Tenfu (Cayman) Holdings Company Limited
天福（開曼）控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6868)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2016

Financial Highlights

- Revenue for the year ended 31 December 2016 decreased by 2.2% from RMB1,518.0 million for 2015 to RMB1,484.7 million;
- Gross profit for the year ended 31 December 2016 decreased by 2.4% from RMB931.6 million for 2015 to RMB909.3 million, with a decrease in gross profit margin from 61.4% for 2015 to 61.2% for the year ended 31 December 2016;
- Profit for the year ended 31 December 2016 increased by 13.0% from RMB146.4 million for 2015 to RMB165.4 million, which corresponded to an increase in net profit margin from 9.6% for 2015 to 11.1% for the year ended 31 December 2016;
- Basic earnings per share for the year ended 31 December 2016 was RMB0.13; and
- The Board proposed a final dividend of HKD0.07 per share (equivalent to RMB0.06 per share).

The board of directors (the "**Board**") of Tenfu (Cayman) Holdings Company Limited (the "**Company**" or "**Tenfu**", together with its subsidiaries, the "**Group**") is pleased to announce the consolidated results of the Group for the year ended 31 December 2016, together with the comparative figures for the year ended 31 December 2015, as below.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	3	**1,484,718**	1,518,045
Cost of sales		**(575,437)**	(586,445)
Gross profit		**909,281**	931,600
Distribution costs		**(473,871)**	(478,073)
Administrative expenses		**(203,792)**	(200,384)
Other income	4	**13,020**	10,789
Other losses – net	5	**(3,007)**	(1,043)
Operating profit		**241,631**	262,889
Finance income		**15,664**	16,059
Finance costs		**(9,032)**	(51,045)
Finance income/(costs) – net	6	**6,632**	(34,986)
Share of profits less losses of investments accounted for using the equity method		**(2,560)**	(263)
Profit before income tax		**245,703**	227,640
Income tax expense	7	**(80,283)**	(81,286)
Profit for the year, all attributable to the owners of the Company		**165,420**	146,354
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year, all attributable to the owners of the Company		**165,420**	146,354
Earnings per share for profit attributable to the owners of the Company			
– Basic earnings per share	8	**RMB0.13**	RMB0.12
– Diluted earnings per share	8	**RMB0.13**	RMB0.12

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	**2016**	2015
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Land use rights		**268,732**	270,479
Investment properties		**3,595**	3,882
Property, plant and equipment		**716,452**	689,701
Intangible assets		**3,788**	4,573
Investments accounted for using the equity method		**9,214**	9,811
Deferred income tax assets		**36,234**	39,554
Prepayments – non-current portion	*10(b)*	**44,631**	29,492
Long-term time deposits		**68,500**	67,500
		1,151,146	1,114,992
Current assets			
Inventories		**446,060**	471,382
Trade and other receivables	*10(a)*	**243,615**	267,350
Prepayments	*10(b)*	**82,342**	91,379
Restricted cash		**34,000**	34,000
Time deposits		**178,657**	144,330
Cash and cash equivalents		**270,441**	379,316
		1,255,115	1,387,757
Total assets		**2,406,261**	2,502,749

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital: nominal value	*11*	**100,816**	100,816
Share premium	*11*	**–**	92,211
Other reserves	*12*	**499,759**	487,428
Retained earnings		**1,386,314**	1,244,375
Total equity		**1,986,889**	1,924,830
LIABILITIES			
Non-current liabilities			
Borrowings	*15*	**8,236**	–
Deferred income on government grants	*16*	**21,435**	22,021
Deferred income tax liabilities		**22,092**	23,210
		51,763	45,231
Current liabilities			
Trade and other payables	*14*	**217,054**	226,535
Current income tax liabilities		**38,479**	34,856
Borrowings	*15*	**94,145**	251,656
Other liabilities	*17*	**17,931**	19,641
		367,609	532,688
Total liabilities		**419,372**	577,919
Total equity and liabilities		**2,406,261**	2,502,749

NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION

The Group is engaged in the classification, packaging and sales of tea leaves, manufacture and sales of tea snacks, sales of tea ware, catering management, beverage production and sales of pre-packaged food. The Group has manufacturing plants in Fujian Province, Sichuan Province and Zhejiang Province, the People's Republic of China (the "PRC") and sells mainly to customers located in the PRC.

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

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

The financial information is presented in Renminbi ("RMB"), unless otherwise stated. The financial information has been approved for issue by the board of directors (the "Board") of the Company on 20 March 2017.

2 BASIS OF PREPARATION

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

Changes in accounting policies and disclosures

New amendments of HKFRSs adopted by the Group in 2016

The following new amendments of HKFRSs which are relevant to the Group's operations are effective for the first time for the financial year beginning on 1 January 2016.

