



**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**  
**2014**



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## Corporate Profile

Tenfu (Cayman) Holdings Company Limited (the “Company” or “we”, together with the subsidiaries, collectively the “Group”) 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.

Being ranked first among 2013 China’s Top 100 tea industry enterprises in terms of comprehensive strength, the “Tenfu” (天福) brand has one of the highest levels of brand awareness amongst tea product consumers in the PRC. With its high level of brand awareness and more than 20 years of presence in the market, the Group believes it is in a strong position to continue capturing such expected growth in the market for branded traditional Chinese tea leaves.

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 supermarkets in the PRC, and another separate line of products under Tenxi (天曦) brand which are primarily sold through electronic commerce.

As at 31 December 2014, our tea products were sold in 1,374 retail outlets and retail points across 31 provinces, autonomous regions and municipalities in the PRC, including stores with shop fronts at street level and in shopping malls and concession counters in department stores and supermarkets.

We have started sale of tea drink (including milk tea) since acquisition of Xiamen Tianqia Catering Management Co., Limited with the trademark of “放牛斑” and formation of a joint venture company, Xiamen Daily Plus Food Beverage Management Co., Ltd. with the trademark of “喫茶趣TO GO”.

## 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

2901 Building C  
Xinjing Commerce Center  
No. 25 Jiahe Road  
Xiamen  
the PRC  
Tel: +86-592-3389334  
Fax: +86-592-3389086  
Email: tenfu@tenfu.com

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room E, 22/F  
CNT Tower  
338 Hennessy 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

### WEBSITE

[www.tenfu.com](http://www.tenfu.com)

## Financial Highlights

- Revenue for the year ended 31 December 2014 increased by 1.6% from RMB1,661.6 million for 2013 to RMB1,688.6 million;
- Gross profit for the year ended 31 December 2014 increased by 3.2% from RMB1,017.2 million for 2013 to RMB1,049.9 million, with an increase in gross profit margin from 61.2% for 2013 to 62.2% for the year ended 31 December 2014;
- Profit for the year ended 31 December 2014 increased by 1.1% from RMB267.1 million for 2013 to RMB270.2 million, net profit margin of 16.0% for the year ended 31 December 2014 was approximately the same as net profit margin of 16.1% for 2013.
- Basic earnings per share for the year ended 31 December 2014 was RMB0.22; 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 |           |           |           |                  |
|--|--------------------------------|-----------|-----------|-----------|------------------|
|  | 2010                           | 2011      | 2012      | 2013      | 2014             |
|  | (RMB '000)                     |           |           |           |                  |
| Revenue  | 1,246,993                      | 1,753,317 | 1,706,598 | 1,661,577 | <b>1,688,589</b> |
| Gross profit   | 689,729                        | 1,079,558 | 1,094,704 | 1,017,189 | <b>1,049,869</b> |
| Gross profit margin (%)  | 55.3                           | 61.6      | 64.1      | 61.2      | <b>62.2</b>      |
| Profit before income tax   | 313,707                        | 408,706   | 407,135   | 369,035   | <b>378,362</b>   |
| Profit for the year, all attributable to the owners of the Company | 223,024                        | 293,510   | 294,597   | 267,133   | <b>270,198</b>   |
| Net profit margin (%)  | 17.9                           | 16.7      | 17.3      | 16.1      | <b>16.0</b>      |

### Assets and liabilities

|  | As at 31 December |           |           |           |                  |
|--|-------------------|-----------|-----------|-----------|------------------|
|  | 2010              | 2011      | 2012      | 2013      | 2014             |
|  | (RMB '000)        |           |           |           |                  |
| Total assets                           | 1,526,728         | 2,477,927 | 2,134,370 | 2,341,394 | <b>2,844,607</b> |
| Total equity                           | 663,692           | 1,890,482 | 1,828,578 | 1,890,357 | <b>1,963,785</b> |
| Total liabilities                      | 863,036           | 587,445   | 305,792   | 451,037   | <b>880,822</b>   |
| Gearing ratio (%)                      | 38                | 15        | 5         | 6         | <b>23</b>        |
| Trade receivables turnover days (days) | 179               | 126       | 111       | 99        | <b>106</b>       |
| Trade payables turnover days (days)    | 49                | 58        | 58        | 64        | <b>68</b>        |
| Inventories turnover days (days)       | 158               | 187       | 239       | 222       | <b>239</b>       |

## Chairman's Statement

In 2014, China's economy and global economy faced many uncertainties, Chinese government continued to implement the austerity policy, which weakened its economy. With a declined domestic demand, China's consumption market lacked of momentum. Weak economy together with a sluggish domestic demand had turned down the sentiment of the Group's customers. Albeit such a challenging economic environment, the Group remained aggressive in expanding its sales network, developed products to meet different consumers' demand, continued to maintain its customer-oriented service, began to cut its operating costs, and accelerated the expansion of tea beverage market, which rewarded it with an overall turnover of RMB1.69 billion in 2014. 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. The Group expects that these measures will have a positive influence on the Group's financial performance for the foreseeable future.

### Operational Review for 2014

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 the Group to maintain its leading position and advantage in the highly competitive Chinese tea market, in 2014, the Group rolled out a number of significant operational measures to streamline the Group's organization structure, adopted active and flexible marketing strategy, strengthened sales team building, and adopted strategy with tea beverage business expansion, e-business and internal growth going hand in hand, to boost its business. This year, the Group will pursue the following moves to meet market demands:

1. Continuing to develop new stores and optimize sales network; in 2014, the Group opened 158 new stores, shut down 131 stores, with a net increase of 27 and a total of 1,374 sales outlets at the end of the year (including 492 directly-operated stores and 882 dealer stores);
2. Holding Tea Fairs in major cities, promote tea culture and the sales of tea and tea ware;
3. Developing new products, expanding milk tea market, and promoting the sales of milk tea, such as “放牛斑” milk tea, to meet the needs of different consumer groups and their changing preferences for fashion;
4. Continuing to introduce and execute 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 to carry out various marketing activities. Launch marketing activities under the theme of the Company's 20th anniversary celebration. In August 2014, the Group was confirmed as one of the official sponsors of the Asia-Pacific Economic Cooperation (“APEC”) Summit 2014, with the Group's tea and tea-related products provided to all guests attending the APEC meetings. The Group is the only entity who sponsored 5 APEC Summits since 1997, including Vancouver APEC in 1997, Shanghai APEC in 2001, Busan APEC in 2005 and Singapore APEC in 2009.

We believe that we have rehabilitated, built up a robust structure and got well prepared for future growth. Our team is working tirelessly for the Group's success in the long term.



### Business Outlook for 2015

Considering China's large population, huge business opportunities will arise in the food, beverage and retail industries with the progress of urbanization, and with the enhancement in the per capita disposable income and the accomplishment of the consumers in terms of relevant culture and knowledge. The Group still has full confidence in the growth potential for the tea consumption market of China. The tea beverage sector the Group expanded in 2014 will become another growth driver, bring the Group with additional revenue contribution and profitability, and facilitate the Group's business development in the broad portfolio of tea products. Given that, 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, accelerate the development of outlets in the third and fourth-tier cities and vigorously develop e-commerce;
  - (2) Building No.1 brand image through opening flagship stores across the country;
  - (3) Expanding into international market, for example, the Group had entered into a memorandum of understanding with Rise General Trading LLC. for the proposal of establishing a joint venture, to sale tea leave and tea snack in the Middle East.
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. Emphasizing 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 original equipment manufacturer 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!



## Chairman's Statement

### Acknowledgement

In this year, coping with the external and internal uncertainties and changes facing, the Group gained valuable experience, and also hones the planning, management, and operation abilities of the Board, the management, and the staff. Such experience will help the Group to face and overcome challenges of the future. The Company's sustainable development depends on the supports and efforts of all the parties involved, 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, 23 March 2015

### Business Review and Outlook

In 2014, the Group achieved revenue of RMB1,688.6 million, up 1.6% from 2013, and recorded profit for the year of RMB270.2 million, up 1.1% from 2013. The increase in the Group's revenue for the year was mainly due to sales by electronic commerce and sales of tea drinks during the year.

In 2014, the Group further strengthened its market position and the efficiency of its operations, including further expanding its network, actively promoting the customer loyalty programme, consolidating and developing customer base, increasing release of marketing program and education and training for the employees, improving employees' benefits, while controlling expenditures.

1. **Leading brand position.** Being ranked first among 2013 China's Top 100 tea industry enterprises in terms of comprehensive strength, the "Tenfu" (天福) brand has one of the highest levels of brand awareness amongst tea product consumers in the PRC. With its high level of brand awareness and more than 20 years of presence in the market, the Group believes it is in a strong position to continue capturing such expected growth in the market for branded traditional Chinese tea leaves.
2. **Expanding sales network.** The Group has continued adding retail outlets and retail points with a view to expanding the reach of its sales network for its tea products in the PRC. As of 31 December 2014, the Group had a total of 1,374 self-owned and third-party owned retail outlets and retail points, up a net of 27 retail outlets and retail points from a total of 1,347 as of 31 December 2013.

In 2015, the Group plans to continue to expand and optimize its network of self-owned retail outlets and retail points, expand its market share in first-tier and second-tier cities, further penetrate into third-tier and fourth-tier cities, ride on the urbanisation progress of townships and acquire store premises for the operation of self-owned retail outlets.

In particular, the Group plans to:

1. **Continue to expand and optimize retail sales network.** The Group plans to further expand retail outlets and retail points per year over the next five years, including both self-owned and third-party owned retail outlets and retail points. As part of this goal, the Group plans to establish new retail outlets on high-traffic streets in the central business districts of selected cities, as well as retail points in popular shopping malls, actively expand networks in third-tier and fourth-tier and smaller cities, and develop quality distributors to increase sales of its tea products. To capture more customers who prefer to buy their tea products on-line, the Group continues to monitor the opportunity to start internet sales after completion of acquisition of Xiamen Tianyu Commerce and Trading Co., Limited (廈門天鈺商貿有限公司) in September 2013. The Group will continue to monitor other opportunities for multi-channel sales and distribution network, which enables the Group to access a broad market audience and penetrate into different regions in the PRC, and continue to rapidly expand their sales. As disclosed in the Company's announcement dated 13 October 2014, Fujian Tian Fu Sales Co., Ltd. (福建天福茗茶銷售有限公司), an indirectly wholly-owned subsidiary of the Company, and Tenfu Group (Samoa) Holdings Co., Ltd. entered into an equity transfer agreement, pursuant to which Fujian Tian Fu Sales Co., Ltd. has conditionally agreed to purchase, and Tenfu Group (Samoa) Holdings Co., Ltd. has conditionally agreed to sell, the entire equity interest in Xiamen Tenfu Trading Co., Ltd. (廈門天福商貿有限公司, formerly known as 廈門天福實業有限公司) (Xiamen Tenfu Industry Co., Ltd.) at the consideration of RMB23,449,863.7. As Xiamen Tenfu Trading Co., Ltd. owns only the store premises leased to the Group and has no other business, the acquisition of Xiamen Tenfu Trading Co., Ltd. will end the connected transaction under the lease agreements to lease the store premises owned by Xiamen Tenfu Trading Co., Ltd. Additionally, a memorandum of understanding was entered into between Tenfu (Hong Kong) Holdings Company Limited ("Tenfu HK"), a subsidiary of

## Management Discussion and Analysis

the Company and Rise General Trading LLC. ("Rise"), an independent third party, on 30 October 2014 for a proposal of entering into a joint venture to develop and register a joint venture company (the "Joint Venture Company") to undertake such activities as warehousing, blending, packaging, and trading the new brand of tea, to serve the Middle East. The authorized and issued share capital of the Joint Venture Company will be registered as AED 5,000,000. The actual amount invested to the Joint Venture Company is estimated to be United States Dollar ("USD") 5,300,000 by Tenfu HK and Rise. Rise and Tenfu HK will own 51% and 49% of the registered capital and investment of the Joint Venture Company, respectively. The development of global tea market will enhance the Group's market position and enlarge the Group's market share.

- 2. Continue to enhance brand reputation and consumer awareness.** The Group plans to maintain and promote its high level of brand awareness through targeted marketing and promotional activities. As part of these promotional activities, the Group plans to make further efforts to promote its products and brands during traditional Chinese festivals, and actively hold tea ware exhibition, incense lore expo, new tea tasting events and tea art education activities for enhancement of communications and interactions with customers in order to maintain and promote the well-known Tenfu brand. In August 2014, the Group was confirmed as one of the official sponsors of the Asia-Pacific Economic Cooperation ("APEC") Summit 2014, with the Group's tea and tea-related products provided to all guests attending the APEC meetings. The Group is the only entity who sponsored 5 APEC Summits since 2007, including Vancouver APEC in 1997, Shanghai APEC in 2001, Busan APEC in 2005 and Singapore APEC in 2009.
- 3. Continue to develop new concepts for tea-related products.** The Group believes that a broad portfolio of products will help it to maintain its leading brand position and keep pace with constantly changing consumer preferences and trends. To this end, the Group will continue the development of tea and tea-related products to meet market requirements, as well as creating the trend and leading the trend. Through the completion of acquisition of Xiamen Tianqia Catering Management Co., Limited (廈門天洽餐飲管理有限公司) in October 2013, the Group entered into the tea drink (including milk tea) industry with the trademark of "放牛斑". Xiamen Daily Plus Food Beverage Management Co., Ltd. (廈門天天佳盈餐飲管理有限公司), a joint venture company with Ten Ren Tea (Hong Kong) Limited (天仁茶業股份有限公司) was established in January 2014 to further develop the tea drink business with the trademark of "喫茶趣 TO GO". Through the establishment of Xiamen Daily Plus Food Beverage Management Co., Ltd., the Group will expand its market share in tea drink (including milk tea) industry by cooperation with Ten Ren Tea Co., Ltd. and leveraging experience of Ten Ren Tea Co., Ltd. in Taiwan and international markets.
- 4. Enhance processing and distribution efficiency and effectiveness.** The Group has implemented a fully-integrated ERP (Enterprise Resource Planning) system since 2012 so as to collect real-time sales and inventory data from retail outlets. The Group intends to continue proper implementation and usage of the ERP system, aiming to streamline its distribution operation and improve collection of information, so that the Group can plan its processing schedules, manage resources and monitor sales and inventory information more efficiently and effectively.
- 5. Expand production capacity through the increase of the number of processing facilities.** The Group plans to cater for future growth and anticipated increases in the demand for tea and tea-related products by expanding production capacity when suitable acquisition opportunities arise or suitable construction sites can be acquired. After the completion of acquisition of Zhejiang Tianfu Tea Industry Co., Ltd. (浙江天福茶業有限公司) ("Zhejiang Tenfu") in September 2013, the Group will be able to have a production facility strategically located in Zhejiang, where is the production base of Longjing tea and close to the retail outlets and retail points in Central and Northeast China, as well as to achieve optimization in procurement costs.

## Management Discussion and Analysis

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 2014, the Group engaged in the sale and marketing of a comprehensive range of tea products and the development of product concepts, tastes and packaging designs. The Group has manufacturing plants in Fujian province, Sichuan province and Zhejiang province, the PRC. The Group's key products are tea leaves, tea snacks and tea ware, which it sells through a nationwide network of self-owned and third-party owned retail outlets and retail points. The Group has started the sale of tea drink (including milk tea) with the trademark of “放牛斑” and “喫茶趣 TO GO”.

During the year ended 31 December 2014, the Group derived substantially all of its revenue from the sale of tea leaves, tea snacks and tea ware. The revenue of the Group increased by 1.6% from RMB1,661.6 million for the year ended 31 December 2013 to RMB1,688.6 million for the year ended 31 December 2014. The following table sets forth a breakdown of revenue by product category for the years indicated:

|                           | Year ended 31 December |              |           |       |
|---------------------------|------------------------|--------------|-----------|-------|
|                           | 2014                   |              | 2013      |       |
|                           | RMB'000                | %            | RMB'000   | %     |
| Revenue contributed from: |                        |              |           |       |
| Sales of tea leaves       | <b>1,156,437</b>       | <b>68.5</b>  | 1,198,155 | 72.1  |
| Sales of tea snacks       | <b>205,873</b>         | <b>12.2</b>  | 222,942   | 13.4  |
| Sales of tea ware         | <b>267,738</b>         | <b>15.9</b>  | 204,697   | 12.3  |
| Others <sup>(1)</sup>     | <b>58,541</b>          | <b>3.4</b>   | 35,783    | 2.2   |
| Total                     | <b>1,688,589</b>       | <b>100.0</b> | 1,661,577 | 100.0 |

Note:

(1) “Others” include revenue from restaurant, hotel, tourist, management service and catering management, beverage production and sales of pre-packaged food. The Group derived its revenue from these operations through the provision of accommodation, food and beverages and other ancillary services and ticket sales from its tea museums.

Revenue from sales of the Group's tea leaves decreased by 3.5% from RMB1,198.2 million for the year ended 31 December 2013 to RMB1,156.4 million for the year ended 31 December 2014. Revenue from sales of the Group's tea snacks decreased by 7.7% from RMB222.9 million for the year ended 31 December 2013 to RMB205.9 million for the year ended 31 December 2014. Revenue from sales of the Group's tea ware increased by 30.8% from RMB204.7 million for the year ended 31 December 2013 to RMB267.7 million for the year ended 31 December 2014. The revenue decreases from sales of the Group's tea leaves and tea snacks were primarily due to the decrease in sales revenue affected by overall economic slowdown in China. The revenue increase from sales of the Group's tea ware was primarily driven by the expansion of the Group's sales network, and exhibition held in various large cities during the year.



## Management Discussion and Analysis

### Cost of sales

Cost of sales of the Group primarily comprises costs of inventories (mainly including costs of raw materials) and labour costs. Cost of sales of the Group decreased by 0.9% from RMB644.4 million for the year ended 31 December 2013 to RMB638.7 million for the year ended 31 December 2014, primarily due to a change in the product structure offered by the Group.

### Gross profit and gross profit margin

As a result of the foregoing factors, gross profit of the Group increased by 3.2% from RMB1,017.2 million for the year ended 31 December 2013 to RMB1,049.9 million for the year ended 31 December 2014, with gross profit margin increasing by 1.6% from 61.2% for the year ended 31 December 2013 to 62.2% for the year ended 31 December 2014.

### Distribution costs

The distribution costs of the Group increased by 2.1% from RMB487.6 million for the year ended 31 December 2013 to RMB497.8 million for the year ended 31 December 2014. The increase was primarily due to (i) an increase in expenditure on sales personnel to RMB148.6 million for the year ended 31 December 2014 as compared to RMB140.7 million for the year ended December 2013 as a result of the increase of sales, and (ii) the operating lease expenses increased to RMB147.2 million for the year ended 31 December 2014 as compared to RMB142.2 million for the year ended December 2013.

### Administrative expenses

Administrative expenses for the Group increased by 6.5% from RMB192.4 million for the year ended 31 December 2013 to RMB204.9 million for the year ended 31 December 2014. The increase was primarily due to the increase in employee benefit.

### Other income

Other income of the Group decreased by 6.1% from RMB16.4 million for the year ended 31 December 2013 to RMB15.4 million for the year ended 31 December 2014. The decrease was primarily due to the decrease in PRC local government grants from RMB13.1 million for the year ended 31 December 2013 to RMB10.9 million for the year ended 31 December 2014.

### Other losses and gains, net

The Group recorded other losses of RMB0.4 million for the year ended 31 December 2014, primarily due to net foreign exchange losses and gains from the disposal of property, plant and equipment. The Group recorded other gains of RMB2.6 million for the year ended 31 December 2013, primarily due to the fair value of Zhejiang Tenfu's net assets at the acquisition date is higher than the consideration paid, hence a gain of RMB3.6 million was recognised from the purchase.

### Finance income

Finance income of the Group increased by 96.4% from RMB13.1 million for the year ended 31 December 2013 to RMB25.7 million for the year ended 31 December 2014. 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 increased by 450.2% from RMB1.9 million for the year ended 31 December 2013 to RMB10.5 million for the year ended 31 December 2014, reflecting an increase in interest expenses on the Group's bank borrowings.

## Management Discussion and Analysis

### Share of profits less losses of joint ventures

Share of profits less losses of joint ventures of the Group was RMB1.1 million and RMB1.8 million for the years ended 31 December 2014 and 2013, respectively.

### Income tax expense

Income tax expense of the Group increased by 6.1% from RMB101.9 million for the year ended 31 December 2013 to RMB108.2 million for the year ended 31 December 2014, primarily due to an increase in the Group's profit before income tax from RMB369.0 million for the year ended 31 December 2013 to RMB378.4 million for the year ended 31 December 2014.

### 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 RMB3.1 million, or 1.1%, to RMB270.2 million for the year ended 31 December 2014 as compared to RMB267.1 million for the year ended 31 December 2013. Net profit margin of the Group were approximately the same.

### Liquidity and capital resources

#### Cash position

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

The Group's cash and cash equivalents increased by RMB29.6 million, or 14.7%, from RMB202.3 million as of 31 December 2013 to RMB231.9 million as of 31 December 2014.

The Group had net cash inflow from operating activities of RMB261.2 million, net cash outflow from investing activities of RMB469.3 million and net cash inflow from financing activities of RMB238.3 million for the year ended 31 December 2014.

#### Bank borrowings and gearing ratio

The Group had total bank borrowings of RMB599.7 million as of 31 December 2014, compared to RMB121.5 million as of 31 December 2013. As of 31 December 2014, the weighted average effective interest rates of the Group's long-term and short-term bank borrowings were 2.9% and 2.2%, respectively, and 8.3% of the Group's bank borrowings were denominated in RMB, 19.7% were denominated in HKD and 72.0% were denominated in USD. Bank borrowings as at 31 December 2014 and those in corresponding period were charged at variable interest rate.

As of 31 December 2014, short-term bank borrowings of RMB97.2 million were pledged by bank deposits of RMB98.8 million of the Group, short-term bank borrowing of RMB20.0 million were pledged by the land use rights and property, plant and equipment of the Group. As of 31 December 2013, short-term bank borrowings of RMB45.7 million were pledged by bank deposits of RMB46.0 million of the Group.

