the Company;
8. Actively organizing tea exhibitions, incense lore exhibitions, new tea tasting and tea art teaching activities, so that our regular customers can grow and evolve together with our staff; and
9. Implementing customer-friendly economy with focus on the products that the ordinary people actually consume, i.e. localization of the packaging of goods, simplification of commodity specifications, customer-friendliness of commodity prices, and guarantee of product quality.

I believe that, through the joint efforts of the management and our staff, we will be able to adapt to the rapidly changing environment, grasp market trends, lead the trend of consumption and achieve the continuous development goal of the Company without disappointing our shareholders!

Acknowledgement

The Company's sustainable development depends on the supports and efforts of all the parties involved, so I would like to express my deepest appreciation to our customers, suppliers, business partners and shareholders for their support on behalf of the Board, and in particular for the efforts and contributions and dedication of all our staff over the past year!

LEE Rie-Ho

Chairman

Hong Kong, 18 March 2013

Management Discussion and Analysis

Business Review and Outlook

In 2012, the Group achieved revenue of RMB1,706.6 million, down 2.7% from 2011, and recorded profit for the year of RMB294.6 million, up 0.4% from 2011. The decrease in the Group's revenue for the year was mainly due to the impact of stagnant macroeconomic conditions.

In 2012, the Group further strengthened its market position and the efficiency of its operations, including further expanding its network, actively promoting the customer loyalty programme, consolidating and developing customer base, increasing release of marketing program and education and training for the employees, improving employees's benefits, while controlling expenditures.

1. **Leading brand position.** According to a report 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. 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 2012, the Group had a total of 1,315 self-owned and third-party owned retail outlets and retail points, up a net of 108 retail outlets and retail points from a total of 1,207 as of 31 December 2011.

3. **Growth in profit margin.** In 2012, net profit margin increased to 17.3% from 16.7% for 2011 mainly due to the increase in gross profit margin and the decrease in finance cost.

In 2013, the Group plans to continue to expand and optimize its network of self-owned retail outlets and retail points, expand its market share in first-tier and second-tier cities, further penetrate into third-tier and fourth-tier cities, ride on the urbanization progress of townships and purchase store premises for the operation of self-owned retail outlets.

In particular, the Group plans to:

1. **Continue to expand and optimize retail sales network.** The Group plans to further expand retail outlets and retail points per year over the next five years, including both self-owned and third-party owned retail outlets and retail points. As part of this goal, the Group plans to establish new retail outlets on high-traffic streets in the central business districts of selected cities, as well as retail points in popular shopping malls, actively expand networks in third-tier and fourth-tier and smaller cities, and develop quality distributors to increase the sales 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 make further efforts to promote its products and brands during the major traditional Chinese festivals, and actively hold tea ware exhibition, incense lore expo, new tea tasting events and tea art education activities for enhancement of communications and interactions with customers in order to maintain and promote the well-known Tenfu brand.

3. **Continue to develop new concepts for tea-related products.** The Group believes that a broad portfolio of products will help it to maintain its leading brand position and keep pace with constantly changing consumer preferences and trends. To this end, the Group will continue the development of tea and related products to meet market requirements, as well as creating the trend and leading the trend.

4. **Enhance processing and distribution efficiency and effectiveness.** The Group rolled out the fully-integrated ERP (Enterprise Resources Planning) system in 2012, so as to be provided with the real-time sales and inventory data of the retail outlets. The Group intends to continue proper implementation and usage of the ERP system, aiming to streamline its distribution operation and improve collection of information, so that the Group can manage resources and monitor sales and inventory information more efficiently and effectively.

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

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 2012, the Group engaged in the sale and marketing of a comprehensive range of tea products and the development of product concepts, tastes and packaging designs. The Group has manufacturing plants in Fujian province and Sichuan province, 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.

During the year ended 31 December 2012, the Group derived substantially all of its revenue from sales of tea leaves, tea snacks and tea ware. The revenue of the Group decreased by 2.7% from RMB1,753.3 million for the year ended 31 December 2011 to RMB1,706.6 million for the year ended 31 December 2012. The following table sets forth a breakdown of revenue by product category for the years indicated:

	Year ended 31 December			
	2012		2011	
	RMB'000	**%**	RMB'000	%
Revenue contributed from:				
Tea leaves	**1,108,889**	**65.0**	1,233,912	70.4
Tea snacks	**239,691**	**14.0**	263,570	15.0
Tea ware	**326,466**	**19.1**	221,066	12.6
Others(1)	**31,552**	**1.9**	34,769	2.0
Total	**1,706,598**	**100.0**	1,753,317	100.0

Note:

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

Revenue from sales of the Group's tea leaves decreased by 10.1% from RMB1,233.9 million for the year ended 31 December 2011 to RMB1,108.9 million for the year ended 31 December 2012. Revenue from sales of the Group's tea snacks decreased by 9.1% from RMB263.6 million for the year ended 31 December 2011 to RMB239.7 million for the year ended 31 December 2012. Revenue from sales of the Group's tea ware increased by 47.7% from RMB221.1 million for the year ended 31 December 2011 to RMB326.5 million for the year ended 31 December 2012. The decrease in revenue from sales of the Group's tea leaves was primarily due to the decrease in wholesale revenue affected by the sales during the Spring Festival and the decrease in sales of self-owned stores. The increase in revenue from sales of the Group's tea ware was primarily driven by the expansion of the Group's sales network, and exhibitions held in various large cities during the year.

Cost of sales

Cost of sales of the Group primarily comprises costs of inventory (mainly including costs of raw materials) and labor costs. Cost of sales of the Group decreased by 9.2% from RMB673.8 million for the year ended 31 December 2011 to RMB611.9 million for the year ended 31 December 2012, primarily due to the decrease in sales.

Gross profit and gross profit margin

As a result of the foregoing factors, gross profit of the Group increased by 1.4% from RMB1,079.5 million for the year ended 31 December 2011 to RMB1,094.7 million for the year ended 31 December 2012, with gross profit margin increasing from 61.6% for the year ended 31 December 2011 to 64.1% for the year ended 31 December 2012.

Distribution costs

The distribution costs of the Group increased by 2.4% from RMB480.2 million for the year ended 31 December 2011 to RMB491.5 million for the year ended 31 December 2012. The increase was primarily due to an increase in operating lease payments from RMB120.3 million for the year ended 31 December 2011 to RMB138.1 million for the year ended 31 December 2012 as a result of increased self-owned retail outlets and retail points.

Administrative expenses

Administrative expenses for the Group increased by 16.0% from RMB176.5 million for the year ended 31 December 2011 to RMB204.7 million for the year ended 31 December 2012. The increase was primarily due to the increase in salary costs and depreciation of property, plant and equipment because of the expansion of the Group's business operations, the increase in employees' remuneration, the depreciation of self-owned office premises and the increase in utility expenses.

Other income

Other income of the Group increased by 73.0% from RMB7.4 million for the year ended 31 December 2011 to RMB12.8 million for the year ended 31 December 2012. The increase was primarily due to the increase in PRC local government grants from RMB4.2 million for the year ended 31 December 2011 to RMB10.1 million for the year ended 31 December 2012, and the increase in investment property rental income from RMB1.3 million for the year ended 31 December 2011 to RMB1.4 million for the year ended 31 December 2012.

Other losses and gains, net

The Group recorded other losses of RMB3.8 million for the year ended 31 December 2012, primarily due to net foreign exchange losses and losses from the disposal of property, plant and equipment. 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 Trading Co., Ltd.

Finance income

Finance income of the Group increased by 346.7% from RMB1.5 million for the year ended 31 December 2011 to RMB6.7 million for the year ended 31 December 2012. The increase was primarily due to the increase in interest income as a result of placing capital with bank deposits.

Finance costs

Finance costs of the Group decreased by 58.7% from RMB20.8 million for the year ended 31 December 2011 to RMB8.6 million for the year ended 31 December 2012, reflecting a decrease 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 RMB1.4 million for the year ended 31 December 2012 as compared to RMB1.3 million for the year ended 31 December 2011.

Income tax expense

Income tax expense of the Group decreased by 2.3% from RMB115.2 million for the year ended 31 December 2011 to RMB112.5 million for the year ended 31 December 2012, primarily due to a decrease in the Group's profit before tax from RMB408.7 million for the year ended 31 December 2011 to RMB407.1 million for the year ended 31 December 2012, and 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 RMB1.1 million, or 0.4%, to RMB294.6 million for the year ended 31 December 2012 as compared to RMB293.5 million for the year ended 31 December 2011. Net profit margin of the Group increased from 16.7% to 17.3% for the corresponding years, primarily due to decreases in net finance costs, and the offset between the increase in gross profit and distribution costs and administrative expenses.

Liquidity and capital resources

Cash position

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

The Group's cash and cash equivalents decreased by RMB561.1 million, or 50.1%, from RMB1,119.9 million as of 31 December 2011 to RMB558.8 million as of 31 December 2012.

The Group had net cash inflow from operating activities of RMB366.4 million, net cash outflow from investing activities of RMB336.3 million and net cash outflow from financing activities of RMB590.9 million for the year ended 31 December 2012.

Bank borrowings and gearing ratio

The Group had total bank borrowings of RMB104.3 million as of 31 December 2012, compared to RMB324.8 million as of 31 December 2011. As of 31 December 2012, the weighted average effective interest rate of the Group's bank borrowings was 5.3%, and 76.7% of the Group's bank borrowings were denominated in RMB, while 23.3% were denominated in HKD. Bank borrowings as at 31 December 2012 and those in corresponding period were charged at fixed interest rate.

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

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:

As at 31 December 2012	**Less than 1 year RMB'000**	**Between 1 and 2 years RMB'000**	**Between 2 and 5 years RMB'000**	**Total RMB'000**
Borrowings	**104,283**	**–**	**–**	**104,283**
Interest payments on borrowings (note)	**2,406**	**–**	**–**	**2,406**
Trade and other payables	**100,946**	**–**	**–**	**100,946**
	207,635	**–**	**–**	**207,635**

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	324,771	–	–	324,771
Interest payments on borrowings (note)	9,524	–	–	9,524
Trade and other payables	131,842	–	–	131,842
	466,137	–	–	466,137

Note: The interest payments on borrowings are calculated based on borrowings held as at 31 December 2012 and 2011 which bear fixed rate interest without taking into account future borrowings.

The Group regularly monitors its gearing ratio, which represents total debt as a percentage of total capital. Total debt is calculated as total borrowings. Total capital is calculated as total equity plus total debt. As of 31 December 2012, the gearing ratio of the Group was 5%, compared to 15% as of 31 December 2011. The decrease in the gearing ratio during 2012 was primarily due to the repayment of the Group's bank borrowings.

Capital and other commitments

As of 31 December 2012, the Group had total equity investment, capital expenditure and operating lease commitments of RMB288.6 million, as compared to RMB353.8 million as of 31 December 2011. The Group plans to fund these commitments primarily with available cash.

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

	As of 31 December	
	2012	2011
	RMB'000	RMB'000
Investments in subsidiaries	**12,571**	55,763

The Group's capital expenditure 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	
	2012	2011
	RMB'000	RMB'000
Property, plant and equipment	**17,309**	43,221

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	
	2012	2011
	RMB'000	RMB'000
No later than 1 year	**102,619**	86,559
Later than 1 year and no later than 5 years	**143,949**	152,675
Later than 5 years	**12,122**	15,561
	258,690	254,795

Working capital

	As of 31 December	
	2012	2011
	RMB'000	RMB'000
Trade and other receivables	**212,244**	314,731
Trade and other payables	**161,965**	213,034
Inventories	**431,437**	380,026
Trade receivables turnover days(1)	**111**	126
Trade payables turnover days(2)	**58**	58
Inventories turnover days(3)	**239**	187

Notes:

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

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

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

The Group's trade and other receivables represent primarily the balances due from third-party retailers. The Group's trade and other receivables decreased by RMB102.5 million from RMB314.7 million as of 31 December 2011 to RMB212.2 million as of 31 December 2012, primarily due to the settlement of trade receivables due from third parties.