- Amendment to HKAS 27 'Separate Financial Statements' on using 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.

- Amendments to HKAS 1 'Presentation of Financial Statements' regarding disclosure initiative. The amendments clarify guidance in HKAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. Although the amendments do not require specific changes, they clarify a number of presentation issues and highlight that preparers are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users.

- Annual improvements 2014 include changes from the 2012-2014 cycle of the annual improvements project, that affect 4 standards:

  – HKFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' clarifies that when an asset (or disposal group) is reclassified from 'Held for Sale' to 'Held for Distribution', or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. This means that the asset (or disposal group) does not need to be reinstated in the financial statements as if it had never been classified as 'Held for Sale' or 'Held for Distribution' simply because the manner of disposal has changed. It also explains that the guidance on changes in a plan of sale should be applied to an asset (or disposal group) which ceases to be held for distribution but is not classified as 'Held for Sale'.

– HKFRS 7 ‘Financial Instruments: Disclosures’ contains two amendments:

(i) service contracts

If an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, HKFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. It provides guidance about what is meant by continuing involvement. There is a consequential amendment to HKFRS 1 to give the same relief to first time adopters.

(ii) Interim financial statements

It clarifies the additional disclosure required by the amendments to HKFRS 7 ‘Disclosure – Offsetting Financial Assets and Financial Liabilities’ is not specifically required for all interim periods, unless required by HKAS 34.

– HKAS 19 ‘Employee Benefits’ clarifies when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used.

– HKAS 34 ‘Interim Financial Reporting’ clarifies what is meant by the reference in the standard to ‘Information Disclosed Elsewhere in the Interim Financial Report’. It also amends HKAS 34 to require a cross-reference from the interim financial statements to the location of that information.

The adoption of the above new amendments of HKFRSs starting from 1 January 2016 did not give rise to any significant impact on the Group’s results of operations and financial position for the year ended 31 December 2016.

3 REVENUE AND SEGMENT INFORMATION

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

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

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

Others include revenue from restaurant, hotel, tourist, management services and catering management, beverage production and sales of pre-packaged food. 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 2016 and 2015, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue.

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

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

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

Revenue

Revenue of the Group consists of the following revenues for the years ended 31 December 2016 and 2015. All revenues are derived from external customers.

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Sales of tea leaves	**1,058,364**	1,082,207
Sales of tea snacks	**223,924**	221,643
Sales of tea ware	**133,618**	154,665
Others	**68,812**	59,530
	1,484,718	1,518,045

The segment results for the year ended 31 December 2016:

	Tea leaves	Tea snacks	Tea ware	All other segments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	**1,058,364**	**223,924**	**133,618**	**68,812**	**1,484,718**
Segment results	**214,143**	**19,026**	**19,852**	**(3,369)**	**249,652**
Unallocated administrative expenses					**(18,034)**
Other income					**13,020**
Other losses – net					**(3,007)**
Finance income – net					**6,632**
Share of profits less losses of investments accounted for using the equity method					**(2,560)**
Profit before income tax					**245,703**
Income tax expense					**(80,283)**
Profit for the year					**165,420**

Other segment items included in the 2016 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	**35,797**	**11,444**	**6,738**	**6,366**	**7,828**	**68,173**
Depreciation of investment properties	**–**	**–**	**–**	**–**	**287**	**287**
Amortisation of land use rights	**7,179**	**1,835**	**1,441**	**693**	**–**	**11,148**
Amortisation of intangible assets	**317**	**61**	**59**	**26**	**393**	**856**
Losses on disposal of property, plant and equipment, net	**923**	**504**	**97**	**1,536**	**–**	**3,060**

The segment assets and liabilities as at 31 December 2016 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	**1,501,201**	**302,149**	**252,066**	**130,583**	**220,262**	**2,406,261**
Segment liabilities	**177,018**	**28,207**	**14,880**	**12,326**	**186,941**	**419,372**

The segment results for the year ended 31 December 2015:

	Tea leaves *RMB'000*	Tea snacks *RMB'000*	Tea ware *RMB'000*	All other segments *RMB'000*	Total *RMB'000*
Segment revenue	1,082,207	221,643	154,665	59,530	1,518,045
Segment results	226,070	19,525	24,414	2,049	272,058
Unallocated administrative expenses					(18,915)
Other income					10,789
Other losses – net					(1,043)
Finance costs – net					(34,986)
Share of profits less losses of investments accounted for using the equity method					(263)
Profit before income tax					227,640
Income tax expense					(81,286)
Profit for the year					146,354

Other segment items included in the 2015 consolidated statement of comprehensive income:

	Tea leaves *RMB'000*	Tea snacks *RMB'000*	Tea ware *RMB'000*	All other segments *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Depreciation of property, plant and equipment	39,594	10,569	6,758	2,236	8,593	67,750
Depreciation of investment properties	–	–	–	–	287	287
Amortisation of land use rights	6,795	1,448	1,425	475	–	10,143
Amortisation of intangible assets	468	100	90	30	568	1,256
Losses on disposal of property, plant and equipment, net	287	30	16	–	–	333

The segment assets and liabilities as at 31 December 2015 are as follows:

	Tea leaves *RMB'000*	Tea snacks *RMB'000*	Tea ware *RMB'000*	All other segments *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment assets	1,506,195	310,945	289,144	128,669	267,796	2,502,749
Segment liabilities	201,057	27,071	23,977	9,776	316,038	577,919

4 OTHER INCOME

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Government grants	**10,221**	8,802
Income from investment properties	**1,669**	1,730
Amortisation of deferred income *(Note 16)*	**586**	139
Others	**544**	118
	13,020	10,789

5 OTHER LOSSES – NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Losses on disposal of property, plant and equipment, net	**(3,060)**	(333)
Net foreign exchange gains/(losses)	**53**	(710)
	(3,007)	(1,043)

6 FINANCE INCOME/(COSTS) – NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Finance income		
– Interest income on short-term bank deposits and time deposits	**12,821**	16,059
– Net foreign exchange gains	**2,843**	–
Total finance income	**15,664**	16,059
Finance costs		
– Interest expenses on bank borrowings	**(9,716)**	(20,746)
– Less: amounts capitalised in qualifying assets	**684**	927
– Net foreign exchange losses	**–**	(31,226)
Total finance costs	**(9,032)**	(51,045)
Net finance income/(costs)	**6,632**	(34,986)

7 INCOME TAX EXPENSE

	Year ended 31 December 2016 *RMB'000*	2015 *RMB'000*
Current income tax		
– PRC corporate income tax	**63,981**	74,910
Deferred income tax	**16,302**	6,376
Income tax expense	**80,283**	81,286

(i) Cayman Islands profits tax

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

(ii) Hong Kong profits tax

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

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

CIT is provided at the rate of 25% (2015: 25%) on the assessable income of entities within the Group incorporated in mainland China.

(iv) PRC withholding income tax

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

Such withholding tax is recorded under deferred income tax. During the year, there has been a change of approval requirements in respect of qualifying for the lower tax rate of 5% for dividend distributions to Hong Kong immediate holding companies. As the tax status is yet to be finalised, the Group revised its estimate for the accrual based on 10% instead of 5% and charged the additional accrual to current year profit or loss.

8 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 2016	2015
Profit attributable to the owners of the Company (RMB'000)	**165,420**	146,354
Weighted average number of ordinary shares in issue ('000)	**1,227,207**	1,227,207
Basic earnings per share (RMB)	**0.13**	0.12

(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 2016 and 2015, 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.

9 DIVIDENDS

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Interim dividend declared	**41,725**	50,316
Proposed final dividend	**73,632**	61,636
	115,357	111,952

At a meeting held on 20 March 2017, the Board proposed a final dividend for 2016 of Hong Kong Dollar ("HKD") 88,973,000 (equivalent to RMB73,632,000) (2015: HKD67,496,000 (equivalent to RMB61,636,000)), representing HKD7 cents (equivalent to RMB)6 cents) (2015: HKD6 cents (equivalent to RMB5 cents)) per share, to be appropriated from retained earnings (2015: using the share premium account).

The proposed final dividend for 2016 is to be approved by the shareholders at the forthcoming Annual General Meeting. The proposed dividend is not reflected as a dividend payable in the consolidated financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2017.

The interim dividend for 2016 of HKD4 cents (equivalent to RMB3.4 cents) (2015: HKD5 cents (equivalent to RMB4.1 cents) per share was declared by the Board on 16 August 2016 using both the share premium account and retained earnings (2015: using only the share premium account). This interim dividend, amounting to HKD49,088,000 (equivalent to RMB41,725,000) (2015: HKD61,360,000 (equivalent to RMB50,316,000)), has been reflected as an appropriation of share premium amounting to RMB30,575,000 and retained earnings amounting to RMB11,150,000 for the year ended 31 December 2016.

The dividends paid in 2016 were RMB103,361,000 (2015: RMB185,309,000).