## Management Discussion and Analysis

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

|   | <b>Less than<br/>1 year</b><br>RMB'000 | <b>Between 1<br/>and 2 years</b><br>RMB'000 | <b>Total</b><br>RMB'000 |
|---|--|---|-------------------------|
| As of 31 December 2014                          |  |   |                         |
| Bank borrowings                                 | <b>477,345</b>                         | <b>122,380</b>                              | <b>599,725</b>          |
| Interest payments on borrowings ( <i>Note</i> ) | <b>8,937</b>                           | <b>2,892</b>                                | <b>11,829</b>           |
| Trade and other payables                        | <b>147,081</b>                         | –   | <b>147,081</b>          |
|   | <b>633,363</b>                         | <b>125,272</b>                              | <b>758,635</b>          |
| As of 31 December 2013                          |  |   |                         |
| Bank borrowings                                 | 121,454                                | –   | 121,454                 |
| Payments on borrowings ( <i>Note</i> )          | 1,842                                  | –   | 1,842                   |
| Trade and other payables                        | 189,183                                | –   | 189,183                 |
|   | 312,479                                | –   | 312,479                 |

*Note: The interest payments on borrowings are calculated based on borrowings held as at 31 December 2014 and 2013 without taking into account future borrowings.*

The Group regularly monitors its gearing ratio, which represents total debt as a percentage of total capital. Total debt is calculated as total borrowings (including current and non-current borrowings). Total capital is calculated as total equity plus total debt. As of 31 December 2014, the gearing ratio of the Group was 23%, compared to 6% as of 31 December 2013. The increase in the gearing ratio during 2014 was primarily due to the increase of the Group's bank borrowings.

### Capital and other commitments

As of 31 December 2014, the Group had total investment, capital and operating lease commitments of RMB204.4 million, as compared to RMB263.4 million as of 31 December 2013. The Group plans to fund these commitments primarily with available cash.

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

|                               | <b>As of 31 December</b> |         |
|-------------------------------|--------------------------|---------|
|                               | <b>2014</b>              | 2013    |
|                               | <b>RMB'000</b>           | RMB'000 |
| Investment in a joint venture | <b>4,467</b>             | 6,402   |

## Management Discussion and Analysis

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

|                               | As of 31 December |         |
|-------------------------------|-------------------|---------|
|                               | 2014              | 2013    |
|                               | RMB'000           | RMB'000 |
| Property, plant and equipment | <b>19,427</b>     | 2,706   |

The Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between one to ten 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 |         |
|---|-------------------|---------|
|   | 2014              | 2013    |
|   | RMB'000           | RMB'000 |
| No later than 1 year                        | <b>84,181</b>     | 110,729 |
| Later than 1 year and no later than 5 years | <b>95,700</b>     | 136,749 |
| Later than 5 years                          | <b>578</b>        | 6,798   |
|   | <b>180,459</b>    | 254,276 |

### Working capital

|  | As of 31 December |         |
|--|-------------------|---------|
|  | 2014              | 2013    |
|  | RMB'000           | RMB'000 |
| Trade and other receivables                    | <b>240,662</b>    | 239,893 |
| Trade and other payables                       | <b>211,453</b>    | 271,692 |
| Inventories                                    | <b>422,758</b>    | 423,691 |
| Trade receivables turnover days <sup>(1)</sup> | <b>106</b>        | 99      |
| Trade payables turnover days <sup>(2)</sup>    | <b>68</b>         | 64      |
| Inventories turnover days <sup>(3)</sup>       | <b>239</b>        | 222     |

#### Notes:

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

The Group's trade and other receivables represent primarily the balances due from third-party retailers. The Group's trade and other receivables increased by RMB0.8 million from RMB239.9 million as of 31 December 2013 to RMB240.7 million as of 31 December 2014, primarily due to increase of interest receivable on time deposits.



## Management Discussion and Analysis

The Group's trade and other payables principally comprise payables to its raw material suppliers, employee benefit payables, other taxes payable, accrued operating expenses and amounts due to related parties. The Group's trade and other payables decreased by RMB60.2 million from RMB271.7 million as of 31 December 2013 to RMB211.5 million as of 31 December 2014, primarily due to decreases in trade payables due to third parties and related parties, other taxes payable and other payables for property, plant and equipment.

The Group's inventories comprise raw materials (including packaging materials), work-in-progress and finished products. The Group's inventories decreased by RMB0.9 million from RMB423.7 million as of 31 December 2013 to RMB422.8 million as of 31 December 2014, primarily reflecting a decrease in finished goods.

As of 31 December 2014, 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 2014, most of the operating entities' revenue, expenses, assets and liabilities were denominated in RMB. The Group's foreign exchange risk mainly arises from the portion of its sales and purchases of products denominated in USD and Japanese Yen and financing activities denominated in USD and HKD. The directors of the Company (the "Directors") are of the view that the Group does not have significant foreign currency risk.

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

### Contingent liabilities

The Group had no material contingent liabilities as of 31 December 2014.

### Employee and Remuneration Policy

As of 31 December 2014, the Group had a total of 5,286 employees, with 5,282 employees in the PRC and 4 employees in Hong Kong. For the year ended 31 December 2014, the staff costs of the Group was RMB286.2 million, compared to RMB268.7 million for the year ended 31 December 2013.

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

The Group also provides continuous learning and training programs to its employees to enhance their skills and knowledge, so as to maintain their competitiveness and improve customer services. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or any material labour dispute during the year ended 31 December 2014.

The Company adopted a share option scheme on 17 December 2010. During the years ended 31 December 2010 and 2011, no share options were granted. Subsequently, the Company granted share options to subscribe for an aggregate of 7,046,000 shares on 6 January 2012 to certain directors, employees and independent third party distributors of the Group and an aggregate of 1,307,000 shares options on 12 January 2012 to certain Directors. On 18 March 2013, the Company granted share options to certain Directors, employees and independent third party distributors of the Group to subscribe for an aggregate of 8,353,000 shares. These share options vest in tranches over a period of up to 3 years. During the year ended 31 December 2014, no share options were granted.

## Directors and Senior Management

### Directors

#### Executive Directors

**LEE Rie-Ho (李瑞河)**, aged 79, 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 Mr. Lee Min-Zun, the chief financial officer of the Company. 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 re-appointed.

**LEE Shih-Wei (李世偉)**, aged 55, is an executive Director and the Vice Chairman of the Group. He was appointed as the executive Director on 31 August 2011. Mr. Lee is one of the founders of the Group, and is primarily responsible for the management of the Group and coordination of the factory operations and retail businesses of the Group. He has been a director of the Group since 1997. Mr. Lee has more than 25 years of experience in the tea industry. Between 1987 and 1998, he worked for Ten Ren in Taiwan, and acted as the head of the international trading department of Ten Ren since 1987. Mr. Lee has been a director of Ten Ren since 2007. Mr. Lee joined the Group in 1993 and served as the general manager of 福州天福茶業有限公司(Fuzhou Tianfu Tea Industry Co., Ltd.) from 1993 to 1997. Mr. Lee is a nephew of Mr. Lee Rie-Ho and a cousin of both Mr. Lee Kuo-Lin and Mr. Lee Chia Ling. He graduated from National Chung Hsing High School (previously known as Taiwan Provincial Chung Hsing High School) in 1978.

## Directors and Senior Management

**LEE Chia Ling (李家麟)**, aged 52, 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 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 53, 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 58, 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 41, is a non-executive Director. He was appointed as the non-executive Director on 27 August 2012. Mr. Wei is a Managing Director at the General Atlantic private equity firm 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. Mr. Wei is also a non-executive director of Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (stock code: 0520), a company listed on the main board of the Stock Exchange.

## Directors and Senior Management

### Independent Non-executive Directors

**LO Wah Wai (盧華威)**, aged 51, is an independent non-executive Director. He was appointed as the independent non-executive Director on 31 August 2011. Mr. Lo is the chairman of the audit committee of the Company. He is also a member of the nomination committee and the remuneration committee of the Company. Mr. Lo holds a bachelor's degree in business administration from the Chinese University of Hong Kong and a master's degree in management science from New Jersey Institute of Technology in the United States. He is a practising member of the Hong Kong Institute of Certified Public Accountants and is a member of the American Institute of Certified Public Accountants. Mr. Lo has more than 20 years' service experience in auditing and business consulting services, in which he had more than seven years' experience in auditing and business consulting services in an international accounting firm (Deloitte Touche Tohmatsu), of which two years were spent in the United States. Mr. Lo is also an 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 49, 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 the United Kingdom in 1997. Mr. Lee was a senior manager of the Listing Division of the Stock Exchange from 1993 to 1994 and was a partner of a famous law firm in Hong Kong from 2001 to 2011. He is currently a practising lawyer, joined Howse Williams Bowers as a consultant on 1 July 2014 and serves as an independent non-executive director of various companies listed on the Main Board of the Stock Exchange, including Embry Holdings Limited; NetDragon Websoft Inc.; Asia Cassava Resources Holdings Limited; Futong Technology Development Holdings Limited; Newton Resources Ltd; Walker Group Holdings Limited; China BlueChemical Ltd. and Landsea Green Properties Co., Ltd. Mr. Lee was also an independent non-executive director of New Universe International Group Limited (a company listed on the Growth Enterprise Market of the Stock Exchange), Yuexiu REIT Asset Management Limited and Far East Holdings International Limited (both of which are listed on the Main Board of the Stock Exchange).

**FAN Ren Da, Anthony (范仁達)**, aged 55, 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 various 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, LT Commercial Real Estate Limited, China Development Bank International Investment Limited, CGN Meiya Power Holdings Co., Ltd. and Neo-Neon Holdings Limited, which are all listed on the main board of the Stock Exchange.



## Directors and Senior Management

### Senior management

**LEE Min-Zun (李銘仁)**, aged 50, 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 70, is the Deputy President of the Company. He is responsible for procurement of raw materials, market research, and formulating and executing the overall production and procurement strategies of the Group. He joined the Group in 2007. He graduated from the University of Texas at Austin in the United States with a master's degree in social work studies in 1985. Mr. Lee was the chairman of Ten Ren between 1990 and 2007, and has been the director of 天仁茶藝文化基金會(Ten Ren Tea Culture Foundation) since 1991, 陸羽茶藝股份有限公司(Lu Yu Tea Artcraft Co., Ltd.) since September 1993, and 天廬育樂事業股份有限公司(Tenlu Leisure Business Co., Ltd.) from November 2004 to August 2007. Mr. Lee is a founder of the Rotary Club of Taipei Hsin-Yi branch in 1987. He is a cousin of Mr. Lee Rie-Ho.

**LEE Mao-Ling (李茂林)**, aged 53, 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 45, 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.

**The Board is pleased to present this Corporate Governance Report in the Group's Annual Report for the year ended 31 December 2014.**

### 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 2014, the Company has complied with the code provisions included in the Corporate Governance Code (the "Corporate Governance Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and there has been no deviation from the code provisions as set forth under the Corporate Governance Code for the year ended 31 December 2014.

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

### The Board of Directors

#### Responsibilities

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

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

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

## Corporate Governance Report

### Board composition

Membership of the Board is currently made up of nine members in total, with 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 is set out below:

#### Executive Directors

|                   |                                |
|-------------------|--------------------------------|
| Mr. LEE Rie-Ho    | <i>Chairman</i>                |
| Mr. LEE Shih-Wei  | <i>Vice Chairman</i>           |
| Mr. LEE Chia Ling | <i>Chief Executive Officer</i> |
| Mr. LEE Kuo-Lin   | <i>Chief Operating Officer</i> |

#### Non-executive Directors

Mr. TSENG Ming-Sung

Mr. WEI Ke

#### Independent Non-executive Directors

Mr. LO Wah Wai

Mr. LEE Kwan Hung

Mr. FAN Ren Da, Anthony

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

The relationships among the members of the Board are disclosed under "Directors and Senior Management" on page 17 to 20 of this annual report.

During the year ended 31 December 2014, 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 and 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 and disclosure in the corporate governance report in the annual report of the Company.



## Corporate Governance Report

The Board has adopted a board diversity policy setting out the approach to diversity of members of the Board. The Company recognises and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members. Selection of candidates of Board members will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

### 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 structure, size and composition of the Board regularly, making recommendations to the Board on the appointment and succession planning of Directors, and assessing the independence of the independent non-executive Directors. In carrying out the responsibility for identifying suitably qualified candidates to become members of the Board, the Committee will give adequate consideration to the board diversity policy. The Nomination Committee is provided with sufficient resources to perform its duties.

In accordance with the Company's Articles of Association, one-third of the Directors, shall retire by rotation and the newly appointed Director (if any) in 2014 shall retire and being eligible, offer themselves for re-election at the next forthcoming annual general meeting and every Director shall be subject to retirement at the annual general meeting at least once every three years.

The Company's circular dated 13 April 2015 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 with consideration of board diversity policy during the year ended 31 December 2014.

The Nomination Committee held 1 meeting during the year ended 31 December 2014 and the attendance records are set out below:

| <b>Name of Director</b> | <b>Attendance/Number<br/>of Meetings</b> |
|-------------------------|--|
| Mr. LEE Kwan Hung       | 1/1                                      |
| Mr. LEE Kuo-Lin         | 1/1                                      |
| Mr. FAN Ren Da, Anthony | 1/1                                      |
| Mr. LO Wah Wai          | 1/1                                      |

### Induction and continuing development of Directors

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

Directors are continually updated on the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. Continuing briefing and professional development for Directors will be arranged where necessary. 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 2014, all Directors are provided with the latest version of "A Guide on Directors' Duties" issued by the Companies Registry, Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules, the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong), corporate governance practices and other regulatory regime.

According to the records provided by the Directors, a summary of training received by the Directors for the year ended 31 December 2014 is as follows:

|  | <b>Type of continuous professional development programmes</b> |
|--|---|
| <b>Executive Directors</b>                 |   |
| Mr. LEE Rie-Ho                             | 1, 2, 3   |
| Mr. LEE Shih-Wei                           | 1, 2, 3   |
| Mr. LEE Chia Ling                          | 1, 2, 3   |
| Mr. LEE Kuo-Lin                            | 1, 2, 3   |
| <b>Non-executive Directors</b>             |   |
| Mr. TSENG Ming-Sung                        | 1, 2, 3   |
| Mr. WEI Ke                                 | 1, 2, 3   |
| <b>Independent Non-executive Directors</b> |   |
| 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 discussion on the 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.*

# Corporate Governance Report

## 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 2014, 4 regular Board meetings were held, including for reviewing and approving the interim results for the six months ended 30 June 2014, 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 2014 are set out below:

| <b>Name of Director</b> | <b>Attendance/Number of Meetings</b> |
|-------------------------|--------------------------------------|
| Mr. LEE Rie-Ho          | 4/4                                  |
| Mr. LEE Shih-Wei        | 4/4                                  |
| Mr. LEE Chia Ling       | 4/4                                  |
| Mr. LEE Kuo-Lin         | 4/4                                  |
| Mr. TSENG Ming-Sung     | 4/4                                  |
| Mr. WEI Ke              | 4/4                                  |
| Mr. LO Wah Wai          | 4/4                                  |
| Mr. LEE Kwan Hung       | 4/4                                  |
| Mr. FAN Ren Da, Anthony | 4/4                                  |

### 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.

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 2014.

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

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

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

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 2014 are set out in Note 26 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 2014 is within the following bands:



## Corporate Governance Report

|                           | Number of individuals |      |
|---------------------------|-----------------------|------|
|                           | 2014                  | 2013 |
| Nil – RMB500,000          | 2                     | 3    |
| RMB500,001 – RMB1,000,000 | 2                     | 1    |

### 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 ended 31 December 2014.

The Remuneration Committee held 2 meetings during the year ended 31 December 2014 and the attendance records are set out below:

| Name of Director        | Attendance/Number of Meetings |
|-------------------------|-------------------------------|
| Mr. FAN Ren Da, Anthony | 2/2                           |
| Mr. LEE Rie-Ho          | 2/2                           |
| Mr. LO Wah Wai          | 2/2                           |
| Mr. LEE Kwan Hung       | 2/2                           |
| Mr. LEE Chia Ling       | 2/2                           |

### 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 2014.

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 2014, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Group including the adequacy of resources, qualifications and experience of staff of the Group'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 the Group 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 external auditor, its 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 Group's financial reporting system, internal control system and risk management system and associated procedures.

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

During the year ended 31 December 2014, 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 twice and reviewed the annual and interim reports of the Company.

## Corporate Governance Report

The Audit Committee held 2 meetings during the year ended 31 December 2014 and the attendance records are set out below:

| <b>Name of Director</b> | <b>Attendance/Number of Meetings</b> |
|-------------------------|--------------------------------------|
| Mr. LO Wah Wai          | 2/2                                  |
| Mr. TSENG Ming-Sung     | 2/2                                  |
| Mr. FAN Ren Da, Anthony | 2/2                                  |
| Mr. LEE Kwan Hung       | 2/2                                  |

### External auditor and auditor's remuneration

The statement of the external auditor of the Company about its reporting responsibilities for the Consolidated Financial Statements is set out in the "Independent Auditor's Report" on page 50.

During the year ended 31 December 2014, the remuneration paid/payable to the Company's external auditor, PricewaterhouseCoopers, is set out below:

| <b>Service Category</b>    | <b>Amount (RMB '000)</b> |
|----------------------------|--------------------------|
| Annual audit services      | 3,930                    |
| Non-audit services         |                          |
| – Interim review services  | 1,000                    |
| – Other non-audit services | 49                       |
| <b>Total</b>               | <b>4,979</b>             |

#### *Note:*

*the amount for other non-audit services mainly represented the professional fee payable by the Group for tax consultation service.*

### 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.

## Corporate Governance Report

The Chairman of the Board, members of the Board and external auditor attended the 2014 annual general meeting of the Company ("AGM") held on 15 May 2014. The attendance record of the Directors at the AGM is set out below:

| <b>Name of Director</b> | <b>AGM Attendance/Number of Meetings</b> |
|-------------------------|--|
| Mr. LEE Rie-Ho          | 1/1                                      |
| Mr. LEE Shih-Wei        | 0/1                                      |
| Mr. LEE Chia Ling       | 1/1                                      |
| Mr. LEE Kuo-Lin         | 1/1                                      |
| Mr. TSENG Ming-Sung     | 1/1                                      |
| Mr. WEI Ke              | 1/1                                      |
| 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 2014 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 2015 AGM will be held on 13 May 2015 (Wednesday). 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](http://www.tenfu.com), where up-to-date information and updates on the Group'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 2014.

### 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.



## Corporate Governance Report

### 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 Room E, 22/F, CNT Tower, 338 Hennessy 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 2014.

## 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 2014 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 2014 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.

### Business review

The business review of the Group for the year is set out in the section "Management Discussion and Analysis" of this annual report.

### 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 23 March 2015 (Monday), it was proposed that a final dividend of HKD0.14 per ordinary share (equivalent to RMB0.11 per ordinary share) be paid on or after 29 May 2015 to the shareholders of the Company (the "Shareholders") whose names appear on the Company's register of members on 19 May 2015 (Tuesday). The proposed final dividend is subject to approval by the Shareholders at the AGM to be held on 13 May 2015 (Wednesday).

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 11 May 2015 (Monday) to 13 May 2015 (Wednesday), both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the 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 8 May 2015 (Friday).

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed on 19 May 2015 (Tuesday), during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 18 May 2015 (Monday).

## Report of the Board of Directors

### Reserve

Details of the changes in reserves of the Company and the Group during the year ended 31 December 2014 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 2014, the Company had distributable reserve amounting to approximately RMB348,065,000.

### Property, plant and equipment

The changes in property, plant and equipment during the year ended 31 December 2014 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 21% of the Group's total purchase. The percentage of revenue attributable to the Group's five largest customers accounted for approximately 4.2% of the Group's total revenue.

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.

### Bank loans and other borrowings

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2014 are set out in Note 19 to the Consolidated Financial Statements.

### 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

#### Non-executive Directors

Mr. TSENG Ming-Sung

Mr. WEI Ke

#### Independent Non-executive Directors

Mr. LO Wah Wai

Mr. LEE Kwan Hung

Mr. FAN Ren Da, Anthony

## Report of the Board of Directors

Details of the resume of the Directors and senior management are set forth in the section “Directors and Senior Management” of this annual report.

The remuneration of each Director and the chief executive of the Company for the year ended 31 December 2014 is set out in Note 26 to the Consolidated Financial Statements.

In accordance with article 84(1) of the Articles of Association, Mr. Lee Chia Ling, Mr. Wei Ke and Mr. Fan Ren Da, Anthony will retire by rotation and being eligible, have offered themselves for re-election at the AGM.

### **Disclosure of Information of Directors under Rules 13.51(2) and 13.51B(1) of the Listing Rules**

Save as disclosed in the 2014 interim report of the Company, Mr. Wei Ke has been appointed as the non-executive director of Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (stock code: 0520) with effect from 12 December 2014. Mr. Lee Kwan Hung ceased to be an independent non-executive director of each of Yuexiu REIT Asset Management Limited (formerly known as “GZI REIT Asset Management Limited”) and Far East Holdings International Limited on 7 October 2014 and 12 November 2014, respectively and Mr. Fan Ren Da, Anthony was also appointed as an independent non-executive director of each of CGN Meiya Power Holdings Co., Ltd. and Neo-Neon Holdings Limited on 17 September 2014 and 22 September 2014, respectively.

Save as mentioned above, there is no change of information of each Director that is required to be disclosed under Rules 13.51(2) and 13.51B(1) of the Listing Rules since the publication of the 2014 interim report of the Company.

### **Permitted indemnity provision**

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. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) when the Report of the Board of the Directors prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance.

### **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 transaction, arrangement or contracts**

Other than those transactions disclosed in Note 35 to the Consolidated Financial Statements and in the section “Connected transactions” below, there was no other transaction, arrangement or contract of significance subsisting during or at the end of the financial year with any member of the Group as the contracting party and in which the Directors or an entity connected with the Director is or was materially interested, either directly or indirectly.



## Report of the Board of Directors

### 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 "Covenantors") 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 2014.

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 option shall be the higher of (a) the closing price of the Shares on the daily quotation sheet of the Stock Exchange on the date of grant; (b) the average closing price of the Shares on the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) nominal value of the Share. Each grantee shall pay a consideration of HK\$1.00 at the time the option is granted. The Share Option Scheme shall take effect from the date it is adopted and shall remain effective within a period of 10 years from that date.