The Group's trade and other payables principally comprise payables to its raw material suppliers, employee benefit payables, other taxes payable, accrued operating expenses and amounts due to related parties. The Group's trade and other payables decreased by RMB51.0 million from RMB213.0 million as of 31 December 2011 to RMB162.0 million as of 31 December 2012, primarily due to decreases in trade payables due to third parties and employee benefit payables, partially offset by increases in trade related amounts due to related parties.

The Group's inventories comprise raw materials (including packaging materials), work-in-progress and finished products. The Group's inventories increased by RMB51.4 million from RMB380.0 million as of 31 December 2011 to RMB431.4 million as of 31 December 2012, primarily reflecting increased procurement.

As of 31 December 2012, 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 2012, most of the operating entities' revenue, expenses, assets and liabilities were denominated in RMB. The Group's foreign exchange risk mainly arises from the portion of its sales and purchases of products denominated in USD and Japanese Yen and financing activities denominated in USD and HKD. The opinion of the directors of the Company (the "Directors") is that the Group does not have significant foreign currency risk exposure.

Any future depreciation of the RMB could adversely affect the value of any dividends the Group pays to its shareholders. The Group currently does not engage in hedging activities designed or intended to manage such exchange rate risk.

Contingent liabilities

The Group had no material contingent liabilities as of 31 December 2012.

Employee and Remuneration Policy

As of 31 December 2012, the Group had a total of 5,939 employees, with 5,935 employees in the PRC and 4 employees in Hong Kong. For the year ended 31 December 2012, the staff costs of the Group was RMB280.2 million compared to RMB271.9 million for the year ended 31 December 2011.

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.

Directors and Senior Management

Directors

Executive Directors

LEE Rie-Ho (李瑞河), aged 77, 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. (天仁茶葉股份有限公司) ("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 the chief financial officer of the Group, 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 53, 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.

LEE Chia Ling (李家麟), aged 50, 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. He has been as one of the authorised representatives of the Company since 27 August 2012. 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 51, 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.

Non-executive Directors

TSENG Ming-Sung (曾明順), aged 56, 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.

WEI Ke (魏可), aged 39, is a non-executive Director. He was appointed as the non-executive Director on 27 August 2012. Mr. Wei is a Principal at the General Atlantic private equity firm. He is based in Beijing and focuses on General Atlantic's investment opportunities in Greater China. Prior to joining General Atlantic, Mr. Wei served as an Investment Principal at Actis, an emerging market private equity firm, from 2008 to 2009. He also worked at Boston Consulting Group from 2005 to 2008. Mr. Wei earned his master's degree in Business Administration from Harvard Business School in 2005, and his bachelor's degree in Science and English from University of Science and Technology, Beijing in 1996.

Directors and Senior Management

Independent Non-executive Directors

LO Wah Wai (盧華威), aged 49, 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 7 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.

LEE Kwan Hung (李均雄), aged 47, is an independent non-executive Director. He was appointed as the independent non-executive Director on 31 August 2011. Mr. Lee is the chairman of the nomination committee. He is also a member of the audit committee and the remuneration committee. 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 in England and Wales 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 is currently a practising lawyer and serves as an independent non-executive director of some listed companies, including Yuexiu REIT Asset Management Limited, Embry Holdings Limited, NetDragon Websoft Inc., Asia Cassava Resources Holdings Limited, Futong Technology Development Holdings Limited, Newton Resources Ltd, Walker Group Holdings Limited, Far East Holdings International Limited and China BlueChemical Limited, which companies are listed on the main board of the Stock Exchange. Mr. Lee was also formerly an independent non-executive director of New Universe International Group Limited, a company listed on the Growth Enterprise Market of the Stock Exchange.

FAN Ren Da, Anthony (范仁達), aged 53, is an independent non-executive Director. He was appointed as the independent non-executive Director on 31 August 2011. Mr. Fan is the chairman of remuneration committee of the Company. He is also a member of the audit committee and the nomination committee 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, Citic Resources Holdings Limited, Uni-President China Holdings Ltd., Renhe Commercial Holdings Company Limited, Hong Kong Resources Holdings Company Limited, Shanghai Industrial Urban Development Group Limited, Guodian Technology & Environment Group Corporation Limited, Technovator International Limited and China Development Bank International Investment Limited, which companies are listed on the main board of the Stock Exchange. Mr. Fan was also formerly an independent non-executive director of Shenzhen World Union Properties Consultancy Co., Ltd, a company listed on the Shenzhen Stock Exchange.

Senior management

LEE Min-Zun (李銘仁), aged 48, is the Chief Financial Officer of the Company. Mr. Lee was an executive Director between 31 August 2011 and 27 August 2012. 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.

LEE Shen-Chih (李勝治), aged 68, 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 天盧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 51, 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 43, 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 2012.

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.

For the year ended 31 December 2012, the Board is of the view that, for the period from 1 January 2012 till 31 March 2012, the Company has complied with the code provisions in the Code on Corporate Governance Practices (the "Old Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and for the period from 1 April 2012 till 31 December 2012, the Company has complied with the code provisions included in the amendments made to the Old Code which took effect and re-named as "Corporate Governance Code" (the "New Code") since 1 April 2012 and there has been no deviation from the code provisions as set forth under the Old Code and the New Code for the year ended 31 December 2012.

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

Board composition

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

The Company has complied with rule 3.10A of the Listing Rules for the Board to have at least one-third of its membership comprising independent non-executive Directors. The composition of the Board for the year ended 31 December 2012 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 Operating Office*
Mr. LEE Min-Zun	(Resigned as Director on 27 August 2012 but remains as Chief Financial Officer)

Non-executive Directors

Mr. TSENG Ming-Sung	
Mr. WEI Ke	(Appointed on 27 August 2012)

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 pages 16 to 19 of this report.

During the year ended 31 December 2012, 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 Directors 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.

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.

The Board is collectively responsible for performing the corporate governance duties. During the year, the Board formalised the inclusion of the following corporate governance duties into the terms of reference of the Board:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules and disclosure in the corporate governance report in the annual report of the Company.

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, shall retire by rotation and the newly appointed Director in 2012 shall retire and all 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 12 April 2013 contains detailed information of the Directors standing for re-election.

The Nomination Committee reviewed the nomination procedures, the process and criteria to select and recommend candidates for directorship and the Board structure during the year ended 31 December 2012.

The Nomination Committee held 2 meetings during the year ended 31 December 2012 and the attendance records are set out below:

Name of Director	Attendance/Number of Meetings
Mr. LEE Kwan Hung	2/2
Mr. LEE Kuo-Lin	1/2
The alternate of Mr. LEE Kuo-Lin	1/1
Mr. FAN Ren Da, Anthony	2/2
Mr. LO Wah Wai	2/2

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 updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Briefing and professional development for Directors will be arranged where necessary. Individual Directors also participated in the courses relating to the roles, functions and duties of a listed company director or further enhancement of their professional development by way of attending training courses or via online aids or reading relevant materials.

During the year ended 31 December 2012, all Directors are provided with the latest version of "A Guide on Directors' Duties" issued by the Companies Registry, corporate governance practices and other regulatory regime.

According to the records provided by the Directors, a summary of training received by the Directors since 1 April 2012 up to 31 December 2012 is as follows:

Executive Directors	**Type of continuous professional development programmes**
Mr. LEE Rie-Ho	1,2
Mr. LEE Shih-Wei	1,2
Mr. LEE Chia Ling	1,2
Mr. LEE Kuo-Lin	1,2
Mr. LEE Min-Zun (Resigned as Director on 27 August 2012 but remains as Chief Financial Officer)	1,2
Non-executive Directors	
Mr. TSENG Ming-Sung	1,2
Mr. WEI Ke (Appointed on 27 August 2012)	1,2,3
Independent Non-executive Directors	
Mr. LO Wah Wai	1,2,3
Mr. LEE Kwan Hung	1,2,3
Mr. FAN Ren Da, Anthony	1,2,3

Notes:

1. *Reading materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements.*
2. *Internally group discussions on updates relating to the latest development of the Listing Rules and other applicable regulatory requirements.*
3. *Attending briefing sessions and/or seminars offered by external professionals and/or experts.*

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 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 2012, 5 regular Board meetings were held, including reviewing and approving the interim results for the six months ended 30 June 2012, and considering and approving the overall strategies and policies of the Company.

The attendance records of each Director at the Board meetings during the year ended 31 December 2012 are set out below:

Name of Director	Attendance/Number of Meetings
Mr. LEE Rie-Ho	4/5
Mr. LEE Shih-Wei	3/5
Mr. LEE Chia Ling	4/5
Mr. LEE Kuo-Lin	1/5
The alternate of Mr. Lee Kuo-Lin	2/2
Mr. LEE Min-Zun (Resigned on 27 August 2012)	4/4
Mr. TSENG Ming-Sung	3/5
Mr. WEI Ke (Appointed on 27 August 2012)	2/2
Mr. LO Wah Wai	5/5
Mr. LEE Kwan Hung	5/5
Mr. FAN Ren Da, Anthony	5/5

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 for the year ended 31 December 2012.

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 inside 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 corporate 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.

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 for the year ended 31 December 2012 are set out in Note 27 to the Consolidated Financial Statements.

The biographies of the senior management are disclosed in the section headed "Directors and Senior Management" in this annual report. Remuneration paid to the senior management (excluding the Directors) for the year ended 31 December 2012 is within the following bands:

	Number of individuals	
	2012	2011
Nil – RMB500,000	**3**	2
RMB500,001 – RMB1,000,000	**1**	1

Note:

Mr. Lee Min-Zun resigned as the Director on 27 August 2012 but remains as the chief financial officer. So he was accounted as one of the senior management in 2012. His remuneration is also disclosed in Note 27 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.

The Remuneration Committee has reviewed the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and the senior management for the year.

The Remuneration Committee held 3 meetings during the year ended 31 December 2012 and the attendance records are set out below:

Name of Director	Attendance/Number of Meetings
Mr. FAN Ren Da, Anthony	3/3
Mr. LEE Rie-Ho	1/3
Mr. LO Wah Wai	3/3
Mr. LEE Kwan Hung	3/3
Mr. LEE Chia Ling	1/3

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 2012.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information 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.

Internal controls

During the year ended 31 December 2012, 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 auditor before submission to the Board;
- To review the relationship with the external auditor by reference to the work performed by the auditor, the fees and terms of engagement, and make recommendations to the Board on the appointment, re-appointment and removal of external auditor; 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, the Audit Committee discussed with the management of the Company the internal controls and financial reporting matters, and reviewed the accounting principles and practices adopted by the Group and the effectiveness of the Group's internal control system. The Audit Committee also met with the external auditor and reviewed the annual and interim reports of the Company.

The Audit Committee held 3 meetings during the year ended 31 December 2012 and the attendance records are set out below:

Name of Director	Attendance/Number of Meetings
Mr. LO Wah Wai	3/3
Mr. TSENG Ming-Sung	3/3
Mr. FAN Ren Da, Anthony	3/3
Mr. LEE Kwan Hung	3/3

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 46.