10 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

(a) Trade and other receivables

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables from third parties	**227,464**	251,909
Interest receivable on time deposits	**10,495**	5,606
Others	**5,656**	9,835
	16,151	15,441
Total of trade and other receivables	**243,615**	267,350

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 2016 and 2015, the ageing analysis of the trade receivables of the Group based on invoice date is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Up to 140 days	**225,574**	249,395
141 days to 6 months	**926**	1,274
6 months to 1 year	**623**	1,232
1 year to 2 years	**341**	8
	227,464	251,909

As at 31 December 2016, trade receivables of RMB1,890,000 (31 December 2015: RMB2,514,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Past due within 40 days	**926**	1,274
Past due over 40 days and within 220 days	**623**	1,232
Past due over 220 days	**341**	8
	1,890	2,514

As at 31 December 2016, no trade receivables were impaired and provided for (31 December 2015: nil).

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
RMB	**240,406**	264,231
USD	**3,209**	3,119
	243,615	267,350

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

(b) Prepayments

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Non-current		
Prepayments for property, plant and equipment	**27,611**	14,532
Prepayments for land use rights	**15,650**	14,960
Prepayments for intangible assets	**1,370**	–
	44,631	29,492
Current		
Prepayments for lease of property and lease deposits	**56,456**	59,989
Prepayments to related parties	**2,263**	12,743
Prepaid taxes	**11,845**	10,901
Prepayments for raw materials and packaging materials	**11,778**	7,746
	82,342	91,379
	126,973	120,871

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

11 SHARE CAPITAL AND PREMIUM

	Number of authorised shares *(thousands)*	Number of issued shares *(thousands)*	Ordinary shares (nominal value) *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
At 1 January 2016	**8,000,000**	**1,227,207**	**100,816**	**92,211**	**193,027**
Dividends	**–**	**–**	**–**	**(92,211)**	**(92,211)**
At 31 December 2016	**8,000,000**	**1,227,207**	**100,816**	**–**	**100,816**
At 1 January 2015	8,000,000	1,227,207	100,816	277,520	378,336
Dividends	–	–	–	(185,309)	(185,309)
At 31 December 2015	8,000,000	1,227,207	100,816	92,211	193,027
Representing:					
Proposed final dividend				61,636	
Others				30,575	
At 31 December 2015				92,211	

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 9.

12 OTHER RESERVES

	Merger reserve *RMB'000*	Capital reserve *RMB'000*	Statutory reserves *RMB'000*	Share-based payment reserve *RMB'000*	Total *RMB'000*
At 1 January 2016	**278,811**	**231**	**208,386**	**–**	**487,428**
Appropriation to statutory reserves	**–**	**–**	**12,331**	**–**	**12,331**
At 31 December 2016	**278,811**	**231**	**220,717**	**–**	**499,759**
At 1 January 2015	278,811	231	184,617	–	463,659
Appropriation to statutory reserves	–	–	23,769	–	23,769
Share option scheme					
– value of services from directors, employees and independent third party distributors *(Note 13)*	–	–	–	380	380
– reversal of the value of services for the year from directors, employees and independent third party distributors *(Note 13)*	–	–	–	(380)	(380)
At 31 December 2015	278,811	231	208,386	–	487,428

13 SHARE-BASED PAYMENTS

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

Share Option Scheme

Pursuant to the share option scheme of the Company in relation to the grant of options under the Share Option Scheme, the Company granted options to subscribe for an aggregate of 7,046,000 shares, 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 to be vested 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 employment 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.

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

	Average exercise price *(HKD per share)*	**Number of options** *(thousands)*
As at 1 January 2016	**4.28**	**8,201**
Lapsed *(Note (a))*	**4.28**	**(8,191)**
Forfeited *(Note (b))*	**4.28**	**(10)**
As at 31 December 2016	**4.28**	**–**
As at 1 January 2015	4.86	16,395
Lapsed *(Note (a))*	5.44	(8,133)
Forfeited *(Note (b))*	4.28	(61)
As at 31 December 2015	4.28	8,201

(a) During the year ended 31 December 2016, the share options granted on 19 March 2013 were lapsed due to the expiry of the 3 years vesting period.

During the year ended 31 December 2015, the share options granted on 6 January 2012 and 12 January 2012 were lapsed due to the expiry of the 3 years vesting period.

(b) Options were forfeited during the years ended 31 December 2016 and 2015 due to employees' resignation.

There are no outstanding share options as at 31 December 2016. None of the share options granted on 6 January 2012, 12 January 2012 and 19 March 2013 have been vested due to not achieving the Performance Conditions.

During the year ended 31 December 2016, no share option expense was charged to the consolidated statement of comprehensive income.

During the year ended 31 December 2015, the share option expense charged to the consolidated statement of comprehensive income was approximately HKD482,000 (equivalent to RMB380,000), including an amount of HKD435,000 (equivalent to RMB343,000) relating to the directors and employees of the Group.