## Report of the Board of Directors

For the year ended 31 December 2014, no options have been granted under Share Option Scheme. 107,000 share options have lapsed due to the resignation of the employees and none of the share options were exercised by the grantees, or cancelled by the Company as at 31 December 2014. The share options granted 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 year of such grant and the following two financial years. 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 during the year | Exercise price per Share | Closing price            | Number of options as at 1 January 2014 | Number of options exercised/ cancelled/lapsed during the year | Number of options as at 31 December 2014 | Approximate percentage of shareholding upon the exercise of the options | Exercisable period                 |
|-----------------|--|--------------------------|---|--------------------------|--------------------------|--|---|--|---|------------------------------------|
|                 |  |                          |   |                          | immediately before grant |  |   |  |   |                                    |
|                 |  |                          |   | HK\$                     | HK\$                     |  |   |  |   |                                    |
| Lee Rie-Ho      | Executive Director and substantial shareholder | 12 January 2012          | -   | 5.60                     | 5.60                     | 708,000                                | -   | 708,000                                  | 0.12%   | 12 January 2012 to 11 January 2022 |
|                 |  | 19 March 2013            | -   | 4.28                     | 4.20                     | 708,000                                | -   | 708,000                                  |   | 19 March 2013 to 18 March 2023     |
|                 |  |                          |   |                          |                          | 1,416,000                              | -   | 1,416,000                                |   |                                    |
| Lee Chia Ling   | Executive Director and substantial shareholder | 6 January 2012           | -   | 5.41                     | 5.37                     | 354,000                                | -   | 354,000                                  | 0.06%   | 6 January 2012 to 5 January 2022   |
|                 |  | 19 March 2013            | -   | 4.28                     | 4.20                     | 354,000                                | -   | 354,000                                  |   | 19 March 2013 to 18 March 2023     |
|                 |  |                          |   |                          |                          | 708,000                                | -   | 708,000                                  |   |                                    |
| Lee Shih-Wei    | Executive Director                             | 6 January 2012           | -   | 5.41                     | 5.37                     | 354,000                                | -   | 354,000                                  | 0.06%   | 6 January 2012 to 5 January 2022   |
|                 |  | 19 March 2013            | -   | 4.28                     | 4.20                     | 354,000                                | -   | 354,000                                  |   | 19 March 2013 to 18 March 2023     |
|                 |  |                          |   |                          |                          | 708,000                                | -   | 708,000                                  |   |                                    |
| Lee Kuo-Lin     | Executive Director                             | 6 January 2012           | -   | 5.41                     | 5.37                     | 354,000                                | -   | 354,000                                  | 0.06%   | 6 January 2012 to 5 January 2022   |
|                 |  | 19 March 2013            | -   | 4.28                     | 4.20                     | 354,000                                | -   | 354,000                                  |   | 19 March 2013 to 18 March 2023     |
|                 |  |                          |   |                          |                          | 708,000                                | -   | 708,000                                  |   |                                    |
| Tseng Ming-Sung | Non-executive Director                         | 12 January 2012          | -   | 5.60                     | 5.60                     | 354,000                                | -   | 354,000                                  | 0.05%   | 12 January 2012 to 11 January 2022 |
|                 |  | 19 March 2013            | -   | 4.28                     | 4.20                     | 245,000                                | -   | 245,000                                  |   | 19 March 2013 to 18 March 2023     |
|                 |  |                          |   |                          |                          | 599,000                                | -   | 599,000                                  |   |                                    |

## Report of the Board of Directors

| Grantee                              | Position of the grantee            | Date of grant of options | Number of options granted during the year | Exercise price per Share<br>HK\$ | Closing price immediately before grant of options<br>HK\$ | Number of options as at 1 January 2014 | Number of options exercised/ cancelled/lapsed during the year | Number of options as at 31 December 2014 | Approximate percentage of shareholding upon the exercise of the options | Exercisable period                 |
|--------------------------------------|------------------------------------|--------------------------|---|----------------------------------|---|--|---|--|---|------------------------------------|
|                                      |                                    |                          |   |                                  |   |  |   |  |   |                                    |
| Lo Wah Wai                           | Independent non-executive Director | 6 January 2012           | -   | 5.41                             | 5.37  | 354,000                                | -   | 354,000                                  |   | 6 January 2012 to 5 January 2022   |
|                                      |                                    | 19 March 2013            | -   | 4.28                             | 4.20  | 245,000                                | -   | 245,000                                  |   | 19 March 2013 to 18 March 2023     |
| Lee Kwan Hung                        | Independent non-executive Director | 6 January 2012           | -   | 5.41                             | 5.37  | 354,000                                | -   | 354,000                                  | 0.05%   | 6 January 2012 to 5 January 2022   |
|                                      |                                    | 19 March 2013            | -   | 4.28                             | 4.20  | 245,000                                | -   | 245,000                                  |   | 19 March 2013 to 18 March 2023     |
| Fan Ren Da, Anthony                  | Independent non-executive Director | 6 January 2012           | -   | 5.41                             | 5.37  | 354,000                                | -   | 354,000                                  | 0.05%   | 6 January 2012 to 5 January 2022   |
|                                      |                                    | 19 March 2013            | -   | 4.28                             | 4.20  | 245,000                                | -   | 245,000                                  |   | 19 March 2013 to 18 March 2023     |
| Employees                            |                                    | 6 January 2012           | -   | 5.41                             | 5.37  | 4,440,000                              | (49,000)  | 4,391,000                                | 0.05%   | 6 January 2012 to 5 January 2022   |
|                                      |                                    | 12 January 2012          | -   | 5.60                             | 5.60  | 245,000                                | -   | 245,000                                  |   | 12 January 2012 to 11 January 2022 |
|                                      |                                    | 19 March 2013            | -   | 4.28                             | 4.20  | 5,201,000                              | (58,000)  | 5,143,000                                |   | 19 March 2013 to 18 March 2023     |
| Independent third party distributors |                                    | 6 January 2012           | -   | 5.41                             | 5.37  | 311,000                                | (107,000)   | 9,779,000                                | 0.80%   | 6 January 2012 to 5 January 2022   |
|                                      |                                    | 19 March 2013            | -   | 4.28                             | 4.20  | 369,000                                | -   | 369,000                                  |   | 19 March 2013 to 18 March 2023     |
| Total                                |                                    |                          | -   |                                  |   | 16,502,000                             | (107,000)   | 16,395,000                               | 1.34%   |                                    |

### 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.

## Report of the Board of Directors

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

As at the date 31 December 2014, 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 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 <sup>(4)</sup> | Approximate Percentage of Shareholding |
|--|--------------------------------------|-------------------------------------|--|
| Mr. Lee Rie-Ho <sup>(1)</sup>          | Interest in a controlled corporation | 188,760,000 (L)                     | 15.38%                                 |
|  | Personal Interest/individual         | 1,416,000(L)                        | 0.12%                                  |
| Mr. Lee Shih-Wei <sup>(2)</sup>        | Personal Interest/individual         | 5,427,000 (L)                       | 0.44%                                  |
| Mr. Lee Chia Ling <sup>(3)</sup>       | Settlor of The KCL Trust             | 377,520,000 (L)                     | 30.76%                                 |
|  | Personal Interest/individual         | 708,000(L)                          | 0.06%                                  |
| Mr. Lee Kuo-Lin <sup>(3)</sup>         | Beneficiary of The KCL Trust         | 377,520,000 (L)                     | 30.76%                                 |
|  | Personal Interest/individual         | 708,000(L)                          | 0.06%                                  |
| Mr. Tseng Ming-Sung <sup>(2)</sup>     | Personal Interest/individual         | 5,318,000 (L)                       | 0.43%                                  |
| Mr. Lo Wah Wai <sup>(2)</sup>          | Personal Interest/individual         | 599,000(L)                          | 0.05%                                  |
| Mr. Lee Kwan Hung <sup>(2)</sup>       | Personal Interest/individual         | 599,000(L)                          | 0.05%                                  |
| Mr. Fan Ren Da, Anthony <sup>(2)</sup> | Personal Interest/individual         | 599,000(L)                          | 0.05%                                  |

#### 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 and another 708,000 share options were granted to Mr. Lee Rie-Ho with the exercise price per Share of HK\$4.28 on 19 March 2013.*
- (2) *354,000 share options were granted to each of Mr. Lee Shih-Wei, 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. 354,000 share options were granted to Mr. Lee Shih-Wei with the exercise price per share of HK\$4.28 on 19 March 2013. 245,000 share options were granted to each of Mr. Tseng Ming-Sung, Mr. Lo Wah Wai, Mr. Lee Kwan Hung and Mr. Fan Ren Da, Anthony with the exercise price per share of HK\$4.28 on 19 March 2013.*



## Report of the Board of Directors

- (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 UBS TC (Jersey) Ltd. (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 on 12 April 2011. The beneficiaries of The KCL Trust include family members of Mr. Lee Chia Ling. Mr. Lee Chia Ling and Mr. Lee Kuo-Lin are deemed to be interested in 377,520,000 Shares held by The KCL Trust, Tiger Nature and Trackson Investments Limited 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 each of Mr. Lee Chia Ling and Mr. Lee Kuo-Lin with the exercise price per Share of HK\$5.41 on 6 January 2012 and another 354,000 share options were granted to Mr. Lee Chia Ling and Mr. Lee Kuo-Lin with the exercise price per Share of HK\$4.28 on 19 March 2013.*
- (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 2014, 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 <sup>(5)</sup> | Percentage of Shareholding<br>(%) |
|---|--------------------------------------|---------------------------------|-----------------------------------|
| Discerning Group Limited <sup>(1)</sup>                         | Beneficial interest                  | 188,760,000 (L)                 | 15.38                             |
| Ms. Lee Tsai Li-Li <sup>(1)</sup>                               | Interest in spouse                   | 190,176,000 (L)                 | 15.50                             |
| UBS TC (Jersey) Ltd. <sup>(2) (3)</sup>                         | Trustee                              | 377,520,000 (L)                 | 30.76                             |
| Trackson Investments Limited <sup>(2)</sup>                     | Registered owner                     | 377,520,000 (L)                 | 30.76                             |
| Tiger Nature Holdings Limited <sup>(2)</sup>                    | Interest in a controlled corporation | 377,520,000 (L)                 | 30.76                             |
| The KCL Trust <sup>(2)</sup>                                    | Interest in a controlled corporation | 377,520,000 (L)                 | 30.76                             |
| Mr. Lee John L <sup>(2)</sup>                                   | Beneficiary of The KCL Trust         | 377,520,000 (L)                 | 30.76                             |
| Ms. Zhou Nan-Nan <sup>(2)</sup>                                 | Interest in spouse                   | 378,228,000 (L)                 | 30.82                             |
| General Atlantic Singapore Fund Pte. Ltd. <sup>(4)</sup>        | Registered owner                     | 120,530,830 (L)                 | 9.82                              |
| General Atlantic Singapore Fund Interholdco Ltd. <sup>(4)</sup> | Interest in a controlled corporation | 120,530,830 (L)                 | 9.82                              |
| General Atlantic Partners (Bermuda) II, L.P. <sup>(4)</sup>     | Interest in a controlled corporation | 120,530,830 (L)                 | 9.82                              |
| General Atlantic Partners (Bermuda) III, L.P. <sup>(4)</sup>    | Interest in a controlled corporation | 120,530,830 (L)                 | 9.82                              |
| General Atlantic GenPar (Bermuda), L.P. <sup>(4)</sup>          | Interest in a controlled corporation | 120,530,830 (L)                 | 9.82                              |
| GAP (Bermuda) Limited <sup>(4)</sup>                            | Interest in a controlled corporation | 120,530,830 (L)                 | 9.82                              |
| Spring Cheers Overseas Ltd.                                     | Registered Owner                     | 95,861,273 (L)                  | 7.81                              |

## Report of the Board of Directors

### 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 and another 708,000 share options were granted to Mr. Lee Rie-Ho with the exercise price per share of HK\$4.28 on 19 March 2013.*
- (2) *The entire issued share capital of Trackson Investments Limited is held by Tiger Nature which is in turn ultimately held by UBS TC (Jersey) Ltd. (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 on 12 April 2011. The beneficiaries of The KCL Trust include family members of Mr. Lee Chia Ling. Mr. Lee Chia Ling and Mr. Lee Kuo-Lin are deemed to be interested in 377,520,000 Shares held by The KCL Trust, Tiger Nature and Trackson Investments Limited 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 each of Mr. Lee Chia Ling and Mr. Lee Kuo-Lin with the exercise price per Share of HK\$5.41 on 6 January 2012 and another 354,000 share options were granted to Mr. Lee Chia Ling and Mr. Lee Kuo-Lin with the exercise price per Share of HK\$4.28 on 19 March 2013.*
- (3) *UBS TC (Jersey) Ltd. 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 by its board of directors. The sole shareholder of General Atlantic Singapore Fund Pte. Ltd. is General Atlantic Singapore Fund Interholdco Ltd. ("GA Interholdco"). The single largest shareholder of GA Interholdco is General Atlantic Partners (Bermuda) II, L.P. ("GAP II LP") and one of the minority shareholders of GA Interholdco is General Atlantic Partners (Bermuda) III, L.P. ("GAP III LP"). The general partner of each of GAP II LP and GAP III 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 II LP, GAP III 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.*

## Report of the Board of Directors

### Subsidiaries

Details of the major subsidiaries of the Company as of 31 December 2014 are set out in Note 31 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

The Group's related parties transactions for the year ended 31 December 2014 set out in Note 35 to the Consolidated Financial Statements constitute continuing connected transactions as defined in chapter 14A of the Listing Rules and the Company has complied with the disclosure requirements in chapter 14A of the Listing Rules.

Details of the continuing connected transactions of the Group 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 <sup>1</sup> | 福州天福茗茶銷售有限公司<br>(Fu Zhou Tian Fu Tea Sales Co., Ltd.)    | Ms. Chen Xiu- Duan 陳秀端<br>(daughter-in-law of the Director,<br>Mr. Lee Rie-Ho and wife of the<br>Director, Mr. Lee Kuo-Lin) | Term: Three years from<br>10 September 2012 to<br>9 September 2015<br>Rental:<br>15,000/month       | Store premises with<br>a gross floor area of<br>approximately 158.0<br>square meters |
| 2.  | Fujian <sup>1</sup> | 福州天福茗茶銷售有限公司<br>(Fu Zhou Tian Fu Tea Sales Co., Ltd.)    | Lee Min-Zun (the Chief Financial<br>Officer and cousin of Mr. Lee Chia<br>Ling and Mr. Lee Kuo-Lin, the<br>Directors)       | Term: Three years from<br>1 September 2012 to 31<br>August 2015<br>Rental:<br>Monthly: 40,000/month | Store premises with<br>a gross floor area of<br>approximately 87.9<br>square meters  |
| 3.  | Hainan <sup>1</sup> | 廣東天福茗茶銷售有限公司<br>(Guang Dong Tian Fu Tea Sales Co., Ltd.) | Mr. Lee Min-Zun (the Chief<br>Financial Officer and cousin of<br>Mr. Lee Chia Ling and<br>Mr. Lee Kuo-Lin, the Directors)   | Term: Three years from<br>1 January 2013 to<br>31 December 2015<br>Rental:<br>30,000/month          | Store premises with<br>a gross floor area of<br>approximately 376.3<br>square meters |

## Report of the Board of Directors

| No. | Location              | Member of the Group as tenant                               | Connected party as landlord   | Term and rental (RMB)  | Type of premises  |
|-----|-----------------------|---|---|--|---|
| 4.  | Hubei                 | 湖北天福茗茶銷售有限公司<br>(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 2013 to 30 June 2016<br>Rental: 1 July 2013 to 30 June 2014: 75,000/month;<br>1 July 2014 to 30 June 2015: 77,000/month;<br>1 July 2015 to 30 June 2016: 78,000/month. | Store premises with a gross floor area of approximately 584.3 square meters |
| 5.  | Shandong              | 濟南天福茗茶有限公司<br>(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<br>Rental: 17,500/month  | Store premises with a gross floor area of approximately 158.9 square meters |
| 6.  | Shandong              | 濟南天福茗茶有限公司<br>(Jinan Tenfu Tea Co., Ltd.)                   | Xiamen Mingfeng Commercial Management Co., Ltd. (廈門銘峰商業管理有限公司), a limited liability company established in the PRC, which is indirectly wholly-owned by Mr. Tsai Shan Jen, who is the cousin of Mr. Lee Chia Ling, the Director | Term: Two years from 1 November 2014 to 31 October 2016<br>Rental: 19,250/month  | Store premises with a gross floor area of approximately 158.9 square meters |
| 7.  | Heilongjiang          | 黑龍江天福茗茶銷售有限公司<br>(Heilongjiang 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 1 December 2012 to 30 November 2015<br>Rental: 19,000/month   | Store premises with a gross floor area of approximately 643.6 square meters |
| 8.  | Shanghai <sup>1</sup> | 上海天福茗茶銷售有限公司<br>(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: Three years from 1 September 2014 to 31 August 2017<br>Rental: 9,200/month   | Store premises with a gross floor area of approximately 143.6 square meters |
| 9.  | Xinjiang              | 新疆天福茗茶銷售有限公司<br>(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<br>Rental: 35,000/month  | Store premises with a gross floor area of approximately 70.0 square meters  |



## Report of the Board of Directors

| No. | Location | Member of the Group as tenant                             | Connected party as landlord   | Term and rental (RMB)  | Type of premises  |
|-----|----------|---|---|--|---|
| 10. | Fujian   | 福州天福茗茶銷售有限公司 (Fu Zhou Tianfu Tea Sales Co., Ltd.)         | Xiamen Tenfu Trading Co., Ltd. (廈門天福商貿有限公司) (formerly known as Xiamen Tenfu Tea Industry Co., Ltd. (廈門天福實業有限公司), which was a subsidiary of Samoa Company, wholly-owned by Mr. Lee Chia Ling, and was acquired by Fujian Tian Fu Sales Co., Ltd. (福建天福茗茶銷售有限公司), wholly-owned by the Company. Completion of the acquisition was on 26 December 2014) | Term: Five years from 1 July 2013 to 30 June 2018<br>Rental: 35,000/month          | Store premises with a gross floor area of approximately 647.18 square meters    |
| 11. | Henan    | 福州天福茗茶銷售有限公司 (Fu Zhou Tian Fu Tea Sales Co., Ltd.)        | Xiamen Tenfu Trading Co., Ltd. (廈門天福商貿有限公司) (formerly known as Xiamen Tenfu Tea Industry Co., Ltd. (廈門天福實業有限公司), which was a subsidiary of Samoa Company, wholly-owned by Mr. Lee Chia Ling, and was acquired by Fujian Tian Fu Sales Co., Ltd. (福建天福茗茶銷售有限公司), wholly-owned by the Company. Completion of the acquisition was on 26 December 2014) | Term: Two years from 1 January 2014 to 31 December 2015<br>Rental: 66,666.67/month | Store premises with a gross floor area of approximately 275.5 square meters     |
| 12. | Xiamen   | 廈門天鈺商貿有限公司 (Xiamen Tianyu Commerce and Trading Co., Ltd.) | Xiamen Tenmax Commodity Trading Co., Ltd. (天美仕 (廈門) 日用品貿易有限公司) formerly known as Xiamen Tenfu Tea Industry Co., Ltd. (廈門天福茶業有限公司)   | Term: Ten years from 1 April 2014 to 31 March 2024<br>Rental: 25,000/month         | Warehouse premises with a gross floor area of approximately 2,500 square meters |

**Note 1:** As the continuing connected transactions under items 1 and 8; items 2 and 3, and items 10 and 11 are with the same landlord, their respective applicable ratios have been aggregated.

## Report of the Board of Directors

### Lease Agreements with Mr. Lee Chia Ling

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

During the year, the amount of rental paid/payable by the Group in respect of the lease agreements between the Group and Mr. Lee Chia Ling were RMB1,140,000.

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.  | Liaoning | 吉林省天福茗茶銷售有限公司<br>(Jilin Province Tian Fu Tea Sales Co., Ltd.) | Mr. Lee Chia Ling | Term: Three years from 23 September 2014 to 22 September 2017<br>Rental:<br>50,000/month | Store premises with a gross floor area of approximately 690.8 square meters |
| 2.  | Sichuan  | 四川天福茗茶銷售有限公司<br>(Sichuan Tenfu Tea Sales Co., Ltd.)           | Mr. Lee Chia Ling | Term: Three years from 19 May 2013 to 18 May 2016<br>Rental:<br>30,000/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

Reference is made to the announcement of the Company dated 11 December 2013 in respect of the continuing connected transactions under the Renewed Lu Yu Master Purchase Agreement (defined below) in relation to the purchases of tea ware from Lu Yu (defined below).

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 constitutes a continuing connected transaction for the Company.

## Report of the Board of Directors

The Company and Lu Yu have entered into the renewed Lu Yu master purchase agreement (the “Renewed Lu Yu Master Purchase Agreement”) on 11 December 2013, to renew the purchase of tea ware from Lu Yu for a further period of three years commencing on 1 January 2014 to 31 December 2016, subject to the new annual cap not exceeding RMB20,000,000, RMB24,000,000 and RMB28,800,000 for the three years ending 31 December 2016, respectively. The new annual caps have been determined based on the projected 20% increase in the market demand of tea ware with reference to the market rates for similar tea ware, which the Group purchased from independent third parties. In arriving at the new annual caps, the Directors have considered (1) the historical transaction amounts 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 for the year ended 31 December 2012 and for the eleven months ended 30 November 2013; and (4) the expected future growth of the tea ware business.

During the year ended 31 December 2014, the amounts that the Group paid/payable to Lu Yu for the purchase of tea ware were approximately RMB18,146,000.

### ***Master Processing Agreement with Tenfu Group (Samoa) Holdings Co., Limited (“Samoa Company”) and its Subsidiaries (“Samoa Group”)***

Reference is made to the announcement of the Company dated 11 December 2013 in respect of the continuing connected transactions under the Renewed Samoa Master Processing Agreement (defined below) in relation to the provision of processing services to the Group to enhance the quality of blended and aged tea leaves.