During the year ended 31 December 2012, 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	626
Total	5,376

The amount for other non-audit services mainly represented the professional fees paid/payable by the Group for the services related to 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 Chairman of the Board, members of the Board and external auditor attended the 2012 annual general meeting of the Company ("AGM") held on 27 April 2012. The attendance record of the Directors at the AGM is set out below:

Name of Director	AGM Attendance/ Number of AGM
Mr. LEE Rie-Ho	1/1
Mr. LEE Shih-Wei	0/1
Mr. LEE Chia Ling	1/1
Mr. LEE Kuo-Lin	0/1
Mr. LEE Min-Zun (Resigned on 27 August 2012)	1/1
Mr. TSENG Ming-Sung	1/1
Mr. WEI Ke (Appointed on 27 August 2012)	0/0
Mr. LO Wah Wai	1/1
Mr. LEE Kwan Hung	1/1
Mr. FAN Ren Da, Anthony	1/1

The external auditor also attended the 2012 AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

The Chairman of the Board, members of the Board and external auditor attended the 2012 extraordinary general meeting of the Company ("EGM") held on 27 April 2012. The attendance record of the Directors at the EGM is set out below:

Name of Director	EGM Attendance/ Number of Meetings
Mr. LEE Rie-Ho	1/1
Mr. LEE Shih-Wei	0/1
Mr. LEE Chia Ling	1/1
Mr. LEE Kuo-Lin	0/1
Mr. LEE Min-Zun (Resigned on 27 August 2012)	1/1
Mr. TSENG Ming-Sung	1/1
Mr. WEI Ke (Appointed on 27 August 2012)	0/0
Mr. LO Wah Wai	1/1
Mr. LEE Kwan Hung	1/1
Mr. FAN Ren Da, Anthony	1/1

The 2013 AGM will be held on 14 May 2013 (Tuesday). 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 and are available for public access.

In addition, there was no significant change in the Company's constitutional documents during the year ended 31 December 2012.

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.

Shareholders are provided with contact details of the Company, such as telephone hotline, fax number, email address and postal address, in order to enable them to make any query that they may have with respect to the Company. They can also send their enquiries to the Board through these means. In addition, shareholders can contact Computershare Hong Kong Investor Services Limited, the Hong Kong share registrar of the Company, if they have any enquiries about their shareholdings and entitlements to dividend.

Procedures for shareholders to convene an extraordinary general meeting ("EGM") (including making proposals/moving a resolution at the EGM)

- Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to the Board or the company secretary of the Company (the "Company Secretary"), to require an EGM to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.
- The Eligible Shareholders who wish to convene an EGM for the purpose of making proposals or moving a resolution at the EGM must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong at Flat A, 24/F, Wing Hang Finance Centre, 60 Gloucester Road, Wanchai, Hong Kong, for the attention of the Company Secretary.
- The Requisition must state clearly the name of the Eligible Shareholder(s) concerned, his/her/their shareholding in the Company, the reason(s) to convene an EGM, the agenda proposed to be included the details of the business(es) proposed to be transacted in the EGM, signed by the Eligible Shareholder(s) concerned.
- The Company will check the Requisition and the identity and the shareholding of the Eligible Shareholder will be verified with the Company's branch share registrar. If the Requisition is found to be proper and in order, the Company Secretary will ask the Board to convene an EGM within 2 months and/or include the proposal or the resolution proposed by the Eligible Shareholder at the EGM after the deposit of the Requisition. On the contrary, if the Requisition has been verified as not in order, the Eligible Shareholder(s) concerned will be advised of this outcome and accordingly, the Board will not call for an EGM and/or include the proposal or the resolution proposed by the Eligible Shareholder at the EGM.
- If within 21 days of the deposit of the Requisition, the Board has not advised the Eligible Shareholders of any outcome to the contrary and fails to proceed to convene such EGM, the Eligible Shareholder(s) himself/herself/themselves may do so in accordance with the Memorandum and Articles of Association, and all reasonable expenses incurred by the Eligible Shareholder(s) concerned as a result of the failure of the Board shall be reimbursed to the Eligible Shareholder(s) concerned by the Company.

Company Secretary

The Company engages Ms. Mok Ming Wai, director of KCS Hong Kong Limited, as its company secretary. Her primary corporate contact person at the Company is Mr. Lee Min-Zun, the Chief Financial Officer.

In compliance with Rule 3.29 of the Listing Rules, Ms. Mok has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2012.

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 2012 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 at 31 December 2012 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

At the Board meeting held on 18 March 2013 (Monday), it was proposed that a final dividend of HK14 cents per ordinary share (equivalent to RMB11 cents per ordinary share) be paid after 30 May 2013 to the shareholders of the Company (the "Shareholders") whose names appear on the Company's register of members on 21 May 2013 (Tuesday). The proposed final dividend is subject to approval by the Shareholders at the AGM to be held on 14 May 2013 (Tuesday).

There is no arrangement that a Shareholder has waived or agreed to waive any dividend.

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 10 May 2013 (Friday) to 14 May 2013 (Tuesday), both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the 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 9 May 2013 (Thursday).

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed on 21 May 2013 (Tuesday), during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 20 May 2013 (Monday).

Reserves

Details of the changes in reserves of the Company and the Group during the year ended 31 December 2012 are set out in Notes 14, 15 and 16 to the Consolidated Financial Statements.

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 2012, the Company had distributable reserve amounting to approximately RMB680,229,000.

Property, plant and equipment

The changes in property, plant and equipment during the year ended 31 December 2012 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 22.5% of the Group's total purchase. The percentage of turnover attributable to the Group's five largest customers accounted for approximately 4.2% of the Group's total turnover.

Except Samoa Group (defined below) which is wholly-owned by Mr. Lee Chia Ling, a Director, and Lu Yu (defined below) which is indirectly held as to approximately 31.25% by Mr. Lee Shih-Wei, a Director, are among the Group's five largest suppliers, 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 at the date of this report are as follows:

Executive Directors

Mr. LEE Rie-Ho

Mr. LEE Shih-Wei

Mr. LEE Chia Ling

Mr. LEE Kuo-Lin

Mr. LEE Min-Zun (Resigned on 27 August 2012)

Non-executive Directors

Mr. TSENG Ming-Sung

Mr. WEI Ke (Appointed on 27 August 2012)

Independent Non-executive Directors

Mr. LO Wah Wai

Mr. LEE Kwan Hung

Mr. 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. Wei Ke will retire and being eligible, has offered himself for re-election at the AGM. In accordance with article 84(1) of the Articles of Association, Mr. Lee Rie-Ho, Mr. Lee Kuo-Lin and Mr. Lo Wah Wai will retire by rotation and being eligible, have offered themselves for re-election at the AGM.

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 AGM 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 36 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 "Non-competition Deed") was entered into by and among other parties and the controlling shareholders, including the Directors namely Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Shih- Wei (collectively, the "Covenators") in favour of the Company. The Company has received an annual written confirmation from each of the Covenantors in respect of the compliance by them and their associates with the Non-competition Deed.

The independent non-executive Directors have reviewed the Non-competition 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 2012.

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 ("Share Option Scheme") whereby the Board can grant options for the subscription of the Company's shares ("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 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 options 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 HK$1.00 at the time the options 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.

In January 2012, the Company has granted share options to subscribe 8,353,000 Shares in conformity with the Share Option Scheme to some of the Directors, some employees and independent third party distributors of the Group. 15,000 share options were lapsed due to the resignment of the employees, none of the share options were exercised by the grantees or cancelled by the Company as at 31 December 2012. The options granted in January 2012 will be exercisable during a 10 year option period commencing from the date of grant subject to a vesting schedule and conditional upon fulfilment of certain prescribed performance targets during the financial years ending 31 December 2012, 2013 and 2014. At the end of the relevant annual performance period, the Board or its remuneration committee will determine the extent of achievement of the performance targets set out for that period and the number of Shares comprised in the vested options which are exercisable. The Board or its remuneration committee will have the rights and discretion to waive any performance target requirement in respect of any of the options granted. The followings are details of the options granted pursuant to the Share Option Scheme but not yet exercised:

Grantee	Position of the grantee	Date of grant of options	Number of options granted	Exercise price per Share HK$	Closing price immediately before grant of options HK$	Number of options as at 1 January 2012	Number of options exercised/ cancelled/ lapsed during the year	Number of options as at 31 December 2012	Approximate Percentage of shareholding upon the exercise of the options
Lee Rie-Ho	Executive Director and substantial shareholder	12 January 2012	708,000	5.60	5.60	–	–	708,000	0.06%
Lee Chia Ling	Executive Director and substantial shareholder	6 January 2012	354,000	5.41	5.37	–	–	354,000	0.03%
Lee Shih-Wei	Executive Director	6 January 2012	354,000	5.41	5.37	–	–	354,000	0.03%
Lee Kuo-Lin	Executive Director	6 January 2012	354,000	5.41	5.37	–	–	354,000	0.03%
Tseng Ming-Sung	Non-executive Director	12 January 2012	354,000	5.60	5.60	–	–	354,000	0.03%
Lo Wah Wai	Independent non-executive Director	6 January 2012	354,000	5.41	5.37	–	–	354,000	0.03%
Lee Kwan Hung	Independent non-executive Director	6 January 2012	354,000	5.41	5.37	–	–	354,000	0.03%
Fan Ren Da, Anthony	Independent non-executive Director	6 January 2012	354,000	5.41	5.37	–	–	354,000	0.03%
Employees	–	6 January 2012	4,611,000	5.41	5.37	–	(15,000)	4,596,000	
(Including former Director)		12 January 2012	245,000	5.60	5.60	–	–	245,000	
			4,856,000			–	(15,000)	4,841,000	0.39%
Independent third party distributors	–	6 January 2012	311,000	5.41	5.37	–	–	311,000	0.03%
Total			8,353,000			–	(15,000)	8,338,000	0.68%

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 2012, the interests or short positions of the Directors or chief executives of the Company in 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[4]	Approximate Percentage of Shareholding
Mr. Lee Rie-Ho[1]	Interest in a controlled Corporation	188,760,000 (L)	15.38%
	Personal Interest/individual	708,000 (L)	0.06%
Mr. Lee Shih-Wei[2]	Personal Interest/individual	5,073,000 (L)	0.41%
Mr. Lee Chia Ling[3]	Settlor of The KCL Trust	377,520,000 (L)	30.76%
	Personal Interest/individual	354,000 (L)	0.03%
Mr. Lee Kuo-Lin[2]	Personal Interest/individual	354,000 (L)	0.03%
Mr. Tseng Ming-Sung[2]	Personal Interest/individual	5,073,000 (L)	0.41%
Mr. Lo Wah Wai[2]	Personal Interest/individual	354,000 (L)	0.03%
Mr. Lee Kwan Hung[2]	Personal Interest/individual	354,000 (L)	0.03%
Mr. Fan Ren Da, Anthony[2]	Personal Interest/individual	354,000 (L)	0.03%

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. 708,000 share options were granted to Mr. Lee Rie-Ho with the exercise price per share of HK$5.60 on 12 January 2012.

(2) 354,000 share options were granted to each of Mr. Lee Shih-Wei, Mr. Lee Kuo-Lin, Mr. Lo Wah Wai, Mr. Lee Kwan Hung and Mr. Fan Ren Da, Anthony with the exercise price per share of HK$5.41 on 6 January 2012. 354,000 share options were granted to Mr. Tseng Ming-Sung with the exercise price per share of HK$5.60 on 12 January 2012.

(3) 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. 354,000 share options were granted to Mr. Lee Chia Ling with the exercise price per share of HK$5.41 on 6 January 2012.

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

(ii) Interest in associated corporations

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

Substantial shareholders' interests and short positions

As at the date 31 December 2012, 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[5]	Percentage of Shareholding (%)
Discerning Group Limited[1]	Beneficial interest	188,760,000 (L)	15.38
Ms. Lee Tsai Li-Li[1]	Interest in spouse	189,468,000 (L)	15.44
Credit Suisse Trustee Limited[2] [3]	Trustee	377,520,000 (L)	30.76
Trackson Investments Limited[2]	Registered owner	377,520,000 (L)	30.76
Tiger Nature Holdings Limited[2]	Interest in a controlled Corporation	377,520,000 (L)	30.76
The KCL Trust[2]	Interest in a controlled Corporation	377,520,000 (L)	30.76
Mr. Lee John L[2]	Beneficiary of The KCL Trust	377,520,000 (L)	30.76
Ms. Zhou Nan Nan[2]	Interest in spouse	377,874,000 (L)	30.79
General Atlantic Singapore Fund Pte. Ltd.[4]	Registered owner	99,495,830 (L)	8.11
General Atlantic Singapore Fund Interholdco Ltd.[4]	Interest in a controlled Corporation	99,495,830 (L)	8.11
General Atlantic Partners (Bermuda) II, L.P.[4]	Interest in a controlled Corporation	99,495,830 (L)	8.11
General Atlantic GenPar (Bermuda), L.P.[4]	Interest in a controlled Corporation	99,495,830 (L)	8.11
GAP (Bermuda) Limited[4]	Interest in a controlled Corporation	99,495,830 (L)	8.11

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. 708,000 share options were granted to Mr. Lee Rie-Ho with the exercise price per share of HK$5.60 on 12 January 2012.