As at 31 December 2015, the Group reversed the share option expense for the year charged to the consolidated statement of comprehensive income amounting to HKD482,000 (equivalent to RMB380,000), including an amount of HKD435,000 (equivalent to RMB343,000) relating to the directors and employees of the Group due to not achieving the Performance Conditions.

14 TRADE AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade payables – due to third parties	**66,552**	80,582
Trade payables – due to related parties	**21,445**	24,052
Total trade payable	**87,997**	104,634
Notes payable	**–**	33,000
Payables for property, plant and equipment	**1,675**	2,540
Other taxes payable	**23,988**	5,931
Employee benefit payables	**22,333**	22,323
Advances from customers	**41,968**	31,783
Others	**39,093**	26,324
	217,054	226,535

As at 31 December 2016 and 2015, 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	
	2016	2015
	RMB'000	*RMB'000*
Up to 6 months	**77,645**	93,926
6 months to 1 year	**7,432**	9,567
1 year to 2 years	**2,096**	887
Over 2 years	**824**	254
	87,997	104,634

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

15 BORROWINGS

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Long-term bank borrowing		
– Secured (i)	**8,946**	–
Less: Current portion	**(710)**	–
	8,236	–
Short-term bank borrowings		
– Secured (ii)	**50,000**	56,645
– Unsecured (iii)	**43,435**	195,011
Add: Current portion of long-term bank borrowing	**710**	–
	94,145	251,656
Total borrowings	**102,381**	251,656

(i) During the year ended 31 December 2016, a subsidiary Fujian Tian Fu Sales Co., Ltd. entered into an agreement with China Construction Bank Xiamen Branch for a long-term bank borrowing of RMB8,946,000 in connection with purchase of a store premise under construction and for which a prepayment of RMB17,355,000 for the full purchase price was made. The borrowing which is secured by the pledge of the store premise under construction bears interest at the rates quoted by People's Bank of China from time to time and requires monthly instalment of repayment up to November 2026.

(ii) As at 31 December 2016, short-term bank borrowings of RMB50,000,000 (2015: RMB56,645,000) of the Group are secured by the pledge of land use rights and property, plant and equipment of the Group.

(iii) As at 31 December 2016, short-term bank borrowings of RMB33,435,000 (2015: RMB151,656,000) of the Group are guaranteed by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, all of them are directors of the Company, either separately or jointly.

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
6 months or less	**43,786**	55,196
7-12 months	**50,359**	196,460
1-5 years	**3,158**	–
Over 5 years	**5,078**	–
	102,381	251,656

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
RMB	**102,381**	196,460
USD	**–**	55,196
	102,381	251,656

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

	As at 31 December	
	2016	2015
Short-term bank borrowings	**4.60%**	2.15%
Long-term bank borrowing	**5.22%**	–

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

16 DEFERRED INCOME ON GOVERNMENT GRANTS

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**22,021**	–
Granted during the year (i)	**–**	22,160
Amortised as income *(Note 4)*	**(586)**	(139)
At end of the year	**21,435**	22,021

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

17 OTHER LIABILITIES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Deferred revenue: customer loyalty programme	**17,931**	19,641

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Outlook

In 2016, the Group achieved revenue of RMB1,484.7 million, down 2.2% from 2015, and recorded profit for the year of RMB165.4 million, up 13.0% from 2015. The decrease in the Group's revenue for the year was mainly due to the macro economic slowdown.

In 2016, 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 2015 China's Top 100 tea industry enterprises in terms of comprehensive strength, the "Tenfu" (天福) brand has one of the highest levels of brand awareness amongst tea product consumers in the PRC. With its high level of brand awareness and more than 25 years of presence in the market, the Group believes it is in a strong position to continue capturing such expected growth in the market for branded traditional Chinese tea leaves.

2. **Adjusting sales network.** While the whole consumption declines under the current economic conditions in the PRC, the Group has adjusted their retail outlets and retail points to keep the profitable ones and shut down the unprofitable ones in the PRC. As of 31 December 2016, the Group had a total of 1,208 self-owned and third-party owned retail outlets and retail points, compared with a total of 1,333 as of 31 December 2015.

3. **Growth in net profit margin.** In 2016, net profit margin increased to 11.1% from 9.6% for 2015 mainly due to decrease in interest expenses and foreign exchange losses.