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

The Company and Samoa Company has entered into the renewed Samoa master processing agreement (the “Renewed Samoa Master Processing Agreement”) on 11 December 2013, to renew the provision of tea leaves processing service by Samoa Group for a further period of three years commencing on 1 January 2014 to 31 December 2016, subject to the new annual cap not exceeding RMB4,950,000, RMB5,445,000 and RMB5,989,000 for the three years ending 31 December 2016, respectively. The new annual caps have been determined based on (1) the processing fee of RMB16.5 per kilogram with reference to the market price charged by independent third parties for provision of similar services; (2) the estimated tea leaves required processing in the amount of 300,000 kilogram in 2014 and (3) the projected 10% increase of the estimated tea leaves required processing. In arriving at the new annual caps, the Directors have considered (1) the tea leaves processed by Samoa Group are of good quality and are suitable for use; (2) the processing fee of RMB16.5 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 the tea leaves required processing in the previous year and the expected future growth of the tea leaves required processing.

During the year ended 31 December 2014, the amount of services fees paid/payable to the Samoa Group in respect of the Master Processing Agreement was RMB2,940,000.

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

#### ***Master Purchase Agreement with Samoa Group***

Reference is made to the announcement of the Company dated 11 December 2013 in respect of the continuing connected transactions under the Renewed Samoa Master Purchase Agreement (defined below) in relation to the purchases of tea leaves from Samoa Group.

The Company has been purchasing tea leaves from Samoa Group as part of the ordinary and usual course of business. As Samoa Company 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.

The Company and Samoa Company has entered into the renewed Samoa master purchase agreement (the "Renewed Samoa Master Purchase Agreement") on 11 December 2013, to renew the purchase of tea leaves from Samoa Group for a further period of three years commencing on 1 January 2014 to 31 December 2016, subject to the new annual cap not exceeding RMB70,000,000, RMB77,000,000 and RMB84,700,000 for the three years ending 31 December 2016, respectively. The new annual caps have been determined based on the projected 10% 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 new annual caps, the Directors have considered (1) the actual transaction amounts for the purchase of tea leaves from Samoa Group for the year ended 31 December 2012 and for the eleven months ended 30 November 2013; (2) the total sale demand of tea leaves and the amount of tea leaves that would be able to be provided through self-owned production facilities in Zhangzhou, Sichuan and Zhejiang; and (3) the expected amount of growth of tea leaves sale in the future.

During the year ended 31 December 2014, the amounts that the Group paid/payable to Samoa Group for the purchase of tea leaves were RMB69,977,000.

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 continuing connected transactions, the terms of which are fair and reasonable and for the overall benefit of the Shareholders of the Company.

Based on the work performed, the auditor of the Company confirmed to the Board that nothing has come to their attention that causes them to believe that the aforesaid continuing connected transactions:

1. have not been approved by the Board;
2. were not, in all material respects, in accordance with the pricing policy of the Group if the transactions involve provision of goods or services by the Group;
3. were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and
4. have exceeded the relevant annual caps disclosed in the Company's announcement dated 11 December 2013.



## Report of the Board of Directors

### Employee and remuneration policies

As of 31 December 2014 the Group had an aggregate of 5,286 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 independence 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. The Company plans to use the remaining net proceeds as stated in the section headed "Future Plans and Use of Proceeds" of the Company's prospectus dated 14 September 2011.

The table below sets out the Company's planned use of the net proceeds at the time of listing and its use of such net proceeds as of 31 December 2014:

|  | Planned use of net proceeds at listing |                   | Net proceeds used as of 31 December 2014 |                   |
|--|--|-------------------|--|-------------------|
|  | Amount*<br>(million RMB)               | Percentage<br>(%) | Amount<br>(million RMB)                  | Percentage<br>(%) |
| Expand and optimize network of self-owned retail outlets and retail points | 373.3                                  | 40.0              | 220.3                                    | 23.6              |
| Acquire store premises for self-owned retail outlets                       | 233.3                                  | 25.0              | 233.3                                    | 25.0              |
| Working capital and other general corporate purposes                       | 93.3                                   | 10.0              | 93.3                                     | 10.0              |
| Maintain and promote brands  | 140.0                                  | 15.0              | 86.6                                     | 9.3               |
| Expand production capacity   | 93.3                                   | 10.0              | 93.3                                     | 10.0              |
| Total  | 933.3                                  | 100.0             | 726.8                                    | 77.9              |

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

### Corporate governance

The Company is committed to the establishment of stringent corporate governance practices and procedures with a view to enhancing investor confidence and the Company's accountability and transparency. The Company strives to maintain a high standard of corporate governance. For the year ended 31 December 2014, the Company has complied with the code provisions included in the Corporate Governance Code and there has been no deviation from the code provisions as set forth under the Corporate Governance Code for the year ended 31 December 2014. Further information of the corporate governance practice of the Company has been set out in the Corporate Governance Report in the annual report of the Company for the year ended 31 December 2014.

## Report of the Board of Directors

### 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 2014.

### 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 Group to an entity.

### Events after the reporting period

The Group has no significant events 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 annual 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 2014.

### Auditor

The Company appointed PricewaterhouseCoopers as the auditor of the Company for the year ended 31 December 2014. 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, 23 March 2015

## Independent Auditor's Report



羅兵咸永道

### TO THE SHAREHOLDERS OF TENFU (CAYMAN) HOLDINGS COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Tenfu (Cayman) Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 52 to 128, which comprise the consolidated and company balance sheets as at 31 December 2014, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Directors' Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

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

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

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

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

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

## Independent Auditor's Report

(continued)

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, 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, 23 March 2015



## Consolidated Balance Sheet

As at 31 December 2014

|                                   | Note  | As at 31 December |                 |
|-----------------------------------|-------|-------------------|-----------------|
|                                   |       | 2014<br>RMB'000   | 2013<br>RMB'000 |
| <b>ASSETS</b>                     |       |                   |                 |
| <b>Non-current assets</b>         |       |                   |                 |
| Land use rights                   | 6     | 240,885           | 138,504         |
| Investment properties             | 7     | 4,169             | 4,456           |
| Property, plant and equipment     | 8     | 636,674           | 587,591         |
| Intangible assets                 | 9     | 5,290             | 3,902           |
| Investments in joint ventures     | 10    | 6,469             | 4,791           |
| Deferred income tax assets        | 21    | 41,165            | 43,354          |
| Prepayments – non-current portion | 11(a) | 79,094            | 81,429          |
| Long-term time deposits           | 13(a) | 135,000           | –               |
|                                   |       | <b>1,148,746</b>  | 864,027         |
| <b>Current assets</b>             |       |                   |                 |
| Inventories                       | 12    | 422,758           | 423,691         |
| Trade and other receivables       | 11(a) | 240,662           | 239,893         |
| Prepayments                       | 11(a) | 94,853            | 85,531          |
| Restricted cash                   | 13(a) | 98,810            | 45,975          |
| Time deposits                     | 13(a) | 606,853           | 480,000         |
| Cash and cash equivalents         | 13(a) | 231,925           | 202,277         |
|                                   |       | <b>1,695,861</b>  | 1,477,367       |
| <b>Total assets</b>               |       | <b>2,844,607</b>  | 2,341,394       |

## Consolidated Balance Sheet

As at 31 December 2014  
(continued)

|   |              | As at 31 December |                 |
|---|--------------|-------------------|-----------------|
|   | Note         | 2014<br>RMB'000   | 2013<br>RMB'000 |
| <b>EQUITY</b>   |              |                   |                 |
| <b>Capital and reserves attributable to the owners of the Company</b> |              |                   |                 |
| Share capital: nominal value  | 14           | 100,816           | 100,816         |
| Share premium   | 14           | 277,520           | 472,704         |
| Other reserves  | 16(a)        | 463,659           | 437,069         |
| Retained earnings   | 15(a)        | 1,121,790         | 879,768         |
| <b>Total equity</b>   |              | <b>1,963,785</b>  | 1,890,357       |
| <b>LIABILITIES</b>  |              |                   |                 |
| <b>Non-current liabilities</b>  |              |                   |                 |
| Borrowings  | 19(a)        | 122,380           | –               |
| Deferred income tax liabilities                                       | 21           | 20,445            | 17,453          |
|   |              | <b>142,825</b>    | 17,453          |
| <b>Current liabilities</b>  |              |                   |                 |
| Trade and other payables  | 18(a), 35(c) | 211,453           | 271,692         |
| Current income tax liabilities  |              | 33,056            | 26,491          |
| Borrowings  | 19(a)        | 477,345           | 121,454         |
| Other liabilities   | 20           | 16,143            | 13,947          |
|   |              | <b>737,997</b>    | 433,584         |
| <b>Total liabilities</b>  |              | <b>880,822</b>    | 451,037         |
| <b>Total equity and liabilities</b>                                   |              | <b>2,844,607</b>  | 2,341,394       |
| <b>Net current assets</b>   |              | <b>957,864</b>    | 1,043,783       |
| <b>Total assets less current liabilities</b>                          |              | <b>2,106,610</b>  | 1,907,810       |

The notes on pages 58 to 128 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 2014

|   | Note  | As at 31 December |                 |
|---|-------|-------------------|-----------------|
|   |       | 2014<br>RMB'000   | 2013<br>RMB'000 |
| <b>ASSETS</b>   |       |                   |                 |
| <b>Non-current assets</b>   |       |                   |                 |
| Investments in subsidiaries   | 31    | <b>860,388</b>    | 861,672         |
| <b>Current assets</b>   |       |                   |                 |
| Trade and other receivables   | 11(b) | <b>6,264</b>      | 3,740           |
| Restricted cash   | 13(b) | <b>98,810</b>     | 45,975          |
| Time deposits   | 13(b) | <b>143,023</b>    | 50,000          |
| Cash and cash equivalents   | 13(b) | <b>9,484</b>      | 2,587           |
|   |       | <b>257,581</b>    | 102,302         |
| <b>Total assets</b>   |       | <b>1,117,969</b>  | 963,974         |
| <b>EQUITY</b>   |       |                   |                 |
| <b>Capital and reserves attributable to the owners of the Company</b> |       |                   |                 |
| Share capital: nominal value  | 14    | <b>100,816</b>    | 100,816         |
| Share premium   | 14    | <b>277,520</b>    | 472,704         |
| Other reserves  | 16(b) | –                 | 1,586           |
| Retained earnings   | 15(b) | <b>70,545</b>     | 75,708          |
| <b>Total equity</b>   |       | <b>448,881</b>    | 650,814         |
| <b>LIABILITIES</b>  |       |                   |                 |
| <b>Non-current liabilities</b>  |       |                   |                 |
| Borrowings  | 19(b) | <b>122,380</b>    | –               |
| <b>Current liabilities</b>  |       |                   |                 |
| Other payables  | 18(b) | <b>119,363</b>    | 221,706         |
| Borrowings  | 19(b) | <b>427,345</b>    | 91,454          |
|   |       | <b>546,708</b>    | 313,160         |
| <b>Total liabilities</b>  |       | <b>669,088</b>    | 313,160         |
| <b>Total equity and liabilities</b>                                   |       | <b>1,117,969</b>  | 963,974         |
| <b>Net current liabilities</b>  |       | <b>(289,127)</b>  | (210,858)       |
| <b>Total assets less current liabilities</b>                          |       | <b>571,261</b>    | 650,814         |

The notes on pages 58 to 128 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 2014

|   | Note  | Year ended 31 December |                 |
|---|-------|------------------------|-----------------|
|   |       | 2014<br>RMB'000        | 2013<br>RMB'000 |
| Revenue   | 5     | 1,688,589              | 1,661,577       |
| Cost of sales   | 24    | (638,720)              | (644,388)       |
| <b>Gross profit</b>   |       | <b>1,049,869</b>       | 1,017,189       |
| Distribution costs  | 24    | (497,819)              | (487,639)       |
| Administrative expenses   | 24    | (204,891)              | (192,443)       |
| Other income  | 22    | 15,371                 | 16,367          |
| Other (losses)/gains – net  | 23    | (436)                  | 2,613           |
| <b>Operating profit</b>   |       | <b>362,094</b>         | 356,087         |
| Finance income  | 27    | 25,687                 | 13,079          |
| Finance costs   | 27    | (10,537)               | (1,915)         |
| Finance income – net  | 27    | 15,150                 | 11,164          |
| Share of profits less losses of joint ventures  | 10    | 1,118                  | 1,784           |
| <b>Profit before income tax</b>   |       | <b>378,362</b>         | 369,035         |
| Income tax expense  | 28    | (108,164)              | (101,902)       |
| <b>Profit for the year, all attributable to the owners of the Company</b>                     |       | <b>270,198</b>         | 267,133         |
| Other comprehensive income for the year   |       | –                      | –               |
| <b>Total comprehensive income for the year, all attributable to the owners of the Company</b> | 15(a) | <b>270,198</b>         | 267,133         |
| <b>Earnings per share for profit attributable to the owners of the Company</b>                |       |                        |                 |
| – Basic earnings per share  | 29    | RMB0.22                | RMB0.22         |
| – Diluted earnings per share  | 29    | RMB0.22                | RMB0.22         |

The notes on pages 58 to 128 are an integral part of these consolidated financial statements.

|                  | Note | Year ended 31 December |                 |
|------------------|------|------------------------|-----------------|
|                  |      | 2014<br>RMB'000        | 2013<br>RMB'000 |
| <b>Dividends</b> | 30   | <b>203,310</b>         | 195,184         |



## Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

|   | Attributable to the owners of the Company |                          |                           |                              |                         |
|---|---|--------------------------|---------------------------|------------------------------|-------------------------|
|   | Share capital<br>RMB'000                  | Share premium<br>RMB'000 | Other reserves<br>RMB'000 | Retained earnings<br>RMB'000 | Total equity<br>RMB'000 |
| Balance at 1 January 2014   | <b>100,816</b>                            | <b>472,704</b>           | <b>437,069</b>            | <b>879,768</b>               | <b>1,890,357</b>        |
| <b>Comprehensive income</b>   |   |                          |                           |                              |                         |
| Profit and total comprehensive income for the year  | –   | –                        | –                         | <b>270,198</b>               | <b>270,198</b>          |
| <b>Transactions with owners</b>   |   |                          |                           |                              |                         |
| Profit appropriation to statutory reserves (Note 16(a))   | –   | –                        | <b>28,176</b>             | <b>(28,176)</b>              | –                       |
| Share option scheme   |   |                          |                           |                              |                         |
| – value of services from directors, employees and independent third party distributors (Note 16(a))                             | –   | –                        | <b>582</b>                | –                            | <b>582</b>              |
| – reversal of the accumulated value of services from directors, employees and independent third party distributors (Note 16(a)) | –   | –                        | <b>(2,168)</b>            | –                            | <b>(2,168)</b>          |
| Dividends (Note 30)   | –   | <b>(195,184)</b>         | –                         | –                            | <b>(195,184)</b>        |
| <b>Total transactions with owners</b>   | –   | <b>(195,184)</b>         | <b>26,590</b>             | <b>(28,176)</b>              | <b>(196,770)</b>        |
| <b>Balance at 31 December 2014</b>  | <b>100,816</b>                            | <b>277,520</b>           | <b>463,659</b>            | <b>1,121,790</b>             | <b>1,963,785</b>        |
| Balance at 1 January 2013   | 100,816                                   | 678,625                  | 406,784                   | 642,353                      | 1,828,578               |
| <b>Comprehensive income</b>   |   |                          |                           |                              |                         |
| Profit and total comprehensive income for the year  | –   | –                        | –                         | 267,133                      | 267,133                 |
| <b>Transactions with owners</b>   |   |                          |                           |                              |                         |
| Profit appropriation to statutory reserves (Note 16(a))   | –   | –                        | 29,718                    | (29,718)                     | –                       |
| Share option scheme   |   |                          |                           |                              |                         |
| – value of services from directors, employees and independent third party distributors (Note 16(a))                             | –   | –                        | 567                       | –                            | 567                     |
| Dividends   | –   | (205,921)                | –                         | –                            | (205,921)               |
| <b>Total transactions with owners</b>   | –   | (205,921)                | 30,285                    | (29,718)                     | (205,354)               |
| <b>Balance at 31 December 2013</b>  | 100,816                                   | 472,704                  | 437,069                   | 879,768                      | 1,890,357               |

The notes on pages 58 to 128 are an integral part of these consolidated financial statements.

## Consolidated Cash Flow Statement

For the year ended 31 December 2014

|  | Note  | Year ended 31 December |                 |
|--|-------|------------------------|-----------------|
|  |       | 2014<br>RMB'000        | 2013<br>RMB'000 |
| <b>Cash flows from operating activities</b>                              |       |                        |                 |
| Cash generated from operations   | 32(a) | <b>367,484</b>         | 506,206         |
| Interest paid  |       | <b>(9,827)</b>         | (1,915)         |
| Income tax paid  |       | <b>(96,418)</b>        | (99,200)        |
| Net cash inflow from operating activities                                |       | <b>261,239</b>         | 405,091         |
| <b>Cash flows from investing activities</b>                              |       |                        |                 |
| Payments for acquisition of businesses, net of cash acquired             | 34    | <b>(19,129)</b>        | (16,468)        |
| Investment in a joint venture  | 10    | <b>(1,935)</b>         | –               |
| Purchase of land use rights  | 6     | <b>(96,282)</b>        | (47,167)        |
| Purchase of property, plant and equipment                                | 8     | <b>(106,116)</b>       | (98,366)        |
| Purchase of intangible assets  | 9     | <b>(2,586)</b>         | (947)           |
| Changes in investments in time deposits with maturity more than 3 months | 13(a) | <b>(261,853)</b>       | (390,600)       |
| Proceeds from disposal of property, plant and equipment                  | 32(b) | <b>886</b>             | 1,953           |
| Interest received  |       | <b>16,294</b>          | 8,123           |
| Dividends received from joint ventures                                   | 10    | <b>1,375</b>           | 1,334           |
| Net cash outflow from investing activities                               |       | <b>(469,346)</b>       | (542,138)       |
| <b>Cash flows from financing activities</b>                              |       |                        |                 |
| Proceeds from borrowings   |       | <b>587,618</b>         | 220,150         |
| Repayments of borrowings   |       | <b>(109,347)</b>       | (212,279)       |
| Dividends paid to the owners of the Company                              | 30    | <b>(195,184)</b>       | (207,563)       |
| Changes in restricted cash pledged for borrowings                        | 13    | <b>(52,835)</b>        | (18,475)        |
| Increase/(Decrease) in amounts due to related parties                    |       | <b>8,093</b>           | (970)           |
| Net cash inflow/(outflow) from financing activities                      |       | <b>238,345</b>         | (219,137)       |
| <b>Net increase/(decrease) in cash and cash equivalents</b>              |       |                        |                 |
| Effect of foreign exchange rate changes                                  |       | <b>(590)</b>           | (380)           |
| Cash and cash equivalents at beginning of the year                       |       | <b>202,277</b>         | 558,841         |
| <b>Cash and cash equivalents at end of the year</b>                      | 13    | <b>231,925</b>         | 202,277         |

The notes on pages 58 to 128 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 1 General information

Tenfu (Cayman) Holdings Company Limited (the “Company”) and its subsidiaries (together, the “Group”) are engaged in the classification, packaging and sales of tea leaves, manufacture and sales of tea snacks, and sales of tea ware, catering management, beverage production and sales of pre-packaged food. The Group has manufacturing plants in Fujian Province, Sichuan Province and Zhejiang Province, the People’s Republic of China (the “PRC”) and sells mainly to customers located in the PRC.

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

The Company’s ordinary shares were listed on the main board of The Stock Exchange of Hong Kong Limited 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 52 to 128 have been approved for issue by the board of directors (the “Board”) of the Company on 23 March 2015.

## 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”) under the historical cost convention.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Hong Kong Companies Ordinance (Cap. 32) for this financial year and the comparative period.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

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

#### **Changes in accounting policies and disclosures**

(a) New amendments and interpretation of HKFRSs adopted by the Group in 2014

The following new amendments and interpretation of HKFRSs which are relevant to the Group's operations are effective for the first time for the financial year beginning on 1 January 2014.

- HK (IFRIC) Interpretation 21 'Levies'. This is an interpretation of HKAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. HKAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.
- Amendments to HKAS 32 'Financial Instruments: Presentation' on financial asset and liability offsetting. These amendments are to the application guidance in HKAS 32, 'Financial Instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.
- Amendment to HKAS 36 'Impairment of Assets' on recoverable amount disclosures. This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.
- Annual improvements 2012 include changes from the 2010-2012 cycle of the annual improvements project, that affect 7 standards, only the below are effective for relevant transactions executed on or after 1 July 2014:
  - Amendment to HKFRS 2 'Share-based Payment' clarifies the definition of a 'vesting condition' and separately define 'performance condition' and 'service condition'.
  - Amendments to HKFRS 3 'Business Combinations', and consequential amendments to HKFRS 9 'Financial Instruments', HKAS 37 'Provisions, Contingent Liabilities and Contingent Assets', and HKAS 39 'Financial Instruments – Recognition and Measurement' clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in HKAS 32 'Financial Instruments: Presentation'. All non-equity contingent consideration, both financial and nonfinancial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss.

The adoption of the above new amendments and interpretation of HKFRSs starting from 1 January 2014 did not give rise to any significant impact on the Group's results of operations and financial position for the year ended 31 December 2014.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

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

#### **Changes in accounting policies and disclosures** *(continued)*

(b) New standards and amendments of HKFRSs which have been issued and are relevant to the Group's operations are effective for the financial year beginning after 1 January 2014 and have not been early adopted by the Group

- Annual improvements 2012 – These annual improvements address certain issues in the 2010-2012 reporting cycle, primarily with a view to removing inconsistencies and clarifying wording. They include changes to the following standards which are relevant to the Group's operations. These annual improvements are effective for annual periods beginning on or after 1 July 2014.

HKFRS 8 'Operating Segments'

HKAS 16 'Property, Plant and Equipment'

HKAS 24 'Related Party Disclosures'

HKAS 38 'Intangible Assets'

- Annual improvements 2013 – These annual improvements address certain issues in the 2011-2013 reporting cycle, primarily with a view to removing inconsistencies and clarifying wording. They include changes to the following standards which are relevant to the Group's operations. These annual improvements are effective for annual periods beginning on or after 1 July 2014.