(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. 354,000 share options were granted to Mr. Lee Chia Ling with the exercise price per share of HK$5.41 on 6 January 2012.

(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. The number of Shares and the approximate percentage of shareholding of General Atlantic Singapore Fund Pte. Ltd., GA Interholdco, GAP LP, GA GenPar and GAP (Bermuda) Limited were referred to the disclosure of interest on the website of the Stock Exchange.

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

Subsidiaries

Details of the major subsidiaries of the Company as of 31 December 2012 are set out in Note 32 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 (the "Listing") on 26 September 2011 (the "Listing Date"), 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:

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 2012 to 9 September 2015 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.)	Lee Min-Zun (the Director resigned on 27 August 2012 and cousin of Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, the Directors)	Term: Three years from 1 September 2012 to 31 August 2015 Rental: Monthly: 40,000/month	Store premises with a gross floor area of approximately 87.9 square meters
3.	Henan[1]	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.	Fujian[1]	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: Three years from 1 December 2011 to 30 November 2014 Rental: Monthly: 50,000/month	Store premises with a gross floor area of approximately 647.18 square meters
5.	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 resigned on 27 August 2012 and cousin of Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, the Directors)	Term: Three years from 1 January 2013 to 31 December 2015 Rental: 30,000/month	Store premises with a gross floor area of approximately 376.3 square meters

No.	Location	Member of the Group as tenant	Connected Party as landlord	Term and Rental (RMB)	Type of Premises
6.	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
7.	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: Three years from 1 November 2011 to 31 October 2014 Rental: 17,500/month	Store premises with a gross floor area of approximately 158.9 square meters
8.	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
9.	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 2012 to 31 August 2014 Rental: 8,200/month	Store premises with a gross floor area of approximately 143.6 square meters
10.	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: Five years from 1 August 2012 to 30 July 2017 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 9; items 2 and 5 and items 3 and 4 are with the same landlord, their respective applicable ratios have been aggregated.

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/payable by the Group in respect of the lease agreements between the Group and Mr. Lee Chia Ling were RMB1,305,000.

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 Co., Ltd.)	Mr. Liu Chang-An and Mr. Lee Chia Ling	Term: Two years from 18 September 2012 to 17 September 2014 Rental: 30,000/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: Two years from 24 September 2012 to 23 September 2014 Rental: 40,000/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 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.

On 11 December 2012, the Company and Lu Yu entered into the Supplemental Agreement to increase the annual caps for the purchase of tea ware from Lu Yu for the two years ending 31 December 2012 and 2013 from RMB22,000,000 and RMB24,000,000 to RMB26,000,000 and RMB33,800,000, respectively.

During the year, the amounts that the Group paid/payable to Lu Yu for the purchase of tea ware were approximately RMB24,299,000.

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 paid/payable by the Group in respect of the Master Processing Agreement was RMB2,998,000.

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 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.

On 22 March 2012, the Company and the Samoa Company have entered into the Supplemental Agreement to increase the annual caps of the purchase of tea leaves from the Samoa Group for the years ending 31 December 2012 and 2013 from RMB108,100,000 and RMB124,300,000 to RMB210,000,000 and RMB273,000,000, respectively.

During the year, the amounts that the Group paid/payable to Samoa Group for the purchase of tea leaves were RMB96,415,000.

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.

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 all material respects, in accordance with the pricing policy of the Group;
3. have been entered into in all material respects, under the terms of the related agreements governing the transactions; and
4. have not exceeded the relevant annual caps disclosed in the Prospectus (of which some caps have been revised as disclosed in the Company's announcements dated 22 March 2012, 27 April 2012 and 11 December 2012).

Employee and remuneration policies

As of 31 December 2012 the Group had an aggregate of 5,939 full-time employees. 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 RMB933.3 million. As at 31 December 2012, the Company has used RMB193.7 million (or 20.7%) from such proceeds to optimize and expand self-owned retail outlets network, RMB164.3 million (or 17.5%) to acquire store premises for the operation of self-owned retail outlets, RMB93.8 million (or 10.0%) to finance its working capital, RMB69.4 million (or 7.4%) to maintain and promote its brands and enhance consumer awareness of its brands in the PRC through effective targeted marketing and promotional activities, and RMB41.4 million (or 4.4%) to expand its production capacity through the construction of additional production facilities, primarily for its tea leaves packaging and tea snacks production and packaging facilities. The Company plans to use the remaining net proceeds as stated in the section headed "Future Plans and Use of Proceeds" of the Prospectus dated 14 September 2011.

The table below sets out the Company's planned use of the net proceeds at the time of Listing and its use of such net proceeds as of 31 December 2012:

	Planned use of net proceeds at listing	Net proceeds used as of 31 December 2012
Expand network of self-owned retail outlets	40.0%	20.7%
Acquire store premises for self-owned retail outlets	25.0%	17.5%
Working capital and other general corporate purposes	10.0%	10.0%
Maintain and promote brands	15.0%	7.4%
Expand production capacity	10.0%	4.4%
Total	100.0%	60.0%

Corporate governance

Please refer to the Corporate Governance Report in this annual report of the Company for the year ended 31 December 2012.

Purchase, sale and redemption of Shares

There was no purchase, sale and redemption of any listed securities of the Company by the Company or any of its subsidiaries for the year ended 31 December 2012.

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

There is no significant subsequent event after the reporting period.

Five year financial summary

The summary of the results, assets and liabilities of the Group in the past five 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 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 year ended 31 December 2012.

Auditor

The Company appointed PricewaterhouseCoopers as the auditor of the Company for the year ended 31 December 2012. 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, 18 March 2013

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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 48 to 112, which comprise the consolidated and company balance sheets as at 31 December 2012, 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 the 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 the 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 the 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.

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羅兵咸永道

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 2012, 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, 18 March 2013

Consolidated Balance Sheet

As at 31 December 2012

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Leasehold land and land use rights	6	**90,065**	19,119
Investment properties	7	**4,743**	5,030
Property, plant and equipment	8	**494,243**	383,544
Intangible assets	9	**1,780**	2,670
Investment in a jointly controlled entity	10	**4,341**	4,061
Deferred income tax assets	21	**37,756**	42,008
Prepayments – non-current portion	11(a)	**95,897**	31,134
		728,825	487,566
Current assets			
Inventories	12	**431,437**	380,026
Trade and other receivables	11(a),36(c)	**212,244**	314,731
Prepayments	11(a),36(c)	**86,123**	103,605
Restricted cash	13	**27,500**	16,470
Time deposits	13	**89,400**	55,600
Cash and cash equivalents	13	**558,841**	1,119,929
		1,405,545	1,990,361
Total assets		**2,134,370**	2,477,927

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	14	**100,816**	100,816
Share premium	14	**678,625**	1,036,145
Other reserves	16	**406,784**	375,897
Retained earnings	15(a)	**642,353**	377,624
Total equity		**1,828,578**	1,890,482
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	21	**11,963**	14,497
Current liabilities			
Trade and other payables	18(a),36(c)	**161,965**	213,034
Dividends payable		**1,642**	–
Current income tax liabilities		**22,445**	35,143
Borrowings	19	**104,283**	324,771
Other liabilities	20	**3,494**	–
		293,829	572,948
Total liabilities		**305,792**	587,445
Total equity and liabilities		**2,134,370**	2,477,927
Net current assets		**1,111,716**	1,417,413
Total assets less current liabilities		**1,840,541**	1,904,979

The notes on pages 54 to 112 are an integral part of these consolidated financial statements.

LEE Chia Ling
Director

LEE Shih-Wei
Director

Balance Sheet of the Company

As at 31 December 2012

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	32	**861,184**	860,388
Current assets			
Trade and other receivables	11(b)	**2,766**	2,766
Cash and cash equivalents		**69,245**	275,077
		72,011	277,843
Total assets		**933,195**	1,138,231
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	14	**100,816**	100,816
Share premium	14	**678,625**	1,036,145
Other reserves	16	**1,019**	–
Retained earnings/(accumulated losses)	15(b)	**1,604**	(10,535)
Total equity		**782,064**	1,126,426
LIABILITIES			
Other payables	18(b)	**149,489**	11,805
Dividends payable		**1,642**	–
Total liabilities		**151,131**	11,805
Total equity and liabilities		**933,195**	1,138,231
Net current (liabilities)/assets		**(79,120)**	266,038
Total assets less current liabilities		**782,064**	1,126,426

The notes on pages 54 to 112 are an integral part of these consolidated financial statements.

LEE Chia Ling
Director

LEE Shih-Wei
Director

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Revenue	22	**1,706,598**	1,753,317
Cost of sales	25	**(611,894)**	(673,759)
Gross profit		**1,094,704**	1,079,558
Distribution costs	25	**(491,467)**	(480,189)
Administrative expenses	25	**(204,697)**	(176,506)
Other income	24	**12,848**	7,416
Other losses – net	23	**(3,841)**	(3,622)
Operating profit		**407,547**	426,657
Finance income	28	**6,739**	1,532
Finance costs	28	**(8,558)**	(20,830)
Finance costs – net	28	**(1,819)**	(19,298)
Share of profit of a jointly controlled entity	10	**1,407**	1,347
Profit before income tax		**407,135**	408,706
Income tax expense	29	**(112,538)**	(115,196)
Profit for the year, all attributable to the owners of the Company		**294,597**	293,510
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year, all attributable to the owners of the Company	15	**294,597**	293,510
Earnings per share for profit attributable to the owners of the Company			
– Basic earnings per share	30	**RMB 0.24**	RMB 0.27
– Diluted earnings per share	30	**RMB 0.24**	RMB 0.27

The notes on pages 54 to 112 are an integral part of these consolidated financial statements.

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Dividends	31	**218,372**	278,056

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to the owners of the Company				
	Par value of ordinary shares	**Share premium**	**Other reserves**	**Retained earnings**	**Total equity**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2012	**100,816**	**1,036,145**	**375,897**	**377,624**	**1,890,482**
Comprehensive income					
Profit/Total comprehensive income for the year	**–**	**–**	**–**	**294,597**	**294,597**
Transactions with owners					
Profit appropriation to statutory reserves (Note 16)	**–**	**–**	**29,868**	**(29,868)**	**–**
Share option scheme					
– value of services from directors, employees and independent third party distributors (Note 16)	**–**	**–**	**1,019**	**–**	**1,019**
Dividends (Note 31)	**–**	**(357,520)**	**–**	**–**	**(357,520)**
Total transactions with owners	**–**	**(357,520)**	**30,887**	**(29,868)**	**(356,501)**
Balance at 31 December 2012	**100,816**	**678,625**	**406,784**	**642,353**	**1,828,578**
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)	74,897	(74,897)	–	–	–
Issuance of ordinary shares (Note 14)	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 54 to 112 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2012

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
Cash generated from operations	33(a)	**498,118**	459,745
Interest paid	28	**(8,177)**	(20,830)
Income tax paid		**(123,518)**	(122,574)
Net cash inflow from operating activities		**366,423**	316,341
Cash flows from investing activities			
Acquisition of businesses, net of cash acquired	35	**–**	(9,236)
Purchase of land use rights	6	**(73,107)**	(181)
Purchase of property, plant and equipment	8	**(239,359)**	(196,175)
Purchase of intangible assets	9	**–**	(504)
Investments in time deposits with maturity more than 3 months	13	**(33,800)**	(55,600)
Proceeds from disposal of property, plant and equipment	33(b)	**1,690**	2,697
Interest received	28	**6,739**	1,532
Dividends received from a jointly controlled entity	10	**1,127**	1,034
Decrease/(increase) in amounts due from related parties	36(c)	**448**	(448)
Net cash outflow from investing activities		**(336,262)**	(256,881)
Cash flows from financing activities			
Capital contribution from the financial investors		**–**	2,292
Proceeds from issuance of ordinary shares	14	**–**	1,022,655
Payments of share issuance costs	14	**(2,370)**	(87,004)
Proceeds from borrowings		**124,283**	347,312
Repayments of borrowings		**(344,771)**	(422,255)
Dividends paid to the owners of the Company	31	**(355,878)**	(157,749)
Changes in restricted cash pledged for borrowings	13	**(11,030)**	(13,010)
Decrease in amounts due to related parties	36(c)	**(1,087)**	(81,867)
Net cash (outflow)/inflow from financing activities		**(590,853)**	610,374
Net (decrease)/increase in cash and cash equivalents		**(560,692)**	669,834
Effect of foreign exchange rate changes		**(396)**	(590)
Cash and cash equivalents at beginning of the year		**1,119,929**	450,685
Cash and cash equivalents at end of the year	13	**558,841**	1,119,929

The notes on pages 54 to 112 are an integral part of these consolidated financial statements.