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

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

6. **Relationships with customers and suppliers.** The Group always maintains good relationship with customers and suppliers. For the year ended 31 December 2016, the aggregate percentage of purchases attributable to the Group's five largest suppliers accounted for approximately 27.4% of the Group's total purchase. The Group selects suppliers carefully to ensure the quality of raw materials and packaging materials through maintaining appraisal records for suppliers and grading them on a declining scale according to the quality of material supplied, price, ability to meet demand and punctuality of delivery time. The percentage of revenue attributable to the Group's five largest customers accounted for approximately 4.6% of the Group's total revenue. The credit terms granted to the top five customers are in line with those granted to other customers. The top five customers made subsequent settlement of trade receivables within the credit term. The Group has historically depended on sales to the third-party retailers, and third-party retailers are expected to remain important in sales network. If the third-party retailers are not able to operate successfully or the Group fails to maintain good relationships with such parties, the business, financial condition and results of operations of the Group could be materially and adversely affected. Since 2008, the Group has acquired a number of retail outlets and retail points from third-party retailers and operated the self-owned retail outlets and retail points. In order to keep good customer services, the Group maintains a customer service hotline to handle general service inquiries and ensure a timely response to all customer concerns. The Group's internal policy requires that all complaints be reported and resolved promptly. If a complaint is not resolved during the call, the customer service representative is required to timely report such complaint to the local sales office which covers the region where the complaining customer is located. For the year ended 31 December 2016, the Group did not incur any material costs in relation to these complaints and there had not been any material product recall.

In 2017, the Group plans to continue to adjust and optimise 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 and acquire store premises for the operation of self-owned retail outlets.

In particular, the Group plans to:

1. **Continue to adjust and optimize retail sales network.** The Group plans to further adjust retail outlets and retail points, including both self-owned and third-party owned retail outlets and retail points. In order to achieve this goal, the Group plans to identify, establish and keep new retail outlets on high-traffic streets in the central business districts of selected cities, as well as retail points in popular shopping malls, actively expand networks in third-tier and fourth-tier and smaller cities, and develop quality distributors to increase sales of its tea products. To capture more customers who prefer to buy their tea products on-line, the Group continues to monitor the opportunity to increase internet sales after completion of acquisition of Xiamen Tianyu Commerce and Trading Co., Limited (廈門天鈺商貿有限公司) in September 2013. The Group will continue to monitor other opportunities for multi-channel sales and distribution network, which enables the Group to access a broad market audience and penetrate into different regions in the PRC, and continue to rapidly expand their sales. A joint venture agreement was entered into between Tenfu (Hong Kong) Holdings Company Limited ("**Tenfu HK**"), a subsidiary of the Company and Rise General Trading LLC. ("**Rise**"), an independent third party, on 17 June 2015 for entering into an associate in United Arab Emirates ("**U.A.E**") to undertake such activities as warehousing, blending, packaging, and trading the new brand of tea to serve the Middle East and Africa region. Tea Trading International DMCC ("**TTI**"), an associate, was established in July 2015 with registered capital of Arab Emirate Dirham ("**AED**") 2,000,000, of which Rise and Tenfu HK own 51% and 49%, respectively. Rise and Tenfu HK are each committed to inject United States Dollar ("**USD**") 2,800,000 to TTI, including registered capital. A supply agreement was entered into between Tenfu HK and TTI, pursuant to which, Tenfu HK agreed to supply, and TTI agreed to procure, tea leaves. 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.

3. **Continue to develop new concepts for tea-related products.** The Group believes that a broad portfolio of products will help it to maintain its leading brand position and keep pace with constantly changing consumer preferences and trends. To this end, the Group will continue the development of tea and tea-related products to meet market requirements, as well as creating the trend and leading the trend. Through the completion of acquisition of Xiamen Tianqia Catering Management Co., Limited (廈門天洽餐飲管理有限公司) in October 2013, the Group entered into the tea drink (including milk tea) industry with the trademark of "放牛斑". Xiamen Daily Plus Food Beverage Management Co., Ltd. (廈門天天佳盈餐飲管理有限公司), a joint venture company with Ten Ren Tea Co., Ltd. (天仁茶業股份有限公司) was established in January 2014 to further develop the tea drink business with the trademark of "喫茶趣 TO GO". Through the establishment of Xiamen Daily Plus Food Beverage Management Co., Ltd., the Group has expanded its market share in tea drink (including milk tea) industry by cooperation with Ten Ren Tea Co., Ltd. and leveraging experience of Ten Ren Tea Co., Ltd. in Taiwan and international markets.

4. **Enhance processing and distribution efficiency and effectiveness.** The Group has implemented a fully-integrated ERP (Enterprise Resource Planning) system since 2012 so as to collect real-time sales and inventory data from retail outlets. The Group intends to continue proper implementation and usage of the ERP system, aiming to streamline its distribution operation and improve collection of information, so that the Group can plan its processing schedules, manage resources and monitor sales and inventory information more efficiently and effectively.