HKFRS3 'Business Combinations'

HKFRS13 'Fair Value Measurement'

HKAS40 'Investment Property'

- Amendments to HKFRS 10 and HKAS 28 on sale or contribution of assets between an investor and its associate or joint venture. The amendments address an inconsistency between HKFRS 10 and HKAS 28 in the sale and contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. The amendments are effective for annual periods beginning on or after 1 January 2016.
- Amendment to HKAS 27 on equity method in separate financial statements. The amendment allows entities to use equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendment is effective for annual periods beginning on or after 1 January 2016.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

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

#### **Changes in accounting policies and disclosures** *(continued)*

(b) New standards and amendments of HKFRSs which have been issued and are relevant to the Group's operations are effective for the financial year beginning after 1 January 2014 and have not been early adopted by the Group *(continued)*

- Annual improvements 2014 – These annual improvements address certain issues in the 2012-2014 reporting cycle, primarily with a view to removing inconsistencies and clarifying wording. They include changes to the following standards which are relevant to the Group's operations. These annual improvements are effective for annual periods beginning on or after 1 July 2016.

HKFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'

HKFRS 7 'Financial Instruments: Disclosure'

HKAS 19 'Employee Benefits'

HKAS 34 'Interim Financial Reporting'

- HKFRS15 'Revenue from Contracts with Customers' establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (1) Identify the contract(s) with customer; (2) Identify separate performance obligations in a contract (3) Determine the transaction price (4) Allocate transaction price to performance obligations and (5) recognise revenue when performance obligation is satisfied. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. It moves away from a revenue recognition model based on an 'earnings processes to an 'asset-liability' approach based on transfer of control.

HKFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

HKFRS 15 replaces the previous revenue standards: HKAS 18 'Revenue' and HKAS 11 'Construction Contracts', and the related Interpretations on revenue recognition: HK(IFRIC) 13 'Customer Loyalty Programmes', HK(IFRIC) 15 'Agreements for the Construction of Real Estate', HK(IFRIC) 18 'Transfers of Assets from Customers' and SIC-31 'Revenue – Barter Transactions Involving Advertising Services'. HKFRS 15 is effective for annual periods beginning on or after 1 January 2017.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

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

#### **Changes in accounting policies and disclosures** *(continued)*

(b) New standards and amendments of HKFRSs which have been issued and are relevant to the Group's operations are effective for the financial year beginning after 1 January 2014 and have not been early adopted by the Group *(continued)*

- HKFRS 9 'Financial Instruments' replaces the whole of HKAS 39. HKFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. For financial liabilities there are two classification categories: amortised cost and fair value through profit or loss. Where non-derivative financial liabilities are designated at fair value through profit or loss, the changes in the fair value due to changes in the liability's own credit risk are recognised in OCI, unless such changes in fair value would create an accounting mismatch in profit or loss, in which case, all fair value movements are recognised in profit or loss. There is no subsequent recycling of the amounts in OCI to profit or loss. For financial liabilities held for trading (including derivative financial liabilities), all changes in fair value are presented in profit or loss.

HKFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in HKAS 39. HKFRS 9 contains a 'three stage' approach, which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. The new rules mean that on initial recognition of a non-credit impaired financial asset carried at amortised cost a day-1 loss equal to the 12-month ECL is recognised in profit or loss. In the case of accounts receivable this day-1 loss will be equal to their lifetime ECL. Where there is a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.

HKFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more 'rule-based' approach of HKAS39. HKFRS 9 is effective for annual periods beginning on or after 1 January 2018.

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

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

#### **Changes in accounting policies and disclosures** *(continued)*

##### (c) New Hong Kong Companies Ordinance (Cap.622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 (i.e. year beginning 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

### 2.2 Consolidation

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

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 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 recognised 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 the total of consideration transferred, non-controlling interest recognised and previously held equity interest measured is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly as profit or loss in the consolidated statement of comprehensive income.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

### 2.2 Consolidation *(continued)*

#### **(b) Joint ventures**

Under HKFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

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

### 2.3 Segment reporting

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

### 2.4 Foreign currency translation

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

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 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 recognised 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

### 2.5 Investment property *(continued)*

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 derecognised.

### 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, machinery, vehicles, 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 recognised 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 derecognised. 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 and exhibits            | 20 years   |

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

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

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 recognised 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.

#### 2.8 Intangible assets

##### (a) Goodwill

Goodwill arises on the acquisition of subsidiaries and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

##### (b) Trademarks

Trademarks are initially recognised 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

### 2.8 Intangible assets *(continued)*

#### (c) **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 recognised 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 recognised as profit or loss in the consolidated statement of comprehensive income when the changes arise.

### 2.9 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

### 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.

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', 'restricted cash', 'time deposits' and 'cash and cash equivalents' in the consolidated balance sheet (Notes 2.13 and 2.14).

#### 2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

#### 2.10.3 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 recognised amounts and there is an intention to settle on a net basis or realise the assets and settle the liabilities simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

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

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

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 recognised as profit and 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 recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised as profit or loss in the consolidated statement of comprehensive income.

### 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

#### 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 recognised 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 recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

### 2.17 Borrowings

Borrowings are recognised 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 recognised 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.

### 2.18 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

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

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

##### Inside basis differences

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

Deferred income tax assets are recognised 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 liability is provided on temporary differences arising on investments in subsidiaries and joint venture, 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.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

#### **(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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

### 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 and the Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions to these plans are recognised as employee benefit expenses when incurred.

### 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 recognised 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 recognised 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.

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 recognised over the vesting period as an increase to investment in a subsidiary, with a corresponding credit to equity in the parent company accounts.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

### 2.22 Provisions

Provisions are recognised 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 recognised 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 recognised 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 recognised as interest expense.

### 2.23 Government grants

Government grants are recognised 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 recognised 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 recognised as income in the consolidated statement of comprehensive income on a straight line basis over the expected lives of the related assets.

### 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

### 2.24 Revenue recognition *(continued)*

#### **(a) Sales of goods – wholesale**

The Group processes/manufactures and sells a range of tea products in the wholesale market. Revenue from the sales of goods is recognised 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 recognised 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, restaurant and tourist services**

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

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

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

### 2.25 Interest income

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

### 2.26 Dividend income

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

#### 2.27 Operating leases

**(a) *The Group's 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) *The Group's 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.

#### 2.28 Dividend distribution

Dividend distribution to the Company's shareholders is recognised 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.

#### 2.29 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 recognised 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 recognised as deferred income at their fair value. Revenue from the reward points is recognised when the points are redeemed. Unused reward points will expire after one year.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 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. Risk management is carried out by treasury department under policies approved by the Board of Directors.

#### (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.

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 |         |
|---|------------------------|---------|
|   | 2014                   | 2013    |
|   | RMB'000                | RMB'000 |
| Profit after income tax increase/(decrease) |                        |         |
| – Strengthened 5%                           | (19,205)               | (3,032) |
| – Weakened 5%                               | 19,205                 | 3,032   |
| Equity increase/(decrease)                  |                        |         |
| – Strengthened 5%                           | (19,205)               | (3,032) |
| – Weakened 5%                               | 19,205                 | 3,032   |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 3 Financial risk management (continued)

### 3.1 Financial risk factors (continued)

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

##### (ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets and liabilities other than its bank deposits and borrowings. Borrowings at variable rates expose the Group to cash flow interest-rate risk. Bank deposits and borrowings at fixed rates expose the Group to fair value interest-rate risk. The Group has not hedged its cash flow and fair value interest rate risk. Details of the Group's bank deposits and borrowings have been disclosed in Note 13 and Note 19 respectively.

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

|                                     | Year ended 31 December |                 |
|-------------------------------------|------------------------|-----------------|
|                                     | 2014<br>RMB'000        | 2013<br>RMB'000 |
| Post-tax profit increase/(decrease) |                        |                 |
| – 10% higher                        | (517)                  | (70)            |
| – 10% lower                         | 517                    | 70              |
| Equity increase/(decrease)          |                        |                 |
| – 10% higher                        | (517)                  | (70)            |
| – 10% lower                         | 517                    | 70              |

#### (b) Credit risk

Credit risk arises from time deposits, restricted cash, 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 restricted cash, time deposits and cash and cash equivalents, they 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.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 3 Financial risk management *(continued)*

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

##### (c) Liquidity risk

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

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

| As at 31 December 2014                    | Less<br>than 1 year<br>RMB'000 | Between<br>1 and 2 years<br>RMB'000 | Between<br>2 and 5 years<br>RMB'000 | Total<br>RMB'000 |
|---|--------------------------------|-------------------------------------|-------------------------------------|------------------|
| Borrowings                                | 477,345                        | 122,380                             | -                                   | 599,725          |
| Interest payments<br>on borrowings (note) | 8,937                          | 2,892                               | -                                   | 11,829           |
| Trade and other payables                  | 147,081                        | -                                   | -                                   | 147,081          |
|   | <b>633,363</b>                 | <b>125,272</b>                      | <b>-</b>                            | <b>758,635</b>   |

| As at 31 December 2013                    | Less<br>than 1 year<br>RMB'000 | Between<br>1 and 2 years<br>RMB'000 | Between<br>2 and 5 years<br>RMB'000 | Total<br>RMB'000 |
|---|--------------------------------|-------------------------------------|-------------------------------------|------------------|
| Borrowings                                | 121,454                        | -                                   | -                                   | 121,454          |
| Interest payments<br>on borrowings (note) | 1,842                          | -                                   | -                                   | 1,842            |
| Trade and other payables                  | 189,183                        | -                                   | -                                   | 189,183          |
|   | 312,479                        | -                                   | -                                   | 312,479          |

*Note: The interest payments on borrowings are calculated based on borrowings held as at 31 December 2014 and 2013 (excluding the accrued interest payable balance in trade and other payables) without taking into account future borrowings.*

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 3 Financial risk management *(continued)*

### 3.2 Capital risk management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total debt divided by total capital. Total debt 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 2014, the Group's strategy is to maintain the gearing ratio below 50% (2013: below 50%). The gearing ratios at 31 December 2014 and 2013 were as follows:

|   | As at 31 December |           |
|---|-------------------|-----------|
|   | 2014              | 2013      |
|   | RMB'000           | RMB'000   |
| Total debt – Total borrowings (Note 19) | 599,725           | 121,454   |
| Total equity                            | 1,963,785         | 1,890,357 |
| Total capital                           | 2,563,510         | 2,011,811 |
| Gearing ratio                           | 23%               | 6%        |

### 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 4 Critical accounting estimates and judgements *(continued)*

### 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 recognised 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 achieving 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 5 Revenue and segment information

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

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

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

Others include revenue from restaurant, hotel, tourist, management services and catering management, beverage production and sales and wholesale of pre-packaged food. These are not included within the reportable operating segments, as they are not presented separately in the reports provided to the Board.

No geographical segment information is presented as almost all the sales and operating profits of the Group are derived within the PRC and almost all the operating assets of the Group are located in the PRC, which is considered as one geographic location with similar risks and returns.

During 2014 and 2013, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

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

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

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 5 Revenue and segment information *(continued)*

#### Revenue

Turnover of the Group consists of the following revenues for the years ended 31 December 2014 and 2013. All revenues are derived from external customers.

|                     | Year ended 31 December |           |
|---------------------|------------------------|-----------|
|                     | 2014                   | 2013      |
| Sales of tea leaves | <b>1,156,437</b>       | 1,198,155 |
| Sales of tea snacks | <b>205,873</b>         | 222,942   |
| Sales of tea ware   | <b>267,738</b>         | 204,697   |
| Others              | <b>58,541</b>          | 35,783    |
|                     | <b>1,688,589</b>       | 1,661,577 |

The segment results for the year ended 31 December 2014:

|   | Tea leaves<br>RMB'000 | Tea snacks<br>RMB'000 | Tea ware<br>RMB'000 | All other<br>segments<br>RMB'000 | Total<br>RMB'000 |
|---|-----------------------|-----------------------|---------------------|----------------------------------|------------------|
| Segment revenue                                   | <b>1,156,437</b>      | <b>205,873</b>        | <b>267,738</b>      | <b>58,541</b>                    | <b>1,688,589</b> |
| Segment results                                   | <b>293,019</b>        | <b>18,939</b>         | <b>48,009</b>       | <b>6,295</b>                     | <b>366,262</b>   |
| Unallocated administrative expenses               |                       |                       |                     |                                  | <b>(19,103)</b>  |
| Other income                                      |                       |                       |                     |                                  | <b>15,371</b>    |
| Other losses – net                                |                       |                       |                     |                                  | <b>(436)</b>     |
| Finance income – net                              |                       |                       |                     |                                  | <b>15,150</b>    |
| Share of profits less<br>losses of joint ventures |                       |                       |                     |                                  | <b>1,118</b>     |
| Profit before income tax                          |                       |                       |                     |                                  | <b>378,362</b>   |
| Income tax expense                                |                       |                       |                     |                                  | <b>(108,164)</b> |
| Profit for the year                               |                       |                       |                     |                                  | <b>270,198</b>   |



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 5 Revenue and segment information *(continued)*

Other segment items included in the 2014 consolidated statement of comprehensive income:

|   | Tea leaves | Tea snacks | Tea ware | All other segments | Unallocated | Total   |
|---|------------|------------|----------|--------------------|-------------|---------|
|   | RMB'000    | RMB'000    | RMB'000  | RMB'000            | RMB'000     | RMB'000 |
| Depreciation of property, plant and equipment           | 39,790     | 10,562     | 6,840    | 2,431              | 9,057       | 68,680  |
| Depreciation of investment properties                   | -          | -          | -        | -                  | 287         | 287     |
| Amortisation of land use rights                         | 6,049      | 1,138      | 1,306    | 40                 | -           | 8,533   |
| Amortisation of intangible assets                       | 440        | 94         | 86       | 29                 | 549         | 1,198   |
| Gains on disposal of property, plant and equipment, net | (32)       | (2)        | (4)      | (17)               | -           | (55)    |

The segment assets and liabilities as at 31 December 2014 are as follows:

|                     | Tea leaves | Tea snacks | Tea ware | All other segments | Unallocated | Total     |
|---------------------|------------|------------|----------|--------------------|-------------|-----------|
|                     | RMB'000    | RMB'000    | RMB'000  | RMB'000            | RMB'000     | RMB'000   |
| Segment assets      | 1,361,012  | 283,072    | 304,902  | 63,333             | 832,288     | 2,844,607 |
| Segment liabilities | 159,643    | 19,495     | 28,931   | 5,185              | 667,568     | 880,822   |

The segment results for the year ended 31 December 2013:

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 5 Revenue and segment information *(continued)*

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

|   | Tea leaves<br>RMB'000 | Tea snacks<br>RMB'000 | Tea ware<br>RMB'000 | All other<br>segments<br>RMB'000 | Unallocated<br>RMB'000 | Total<br>RMB'000 |
|---|-----------------------|-----------------------|---------------------|----------------------------------|------------------------|------------------|
| Depreciation of property,<br>plant and equipment            | 33,524                | 10,391                | 6,653               | 2,203                            | 10,192                 | 62,963           |
| Depreciation of investment<br>properties                    | –                     | –                     | –                   | –                                | 287                    | 287              |
| Amortisation of land use<br>rights                          | 2,538                 | 550                   | 427                 | 69                               | –                      | 3,584            |
| Amortisation of intangible<br>assets                        | 246                   | 88                    | 32                  | 31                               | 320                    | 717              |
| Losses on disposal of property,<br>plant and equipment, net | 122                   | 119                   | 115                 | –                                | –                      | 356              |

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

|                     | Tea leaves<br>RMB'000 | Tea snacks<br>RMB'000 | Tea ware<br>RMB'000 | All other<br>segments<br>RMB'000 | Unallocated<br>RMB'000 | Total<br>RMB'000 |
|---------------------|-----------------------|-----------------------|---------------------|----------------------------------|------------------------|------------------|
| Segment assets      | 1,307,800             | 279,148               | 267,256             | 39,049                           | 448,141                | 2,341,394        |
| Segment liabilities | 193,987               | 21,323                | 27,917              | 4,912                            | 202,898                | 451,037          |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 6 Land use rights – Group

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 |                 |
|--|------------------------|-----------------|
|  | 2014<br>RMB'000        | 2013<br>RMB'000 |
| At beginning of year                                     |                        |                 |
| Cost   | <b>147,038</b>         | 95,015          |
| Accumulated amortisation                                 | <b>(8,534)</b>         | (4,950)         |
| Net book amount  | <b>138,504</b>         | 90,065          |
| Opening net book amount                                  | <b>138,504</b>         | 90,065          |
| Additions resulting from business combinations (Note 34) | –                      | 4,856           |
| Other additions  | <b>110,914</b>         | 47,167          |
| Amortisation for the year (Note 24)                      | <b>(8,533)</b>         | (3,584)         |
| Closing net book amount                                  | <b>240,885</b>         | 138,504         |
| At end of year   |                        |                 |
| Cost   | <b>257,952</b>         | 147,038         |
| Accumulated amortisation                                 | <b>(17,067)</b>        | (8,534)         |
| Net book amount  | <b>240,885</b>         | 138,504         |

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

|                    | Year ended 31 December |                 |
|--------------------|------------------------|-----------------|
|                    | 2014<br>RMB'000        | 2013<br>RMB'000 |
| Cost of sales      | <b>1,252</b>           | 809             |
| Distribution costs | <b>7,281</b>           | 2,775           |
|                    | <b>8,533</b>           | 3,584           |

As at 31 December 2014, land use rights with net book value of RMB5,187,000 (2013: nil) have been pledged as securities for bank borrowings of the Group amounting to RMB20,000,000 (Note 19(a)).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 7 Investment properties – Group

|                             | Year ended 31 December |                 |
|-----------------------------|------------------------|-----------------|
|                             | 2014<br>RMB'000        | 2013<br>RMB'000 |
| <b>At beginning of year</b> |                        |                 |
| Cost                        | <b>6,704</b>           | 6,704           |
| Accumulated depreciation    | <b>(2,248)</b>         | (1,961)         |
| Net book amount             | <b>4,456</b>           | 4,743           |
| Opening net book amount     | <b>4,456</b>           | 4,743           |
| Depreciation (Note 24)      | <b>(287)</b>           | (287)           |
| Closing net book amount     | <b>4,169</b>           | 4,456           |
| <b>At end of year</b>       |                        |                 |
| Cost                        | <b>6,704</b>           | 6,704           |
| Accumulated depreciation    | <b>(2,535)</b>         | (2,248)         |
| Net book amount             | <b>4,169</b>           | 4,456           |

Depreciation expenses of RMB287,000 have been charged in 'administrative expenses' for the year ended 31 December 2014 (2013: RMB287,000).

Amounts recognised in profit and loss for investment properties are as follows:

|  | Year ended 31 December |                 |
|--|------------------------|-----------------|
|  | 2014<br>RMB'000        | 2013<br>RMB'000 |
| Rental income  | <b>550</b>             | 450             |
| Property management fees income  | <b>800</b>             | 800             |
| Direct operating expenses from properties that generated rental income | <b>(371)</b>           | (366)           |
|  | <b>979</b>             | 884             |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 7 Investment properties – Group *(continued)*

The fair value of the investment properties is RMB6,970,000 as at 31 December 2014 (31 December 2013: RMB6,570,000), with carrying amount of RMB4,169,000 (31 December 2013: RMB4,456,000). The fair value is determined at each balance sheet date by an external valuer.

#### Fair value hierarchy

| Description      | Fair value measurements at  |   |   |
|------------------|---|---|---|
|                  | Quoted prices in<br>active markets for<br>identical assets<br>(Level 1) | Significant<br>other observable<br>inputs (Level 2) | Significant<br>unobservable<br>inputs (Level 3) |
|                  | RMB'000   | RMB'000   | RMB'000   |
| 31 December 2014 | –   | –   | 6,970   |
| 31 December 2013 | –   | –   | 6,570   |

The valuation was based on income capitalisation approach (term and reversionary method) which use unobservable inputs (Level 3) at 31 December 2014 and 2013, respectively. These inputs at 31 December 2014 include:

| Unobservable inputs | Value of<br>unobservable<br>inputs | Explanation for unobservable inputs   |
|---------------------|------------------------------------|---|
| Market rent         | RMB45,016 per month                | The market rent is estimated according to the comparable properties in close proximity. The higher the market rent, the higher the fair value of the properties.  |
| Yield               | 7.5%                               | The yield is estimated according to the market evidence, valuer's experience and knowledge of market conditions. The range of adopted yield is from 5.5% to 7.5% according to different cities. The higher the yield, the lower the fair value of the properties. |



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 8 Property, plant and equipment – Group

|                                    | Buildings<br>RMB'000 | Machinery<br>RMB'000 | Vehicles<br>RMB'000 | Furniture,<br>fittings and<br>equipment<br>RMB'000 | Sculpture<br>and<br>exhibits<br>RMB'000 | Construction<br>in progress<br>RMB'000 | Total<br>RMB'000 |
|------------------------------------|----------------------|----------------------|---------------------|--|---|--|------------------|
| <b>At 1 January 2014</b>           |                      |                      |                     |  |   |  |                  |
| Cost                               | 592,988              | 79,401               | 25,954              | 124,879  | -                                       | 48,085                                 | 871,307          |
| Accumulated depreciation           | (152,675)            | (42,632)             | (15,000)            | (73,409)   | -                                       | -                                      | (283,716)        |
| Net book amount                    | 440,313              | 36,769               | 10,954              | 51,470   | -                                       | 48,085                                 | 587,591          |
| <b>Year ended 31 December 2014</b> |                      |                      |                     |  |   |  |                  |
| Opening net book amount            | 440,313              | 36,769               | 10,954              | 51,470   | -                                       | 48,085                                 | 587,591          |
| Other additions                    | 52,336               | 7,968                | 2,302               | 27,957   | 5,463                                   | 22,568                                 | 118,594          |
| Transfers                          | 42,390               | -                    | -                   | 8,918  | -                                       | (51,308)                               | -                |
| Disposals (Note 32(b))             | -                    | (21)                 | (214)               | (596)  | -                                       | -                                      | (831)            |
| Depreciation (Note 24)             | (31,442)             | (6,574)              | (4,912)             | (25,579)   | (173)                                   | -                                      | (68,680)         |
| Closing net book amount            | 503,597              | 38,142               | 8,130               | 62,170   | 5,290                                   | 19,345                                 | 636,674          |
| <b>At 31 December 2014</b>         |                      |                      |                     |  |   |  |                  |
| Cost                               | 687,714              | 87,214               | 26,679              | 159,558  | 5,463                                   | 19,345                                 | 985,973          |
| Accumulated depreciation           | (184,117)            | (49,072)             | (18,549)            | (97,388)   | (173)                                   | -                                      | (349,299)        |
| Net book amount                    | 503,597              | 38,142               | 8,130               | 62,170   | 5,290                                   | 19,345                                 | 636,674          |

|  | Buildings<br>RMB'000 | Machinery<br>RMB'000 | Vehicles<br>RMB'000 | Furniture,<br>fittings and<br>equipment<br>RMB'000 | Construction<br>in progress<br>RMB'000 | Total<br>RMB'000 |
|--|----------------------|----------------------|---------------------|--|--|------------------|
| <b>At 1 January 2013</b>                                       |                      |                      |                     |  |  |                  |
| 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          |
| <b>Year ended 31 December 2013</b>                             |                      |                      |                     |  |  |                  |
| Opening net book amount  | 332,435              | 31,052               | 13,136              | 46,840   | 70,780                                 | 494,243          |
| Additions resulting from<br>business combinations<br>(Note 34) | 22,292               | 1,940                | 318                 | 1,595  | -                                      | 26,145           |
| Other additions  | 27,614               | 10,087               | 3,125               | 26,290   | 65,359                                 | 132,475          |
| Transfers  | 86,989               | 1,065                | -                   | -  | (88,054)                               | -                |
| Disposals (Note 32(b))   | -                    | (1,043)              | (631)               | (635)  | -                                      | (2,309)          |
| Depreciation (Note 24)   | (29,017)             | (6,332)              | (4,994)             | (22,620)   | -                                      | (62,963)         |
| Closing net book amount  | 440,313              | 36,769               | 10,954              | 51,470   | 48,085                                 | 587,591          |
| <b>At 31 December 2013</b>                                     |                      |                      |                     |  |  |                  |
| Cost   | 592,988              | 79,401               | 25,954              | 124,879  | 48,085                                 | 871,307          |
| Accumulated depreciation                                       | (152,675)            | (42,632)             | (15,000)            | (73,409)   | -                                      | (283,716)        |
| Net book amount  | 440,313              | 36,769               | 10,954              | 51,470   | 48,085                                 | 587,591          |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

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

|                         | Year ended 31 December |         |
|-------------------------|------------------------|---------|
|                         | 2014                   | 2013    |
|                         | RMB'000                | RMB'000 |
| Cost of sales           | 11,567                 | 8,688   |
| Administrative expenses | 23,541                 | 22,399  |
| Distribution costs      | 33,572                 | 31,876  |
|                         | <b>68,680</b>          | 62,963  |

As at 31 December 2014, property, plant and equipment with the net book value of RMB10,253,000 (2013: nil) have been pledged as securities for bank borrowings of the Group amounting to RMB20,000,000 (Note 19(a)).