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 48 to 112 have been approved for issue by the board of directors (the "Board") of the Company on 18 March 2013.

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 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 ("HKFRSs"). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs 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.

Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group in 2012

There are no new standards and amendments to standards which are mandatory for the first time for the financial year beginning on 1 January 2012 which had a material impact on the Group's financial statements.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

Changes in accounting policies and disclosures *(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 2012 and have not been early adopted by the Group

- Amendment has been made to HKAS 1 'Presentation of Financial Statements' regarding other comprehensive income. The main change resulting from the amendment is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment does not address which items are presented in OCI. The amendment to HKAS 1 is effective for annual periods beginning on or after 1 July 2012.

- 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.

- 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. There will be no impact on the Group's consolidated financial statements as the new principle of control does not change the classification of the subsidiaries which are consolidated in the Group's consolidated financial statements.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

Changes in accounting policies and disclosures *(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 2012 and have not been early adopted by the Group *(continued)*

- HKFRS 11 'Joint Arrangements' changes the definitions to reduce the types of joint arrangements to two, joint operations and joint ventures. The jointly controlled assets classification in HKAS 31 'Interests in Joint Ventures' has been merged into joint operations, as both types of arrangements generally result in the same accounting outcome. 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 annual periods beginning on or after 1 January 2013.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

Changes in accounting policies and disclosures *(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 2012 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 HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. HKFRS 13 is effective for annual periods beginning on or after 1 January 2013.

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

The Group applies merger accounting to account for business combinations (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.

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

(a) Subsidiaries *(continued)*

(ii) Non-common control business combinations

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 to the former owners of the acquiree 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 recognized amounts of acquiree's identifiable 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 previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If those amounts are less than the fair value of the identifiable 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 recognized 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.

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 gains/(losses) – 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.

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 gains/(losses) – 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 34 to 50 years using the straight-line method.

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.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.10 Financial assets

2.10.1 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.

2 Summary of significant accounting policies *(continued)*

2.10 Financial assets *(continued)*

2.10.1 Classification *(continued)*

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).

2.10.2 Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realise the assets and settle the liabilities simultaneously.

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.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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 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.

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.

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.

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. Time deposits with maturity more than three months and restricted cash are 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 recognized 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.

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 Share-based payments

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

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

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

2 Summary of significant accounting policies *(continued)*

2.21 Share-based payments *(continued)*

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

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

2.22 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.

2.23 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 Summary of significant accounting policies *(continued)*

2.24 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.

(c) Sales from hotel accommodation and restaurant

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

2 Summary of significant accounting policies *(continued)*

2.24 Revenue recognition *(continued)*

(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.

2.25 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 2.24(d) for the recognition of rental income.

2.26 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.

2.27 Customer loyalty programmes

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

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 Japanese Yen ("JPY") 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 and financial liabilities to foreign exchange risk based on the assumption that USD, JPY and HKD (pegged with USD) had strengthened/weakened by 5% against RMB with all other variables held constant:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Profit before income tax increase/(decrease)		
– Strengthened 5%	**1,043**	11,826
– Weakened 5%	**(1,043)**	(11,826)

(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 19 respectively.

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(ii) Cash flow and fair value interest rate risk *(continued)*

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	
	2012	2011
	RMB'000	RMB'000
Post-tax profit increase/(decrease)		
– 10% higher	**(613)**	(2,194)
– 10% lower	**613**	2,194

(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. 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.

(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.

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk *(continued)*

As at 31 December 2012	**Less than 1 year RMB'000**	**Between 1 and 2 years RMB'000**	**Between 2 and 5 years RMB'000**	**Total RMB'000**
Borrowings	**104,283**	**–**	**–**	**104,283**
Interest payments on borrowings (note)	**2,406**	**–**	**–**	**2,406**
Trade and other payables	**100,946**	**–**	**–**	**100,946**
	207,635	**–**	**–**	**207,635**

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	324,771	–	–	324,771
Interest payments on borrowings (note)	9,524	–	–	9,524
Trade and other payables	131,842	–	–	131,842
	466,137	–	–	466,137

Note: The interest payments on borrowings are calculated based on borrowings held as at 31 December 2012 and 2011 which bear fixed rate interest without taking into account future borrowings.

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 refers to the total borrowings (current and non-current) as shown in the consolidated balance sheet. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus total debt.

During 2012, the Group's strategy is to maintain the gearing ratio below 50% (2011: below 50%). The gearing ratios at 31 December 2012 and 2011 were as follows:

	As at 31 December	
	2012	2011
Total debt – Total borrowings (RMB'000) (Note 19)	**104,283**	324,771
Total equity (RMB'000)	**1,828,578**	1,890,482
Total capital (RMB'000)	**1,932,861**	2,215,253
Gearing ratio	**5%**	15%

The decrease in the gearing ratio as at 31 December 2012 is a result of repayment of borrowings during the year.

3 Financial risk management *(continued)*

3.3 Fair value estimation

The carrying amount of the Group's financial assets (including trade and other receivables, cash and cash equivalents, restricted cash and time deposits) 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.

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 for 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 the carrying value of trade and other receivables and the impairment charge in the period in which such estimate is 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 period 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 difference will impact the recognition of deferred income tax assets and taxation in the period in which such estimate is changed.

(c) Share-based payments with specific performance conditions

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

5 Segment information

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

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

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

Other services include revenue from restaurant, hotel and management 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 2012, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

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

Segment assets consist primarily of leasehold land and land use rights, property, plant and equipment, intangible assets, inventories, trade and other receivables, prepayments, as well as cash and cash equivalents and restricted cash held by subsidiaries in mainland China. They exclude investment properties, deferred income tax assets and prepaid tax, as well as time deposits held by subsidiaries in mainland China, and 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, dividends payable and other payables due to related parties and directors' and senior management's emoluments payable.

5 Segment information *(continued)*

Revenue

Turnover of the Group consists of the following revenues for the years ended 31 December 2012 and 2011.

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Tea leaves	**1,108,889**	1,233,912
Tea snacks	**239,691**	263,570
Tea ware	**326,466**	221,066
Others	**31,552**	34,769
	1,706,598	1,753,317

The segment results for the year ended 31 December 2012:

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

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

	Tea leaves RMB'000	Tea snacks RMB'000	Tea ware RMB'000	All other segments RMB'000	Unallocated RMB'000	Total RMB'000
Depreciation of property, plant and equipment	**32,654**	**9,814**	**6,624**	**2,183**	**10,648**	**61,923**
Depreciation of investment properties	**–**	**–**	**–**	**–**	**287**	**287**
Amortization of leasehold land and land use rights	**1,350**	**340**	**404**	**67**	**–**	**2,161**
Losses/(gains) on disposal of property, plant and equipment, net	**643**	**117**	**147**	**(9)**	**–**	**898**

5 Segment information *(continued)*

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

	Tea leaves RMB'000	Tea snacks RMB'000	Tea ware RMB'000	All other segments RMB'000	Unallocated RMB'000	Total RMB'000
Segment assets	**1,126,059**	**236,838**	**275,675**	**29,797**	**466,001**	**2,134,370**
Segment liabilities	**89,096**	**15,175**	**27,638**	**900**	**172,983**	**305,792**

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 income					7,416
Other losses – net					(3,622)
Finance costs – net					(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

5 Segment information *(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
Segment assets	892,407	228,951	158,126	44,861	1,153,582	2,477,927
Segment liabilities	131,655	29,427	26,310	1,605	398,448	587,445

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 34 to 50 years.

Movements in land use rights are as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
At beginning of year		
Cost	**21,908**	21,727
Accumulated amortisation	**(2,789)**	(2,350)
Net book amount	**19,119**	19,377
Opening net book amount	**19,119**	19,377
Additions	**73,107**	181
Amortisation for the year (Note 25)	**(2,161)**	(439)
Closing net book amount	**90,065**	19,119
At end of year		
Cost	**95,015**	21,908
Accumulated amortisation	**(4,950)**	(2,789)
Net book amount	**90,065**	19,119

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Cost of sales	**555**	303
Distribution costs	**1,606**	136
	2,161	439

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

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Cost of land use rights	**–**	17,175
Net book value of land use rights	**–**	15,334
Pledged bank borrowings (Note 19)	**–**	100,000

7 Investment properties

	Investment properties RMB'000
At 1 January 2012	
Cost	**6,704**
Accumulated depreciation	**(1,674)**
Net book amount	**5,030**
Year ended 31 December 2012	
Opening net book amount	**5,030**
Depreciation (Note 25)	**(287)**
Closing net book amount	**4,743**
At 31 December 2012	
Cost	**6,704**
Accumulated depreciation	**(1,961)**
Net book amount	**4,743**
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 25)	(283)
Closing net book amount	5,030
At 31 December 2011	
Cost	6,704
Accumulated depreciation	(1,674)
Net book amount	5,030

Depreciation expenses of RMB287,000 have been charged in 'administrative expenses' for the year ended 31 December 2012 (2011: RMB283,000).

The fair value of the investment properties is RMB6,350,000 as at 31 December 2012 (31 December 2011: RMB6,020,000), with carrying amount of RMB4,743,000 (31 December 2011: RMB5,030,300). The fair value represents open market value determined at each balance sheet date by an external valuer.

8 Property, plant and equipment

	Buildings RMB'000	Machinery RMB'000	Vehicles RMB'000	Furniture, fittings and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2012						
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
Year ended 31 December 2012						
Opening net book amount	295,715	32,032	14,438	35,792	5,567	383,544
Additions	62,261	5,412	4,507	30,975	72,055	175,210
Transfers	6,536	–	–	306	(6,842)	–
Disposals (Note 33(b))	–	(67)	(903)	(1,618)	–	(2,588)
Depreciation (Note 25)	(32,077)	(6,325)	(4,906)	(18,615)	–	(61,923)
Closing net book amount	332,435	31,052	13,136	46,840	70,780	494,243
At 31 December 2012						
Cost	454,516	67,921	24,282	97,868	70,780	715,367
Accumulated depreciation	(122,081)	(36,869)	(11,146)	(51,028)	–	(221,124)
Net book amount	332,435	31,052	13,136	46,840	70,780	494,243

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 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 35)	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 33(b))	(17,028)	(1,396)	(489)	(996)	(1,607)	–	(21,516)
Depreciation (Note 25)	(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

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

	Year ended 31 December	
	2012 RMB'000	2011 RMB'000
Cost of sales	**7,839**	7,779
Administrative expenses	**21,933**	17,480
Distribution costs	**32,151**	25,716
	61,923	50,975

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

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Cost of property, plant and equipment	**–**	47,663
Net book value of property, plant and equipment	**–**	31,381
Pledged bank borrowings (Note 19)	**–**	100,000

As at the date of issuance of these consolidated financial statements, the certificate of certain property, plant and equipment with carrying amount of RMB21,478,893 (31 December 2011: RMB3,093,440) is under application process.