5. **Expand production capacity through the increase of the number of processing facilities.** The Group plans to cater for future growth and anticipated increases in the demand for tea and tea-related products by expanding production capacity when suitable acquisition opportunities arise or suitable construction sites can be acquired. After the completion of acquisition of Zhejiang Tianfu Tea Industry Co., Ltd. (浙江天福茶業有限公司) in September 2013, the Group has 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.

In 2016, coping with the external and internal uncertainties and changes, the Group gained valuable experience, and also strengthened the planning, management and operation abilities of the Board, the management, and the staff. Such experience will help the Group to face and overcome challenges of the future. The Company's sustainable development depends on the supports and efforts of all the parties involved, including the customers, the suppliers, the business partners and the shareholders, and in particular the efforts and contributions and dedication of all staff of the Group.

Looking forward, the Group's primary goal is to continue growing its business and increasing its market share by leveraging its strong market position and sales network and the anticipated economic growth in the PRC tea market.

Financial Review

Revenue

During the year ended 31 December 2016, the Group engaged in the sales and marketing of a comprehensive range of tea products and the development of product concepts, tastes and packaging designs. The Group has manufacturing plants in Fujian province, Sichuan province and Zhejiang province, the PRC. The Group's key products are tea leaves, tea snacks and tea ware, which it sells through a nationwide network of self-owned and third-party owned retail outlets and retail points. The Group has started the sales of tea drink (including milk tea) with the trademark of "放牛斑" and "喫茶趣 TO GO".

During the year ended 31 December 2016, the Group derived substantially all of its revenue from the sales of tea leaves, tea snacks and tea ware. The revenue of the Group decreased by 2.2% from RMB1,518.0 million for the year ended 31 December 2015 to RMB1,484.7 million for the year ended 31 December 2016. The following table sets forth a breakdown of revenue by product category for the years indicated:

	Year ended 31 December			
	2016		2015	
	RMB'000	***%***	*RMB'000*	*%*
Revenue contributed from:				
Sales of tea leaves	**1,058,364**	**71.3**	1,082,207	71.3
Sales of tea snacks	**223,924**	**15.1**	221,643	14.6
Sales of tea ware	**133,618**	**9.0**	154,665	10.2
Others[(1)]	**68,812**	**4.6**	59,530	3.9
Total	**1,484,718**	**100.0**	1,518,045	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 2.2% from RMB1,082.2 million for the year ended 31 December 2015 to RMB1,058.4 million for the year ended 31 December 2016. Revenue from sales of the Group's tea snacks increased by 1.0% from RMB221.6 million for the year ended 31 December 2015 to RMB223.9 million for the year ended 31 December 2016. Revenue from sales of the Group's tea ware decreased by 13.6% from RMB154.7 million for the year ended 31 December 2015 to RMB133.6 million for the year ended 31 December 2016. The revenue decreases from sales of the Group's tea leaves and tea ware were primarily due to the decrease in sales revenue affected by overall economic slowdown in the PRC. The revenue increase from sales of the Group's tea snacks was primarily driven by the variety of tea snacks newly developed to accommodate the taste of city people.

As of 31 December 2016, the Group had approximately 400 self-owned retail outlets and approximately 200 wholesalers throughout Mainland China accounted for approximately 63% and 32% of the total revenue respectively, compared with approximately 450 self-owned retail outlets and approximately 150 wholesalers as of 31 December 2015.

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 1.9% from RMB586.4 million for the year ended 31 December 2015 to RMB575.4 million for the year ended 31 December 2016, primarily due to the decrease in sales and different sales mix.

Gross profit and gross profit margin

As a result of the foregoing factors, gross profit of the Group decreased by 2.4% from RMB931.6 million for the year ended 31 December 2015 to RMB909.3 million for the year ended 31 December 2016, with gross profit margin decreasing by 0.3% from 61.4% for the year ended 31 December 2015 to 61.2% for the year ended 31 December 2016.

Distribution costs

The distribution costs of the Group decreased by 0.9% from RMB478.1 million for the year ended 31 December 2015 to RMB473.8 million for the year ended 31 December 2016. The decrease was primarily due to a decrease of rental, utilities and free trial expenses as a result of the decrease of retail stores .

Administrative expenses

Administrative expenses for the Group increased by 1.7% from RMB200.4 million for the year ended 31 December 2015 to RMB203.8 million for the year ended 31 December 2016. The increase was primarily due to an increase of labour costs .

Other income

Other income of the Group increased by 20.7% from RMB10.8 million for the year ended 31 December 2015 to RMB13.0 million for the year ended 31 December 2016. The increase was primarily due to the increase in PRC local government grants which were recognised as income immediately from RMB8.8 million for the year ended 31 December 2015 to RMB10.2 million for the year ended 31 December 2016.