As at the date of issuance of these consolidated financial statements, the certificate of certain property, plant and equipment with carrying amount of RMB70,280,000 (2013: RMB73,956,301) is under application process.

Construction work in progress as at 31 December 2014 mainly comprised retail stores, and warehouse being constructed.

During the year, the Group has capitalised borrowing costs amounting to RMB169,000 (2013: RMB693,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 2.21%.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 9 Intangible assets – Group

|  | Goodwill<br>RMB'000 | Software<br>RMB'000 | Trademark<br>RMB'000 | Total<br>RMB'000 |
|--|---------------------|---------------------|----------------------|------------------|
| <b>At 1 January 2014</b>                                 |                     |                     |                      |                  |
| Cost   | 1,740               | 5,184               | 621                  | 7,545            |
| Accumulated amortisation                                 | –                   | (3,324)             | (319)                | (3,643)          |
| Net book amount  | 1,740               | 1,860               | 302                  | 3,902            |
| <b>Year ended 31 December 2014</b>                       |                     |                     |                      |                  |
| Opening net book amount                                  | 1,740               | 1,860               | 302                  | 3,902            |
| Other additions  | –                   | 2,559               | 27                   | 2,586            |
| Amortisation charge (Note 24)                            | –                   | (1,114)             | (84)                 | (1,198)          |
| Closing net book amount                                  | 1,740               | 3,305               | 245                  | 5,290            |
| <b>At 31 December 2014</b>                               |                     |                     |                      |                  |
| Cost   | 1,740               | 7,743               | 648                  | 10,131           |
| Accumulated amortisation                                 | –                   | (4,438)             | (403)                | (4,841)          |
| Net book amount  | 1,740               | 3,305               | 245                  | 5,290            |
| <b>At 1 January 2013</b>                                 |                     |                     |                      |                  |
| Cost   | –                   | 4,237               | 433                  | 4,670            |
| Accumulated amortisation                                 | –                   | (2,650)             | (240)                | (2,890)          |
| Net book amount  | –                   | 1,587               | 193                  | 1,780            |
| <b>Year ended 31 December 2013</b>                       |                     |                     |                      |                  |
| Opening net book amount                                  | –                   | 1,587               | 193                  | 1,780            |
| Additions resulting from business combinations (Note 34) | 1,740               | –                   | 152                  | 1,892            |
| Other additions  | –                   | 947                 | –                    | 947              |
| Amortisation charge (Note 24)                            | –                   | (674)               | (43)                 | (717)            |
| Closing net book amount                                  | 1,740               | 1,860               | 302                  | 3,902            |
| <b>At 31 December 2013</b>                               |                     |                     |                      |                  |
| Cost   | 1,740               | 5,184               | 621                  | 7,545            |
| Accumulated amortisation                                 | –                   | (3,324)             | (319)                | (3,643)          |
| Net book amount  | 1,740               | 1,860               | 302                  | 3,902            |

Amortisation expenses of RMB1,198,000 have been charged in 'administrative expenses' for the year ended 31 December 2014 (2013: RMB717,000).

#### Impairment tests for goodwill

The intangible assets as at 31 December 2014 and 31 December 2013 include goodwill of RMB1,740,000 which arose from the acquisition of Xiamen Tianqia Catering Management Co., Limited ("Tian Qia") during the year 2013.

Management reviews the business performance based on type of business. Goodwill is monitored by the management at the operating segment level. In the year ended 31 December 2014 and 31 December 2013, the business of catering management, beverage production and sales of pre-packaged food did not qualify as a reportable operating segment.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 9 Intangible assets – Group *(continued)*

#### Impairment tests for goodwill *(continued)*

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial forecast approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the retail businesses in which the CGU operates.

Key assumptions used for value-in-use calculations in the year 2014 is as follows:

|                         |     |
|-------------------------|-----|
| – Gross margin          | 15% |
| – Long term growth rate | 3%  |
| – Discount rate         | 20% |

Management determined forecasted gross margins based on past performance and its expectations for market development. The long term growth rate used is consistent with the forecasts included in industry reports. The discount rate used is pre-tax and reflects specific risks relating to the Group's business.

### 10 Investments in joint ventures – Group

|                               | Year ended 31 December |                 |
|-------------------------------|------------------------|-----------------|
|                               | 2014<br>RMB'000        | 2013<br>RMB'000 |
| At beginning of year          | 4,791                  | 4,341           |
| Investment in a joint venture | 1,935                  | –               |
| Share of profits less losses  | 1,118                  | 1,784           |
| Cash dividends declared       | (1,375)                | (1,334)         |
| At end of year                | 6,469                  | 4,791           |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 10 Investments in joint ventures – Group (continued)

The particulars of the joint ventures of the Group at 31 December 2014 and 2013, all of which are unlisted, were set out as follows:

| Company name   | Country/place and date of incorporation | Registered capital | Issued and fully paid capital | Attributable equity interest to the Group as at 31 December |      | Principal activities  |
|--|---|--------------------|-------------------------------|---|------|---|
|  |   |                    |                               | 2014  | 2013 |   |
| Zhangzhou Tenfu Oil Limited ("Fujian Petrol")                              | PRC, 28 March 2002                      | RMB3,000,000       | RMB3,000,000                  | 50%   | 50%  | Lease of assets   |
| Xiamen Daily Plus Food Beverage Management Co., Ltd. ("Xiamen Daily Plus") | PRC, 21 January 2014                    | USD2,100,000       | USD630,000                    | 50%   | N/A  | Catering management, beverage production and sales of pre-packaged food |

Pursuant to the resolution of the board of directors of Fujian Tian Fu Sales Co., Ltd. ("Fujian Tenfu"), a subsidiary of the Group, dated 19 December 2013, Fujian Tenfu and Ten Ren Tea (Hong Kong) Limited ("Ten Ren HK"), a third party, entered into an agreement dated 19 December 2013 to set up a joint venture, Xiamen Daily Plus in Xiamen, Fujian Province, to engage in catering management, beverage production and sales of pre-packaged food. Xiamen Daily Plus was established on 21 January 2014 with registered capital of USD2,100,000 (equivalent to RMB12,803,000). Fujian Tenfu holds 50% equity interests in Xiamen Daily Plus. As at 31 December 2014, Fujian Tenfu and Ten Ren HK paid the first capital injection of USD315,000 (equivalent to RMB1,935,000), and the remaining balance of the capital commitment of USD735,000 (equivalent to RMB4,467,000) will be paid in due course.

The Group's 50% share of the results of the joint ventures, and their aggregated assets and liabilities, are as follows:

|                 | Fujian Petrol   |                 | Xiamen Daily Plus |                 | Total           |                 |
|-----------------|-----------------|-----------------|-------------------|-----------------|-----------------|-----------------|
|                 | 2014<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000   | 2013<br>RMB'000 | 2014<br>RMB'000 | 2013<br>RMB'000 |
| Assets          | 4,692           | 4,823           | 1,919             | N/A             | 6,611           | 4,823           |
| Liabilities     | (78)            | (32)            | (64)              | N/A             | (142)           | (32)            |
| Revenue         | 2,224           | 2,124           | 140               | N/A             | 2,364           | 2,124           |
| Profit/(Loss)   | 1,197           | 1,784           | (79)              | N/A             | 1,118           | 1,784           |
| % interest held | 50%             | 50%             | 50%               | N/A             | 50%             | 50%             |

Fujian Petrol and Xiamen Daily Plus are private companies and there are no quoted market prices available for their shares.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 11 Trade and other receivables and prepayments – Group and Company

#### (a) Group

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

|   | <b>As at 31 December</b> |         |
|---|--------------------------|---------|
|   | <b>2014</b>              | 2013    |
|   | <b>RMB'000</b>           | RMB'000 |
| Trade receivables from third parties        | <b>219,439</b>           | 232,438 |
| Interest receivable on time deposits        | <b>12,269</b>            | 4,571   |
| Others                                      | <b>8,954</b>             | 2,884   |
|   | <b>21,223</b>            | 7,455   |
| <b>Total of trade and other receivables</b> | <b>240,662</b>           | 239,893 |

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 2014 and 2013, the ageing analysis of the trade receivables of the Group based on invoice date is as follows:

|                      | <b>As at 31 December</b> |         |
|----------------------|--------------------------|---------|
|                      | <b>2014</b>              | 2013    |
|                      | <b>RMB'000</b>           | RMB'000 |
| Up to 140 days       | <b>217,528</b>           | 219,574 |
| 141 days to 6 months | <b>1,336</b>             | 9,987   |
| 6 months to 1 year   | <b>570</b>               | 2,614   |
| 1 year to 2 years    | <b>5</b>                 | 263     |
|                      | <b>219,439</b>           | 232,438 |

As at 31 December 2014, trade receivables of RMB1,911,000 (2013: RMB12,864,000) 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:

|   | <b>As at 31 December</b> |         |
|---|--------------------------|---------|
|   | <b>2014</b>              | 2013    |
|   | <b>RMB'000</b>           | RMB'000 |
| Past due within 40 days                   | <b>1,336</b>             | 9,987   |
| Past due over 40 days and within 220 days | <b>570</b>               | 2,614   |
| Past due over 220 days                    | <b>5</b>                 | 263     |
|   | <b>1,911</b>             | 12,864  |

As at 31 December 2014, no trade receivables were impaired and provided for (2013: nil).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 11 Trade and other receivables and prepayments – Group and Company *(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 |                 |
|-----|-------------------|-----------------|
|     | 2014<br>RMB'000   | 2013<br>RMB'000 |
| RMB | 238,220           | 236,351         |
| USD | 2,442             | 3,542           |
|     | <b>240,662</b>    | 239,893         |

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 |                 |
|---|-------------------|-----------------|
|   | 2014<br>RMB'000   | 2013<br>RMB'000 |
| <b>Non-current</b>                                    |                   |                 |
| Prepayments for property, plant and equipment         | 79,094            | 81,429          |
| <b>Current</b>  |                   |                 |
| Prepayments for lease of property and lease deposits  | 61,834            | 61,165          |
| Prepayments for raw materials and packaging materials | 6,854             | 13,901          |
| Prepaid taxes   | 19,415            | 10,465          |
| Prepayments for advertisement                         | 6,750             | –               |
|   | <b>94,853</b>     | 85,531          |
|   | <b>173,947</b>    | 166,960         |

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 11 Trade and other receivables and prepayments – Group and Company *(continued)*

#### (b) Company

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

|  | As at 31 December |         |
|--|-------------------|---------|
|  | 2014              | 2013    |
|  | RMB'000           | RMB'000 |
| Dividends receivable from subsidiaries | 2,766             | 2,766   |
| Interest receivable                    | 3,498             | 974     |
|  | <b>6,264</b>      | 3,740   |

### 12 Inventories – Group

|                                       | As at 31 December |         |
|---------------------------------------|-------------------|---------|
|                                       | 2014              | 2013    |
|                                       | RMB'000           | RMB'000 |
| Raw materials and packaging materials | 120,394           | 96,085  |
| Work in progress                      | 96,811            | 93,093  |
| Finished goods                        | 205,553           | 234,513 |
|                                       | <b>422,758</b>    | 423,691 |

The cost of inventories recognised as expenses and included in 'cost of sales' amounted to RMB569,126,000 for the year ended 31 December 2014 (2013: RMB581,390,000) (Note 24).

The Group did not have any losses on obsolete inventories or write-down of inventories for the year ended 31 December 2014 (2013: nil).

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 13 Cash and cash equivalents, time deposits and restricted cash – Group and Company

#### (a) Group

|                              | As at 31 December |           |
|------------------------------|-------------------|-----------|
|                              | 2014              | 2013      |
|                              | RMB'000           | RMB'000   |
| Cash at bank and on hand (i) | <b>1,072,588</b>  | 728,252   |
| Less: Time deposits (ii)     | <b>(606,853)</b>  | (480,000) |
| Long-term time deposits (ii) | <b>(135,000)</b>  | –         |
| Restricted cash (iii)        | <b>(98,810)</b>   | (45,975)  |
| Cash and cash equivalents    | <b>231,925</b>    | 202,277   |

(i) The weighted average effective interest rate on cash placed with banks and deposits was 0.30% (2013: 0.35%) per annum for the year ended 31 December 2014.

(ii) As at 31 December 2014, the Group has time deposits of RMB606,853,000 (2013: RMB480,000,000) which will be matured in 2015.

As at 31 December 2014, the Group has long-term time deposits of RMB135,000,000 (2013: nil) which will be matured in 2016.

(iii) As at 31 December 2014, the Group has time deposits of RMB98,810,000 (2013: RMB45,975,000) which are pledged as collateral for the Group's short-term bank borrowings of RMB97,196,000 (2013: RMB45,727,000) (Note 19).

The carrying amount of cash at bank and on hand are denominated in the following currencies:

|     | As at 31 December |         |
|-----|-------------------|---------|
|     | 2014              | 2013    |
|     | RMB'000           | RMB'000 |
| RMB | <b>909,417</b>    | 718,267 |
| USD | <b>120,394</b>    | 6,344   |
| HKD | <b>42,699</b>     | 2,072   |
| JPY | <b>78</b>         | 1,569   |
|     | <b>1,072,588</b>  | 728,252 |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 13 Cash and cash equivalents, time deposits and restricted cash – Group and Company *(continued)*

#### (b) Company

|                              | As at 31 December |          |
|------------------------------|-------------------|----------|
|                              | 2014              | 2013     |
|                              | RMB'000           | RMB'000  |
| Cash at bank and on hand (i) | 251,317           | 98,562   |
| Less: Time deposits (ii)     | (143,023)         | (50,000) |
| Restricted cash (iii)        | (98,810)          | (45,975) |
| Cash and cash equivalents    | 9,484             | 2,587    |

- (i) The weighted average effective interest rate on cash placed with banks and deposits was 0.25% (2013: 0.23%) per annum for the year ended 31 December 2014.
- (ii) As at 31 December 2014, the Company has time deposits of RMB143,023,000 (2013: RMB50,000,000) which will be matured in 2015.
- (iii) As at 31 December 2014, the Company has time deposits of RMB98,810,000 (2013: RMB45,975,000) which are pledged as collateral for the Company's bank borrowings of RMB97,196,000 (2013: RMB45,727,000) (Note 19).

The carrying amount of cash at bank and on hand are denominated in the following currencies:

|     | As at 31 December |         |
|-----|-------------------|---------|
|     | 2014              | 2013    |
|     | RMB'000           | RMB'000 |
| RMB | 138,889           | 97,070  |
| USD | 110,842           | 64      |
| HKD | 1,586             | 1,428   |
|     | 251,317           | 98,562  |



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 14 Share capital and premium – Group and Company

|                             | Number of<br>authorized<br>shares<br>(thousand) | Number<br>of issued<br>shares<br>(thousand) | Ordinary<br>shares<br>(nominal<br>value)<br>RMB'000 | Share<br>premium<br>RMB'000 | Total<br>RMB'000 |
|-----------------------------|---|---|---|-----------------------------|------------------|
| At 1 January 2014           | <b>8,000,000</b>                                | <b>1,227,207</b>                            | <b>100,816</b>                                      | <b>472,704</b>              | <b>573,520</b>   |
| Dividends (i)               | –   | –   | –   | <b>(195,184)</b>            | <b>(195,184)</b> |
| At 31 December 2014         | <b>8,000,000</b>                                | <b>1,227,207</b>                            | <b>100,816</b>                                      | <b>277,520</b>              | <b>378,336</b>   |
| Representing:               |   |   |   |                             |                  |
| Proposed final dividend (i) |   |   |   | <b>134,990</b>              |                  |
| Others                      |   |   |   | <b>142,530</b>              |                  |
| At 31 December 2014         |   |   |   | <b>277,520</b>              |                  |
| At 1 January 2013           | 8,000,000                                       | 1,227,207                                   | 100,816   | 678,625                     | 779,441          |
| Dividends (i)               | –   | –   | –   | (205,921)                   | (205,921)        |
| At 31 December 2013         | 8,000,000                                       | 1,227,207                                   | 100,816   | 472,704                     | 573,520          |
| Representing:               |   |   |   |                             |                  |
| Proposed final dividend (i) |   |   |   | 126,369                     |                  |
| Others                      |   |   |   | 346,335                     |                  |
| At 31 December 2013         |   |   |   | 472,704                     |                  |

- (i) Pursuant to Section 34 of the Cayman Companies Law (2003 Revision) and the Articles of Association of the Company, share premium of the Company is available for distribution to shareholders subject to a solvency test on the Company and the provision of the Articles of Association of the Company. Details of the proposed final dividend are set out in Note 30.

### 15 Retained earnings – Group and Company

#### (a) Group

|   | Year ended 31 December |                 |
|---|------------------------|-----------------|
|   | 2014<br>RMB'000        | 2013<br>RMB'000 |
| At 1 January                                  | <b>879,768</b>         | 642,353         |
| Profit for the year                           | <b>270,198</b>         | 267,133         |
| Appropriation to statutory reserves (Note 16) | <b>(28,176)</b>        | (29,718)        |
| At 31 December                                | <b>1,121,790</b>       | 879,768         |

#### (b) Company

|                            | Year ended 31 December |                 |
|----------------------------|------------------------|-----------------|
|                            | 2014<br>RMB'000        | 2013<br>RMB'000 |
| At 1 January               | <b>75,708</b>          | 1,604           |
| (Loss)/Profit for the year | <b>(5,163)</b>         | 74,104          |
| At 31 December             | <b>70,545</b>          | 75,708          |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 16 Other reserves – Group and Company

#### (a) Group

|  | Merger<br>reserve (I)<br>RMB'000 | Capital<br>reserve (II)<br>RMB'000 | Statutory<br>reserves (III)<br>RMB'000 | Share-based<br>payment<br>reserve<br>RMB'000 | Total<br>RMB'000 |
|--|----------------------------------|------------------------------------|--|--|------------------|
| At 1 January 2014  | <b>278,811</b>                   | <b>231</b>                         | <b>156,441</b>                         | <b>1,586</b>                                 | <b>437,069</b>   |
| Appropriation to statutory reserves (Note 15)  | -                                | -                                  | <b>28,176</b>                          | -  | <b>28,176</b>    |
| Share option scheme  |                                  |                                    |  |  |                  |
| – value of services from directors, employees and independent third party distributors (Note 17)                                 | -                                | -                                  | -                                      | <b>582</b>                                   | <b>582</b>       |
| – reversal of the accumulated value of the services from directors, employees and independent third party distributors (Note 17) | -                                | -                                  | -                                      | <b>(2,168)</b>                               | <b>(2,168)</b>   |
| At 31 December 2014  | <b>278,811</b>                   | <b>231</b>                         | <b>184,617</b>                         | -  | <b>463,659</b>   |
| At 1 January 2013  | 278,811                          | 231                                | 126,723                                | 1,019  | 406,784          |
| Appropriation to statutory reserves (Note 15)  | -                                | -                                  | 29,718                                 | -  | 29,718           |
| Share option scheme  |                                  |                                    |  |  |                  |
| – value of services from directors, employees and independent third party distributors (Note 17)                                 | -                                | -                                  | -                                      | 567  | 567              |
| At 31 December 2013  | 278,811                          | 231                                | 156,441                                | 1,586  | 437,069          |

(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 discretionary surplus reserve using its post-tax profits in accordance with resolutions of the board of directors of the company.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 16 Other reserves – Group and Company *(continued)*

#### (b) Company

The Company has no other reserves as at 31 December 2014 as the other reserve previously related to the changed value of services from directors, employees and independent third party distributors had been reversed in the year ended 31 December 2014 (Note 17).

### 17 Share-based payments – Group and Company

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

#### Share Option Scheme

Pursuant to the share option scheme of the Company in relation to the grant of options under the Share Option Scheme, the Company granted options to subscribe for an aggregate of 7,046,000 shares, 1,307,000 shares and 8,353,000 shares on 6 January 2012, 12 January 2012 and 19 March 2013 respectively to certain directors, employees and independent third party distributors. The options have a contractual option term of 10 years. The Group has no legal or constructive obligation to repurchase or settle the options in cash. These options vest in tranches over a period of up to 3 years.