9 Intangible assets

	Software RMB'000	Trademark RMB'000	Total RMB'000
At 1 January 2012			
Cost	**4,237**	**433**	**4,670**
Accumulated amortisation	**(1,799)**	**(201)**	**(2,000)**
Net book amount	**2,438**	**232**	**2,670**
Year ended 31 December 2012			
Opening net book amount	**2,438**	**232**	**2,670**
Amortisation charge (Note 25)	**(851)**	**(39)**	**(890)**
Closing net book amount	**1,587**	**193**	**1,780**
At 31 December 2012			
Cost	**4,237**	**433**	**4,670**
Accumulated amortisation	**(2,650)**	**(240)**	**(2,890)**
Net book amount	**1,587**	**193**	**1,780**
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 25)	(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

Amortisation expenses of RMB890,000 have been charged in 'administrative expenses' for the year ended 31 December 2012 (2011: RMB744,000).

10 Investment in a jointly controlled entity

	Year ended 31 December 2012 RMB'000	2011 RMB'000
At beginning of year	**4,061**	3,748
Share of profit	**1,407**	1,347
Cash dividends declared	**(1,127)**	(1,034)
At end of year	**4,341**	4,061

The particulars of the jointly controlled entity of the Group at 31 December 2012 and 2011, 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 2012	2011	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:

As at and for the year ended	Assets RMB'000	Liabilities RMB'000	Revenue RMB'000	Profit RMB'000	% interest held
31 December 2012	**4,373**	**32**	**2,073**	**1,407**	**50%**
31 December 2011	4,134	73	2,053	1,347	50%

11 Trade and other receivables and prepayments

(a) Group

(i) Trade and other receivables

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Trade receivables due from third parties	**191,948**	285,626
Other receivables due from related parties (Note 36(c))	**–**	448
Others	**20,296**	28,657
	20,296	29,105
	212,244	314,731

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

As at 31 December 2012 and 2011, the ageing analysis of the trade receivables is as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Up to 140 days	**177,684**	259,966
141 days to 6 months	**9,437**	16,094
6 months to 1 year	**4,619**	9,504
1 year to 2 years	**208**	62
	191,948	285,626

As at 31 December 2012, trade receivables of RMB14,264,000 (31 December 2011: RMB25,660,000) 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	
	2012	2011
	RMB'000	RMB'000
Past due within 40 days	**9,437**	16,094
Past due over 40 days and within 220 days	**4,619**	9,504
Past due over 220 days	**208**	62
	14,264	25,660

As at 31 December 2012, no trade receivables was impaired and provided for (31 December 2011: nil).

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

(a) Group *(continued)*

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

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
RMB	**209,483**	313,987
USD	**2,761**	744
	212,244	314,731

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

(ii) *Prepayments*

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Non-current		
Prepayments for property, plant and equipment	**95,897**	31,134
Current		
Prepayments for lease of property and lease deposits	**60,852**	63,247
Prepayments to related parties (Note 36(c))	**–**	14,342
Prepayments to third parties	**18,543**	21,322
Prepaid taxes	**6,728**	4,694
	86,123	103,605
	182,020	134,739

(b) Company

(i) *Trade and other receivables*

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Current		
Dividends receivable from subsidiaries	**2,766**	2,766

12 Inventories

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Raw materials and packaging materials	**92,352**	95,476
Work in progress	**104,057**	76,219
Finished goods	**235,028**	208,331
	431,437	380,026

The cost of inventories recognized as expenses and included in 'cost of sales' amounted to RMB555,903,000 for the year ended 31 December 2012 (2011: RMB615,887,000) (Note 25).

The Group did not have any losses on obsolete inventories or write-down of inventories for the year ended 31 December 2012 (2011: nil).

13 Cash and cash equivalents, time deposits and restricted cash

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Cash at bank and on hand (a)	**675,741**	1,191,999
Less: Time deposits (b)	**(89,400)**	(55,600)
Restricted cash (c)	**(27,500)**	(16,470)
Cash and cash equivalents	**558,841**	1,119,929

(a) The weighted average effective interest rate on cash placed with banks and deposits was 0.32% per annum for the year ended 31 December 2012 and 0.20% per annum for the year ended 31 December 2011.

(b) As at 31 December 2012, the Group has time deposits of RMB89,400,000 (31 December 2011: RMB55,600,000) which will be matured in August 2013.

(c) As at 31 December 2012, the Group has fixed deposits of RMB27,500,000 (31 December 2011: RMB16,470,000) which are pledged as collateral for the Group's bank borrowings of RMB24,283,000 (31 December 2011: RMB61,444,000) (Note 19).

Cash and cash equivalents are denominated in the following currencies:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
RMB	**510,653**	913,926
USD	**26,937**	52,705
HKD	**19,840**	153,298
JPY	**1,411**	–
	558,841	1,119,929

All restricted cash and time deposits are denominated in RMB.

14 Share capital and premium – Group and Company

	Number of authorized shares (thousands)	Number of issued shares	Ordinary shares RMB	Share premium RMB	Total RMB
At 1 January 2012	**8,000,000**	**1,227,207,460**	**100,815,647**	**1,036,145,418**	**1,136,961,065**
Dividends (iii)				**(357,520,150)**	**(357,520,150)**
At 31 December 2012	**8,000,000**	**1,227,207,460**	**100,815,647**	**678,625,268**	**779,440,915**
Representing:					
Proposed final dividend (iii)				**138,908,000**	
Others				**539,717,000**	
At 31 December 2012				**678,625,268**	
At 1 January 2011	8,000,000	101,858,746	8,874,657	194,806,000	203,680,657
Capitalisation issue (i)	–	916,728,714	74,896,736	(74,896,736)	–
Issuance of ordinary shares (ii)	–	208,620,000	17,044,254	1,005,610,986	1,022,655,240
Share issuance costs (ii)	–	–	–	(89,374,832)	(89,374,832)
At 31 December 2011	8,000,000	1,227,207,460	100,815,647	1,036,145,418	1,136,961,065
Representing:					
Proposed dividends (iii)				282,258,000	
Others				753,887,418	
At 31 December 2011				1,036,145,418	

(i) 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).

(ii) 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 of RMB1,005,610,986 over the par value of RMB17,044,254 for the 208,620,000 ordinary share issued net of the transaction costs of RMB89,374,832 was credited to "share premium" with amount of RMB916,236,154.

(iii) 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 31.

15 Retained earnings/(accumulated losses)

(a) Retained earnings – Group

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
At 1 January	**377,624**	117,601
Profit for the year	**294,597**	293,510
Appropriation to statutory reserves (Note 16)	**(29,868)**	(33,487)
At 31 December	**642,353**	377,624

(b) Retained earnings/(accumulated losses) – Company

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
At 1 January	**(10,535)**	(1,492)
Profit/(loss) for the year	**12,139**	(9,043)
At 31 December	**1,604**	(10,535)

16 Other reserves

(a) Group

	Merger reserve (I)	Capital reserve (II)	Statutory reserves (III)	Share-based payment reserve	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	**278,811**	**231**	**96,855**	**–**	**375,897**
Appropriation to statutory reserves (Note 15)	**–**	**–**	**29,868**	**–**	**29,868**
Share option scheme – value of services from directors, employees and independent third party distributors (Note 17)	**–**	**–**	**–**	**1,019**	**1,019**
At 31 December 2012	**278,811**	**231**	**126,723**	**1,019**	**406,784**
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

16 Other reserves *(continued)*

(a) Group *(continued)*

(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 comprises exchange differences 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 of the company.

(b) Company

The other reserves of the Company as at 31 December 2012 comprise share-based payment reserve of RMB1,019,000 (31 December 2011: nil).

17 Share-based payments

On 17 December 2010, the Company adopted a share option scheme whereby the Board can grant options for the subscription of the Company's shares to the directors, employees, managerial staff and senior employees and those other persons that the Board considers that they will contribute or have contributed to the Group.

Share Option Scheme

Pursuant to the share option scheme of the Company in relation to the grant of options under the Share Option Scheme, the Company granted options to subscribe for an aggregate of 7,046,000 shares and 1,307,000 shares on 6 January 2012 and 12 January 2012 respectively to certain directors, employees and independent third party distributors. The options have a contractual option term of 10 years. The Group has no legal or constructive obligation to repurchase or settle the options in cash. These options vest in tranches over a period of up to 3 years.

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

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

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

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

17 Share-based payments *(continued)*

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

	Average exercise price in HKD per share	Options (thousands)
As at 1 January 2012	–	–
Granted on 6 January 2012	5.41	7,046
Granted on 12 January 2012	5.60	1,307
Forfeited (Note (a))	5.41	(15)
As at 31 December 2012	5.44	8,338

(a) Options were forfeited during the year ended 31 December 2012 due to employee resignation.

Share options outstanding at 31 December 2012 have the following expiry dates and exercise prices:

Expiry date	Exercise price in HKD per share	Number of options
5 January 2022	5.41	7,031
11 January 2022	5.60	1,307

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

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

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

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

18 Trade and other payables

(a) Group

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Trade payables – due to third parties	**69,509**	107,757
Trade payables – due to related parties (Note 36(c))	**12,609**	4,048
Other payables for property, plant and equipment	**3,426**	2,812
Other payables for share issuance costs	**–**	2,370
Other taxes payable	**14,886**	18,312
Employee benefit payables	**18,597**	31,336
Accrued operating expenses	**17,303**	20,255
Advances from customers	**10,233**	11,289
Amounts due to related parties (Note 36(c))	**2,147**	2,056
Others	**13,255**	12,799
	161,965	213,034

As at 31 December 2012 and 2011, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoice date is as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Up to 6 months	**78,596**	92,992
6 months to 1 year	**3,002**	13,741
1 year to 2 years	**507**	1,958
Over 2 years	**13**	3,114
	82,118	111,805

(b) Company

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Other payables for share issuance costs	**–**	2,370
Other payables to subsidiaries	**149,489**	9,435
	149,489	11,805

19 Borrowings

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Short-term bank borrowings		
– Unsecured bank borrowings	**80,000**	163,327
– Mortgaged bank borrowings (i)	**24,283**	161,444
	104,283	324,771

(i) As at 31 December 2012, bank borrowings of RMB24,283,000 are secured by bank deposits of RMB27,500,000 (Note 13).

As at 31 December 2011, 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 and bank borrowings of RMB61,444,000 are secured by bank deposits of RMB16,470,000 (Note 13).

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
RMB	**80,000**	296,090
HKD	**24,283**	–
USD	**–**	28,681
	104,283	324,771

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

	As at 31 December	
	2012	2011
Short-term bank borrowings	**5.33%**	5.44%

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

20 Other liabilities

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Deferred revenue: customer loyalty programme	**3,494**	–

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

21 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 are related to the same tax authority. The Group does not have deferred income tax assets and liabilities that are offset against each other and accordingly they are all stated at gross amounts. As at the balance sheet date, the analysis of deferred tax assets and deferred tax liabilities are as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Deferred tax assets		
– to be recovered after more than 12 months	**–**	264
– to be recovered within 12 months	**37,756**	41,744
	37,756	42,008
Deferred tax liabilities		
– to be settled after more than 12 months	**–**	–
– to be settled within 12 months	**11,963**	14,497
	11,963	14,497

21 Deferred income tax assets and deferred income tax liabilities *(continued)*

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

	Temporary differences in respect of accruals	Tax losses	Unrealised profit on inventories	Customer loyalty programme	Withholding tax on unremitted earnings of certain subsidiaries	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	**10,550**	**3,016**	**27,490**	**–**	**(14,497)**	**952**	**27,511**
Paid out	**–**	**–**	**–**	**–**	**6,282**	**–**	**6,282**
Credited/(charged) to the consolidated statement of comprehensive income (Note 29)	**(2,557)**	**(2,502)**	**889**	**870**	**(3,748)**	**(952)**	**(8,000)**
At 31 December 2012	**7,993**	**514**	**28,379**	**870**	**(11,963)**	**–**	**25,793**
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 29)	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

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 2012, the Group did not recognise deferred income tax assets of RMB5,069,000 (31 December 2011: nil) in respect of tax losses amounting to RMB20,274,000 (31 December 2011: nil) that can be carried forward to offset against future taxable income due to uncertainty of realisation. As at 31 December 2012, losses amounting to RMB963,000 (31 December 2011: nil), RMB10,850,000 (31 December 2011: nil) and RMB8,461,000 (31 December 2011: nil) will expire in 2015, 2016 and 2017 respectively.