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

- (i) up to 35% on or after 5 January 2013, 11 January 2013 and 18 March 2014 respectively;
- (ii) up to 35% on or after 5 January 2014, 11 January 2014 and 18 March 2015 respectively;
- (iii) all the remaining options on or after 5 January 2015, 11 January 2015 and 18 March 2016 respectively.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 17 Share-based payments – Group and Company (continued)

#### Share Option Scheme (continued)

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

|                          | Average exercise<br>price in HKD<br>per share | Number of<br>options<br>(thousands) |
|--------------------------|---|-------------------------------------|
| As at 1 January 2014     | 4.86  | 16,502                              |
| Forfeited (Note (a))     | 4.80  | (107)                               |
| As at 31 December 2014   | 4.86  | 16,395                              |
| As at 1 January 2013     | 5.44  | 8,338                               |
| Granted on 19 March 2013 | 4.28  | 8,353                               |
| Forfeited (Note (a))     | 5.24  | (189)                               |
| As at 31 December 2013   | 4.86  | 16,502                              |

(a) Options were forfeited during the years ended 31 December 2014 and 2013 due to employees' resignation.

Share options outstanding at 31 December 2014 have the following expiry dates and exercise prices:

| Expiry date     | Exercise<br>price in HKD<br>per share | Number<br>of options<br>(thousands) |
|-----------------|---------------------------------------|-------------------------------------|
| 5 January 2022  | 5.41                                  | 6,826                               |
| 11 January 2022 | 5.60                                  | 1,307                               |
| 18 March 2023   | 4.28                                  | 8,262                               |

The total fair values, which were determined by using Binomial option price model, of the options granted under the Share Option Scheme as at the grant dates are approximately HKD17,615,000 (equivalent to RMB14,330,000), HKD3,685,000 (equivalent to RMB2,999,000) and HKD16,249,000 (equivalent to RMB13,139,000) on 6 January 2012, 12 January 2012 and 19 March 2013 respectively. The following assumptions were adopted to calculate the fair value of the options on the grant dates:

|                         | Granted on<br>6 January 2012 | Granted on<br>12 January 2012 | Granted on<br>19 March 2013 |
|-------------------------|------------------------------|-------------------------------|-----------------------------|
| Exercise price          | HKD5.41                      | HKD5.60                       | HKD4.28                     |
| Expected volatility     | 53.95%                       | 53.93%                        | 56.79%                      |
| Expected dividend yield | 2.00%                        | 2.00%                         | 3.00%                       |
| Risk free rate          | 1.52%                        | 1.49%                         | 1.20%                       |

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 17 Share-based payments – Group and Company *(continued)*

#### Share Option Scheme *(continued)*

During the year ended 31 December 2014, the share option expense charged to the consolidated statement of comprehensive income was approximately HKD736,000 (equivalent to RMB582,000) including an amount of HKD667,000 (equivalent to RMB528,000) for the directors and employees of the Group (Note 25).

During the year ended 31 December 2013, the share option expense charged to the consolidated statement of comprehensive income was approximately HKD721,000 (equivalent to RMB567,000) including an amount of HKD687,000 (equivalent to RMB540,000) for the directors and employees of the Group (Note 25).

As at 31 December 2014, the Group reversed all the share option expenses previously charged to the consolidated statement of comprehensive income, amounting to a total of HKD2,713,000 (equivalent to RMB2,168,000), including amounts of HKD2,370,000 (equivalent to RMB1,892,000) for the directors and employees of the Group (Note 25) due to not achieving the Performance Conditions.

### 18 Trade and other payables – Group and Company

#### (a) Group

|   | <b>As at 31 December</b> |         |
|---|--------------------------|---------|
|   | <b>2014</b>              | 2013    |
|   | <b>RMB'000</b>           | RMB'000 |
| Trade payables – due to third parties                 | <b>84,039</b>            | 129,457 |
| Trade payables – due to related parties (Note 35(c))  | <b>8,414</b>             | 18,323  |
| Other payables for property, plant and equipment      | <b>3,424</b>             | 5,445   |
| Other payables for assets acquisition (i)             | <b>23,450</b>            | –       |
| Other taxes payable                                   | <b>10,773</b>            | 17,299  |
| Employee benefit payables                             | <b>23,926</b>            | 22,965  |
| Advances from customers                               | <b>17,648</b>            | 23,424  |
| Amounts due to related parties (Note 35(c))           | <b>8,093</b>             | 29      |
| Other payables for business combinations (Note 34(a)) | –                        | 19,129  |
| Others  | <b>31,686</b>            | 35,621  |
|   | <b>211,453</b>           | 271,692 |

- (i) Pursuant to an assets acquisition agreement entered into between Fujian Tenfu, an indirectly wholly-owned subsidiary of the Company, and Tenfu Group (Samoa) Holdings Co., Limited (“SAMOA”), a related party dated 13 October 2014. SAMOA transferred its entire equity interests in Xiamen Tenfu Trading Co., Ltd. (“Xiamen Tenfu”) to Fujian Tenfu at a consideration of RMB23,450,000. Xiamen Tenfu’s only major assets are two retail properties that are leased to the Group. Accordingly the acquisition was regarded as an acquisition of assets. The transaction was completed on 26 December 2014 which is regarded as the assets acquisition date. The value of the acquired land use rights and property, plant and equipment amounted to RMB14,632,000 and RMB11,995,000, respectively.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 18 Trade and other payables – Group and Company *(continued)*

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

As at 31 December 2014 and 2013, 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 |         |
|--------------------|-------------------|---------|
|                    | 2014              | 2013    |
|                    | RMB'000           | RMB'000 |
| Up to 6 months     | 84,906            | 138,757 |
| 6 months to 1 year | 5,569             | 8,643   |
| 1 year to 2 years  | 1,974             | 161     |
| Over 2 years       | 4                 | 219     |
|                    | <b>92,453</b>     | 147,780 |

#### (b) Company

|                                | As at 31 December |         |
|--------------------------------|-------------------|---------|
|                                | 2014              | 2013    |
|                                | RMB'000           | RMB'000 |
| Other payables to subsidiaries | 118,522           | 221,706 |
| Interest payable               | 841               | –       |
|                                | <b>119,363</b>    | 221,706 |

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

### 19 Borrowings – Group and Company

#### (a) Group

|                            | As at 31 December |         |
|----------------------------|-------------------|---------|
|                            | 2014              | 2013    |
|                            | RMB'000           | RMB'000 |
| Long-term bank borrowings  |                   |         |
| – Unsecured                | 122,380           | –       |
| Short-term bank borrowings |                   |         |
| – Unsecured (i)            | 360,149           | 75,727  |
| – Secured (ii)             | 117,196           | 45,727  |
|                            | <b>477,345</b>    | 121,454 |
| Total borrowings           | <b>599,725</b>    | 121,454 |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 19 Borrowings – Group and Company *(continued)*

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

- (i) As at 31 December 2014, bank borrowings of RMB98,284,000 (2013: RMB45,727,000) of the Group are guaranteed by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin (Note 35(d)), all of them are directors of the Company, either separately or jointly.
- (ii) As at 31 December 2014, short-term bank borrowings of RMB97,196,000 of the Group are secured by the pledge of bank deposits of RMB98,810,000 (Note 13(a)) of the Group, and bank borrowings of RMB20,000,000 of the Group are secured by the pledge of the land use rights (Note 6) and property, plant and equipment (Note 7) of the Group. As at 31 December 2013, bank borrowings of RMB45,727,000 of the Group are secured by the pledge of bank deposits of RMB45,975,000 (Note 13(a)) of the Group.

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

|                  | As at 31 December |                 |
|------------------|-------------------|-----------------|
|                  | 2014<br>RMB'000   | 2013<br>RMB'000 |
| 3 months or less | 133,089           | 91,454          |
| 4-6 months       | 294,256           | –               |
| 7-12 months      | 50,000            | 30,000          |
| 1-2 years        | 122,380           | –               |
|                  | <b>599,725</b>    | 121,454         |

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

|     | As at 31 December |                 |
|-----|-------------------|-----------------|
|     | 2014<br>RMB'000   | 2013<br>RMB'000 |
| USD | 431,390           | 91,454          |
| HKD | 118,335           | –               |
| RMB | 50,000            | 30,000          |
|     | <b>599,725</b>    | 121,454         |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 19 Borrowings – Group and Company *(continued)*

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

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

|                            | <b>As at 31 December</b> |       |
|----------------------------|--------------------------|-------|
|                            | <b>2014</b>              | 2013  |
| Long-term bank borrowings  | <b>2.88%</b>             | –     |
| Short-term bank borrowings | <b>2.15%</b>             | 2.11% |

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

The Group has the following undrawn borrowing facilities:

|  | <b>As at 31 December</b> |         |
|--|--------------------------|---------|
|  | <b>2014</b>              | 2013    |
|  | <b>RMB'000</b>           | RMB'000 |
| Fixed rate:                                  |                          |         |
| – expiring within one year (bank borrowings) | <b>85,835</b>            | 350,000 |

The above facilities have been arranged to provide funding for the working capital and other general corporate purpose of the Group.

#### (b) Company

|                            | <b>As at 31 December</b> |         |
|----------------------------|--------------------------|---------|
|                            | <b>2014</b>              | 2013    |
|                            | <b>RMB'000</b>           | RMB'000 |
| Long-term bank borrowings  |                          |         |
| – Unsecured                | <b>122,380</b>           | –       |
| Short-term bank borrowings |                          |         |
| – Unsecured (i)            | <b>330,149</b>           | 45,727  |
| – Secured (ii)             | <b>97,196</b>            | 45,727  |
|                            | <b>427,345</b>           | 91,454  |
| Total borrowings           | <b>549,725</b>           | 91,454  |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 19 Borrowings – Group and Company *(continued)*

#### (b) Company *(continued)*

- (i) As at 31 December 2014, short-term bank borrowings of RMB98,284,000 (2013: RMB45,727,000) of the Company are guaranteed by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin (Note 35(d)), all of them are directors of the Company, either separately or jointly.
- (ii) As at 31 December 2014, short-term bank borrowings of RMB97,196,000 of the Company are secured by the pledge of bank deposits of RMB98,810,000 (Note 13(a)) of the Company. As at 31 December 2013, bank borrowings of RMB45,727,000 of the Company are secured by the pledge of bank deposits of RMB45,975,000 (Note 13(a)) of the Company.

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

|                  | As at 31 December |         |
|------------------|-------------------|---------|
|                  | 2014              | 2013    |
|                  | RMB'000           | RMB'000 |
| 3 months or less | 133,089           | 91,454  |
| 4-6 months       | 294,256           | –       |
| 7-12 months      | –                 | –       |
| 1-2 years        | 122,380           | –       |
|                  | 549,725           | 91,454  |

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

|     | As at 31 December |         |
|-----|-------------------|---------|
|     | 2014              | 2013    |
|     | RMB'000           | RMB'000 |
| USD | 431,390           | 91,454  |
| HKD | 118,335           | –       |
|     | 549,725           | 91,454  |

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

|                            | As at 31 December |       |
|----------------------------|-------------------|-------|
|                            | 2014              | 2013  |
| Long-term bank borrowings  | 2.88%             | –     |
| Short-term bank borrowings | 2.01%             | 1.52% |

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 20 Other liabilities – Group

|  | <b>As at 31 December</b> |         |
|--|--------------------------|---------|
|  | <b>2014</b>              | 2013    |
|  | <b>RMB'000</b>           | RMB'000 |
| Deferred revenue: customer loyalty programme | <b>16,143</b>            | 13,947  |

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 liabilities – Group

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:

|   | <b>As at 31 December</b> |         |
|---|--------------------------|---------|
|   | <b>2014</b>              | 2013    |
|   | <b>RMB'000</b>           | RMB'000 |
| Deferred tax assets                         |                          |         |
| – to be recovered after more than 12 months | –                        | –       |
| – to be recovered within 12 months          | <b>41,165</b>            | 43,354  |
|   | <b>41,165</b>            | 43,354  |
| Deferred tax liabilities                    |                          |         |
| – to be settled after more than 12 months   | <b>1,134</b>             | 1,185   |
| – to be settled within 12 months            | <b>19,311</b>            | 16,268  |
|   | <b>20,445</b>            | 17,453  |



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 21 Deferred income tax assets and liabilities – Group (continued)

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

|  | Temporary differences in respect of accruals<br>RMB'000 | Tax losses<br>RMB'000 | Unrealised profit on inventories<br>RMB'000 | Customer loyalty programme<br>RMB'000 | Withholding tax on unremitted earnings of certain subsidiaries<br>RMB'000 | Fair value gains<br>RMB'000 | Total<br>RMB'000 |
|--|---|-----------------------|---|---------------------------------------|---|-----------------------------|------------------|
| At 1 January 2014  | 9,254   | 514                   | 30,103                                      | 3,483                                 | (16,217)  | (1,236)                     | 25,901           |
| Paid out   | -   | -                     | -   | -                                     | 4,100   | -                           | 4,100            |
| (Charged)/credited to the consolidated statement of comprehensive income (Note 28) | (548)   | -                     | (2,190)                                     | 549                                   | (7,143)   | 51                          | (9,281)          |
| At 31 December 2014  | 8,706   | 514                   | 27,913                                      | 4,032                                 | (19,260)  | (1,185)                     | 20,720           |
| At 1 January 2013  | 7,993   | 514                   | 28,379                                      | 870                                   | (11,963)  | -                           | 25,793           |
| Paid out   | -   | -                     | -   | -                                     | 1,500   | -                           | 1,500            |
| Credited/(charged) to the consolidated statement of comprehensive income (Note 28) | 1,261   | -                     | 1,724                                       | 2,613                                 | (5,754)   | -                           | (156)            |
| Acquisition of subsidiaries (Note 34)  | -   | -                     | -   | -                                     | -   | (1,236)                     | (1,236)          |
| At 31 December 2013  | 9,254   | 514                   | 30,103                                      | 3,483                                 | (16,217)  | (1,236)                     | 25,901           |

Deferred income tax assets are recognised 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 2014, the Group did not recognise deferred income tax assets of RMB10,460,000 (2013: RMB8,164,000) in respect of tax losses amounting to RMB41,841,000 (2013: RMB32,657,000) that can be carried forward to offset against future taxable income due to uncertainty of realisation. As at 31 December 2014, losses amounting to RMB11,813,000 (2013: RMB11,813,000), RMB8,461,000 (2013: RMB8,461,000), RMB12,383,000 (2013: RMB12,383,000) and RMB9,184,000 (2013: nil) will expire in 2016, 2017, 2018 and 2019 respectively.

As at 31 December 2014, the unrealised profit on inventories sold by the inter-companies within the Group amounted to RMB111,643,000 (2013: RMB120,403,000), and were eliminated in the Group's consolidated financial statements. Deferred income tax assets were recognised for the unrealised profits.

As at 31 December 2014, deferred income tax liabilities of RMB59,276,000 (2013: RMB48,561,000) have not been recognised for the PRC withholding tax. The corresponding unremitted earnings amounted to RMB844,578,000 as at 31 December 2014 (2013: RMB688,872,000) which are intended to be reinvested.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 22 Other income

|  | Year ended 31 December |         |
|--|------------------------|---------|
|  | 2014                   | 2013    |
|  | RMB'000                | RMB'000 |
| Government grants                          | 10,934                 | 13,057  |
| Income from investment properties (Note 7) | 1,350                  | 1,250   |
| Others                                     | 3,087                  | 2,060   |
|  | 15,371                 | 16,367  |

### 23 Other (losses)/gains – net

|   | Year ended 31 December |         |
|---|------------------------|---------|
|   | 2014                   | 2013    |
|   | RMB'000                | RMB'000 |
| Gains/(losses) on disposal of property, plant and equipment, net (Note 32(b)) | 55                     | (356)   |
| Net foreign exchange losses   | (491)                  | (615)   |
| Gain from acquisition of a subsidiary (Note 34(a))                            | –                      | 3,584   |
|   | (436)                  | 2,613   |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 24 Expenses by nature

|   | Year ended 31 December |                 |
|---|------------------------|-----------------|
|   | 2014<br>RMB'000        | 2013<br>RMB'000 |
| Cost of inventories (Note 12)   | 569,126                | 581,390         |
| Employee benefit expenses – including directors' emoluments (Note 25) | 286,193                | 268,685         |
| Amortisation of land use rights (Note 6)                              | 8,533                  | 3,584           |
| Depreciation of investment properties (Note 7)                        | 287                    | 287             |
| Depreciation of property, plant and equipment (Note 8)                | 68,680                 | 62,963          |
| Amortisation of intangible assets (Note 9)                            | 1,198                  | 717             |
| Concession fees   | 58,313                 | 60,201          |
| Transportation expenses   | 32,225                 | 31,680          |
| Operating lease expenses  | 152,823                | 147,902         |
| Free trial expenses   | 42,200                 | 40,110          |
| Auditor's remuneration  |                        |                 |
| – Audit services  | 3,930                  | 3,650           |
| – Non-audit services  | 1,049                  | 1,399           |
| Other expenses  | 116,873                | 121,902         |
| Total cost of sales, distribution costs and administrative expenses   | 1,341,430              | 1,324,470       |

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

|                                | Year ended 31 December |                 |
|--------------------------------|------------------------|-----------------|
|                                | 2014<br>RMB'000        | 2013<br>RMB'000 |
| Wages and salaries             | 251,793                | 236,805         |
| Social security costs          | 31,168                 | 27,648          |
| Share option expense (Note 17) | (1,364)                | 540             |
| Other benefits                 | 4,596                  | 3,692           |
|                                | 286,193                | 268,685         |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 26 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 2014 is set out as follows:

| Name                    | Fees<br>RMB'000 | Salaries<br>and social<br>security costs<br>RMB'000 | Share<br>option<br>expense<br>RMB'000 | Total<br>RMB'000 |
|-------------------------|-----------------|---|---------------------------------------|------------------|
| Mr. Lee Rie-Ho          | –               | 957   | (149)                                 | 808              |
| Mr. Lee Kuo-Lin         | –               | 837   | (73)                                  | 764              |
| Mr. Lee Chia Ling (i)   | –               | 600   | (73)                                  | 527              |
| Mr. Lee Shih-Wei        | –               | 598   | (73)                                  | 525              |
| Mr. Tseng Ming-Sung     | –               | 197   | (65)                                  | 132              |
| Mr. Wei Ke              | –               | –   | –                                     | –                |
| Mr. Lo Wah Wai          | 237             | –   | (65)                                  | 172              |
| Mr. Lee Kwan Hung       | 237             | –   | (65)                                  | 172              |
| Mr. Fan Ren-Da, Anthony | 237             | –   | (65)                                  | 172              |
|                         | 711             | 3,189   | (628)                                 | 3,272            |

The remuneration of each director and the chief executive of the Company for the year ended 31 December 2013 is set out as follows:

| Name                    | Fees<br>RMB'000 | Salaries<br>and social<br>security costs<br>RMB'000 | Share<br>option<br>expense<br>RMB'000 | Total<br>RMB'000 |
|-------------------------|-----------------|---|---------------------------------------|------------------|
| Mr. Lee Rie-Ho          | –               | 957   | 54                                    | 1,011            |
| Mr. Lee Kuo-Lin         | –               | 837   | 27                                    | 864              |
| Mr. Lee Chia Ling (i)   | –               | 600   | 27                                    | 627              |
| Mr. Lee Shih-Wei        | –               | 522   | 27                                    | 549              |
| Mr. Tseng Ming-Sung     | –               | 197   | 19                                    | 216              |
| Mr. Wei Ke              | –               | –   | –                                     | –                |
| Mr. Lo Wah Wai          | 237             | –   | 19                                    | 256              |
| Mr. Lee Kwan Hung       | 237             | –   | 19                                    | 256              |
| Mr. Fan Ren-Da, Anthony | 237             | –   | 19                                    | 256              |
|                         | 711             | 3,113   | 211                                   | 4,035            |

(i) 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 2014 and 2013, 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.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 26 Directors' and chief executive's emoluments (continued)

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2014 include four (2013: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2013: one) individual for the year ended 31 December 2014 and 2013 are as follows:

|                                    | Year ended 31 December |                 |
|------------------------------------|------------------------|-----------------|
|                                    | 2014<br>RMB'000        | 2013<br>RMB'000 |
| Salaries and social security costs | 600                    | 600             |
| Share option expense               | –                      | –               |
|                                    | <b>600</b>             | 600             |

For the years ended 31 December 2014 and 2013, 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.

### 27 Finance income – net

|   | Year ended 31 December |                 |
|---|------------------------|-----------------|
|   | 2014<br>RMB'000        | 2013<br>RMB'000 |
| Finance income  |                        |                 |
| – Interest income on short-term bank deposits and time deposits (Note 32) | 23,992                 | 12,694          |
| – Net foreign exchange gains  | 1,695                  | 385             |
| Total finance income (Note 32)  | <b>25,687</b>          | 13,079          |
| Finance costs   |                        |                 |
| – Interest expenses on bank borrowings                                    | (10,706)               | (2,608)         |
| – Less: Amounts capitalised in qualifying assets                          | 169                    | 693             |
| Total finance costs (Note 32)   | <b>(10,537)</b>        | (1,915)         |
| Net finance income  | <b>15,150</b>          | 11,164          |



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 28 Income tax expense

|                               | Year ended 31 December |                 |
|-------------------------------|------------------------|-----------------|
|                               | 2014<br>RMB'000        | 2013<br>RMB'000 |
| Current income tax            |                        |                 |
| – Hong Kong profits tax       | 99                     | 18              |
| – PRC corporate income tax    | 98,784                 | 101,728         |
| Deferred income tax (Note 21) | 9,281                  | 156             |
| Income tax expense            | 108,164                | 101,902         |

#### (i) Cayman Islands profits tax

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

#### (ii) Hong Kong profits tax

Hong Kong profits tax has been provided for subsidiaries incorporated in Hong Kong at the rate of 16.5% (2013: 16.5%) on the estimated assessable profit for the year.

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

CIT is provided at the rate of 25% (2013: 25%) on the assessable income of entities within the Group incorporated in mainland China.