As at 31 December 2012, the unrealised profit on inventories sold by the inter-companies within the Group amounted to RMB113,507,000 (31 December 2011: RMB109,960,000), and were eliminated in the Group's consolidated financial statements. Deferred tax assets were recognised for the unrealised profits.

As at 31 December 2012, deferred income tax liabilities of RMB35,138,000 (31 December 2011: RMB20,783,000) have not been recognized for the PRC withholding tax. The corresponding unremitted earnings amounted to RMB489,514,000 as at 31 December 2012 (31 December 2011: RMB268,988,000) which are intended to be reinvested.

22 Revenue

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Revenue from sale of tea leaves, tea snacks and tea ware	**1,675,046**	1,718,548
Revenue from hotel accommodation and restaurant businesses	**31,552**	34,769
	1,706,598	1,753,317

23 Other losses – net

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Losses on disposal of property, plant and equipment, net (Note 33(b))	**898**	1,197
Net foreign exchange loss	**2,943**	3,473
Gain from acquisition of a subsidiary (Note 35(a))	**–**	(1,048)
	3,841	3,622

24 Other income

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Government grants	**10,066**	4,155
Investment property rental income	**1,407**	1,347
Others	**1,375**	1,914
	12,848	7,416

25 Expenses by nature

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Cost of inventories (Note 12)	**555,903**	615,887
Employee benefit expenses – including directors' emoluments (Note 26)	**281,018**	271,877
Amortisation of land use rights (Note 6)	**2,161**	439
Depreciation of investment properties (Note 7)	**287**	283
Depreciation of property, plant and equipment (Note 8)	**61,923**	50,975
Amortisation of intangible assets (Note 9)	**890**	744
Concession fees	**57,184**	55,544
Transportation expenses	**31,751**	28,950
Utilities	**24,082**	20,004
Travelling expenses	**3,479**	3,578
Advertising costs	**6,163**	11,247
Operating lease expenses	**143,458**	122,970
Tax charges	**27,808**	24,084
Pre-operating expenses	**16,432**	27,590
Free trial expenses	**37,787**	35,984
Office expenses	**11,183**	13,527
Maintenance and repairing costs	**5,028**	4,242
Entertainment expenses	**4,236**	6,253
Auditor's remuneration for annual audit and interim review services	**4,750**	4,750
Other expenses	**32,535**	31,526
Total cost of sales, distribution costs and administrative expenses	**1,308,058**	1,330,454

26 Employee benefit expenses (including directors' emoluments)

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Wages and salaries	**249,096**	245,724
Social security costs	**25,406**	19,868
Share option expense (Note 17)	**824**	–
Other benefits	**5,692**	6,285
	281,018	271,877

27 Directors' and chief executive's emoluments

(a) Directors' and chief executive's emoluments

The remuneration of each director and the chief executive of the Company for the year ended 31 December 2012 is set out as follows:

Name	Fees	Salaries and social security costs	Share option expense	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Lee Rie-Ho	–	964	95	1,059
Mr. Lee Chia Ling (iii)	–	1,338	46	1,384
Mr. Lee Kuo-Lin	–	844	46	890
Mr. Lee Shih-Wei	–	650	46	696
Mr. Lee Min-Zun (i)	–	365	46	411
Mr. Tseng Ming-Sung	–	204	46	251
Mr. Wei Ke (i)	–	–	–	–
Mr. Lo Wah Wai (ii)	244	–	46	290
Mr. Lee Kwan Hung (ii)	244	–	46	290
Mr. Fan Ren Da, Anthony (ii)	244	–	46	290
	732	4,365	463	5,561

The remuneration of each director and the chief executive of the Company for the year ended 31 December 2011 is set out as follows:

Name	Fees	Salaries and social security costs	Share option expense	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Lee Rie-Ho	–	754	–	754
Mr. Lee Chia Ling (iii)	–	584	–	584
Mr. Lee Kuo-Lin	–	668	–	668
Mr. Lee Shih-Wei	–	220	–	220
Mr. Lee Min-Zun	–	200	–	200
Mr. Tseng Ming-Sung	–	45	–	45
Mr. Lo Wah Wai (ii)	64	–	–	64
Mr. Lee Kwan Hung (ii)	64	–	–	64
Mr. Fan Ren Da, Anthony (ii)	64	–	–	64
	192	2,471	–	2,663

27 Directors' and chief executive's emoluments *(continued)*

(a) Directors' and chief executive's emoluments *(continued)*

(i) Mr. Lee Min-Zun resigned as director of the Company on 27 August 2012 but remains as chief financial officer. Mr. Wei Ke was appointed on 27 August 2012.

(ii) Mr. Lo Wah Wai, Mr. Lee Kwan Hung and Mr. Fan Ren Da, Anthony were appointed as directors of the Company on 31 August 2011.

(iii) The chief executive of the Company is Mr. Lee Chia Ling, who is also one of the directors of the Company.

For the years ended 31 December 2012 and 2011, 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

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2012 include four (2011: five) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2011: nil) individual for the year ended 31 December 2012 are as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Salaries and social security costs	**600**	N/A
Share option expense	**–**	N/A
	600	N/A

For the years ended 31 December 2012 and 2011, 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.

28 Finance costs – net

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Finance costs		
– Interest expenses on bank borrowings	**8,177**	20,830
– Net foreign exchange loss	**381**	–
Total finance costs (Note 33)	**8,558**	20,830
Finance income		
– Interest income on short-term bank deposits (Note 33)	**(6,739)**	(1,532)
Net finance costs	**1,819**	19,298

29 Income tax expense

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Current income tax		
– Hong Kong profits tax	**62**	225
– PRC corporate income tax	**104,476**	118,476
Deferred income tax (Note 21)	**8,000**	(3,505)
Income tax expense	**112,538**	115,196

(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 2012, Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profit for the year.

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

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

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 of exemption from CIT followed by 3 years of 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 2012, the applicable income tax rate of Jiajiang Tenfu is 12.5% (2011: 12.5%).

29 Income tax expense *(continued)*

(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.

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	
	2012	2011
	RMB'000	RMB'000
Profit before income tax	**407,135**	408,706
Tax calculated at domestic tax rates applicable to profits in the respective jurisdiction	**124,908**	105,185
Tax effects of:		
Tax holiday	**(823)**	(540)
Expenses not deductible for tax purposes	**1,755**	2,724
Income not subject to tax	**(22,119)**	(345)
Tax losses for which no deferred income tax asset was recognised (Note 21)	**5,069**	–
Withholding tax on the expected distributable profits of the subsidiaries in mainland China (Note 21)	**3,748**	8,172
Tax charges	**112,538**	115,196

30 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares in issue during the year. In determining the weighted average number of ordinary shares in issue during the year ended 31 December 2011, 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(i)) have been regarded as if these shares were in issue since 1 January 2011.

	Year ended 31 December	
	2012	2011
Profit attributable to the owners of the Company (RMB'000)	**294,597**	293,510
Weighted average number of ordinary shares in issue	**1,227,207,460**	1,073,457,378
Basic earnings per share (RMB)	**0.24**	0.27

30 Earnings per share *(continued)*

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company's potentially dilutive ordinary shares comprise share options.

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

As at 31 December 2012, none of the performance conditions of the share options were met, and thus the potentially dilutive ordinary shares are not included in the calculation of diluted earnings per share. As a result, diluted earnings per share is the same as basic earnings per share.

31 Dividends

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Interim dividend	**79,464**	–
Proposed final dividend	**138,908**	158,889
Special dividend	**–**	119,167
	218,372	278,056

At a meeting held on 18 March 2013, the Board proposed a final dividend for 2012 of HKD171,809,000 (equivalent to RMB138,908,000), representing HKD14 cents (equivalent to RMB11 cents) per share using the share premium account.

The proposed final dividend for 2012 is to be approved by the shareholders at the forthcoming Annual General Meeting. The proposed dividend is not reflected as a dividend payable in these consolidated financial statements, but will be reflected as an appropriation of share premium for the year ending 31 December 2013.

The interim dividend for 2012 of HKD8 cents (equivalent to RMB6.5 cents) per share was declared by the Board on 27 August 2012 using the share premium account. This interim dividend, amounting to HKD98,177,000 (equivalent to RMB79,464,000), has been reflected as an appropriation of share premium for the year ended 31 December 2012.

The 2011 final dividend and special dividend of HKD16 cents (equivalent to RMB13 cents) per share and HKD12 cents (equivalent to RMB10 cents) per share respectively, totalling HKD196,353,000 (equivalent to RMB158,889,000) and HKD147,265,000 (equivalent to RMB119,167,000) respectively, were approved by the shareholders at the Annual General Meeting held on 27 April 2012.

The dividends paid in 2012 and 2011 were RMB355,878,000 and RMB157,749,000 respectively.

32 Investments in subsidiaries – Company

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Due from subsidiaries (i)	**852,154**	852,154
Unlisted equity investments, at cost	**9,030**	8,234
	861,184	860,388

(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, non-interest bearing and have no specific repayment terms. The Company's intention is that the amounts due from subsidiaries will only be recalled when the subsidiaries have surplus cash.

32 Investments in subsidiaries – Company *(continued)*

Particulars of the subsidiaries of the Group as at 31 December 2012 and 2011 are as follows:

Company name	Place/ Date of incorporation	Legal status	Registered capital	Issued and fully paid capital	Effective interest held as at 31 December 2012	2011	Principal activities
Subsidiaries – established in the mainland China							
Zhangzhou Tianfu Tea Industry Co., Ltd.	PRC, 24 December 1998	Foreign investment enterprise	USD 15,000,000	USD 15,000,000	**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.	PRC, 17 November 1999	Foreign investment enterprise	USD 12,000,000	USD 12,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware and provision of hotel, restaurant and related service
Minhou Tianyuan Tea Products Co., Ltd.	PRC, 23 October 1993	Foreign investment enterprise	USD 3,640,000	USD 3,640,000	**100%**	100%	Classification, packaging of tea leaves, manufacture of tea snacks, and sale of tea leaves, tea snacks and tea ware
Jiajiang Tenfu Tea Garden Co., Ltd.	PRC, 17 October 2002	Foreign investment enterprise	USD 10,000,000	USD 10,000,000	**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.	PRC, 10 February 2009	Foreign investment enterprise	USD 1,000,000	USD 1,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Guizhou Tenfu Tea Sales Co., Ltd.	PRC, 26 March 2009	Foreign investment enterprise	USD 1,000,000	USD 1,000,000	**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	USD 1,000,000	USD 1,000,000	**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	USD 1,000,000	USD 1,000,000	**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	USD 3,000,000	USD 3,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware

32 Investments in subsidiaries – Company *(continued)*

Particulars of the subsidiaries of the Group as at 31 December 2012 and 2011 are as follows *(continued)*:

Company name	Place/ Date of incorporation	Legal status	Registered capital	Issued and fully paid capital	Effective interest held as at 31 December 2012	2011	Principal activities
Subsidiaries – established in the mainland China *(continued)*							
Jiang Xi Tian Fu Tea Sales Co., Ltd.	PRC, 7 May 2009	Foreign investment enterprise	USD 2,000,000	USD 2,000,000	**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	USD 3,000,000	USD 3,000,000	**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	USD 3,000,000	USD 3,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Jilin Province Tian Fu Tea Sales Co., Ltd.	PRC, 12 June 2009	Foreign investment enterprise	USD 2,500,000	USD 2,500,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Nanjing Tian Fu Tea Sales Co., Ltd.	PRC, 22 June 2009	Foreign investment enterprise	USD 3,000,000	USD 3,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Guangxi Tenfu Tea Sales Co., Ltd.	PRC, 26 June 2009	Foreign investment enterprise	USD 1,000,000	USD 1,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Hebei Tenfu Tea Sales Co., Ltd.	PRC, 9 June 2009	Foreign investment enterprise	USD 1,000,000	USD 1,000,000	**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	USD 1,000,000	USD 1,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Hunan Tenfu Tea Sales Co., Ltd.	PRC, 26 August 2009	Foreign investment enterprise	USD 1,000,000	USD 1,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Fujian Tian Fu Sales Co., Ltd.	PRC, 4 July 2008	Foreign investment enterprise	USD 19,000,000	USD 19,000,000	**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	USD 1,000,000	USD 1,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Jinan Tenfu Tea Co., Ltd.	PRC, 8 June 1999	Foreign investment enterprise	USD 3,000,000	USD 3,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware

32 Investments in subsidiaries – Company *(continued)*

Particulars of the subsidiaries of the Group as at 31 December 2012 and 2011 are as follows *(continued)*:

Company name	Place/ Date of incorporation	Legal status	Registered capital	Issued and fully paid capital	Effective interest held as at 31 December 2012	2011	Principal activities
Subsidiaries – established in the mainland China *(continued)*							
Yantai Tenfu Tea Co., Ltd.	PRC, 27 August 1996	Foreign investment enterprise	USD 1,500,000	USD 1,500,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Tianjin Tenfu sales Co., Ltd.	PRC, 25 March 2009	Foreign investment enterprise	USD 4,000,000	USD 4,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Beijing Tenfu Tea Co., Ltd.	PRC, 25 January 2002	Foreign investment enterprise	USD 2,500,000	USD 2,500,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Suzhou Tenfu Tea Co., Ltd.	PRC, 9 August 2010	Foreign investment enterprise	USD 2,000,000	USD 2,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Wuxi Tenfu Tea Co., Ltd.	PRC, 18 October 2010	Foreign investment enterprise	USD 2,000,000	USD 2,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Hangzhou Tenfu Tea Co., Ltd.	PRC, 27 October 2010	Foreign investment enterprise	USD 500,000	USD 500,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Shanghai Tenfu Tea Co., Ltd.	PRC, 22 November 2010	Foreign investment enterprise	USD 3,000,000	USD 1,400,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Inner Mongolia Tenfu Tea Co., Ltd	PRC, 10 January 2011	Foreign investment enterprise	USD 500,000	USD 500,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Xiamen Apex Trading Co., Ltd. ("Xiamen Apex")	PRC, 29 May 2006	Foreign investment enterprise	USD 4,000,000	USD 4,000,000	**100%**	100%	Sale of tea leaves and tea snacks
Henan Tenfu Tea Co., Ltd.	PRC, 9 May 2012	Foreign investment enterprise	USD 2,000,000	USD 800,000	**100%**	N/A	Sale of tea leaves, tea snacks and tea ware
Gansu Tenfu Tea Co., Ltd.	PRC, 29 Oct 2012	Foreign investment enterprise	USD 500,000	USD 200,000	**100%**	N/A	Sale of tea leaves, tea snacks and tea ware

32 Investments in subsidiaries – Company *(continued)*

Particulars of the subsidiaries of the Group as at 31 December 2012 and 2011 are as follows *(continued)*:

Company name	Place/ Date of incorporation	Legal status	Registered capital	Issued and fully paid capital	Effective interest held as at 31 December 2012	2011	Principal activities
Subsidiaries – incorporated in the Hong Kong							
Ten Rui (Hong Kong) Sales Holdings Co., Ltd. ("Ten Rui HK")	Hong Kong, 7 March 2008	Investment enterprise	USD 1,000,000	USD 1,000,000	**100%**	100%	Investment holding
Tenfu (Hong Kong) Holdings Co., Ltd.	Hong Kong, 17 August 2009	Investment enterprise	USD 1,000	USD 1,000	**100%**	100%	Investment holding
Subsidiaries – incorporated in the British Virgin Islands (the "BVI")							
Ten Rui (BVI) Holdings Co., Ltd.	BVI, 19 August 2009	Investment enterprise	USD 1,000	USD 1,000	**100%**	100%	Investment holding
Tenfu Holdings Co., Ltd.	BVI, 2 July 2009	Investment enterprise	USD 1,000	USD 1,000	**100%**	100%	Investment holding

33 Cash generated from operations

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

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Profit before income tax	**407,135**	408,706
Adjustments for:		
– Share of profit of a jointly controlled entity (Note 10)	**(1,407)**	(1,347)
– Depreciation of property, plant and equipment (Note 8)	**61,923**	50,975
– Depreciation of investment properties (Note 7)	**287**	283
– Amortisation of land use rights (Note 6)	**2,161**	439
– Amortisation of intangible assets (Note 9)	**890**	744
– Losses on disposal of property, plant and equipment (Note 23)	**898**	1,197
– Finance income (Note 28)	**(6,739)**	(1,532)
– Finance costs (Note 28)	**8,558**	20,830
– Share option expense (Note 17)	**1,019**	–
– Gain from business combination based on acquisition method (Note 35)	**–**	(1,048)
Changes in working capital:		
– Inventories	**(51,411)**	(69,424)
– Trade and other receivables and prepayments	**119,521**	20,466
– Trade and other payables and other liabilities	**(44,717)**	29,456
Cash generated from operations	**498,118**	459,745

(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	
	2012	2011
	RMB'000	RMB'000
Net book amount		
– Property, plant and equipment (Note 8)	**2,588**	21,516
Losses on disposal of property, plant and equipment (Note 23)	**(898)**	(1,197)
Increase of trade and other receivables	**–**	(17,622)
Proceeds from disposal of property, plant and equipment	**1,690**	2,697

34 Commitments

(a) Equity investment commitments

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Investments in subsidiaries	**12,571**	55,763

Pursuant to the resolution of Ten Rui HK's board of directors meeting, dated 5 December 2012, and approved by Ministry of Commerce of the PRC through Hei Shang Jian Han (2012) No.873, Ten Rui HK is committed to establish a wholly-owned subsidiary, Heilongjiang Tenfu Tea Co., Ltd. in Harbin, Heilongjiang Province, with registered capital of USD2,000,000 (equivalent to RMB12,571,000). As at the issue date of these consolidated financial statements, the subsidiary has been established and the capital injection has been completed.

(b) Capital expenditure commitments

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Property, plant and equipment	**17,309**	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	
	2012	2011
	RMB'000	RMB'000
No later than 1 year	**102,619**	86,559
Later than 1 year and no later than 5 years	**143,949**	152,675
Later than 5 years	**12,122**	15,561
	258,690	254,795

35 Business combinations

(a) 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 benchmarked 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.

	Xiamen Apex
	RMB'000
Purchase consideration	16,343

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

	Fair value	**Acquiree's carrying amount**
	RMB'000	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 23)	(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

35 Business combinations *(continued)*

(b) Acquisition of other retail businesses

During the year ended 31 December 2012, the Group did not acquire any retail outlets.

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

The aggregated assets acquired as at the acquisition dates arising from the acquisitions of retail outlets in 2011 were as follows:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Property, plant and equipment (Note 8)	–	451
Inventories	–	483
	–	934

36 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 2012 and 2011, and balances arising from related party transactions as at 31 December 2012 and 2011.

(a) Name and relationship with related parties

Name	Relationship
Mr. Lee Rie-Ho	Original owner of the Group, key management
Mr. Lee Shih-Wei	Original owner of the Group, key management, nephew of Mr. Lee Rie-Ho
Mr. Lee Chia Ling	Original owner of the Group, key management, son of Mr. Lee Rie-Ho
Mr. Lee Kuo-Lin	Key management, son 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
Ming-Feng (Note 35(a))	Jointly controlled by key management of the Group
Tenfu Group (SAMOA) Holdings Co., Limited ("SAMOA")	Controlled by key management of the Group
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
Guangxi Guigang Tea Industry Co., Ltd. ("Guigang Tenfu")	Subsidiary of SAMOA

36 Related-party transactions *(continued)*

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

Name	Relationship
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
Fujian Petrol	Jointly controlled entity
Lu Yu Tea Artcraft Co., Ltd. ("Lu Yu")	Controlled by key management of the Group

(b) Transactions with related parties

(i) Sales of goods and services

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Anxi Tenfu	**–**	11,195
Uncle Lee's Tea	**–**	1,895
Kunming Tenfu	**–**	203
Huaan Tenfu	**–**	82
	–	13,375

(ii) Purchases of goods and services

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Xiamen Tenfu Tea Industry	**44,625**	40,010
Lu Yu	**24,299**	16,870
Huaan Tenfu	**18,562**	18,440
Kunming Tenfu	**10,213**	7,138
Guigang Tenfu	**8,778**	–
Zhejiang Tenfu	**8,159**	–
Anxi Tenfu	**6,078**	27,036
	120,714	109,494

36 Related-party transactions *(continued)*

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

(iii) Processing fee expenses

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Zhejiang Tenfu	**1,012**	–
Huaan Tenfu	**1,006**	1,595
Kunming Tenfu	**405**	–
Guigang Tenfu	**381**	–
Anxi Tenfu	**194**	958
	2,998	2,553

(iv) Rental expenses

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Mr. Lee Chia Ling	**1,305**	1,063
Xiamen Tenfu Industry	**1,250**	800
Mr. Lee Kuo-Lin	**865**	853
Mr. Lee Min-Zun	**840**	840
Ms. Zhou Nan-Nan	**348**	348
Ms. Chen Xiu-Duan	**277**	275
Mr. Lee Shih-Wei	**210**	175
	5,095	4,354

(v) Key management compensation

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Salaries, social security costs and other benefits	**6,038**	3,756
Share option expense	**487**	–
	6,525	3,756

(vi) Dividends received from a jointly controlled entity

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Fujian Petrol	**1,407**	1,347

36 Related-party transactions *(continued)*

(c) Balances with related parties

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

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Non-trade related		
– Mr. Lee Shih-Wei	**–**	381
– Tenyuan Singapore	**–**	67
	–	448

(ii) Prepayments to related parties (Note 11):

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Trade related		
– Anxi Tenfu	**–**	8,415
– Huaan Tenfu	**–**	5,927
	–	14,342

36 Related-party transactions *(continued)*

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

(iii) Due to related parties (Note 18):

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Trade related		
– Huaan Tenfu	**7,360**	–
– Xiamen Tenfu Tea Industry	**1,757**	1,700
– Kunming Tenfu	**1,228**	74
– Anxi Tenfu	**917**	–
– Zhejiang Tenfu	**827**	–
– Lu Yu	**520**	2,274
	12,609	4,048
Non-trade related		
– Xiamen Tenfu Industry	**1,036**	253
– Mr. Lee Kuo-Lin	**829**	–
– Mr. Lee Chia Ling	**282**	1,423
– Anxi Tenfu	**–**	380
	2,147	2,056
	14,756	6,104

The receivables from related parties for the year ended 31 December 2011 arise mainly from lendings. The receivables are unsecured and bear no interest. There are no provisions made against receivables from related parties.

The payables to related parties for the years ended 31 December 2012 and 2011 arise mainly from purchase transactions and borrowings. The payables bear no interest and are repayable on demand.