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 28 Income tax expense (continued)

#### (iv) PRC withholding income tax

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

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 |         |
|---|------------------------|---------|
|   | 2014                   | 2013    |
|   | RMB'000                | RMB'000 |
| Profit before income tax  | <b>378,362</b>         | 369,035 |
| Tax calculated at domestic tax rates applicable to profits in the respective jurisdiction             | <b>95,780</b>          | 90,460  |
| Tax effects of:   |                        |         |
| Expenses not deductible for tax purposes  | <b>3,225</b>           | 3,039   |
| Joint ventures' results reported net of tax   | <b>(280)</b>           | (446)   |
| Tax losses for which no deferred income tax asset was recognised (Note 21)                            | <b>2,296</b>           | 3,095   |
| Withholding tax on the expected distributable profits of the subsidiaries in mainland China (Note 21) | <b>7,143</b>           | 5,754   |
| Tax charges   | <b>108,164</b>         | 101,902 |

### 29 Earnings per share

#### (a) Basic

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

|  | Year ended 31 December |               |
|--|------------------------|---------------|
|  | 2014                   | 2013          |
| Profit attributable to the owners of the Company (RMB'000) | <b>270,198</b>         | 267,133       |
| Weighted average number of ordinary shares in issue        | <b>1,227,207,460</b>   | 1,227,207,460 |
| Basic earnings per share (RMB)                             | <b>0.22</b>            | 0.22          |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 29 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 2014 and 2013, none of the performance conditions of the share options were met, and thus the potentially dilutive ordinary shares are not included in the calculation of diluted earnings per share. As a result, diluted earnings per share is the same as basic earnings per share.

### 30 Dividends

|                           | Year ended 31 December |                 |
|---------------------------|------------------------|-----------------|
|                           | 2014<br>RMB'000        | 2013<br>RMB'000 |
| Interim dividend declared | 68,320                 | 68,320          |
| Proposed final dividend   | 134,990                | 126,864         |
|                           | <b>203,310</b>         | 195,184         |

At a meeting held on 23 March 2015, the Board proposed a final dividend for 2014 of HKD 171,809,000 (equivalent to RMB134,990,000) (2013: HKD159,537,000 (equivalent to RMB126,864,000)), representing HKD14 cents (equivalent to RMB11 cents) (2013: HKD13 cents (equivalent to RMB10 cents)) per share, to be appropriated from the share premium account.

The proposed final dividend for 2014 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 2015.

The interim dividend for 2014 of HKD7 cents (equivalent to RMB5.6 cents) (2013: HKD7 cents (equivalent to RMB5.6 cents)) per share was declared by the Board on 19 August 2014 and be appropriated from the share premium account. This interim dividend, amounting to HKD85,905,000 (equivalent to RMB68,320,000) (2013: HKD85,905,000 (equivalent to RMB68,320,000)), has been reflected as an appropriation of share premium for the year ended 31 December 2014.

The dividends paid in 2014 were RMB195,184,000 (2013: RMB207,563,000).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

## 31 Investments in subsidiaries – Company

|                                      | As at 31 December |                 |
|--------------------------------------|-------------------|-----------------|
|                                      | 2014<br>RMB'000   | 2013<br>RMB'000 |
| Unlisted equity investments, at cost | 8,234             | 9,518           |
| Due from subsidiaries (i)            | 852,154           | 852,154         |
|                                      | <b>860,388</b>    | 861,672         |

- (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.

Particulars of the subsidiaries of the Group as at 31 December 2014 and 2013 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 |      | Principal activities  |
|---|-----------------------------|-------------------------------|--------------------|-------------------------------|---|------|---|
|   |                             |                               |                    |                               | 2014                                      | 2013 |   |
| <b>Directly owned</b>   |                             |                               |                    |                               |   |      |   |
| Subsidiaries – incorporated in the British Virgin Islands (the "BVI") |                             |                               |                    |                               |   |      |   |
| TenRui (BVI) Holdings Co., Ltd.                                       | BVI, 19 August 2009         | Limited liability company     | USD1,000           | USD1,000                      | 100%                                      | 100% | Investment holding  |
| TenFu Holdings Co., Ltd.  | BVI, 2 July 2009            | Limited liability company     | USD1,000           | USD1,000                      | 100%                                      | 100% | Investment holding  |
| <b>Indirectly owned</b>   |                             |                               |                    |                               |   |      |   |
| Subsidiaries – established in the mainland China                      |                             |                               |                    |                               |   |      |   |
| Zhangzhou Tianfu Tea Industry Co., Ltd.                               | PRC, 24 December 1998       | Foreign investment enterprise | USD25,000,000      | USD25,000,000                 | 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 | USD17,000,000      | USD17,000,000                 | 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 | USD3,640,000       | USD3,640,000                  | 100%                                      | 100% | Classification, packaging of tea leaves, manufacture of tea snacks, and sale of tea leaves, tea snacks and tea ware |
| Jiajiang Tenfu Tea Garden Co., Ltd.                                   | PRC, 17 October 2002        | Foreign investment enterprise | USD10,000,000      | USD10,000,000                 | 100%                                      | 100% | Classification, packaging of tea leaves, manufacture of tea snacks, and sale of tea leaves, tea snacks and tea ware |
| Zhejiang Tianfu Tea Industry Co., Ltd ("Zhejiang Tenfu")              | PRC, 16 August 2006         | Foreign investment enterprise | USD5,000,000       | USD5,000,000                  | 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 | USD1,000,000       | USD1,000,000                  | 100%                                      | 100% | Sale of tea leaves, tea snacks and tea ware   |
| Guizhou Tenfu Tea Sales Co., Ltd.                                     | PRC, 26 March 2009          | Foreign investment enterprise | USD1,000,000       | USD1,000,000                  | 100%                                      | 100% | Sale of tea leaves, tea snacks and tea ware   |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 31 Investments in subsidiaries – Company (continued)

Particulars of the subsidiaries of the Group as at 31 December 2014 and 2013 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 |      | Principal activities                        |
|--|-----------------------------|-------------------------------|--------------------|-------------------------------|---|------|---|
|  |                             |                               |                    |                               | 2014                                      | 2013 |   |
| <b>Indirectly owned (continued)</b>                          |                             |                               |                    |                               |   |      |   |
| Subsidiaries – established in the mainland China (continued) |                             |                               |                    |                               |   |      |   |
| Xin Jiang Tian Fu Tea Sales Co., Ltd.                        | PRC, 14 April 2009          | Foreign investment enterprise | USD1,000,000       | USD1,000,000                  | 100%                                      | 100% | Sale of tea leaves, tea snacks and tea ware |
| Shan Xi Tian Fu Tea Sales Co., Ltd.                          | PRC, 29 April 2009          | Foreign investment enterprise | USD1,000,000       | USD1,000,000                  | 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 | USD3,000,000       | USD3,000,000                  | 100%                                      | 100% | Sale of tea leaves, tea snacks and tea ware |
| Jiang Xi Tian Fu Tea Sales Co., Ltd.                         | PRC, 7 May 2009             | Foreign investment enterprise | USD2,000,000       | USD2,000,000                  | 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 | USD3,000,000       | USD3,000,000                  | 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 | USD3,000,000       | USD3,000,000                  | 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 | USD2,500,000       | USD2,500,000                  | 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 | USD3,000,000       | USD3,000,000                  | 100%                                      | 100% | Sale of tea leaves, tea snacks and tea ware |
| Guangxi Tenfu Tea Sales Co., Ltd.                            | PRC, 26 June 2009           | Foreign investment enterprise | USD1,000,000       | USD1,000,000                  | 100%                                      | 100% | Sale of tea leaves, tea snacks and tea ware |
| Hebei Tenfu Tea Sales Co., Ltd.                              | PRC, 9 June 2009            | Foreign investment enterprise | USD1,000,000       | USD1,000,000                  | 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 | USD1,000,000       | USD1,000,000                  | 100%                                      | 100% | Sale of tea leaves, tea snacks and tea ware |
| Hunan Tenfu Tea Sales Co., Ltd.                              | PRC, 26 August 2009         | Foreign investment enterprise | USD1,000,000       | USD1,000,000                  | 100%                                      | 100% | Sale of tea leaves, tea snacks and tea ware |
| Fujian Tian Fu Sales Co., Ltd.                               | PRC, 4 July 2008            | Foreign investment enterprise | USD19,000,000      | USD19,000,000                 | 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 | USD1,000,000       | USD1,000,000                  | 100%                                      | 100% | Sale of tea leaves, tea snacks and tea ware |
| Jinan Tenfu Tea Co., Ltd.                                    | PRC, 8 June 1999            | Foreign investment enterprise | USD3,000,000       | USD3,000,000                  | 100%                                      | 100% | Sale of tea leaves, tea snacks and tea ware |
| Yantai Tenfu Tea Co., Ltd.                                   | PRC, 27 August 1996         | Foreign investment enterprise | USD1,500,000       | USD1,500,000                  | 100%                                      | 100% | Sale of tea leaves, tea snacks and tea ware |



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 31 Investments in subsidiaries – Company (continued)

Particulars of the subsidiaries of the Group as at 31 December 2014 and 2013 are as follows (continued):

| Company name   | Place/Date of incorporation | Legal status                  | Registered capital | Issued and fully paid capital | Effective interest held |      | Principal activities  |
|--|-----------------------------|-------------------------------|--------------------|-------------------------------|-------------------------|------|---|
|  |                             |                               |                    |                               | as at 31 December 2014  | 2013 |   |
| <b>Indirectly owned (continued)</b>                          |                             |                               |                    |                               |                         |      |   |
| Subsidiaries – established in the mainland China (continued) |                             |                               |                    |                               |                         |      |   |
| Tianjin Tenfu sales Co., Ltd.                                | PRC, 25<br>March 2009       | Foreign investment enterprise | USD4,000,000       | USD4,000,000                  | 100%                    | 100% | Sale of tea leaves, tea snacks and tea ware                             |
| Beijing Tenfu Tea Co., Ltd.                                  | PRC, 25<br>January 2002     | Foreign investment enterprise | USD5,000,000       | USD5,000,000                  | 100%                    | 100% | Sale of tea leaves, tea snacks and tea ware                             |
| Suzhou Tenfu Tea Co., Ltd.                                   | PRC, 9<br>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<br>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<br>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<br>November 2010    | Foreign investment enterprise | USD 2,000,000      | USD 2,000,000                 | 100%                    | 100% | Sale of tea leaves, tea snacks and tea ware                             |
| Inner Mongolia Tenfu Tea Co., Ltd.                           | PRC, 10<br>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.                                | PRC, 29<br>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<br>May 2012          | Foreign investment enterprise | USD 2,000,000      | USD 2,000,000                 | 100%                    | 100% | Sale of tea leaves, tea snacks and tea ware                             |
| Heilongjiang Tenfu Tea Co., Ltd.                             | PRC, 12<br>December 2012    | Foreign investment enterprise | USD 2,000,000      | USD 1,600,000                 | 100%                    | 100% | Sale of tea leaves, tea snacks and tea ware                             |
| Gansu Tenfu Tea Co., Ltd.                                    | PRC, 29<br>October 2012     | Foreign investment enterprise | USD 500,000        | USD 500,000                   | 100%                    | 100% | Sale of tea leaves, tea snacks and tea ware                             |
| Chongqing Yubeiqu Tenfu Tea Co., Ltd.                        | PRC, 7<br>August 2013       | Domestic enterprises          | RMB 1,000,000      | RMB 1,000,000                 | 100%                    | 100% | Sale of tea leaves, tea snacks and tea ware                             |
| Xuzhou Tenfu Tea Co., Ltd.                                   | PRC, 7<br>August 2013       | Domestic enterprises          | RMB 2,000,000      | RMB 2,000,000                 | 100%                    | 100% | Sale of tea leaves, tea snacks and tea ware                             |
| Xiamen Tianyu Commerce and Trading Co., Limited ("Tian Yu")  | PRC, 15<br>December 2007    | Domestic enterprises          | RMB 1,840,000      | RMB 1,840,000                 | 100%                    | 100% | Sale of tea leaves, tea snacks and tea ware (including on internet)     |
| Xiamen Tian Qia Catering Management Co., Ltd.                | PRC, 4<br>March 2011        | Domestic enterprises          | RMB 795,690        | RMB 795,690                   | 100%                    | 100% | Catering management, beverage production and sales of pre-packaged food |
| Xiamen Tenfu Trading Co., Ltd.                               | PRC, 30<br>May 2007         | Domestic enterprises          | RMB 33,868         | RMB 33,868                    | 100%                    | N/A  | Property management   |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 31 Investments in subsidiaries – Company (continued)

Particulars of the subsidiaries of the Group as at 31 December 2014 and 2013 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 |      | Principal activities |
|---|-----------------------------|---------------------------|--------------------|-------------------------------|---|------|----------------------|
|   |                             |                           |                    |                               | 2014                                      | 2013 |                      |
| <b>Indirectly owned (continued)</b>               |                             |                           |                    |                               |   |      |                      |
| Subsidiaries – incorporated in the Hong Kong      |                             |                           |                    |                               |   |      |                      |
| Ten Rui (Hong Kong) Sales Holdings Co., Ltd.      | Hong Kong, 7 March 2008     | Limited liability company | USD1,000,000       | USD1,000,000                  | 100%                                      | 100% | Investment holding   |
| Tenfu (Hong Kong) Holdings Co., Ltd. ("Tenfu HK") | Hong Kong, 17 August 2009   | Limited liability company | USD1,000           | USD1,000                      | 100%                                      | 100% | Investment holding   |

### 32 Notes to the consolidated cash flow statement

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

|  | Year ended 31 December |                 |
|--|------------------------|-----------------|
|  | 2014<br>RMB'000        | 2013<br>RMB'000 |
| Profit before income tax   | 378,362                | 369,035         |
| Adjustments for:   |                        |                 |
| – Share of profits of joint ventures (Note 10)                             | (1,118)                | (1,784)         |
| – Depreciation of property, plant and equipment (Note 8)                   | 68,680                 | 62,963          |
| – Depreciation of investment properties (Note 7)                           | 287                    | 287             |
| – Amortisation of land use rights (Note 6)                                 | 8,533                  | 3,584           |
| – Amortisation of intangible assets (Note 9)                               | 1,198                  | 717             |
| – (Gains)/Losses on disposal of property, plant and equipment (Note 23)    | (55)                   | 356             |
| – Finance income (Note 27)   | (25,687)               | (13,079)        |
| – Finance costs (Note 27)  | 10,537                 | 1,915           |
| – Share option expense (Note 17)   | (1,586)                | 567             |
| – Gains from business combination based on acquisition method (Note 34(a)) | –                      | (3,584)         |
| Changes in working capital:  |                        |                 |
| – Inventories  | 933                    | 18,016          |
| – Trade and other receivables and prepayments                              | (2,394)                | (20,295)        |
| – Trade and other payables   | (72,402)               | 77,055          |
| – Other liabilities  | 2,196                  | 10,453          |
| Cash generated from operations   | 367,484                | 506,206         |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 32 Notes to the consolidated cash flow statement *(continued)*

#### (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 |                 |
|---|------------------------|-----------------|
|   | 2014<br>RMB'000        | 2013<br>RMB'000 |
| Net book amount   |                        |                 |
| – Property, plant and equipment (Note 8)                              | 831                    | 2,309           |
| Gains/(Losses) on disposal of property, plant and equipment (Note 23) | 55                     | (356)           |
| Proceeds from disposal of property, plant and equipment               | 886                    | 1,953           |

### 33 Commitments – Group

#### (a) Equity investment commitments

|   | As at 31 December |                 |
|---|-------------------|-----------------|
|   | 2014<br>RMB'000   | 2013<br>RMB'000 |
| Investment in a joint venture (Note 10) | 4,467             | 6,402           |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 33 Commitments – Group *(continued)*

#### (b) Capital expenditure commitments

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

|                               | <b>As at 31 December</b> |         |
|-------------------------------|--------------------------|---------|
|                               | <b>2014</b>              | 2013    |
|                               | <b>RMB'000</b>           | RMB'000 |
| Property, plant and equipment | <b>19,427</b>            | 2,706   |

#### (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 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

|   | <b>As at 31 December</b> |         |
|---|--------------------------|---------|
|   | <b>2014</b>              | 2013    |
|   | <b>RMB'000</b>           | RMB'000 |
| No later than 1 year                        | <b>84,181</b>            | 110,729 |
| Later than 1 year and no later than 5 years | <b>95,700</b>            | 136,749 |
| Later than 5 years                          | <b>578</b>               | 6,798   |
|   | <b>180,459</b>           | 254,276 |

### 34 Business combinations

#### (a) Acquisition of Zhejiang Tenfu

Pursuant to the equity transfer agreement entered into between Tenfu HK, an indirectly wholly-owned subsidiary of the Company, and Ten Yuan (Singapore) Holdings Co. Pte. Ltd. ("Ten Yuan Singapore"), a related party, dated 17 July 2013, Ten Yuan Singapore transferred its entire equity interests in Zhejiang Tenfu to Tenfu HK at a consideration of RMB39,128,821. The transaction was completed on 26 September 2013 which is regarded as the acquisition date. The fair value of the net assets of Zhejiang Tenfu at the acquisition date is higher than the purchase consideration, hence a gain of RMB3,584,000 is recognised from the purchase.

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

|  | <b>Zhejiang Tenfu</b> |
|--|-----------------------|
|  | RMB'000               |
| Total purchase consideration to be settled in cash | <b>39,129</b>         |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 34 Business combinations (continued)

#### (a) Acquisition of Zhejiang Tenfu (continued)

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

|  | Fair value<br>RMB'000 | Acquiree's<br>carrying<br>amount<br>RMB'000 |
|--|-----------------------|---|
| Cash and cash equivalents              | 1,025                 | 1,025                                       |
| Land use rights (Note 6)               | 4,856                 | 2,672                                       |
| Property, plant and equipment (Note 8) | 25,475                | 22,713                                      |
| Inventories                            | 8,281                 | 8,281                                       |
| Trade and other receivables            | 9,452                 | 9,452                                       |
| Trade and other payables               | (5,140)               | (5,140)                                     |
| Deferred tax liabilities (Note 21)     | (1,236)               | –   |
|  | <b>42,713</b>         | <b>39,003</b>                               |
| Gain from acquisition (Note 23)        | <b>3,584</b>          |   |

The impact of the acquisition to cash flow of the Group is set out below:

|   | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|-----------------|-----------------|
| Purchase consideration to be settled in cash        | 19,129          | 39,129          |
| Purchase consideration not yet settled (Note 18(a)) | –               | (19,129)        |
| Cash and cash equivalents in subsidiary acquired    | –               | (1,025)         |
| Net cash outflow on acquisition                     | <b>19,129</b>   | 18,975          |

#### (b) Acquisition of Tian Yu and Tian Qia

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

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



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For the year ended 31 December 2014

### 34 Business combinations (continued)

#### (b) Acquisition of Tian Yu and Tian Qia (continued)

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

|  | Tian Yu<br>RMB'000 | Tian Qia<br>RMB'000 | Total<br>RMB'000 |
|--|--------------------|---------------------|------------------|
| Total purchase consideration to be settled in cash | <b>2,062</b>       | <b>837</b>          | <b>2,899</b>     |

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

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

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

### 35 Related-party transactions

The Group is controlled by Mr. Lee Rie-Ho, Mr. Lee Shih-Wei, Mr. Lee Chia Ling (“Controlling Shareholders”). The entities owned by the key management, their affiliates and the Group’s joint ventures are regarded as related parties.

Tenfu Group (Samoa) Holdings Co., Limited (“SAMOA”) is wholly owned by Mr. Lee Chia Ling. Certain subsidiaries of SAMOA were acquired by the Group in 2013 and 2014. Therefore, these subsidiaries of SAMOA ceased to be related parties of the Group from the acquisition date.

#### (a) Transactions with related parties

The following transactions are carried out by the Group with related parties:

|       |  | <b>Year ended 31 December</b> |         |
|-------|--|-------------------------------|---------|
|       |  | <b>2014</b>                   | 2013    |
|       |  | <b>RMB'000</b>                | RMB'000 |
| (i)   | Purchases of goods and services  |                               |         |
|       | – Subsidiaries of SAMOA  | <b>69,977</b>                 | 118,319 |
|       | – A company controlled by the Controlling Shareholders                 | <b>18,146</b>                 | 13,354  |
|       |  | <b>88,123</b>                 | 131,673 |
| (ii)  | Processing fee expenses  |                               |         |
|       | – Subsidiaries of SAMOA  | <b>2,940</b>                  | 2,946   |
| (iii) | Rental expenses  |                               |         |
|       | – The Controlling Shareholders and their affiliates                    | <b>3,577</b>                  | 3,910   |
|       | – Subsidiaries of SAMOA  | <b>1,445</b>                  | 1,310   |
|       | – A company controlled by an affiliate of the Controlling Shareholders | <b>39</b>                     | –       |
|       |  | <b>5,061</b>                  | 5,220   |
| (iv)  | Key management compensation  | <b>4,973</b>                  | 5,708   |
| (v)   | Dividends declared from a joint venture                                | <b>1,375</b>                  | 1,334   |
| (vi)  | Amounts paid/payable for acquisition of assets or businesses           |                               |         |
|       | – SAMOA  | <b>23,450</b>                 | 39,129  |
|       | – A company controlled by an affiliate of the Controlling Shareholders | –                             | 2,062   |
|       |  | <b>23,450</b>                 | 41,191  |

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2014

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

#### (b) Balances due to related parties

The Group has the following balances due to its related parties as at 31 December 2014 and 2013:

|      |  | As at 31 December |         |
|------|--|-------------------|---------|
|      |  | 2014              | 2013    |
|      |  | RMB'000           | RMB'000 |
| (i)  | Trade related                                  |                   |         |
|      | – Subsidiaries of SAMOA (Note 18)              | <b>8,414</b>      | 18,323  |
| (ii) | Non-trade related                              |                   |         |
|      | – An affiliate of the Controlling Shareholders | <b>8,093</b>      | –       |
|      | – A subsidiary of SAMOA                        | –                 | 29      |
|      |  | <b>8,093</b>      | 29      |

The payables to related parties for the years ended 31 December 2014 and 2013 arise mainly from purchase transactions and borrowings. The payables bear no interest and are repayable on demand.

#### (c) Borrowings guaranteed by related parties

Bank borrowings of RMB98,284,000 as at 31 December 2014 (2013: RMB45,727,000) are guaranteed by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, either separately or jointly (Note 19(a)).