Other losses-net

The Group recorded other losses of RMB3.0 million for the year ended 31 December 2016, primarily due to losses from the disposal of property, plant and equipment. The Group recorded other losses of RMB1.0 million for the year ended 31 December 2015, primarily due to net foreign exchange losses of RMB0.7 million and losses from the disposal of property, plant and equipment of RMB0.3 million.

Finance income

Finance income of the Group decreased by 2.5% from RMB16.1 million for the year ended 31 December 2015 to RMB15.7 million for the year ended 31 December 2016. The decrease was primarily due to the decrease in interest income as a result of lesser funds placed as bank deposits.

Finance costs

Finance costs of the Group decreased by 82.3% from RMB51.0 million for the year ended 31 December 2015 to RMB9.0 million for the year ended 31 December 2016, reflecting a decrease in interest expenses and foreign exchange losses on the Group's bank borrowings.

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

Share of profit less losses of investments accounted for using the equity method of the Group was a net loss amounting to RMB2.6 million and RMB0.3 million for the years ended 31 December 2016 and 2015, respectively.

Income tax expense

Income tax expense of the Group decreased by 1.2% from RMB81.3 million for the year ended 31 December 2015 to RMB80.3 million for the year ended 31 December 2016, primarily due to a decrease in profit before tax of the subsidiaries of the Group located in mainland China for the year ended 31 December 2016 compared with the year ended 31 December 2015.

Profit for the year

As a result of the foregoing factors and primarily due to decrease in interest expenses and foreign exchange losses , profit of the Group, all of which was attributable to the owners of the Company, increased by RMB19.1 million, or 13.0%, to RMB165.4 million for the year ended 31 December 2016 as compared to RMB146.4 million for the year ended 31 December 2015. Net profit margin of the Group for the year increased correspondingly from 9.6% to 11.1%.

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 decreased by RMB108.9 million, or 28.7%, from RMB379.3 million as of 31 December 2015 to RMB270.4 million as of 31 December 2016.

The Group had net cash inflow from operating activities of RMB293.1 million, net cash outflow from investing activities of RMB152.1 million and net cash outflow from financing activities of RMB252.8 million for the year ended 31 December 2016.

Bank borrowings and gearing ratio

The Group had total bank borrowings of RMB102.4 million as of 31 December 2016, compared to RMB251.7 million as of 31 December 2015. As of 31 December 2016, the weighted average effective interest rates of the Group's short-term and long-term bank borrowings were 4.6% and 5.2%, respectively, and all of the Group's bank borrowings were denominated in RMB. Bank borrowings as at 31 December 2016 and those in corresponding period were charged at variable interest rate.

As at 31 December 2016, a subsidiary Fujian Tian Fu Sales Co., Ltd. entered into an agreement with China Construction Bank Xiamen Branch for a long-term bank borrowing of RMB8,946,000 in connection with purchase of a store premise under construction and for which a prepayment of RMB17,355,000 for the full purchase price was made. The borrowing which is secured by the pledge of the store premise under construction bears interest at the rates quoted by People's Bank of China from time to time and requires monthly instalment of repayment up to November 2026. As at 31 December 2016, short-term bank borrowings of RMB50.0 million of the Group are secured by the pledge of land use rights and property, plant and equipment of the Group. As at 31 December 2016, short-term bank borrowings of RMB33.4 million of the Group are guaranteed by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, all of them are directors of the Company, either separately or jointly. As of 31 December 2015, short-term bank borrowings of RMB151.7 million of the Group were guaranteed by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, all of whom are directors of the Company ("**Directors**"), either separately or jointly, and short-term bank borrowings of RMB56.6 million were pledged by the land use rights and property, plant and equipment of the Group. The Directors are of the view that the guarantee of bank borrowings of RMB33.4 million by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, being a form of financial assistance (as defined in the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchanges of Hong Kong Limited (the "**Stock Exchange**")) for the benefit of the Group, was on normal commercial terms where no security over the assets of the Group was granted in respect of such financial assistance provided by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin. Accordingly, such guarantee is exempt from all reporting, announcement and independent shareholders' approval requirements pursuant to Rule 14A.90 of the Listing Rule.

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

As at 31 December 2016	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Borrowings	**94,145**	**747**	**2,411**	**5,078**	**102,381**
Interest payments on borrowings *(Note)*	**2,628**	**406**	**954**	**691**	**4,679**
Trade and other payables	**128,765**	**–**	**–**	**–**	**128,765**
	225,538	**1,153**	**3,365**	**5,769**	**235,825**

As at 31 December 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Borrowings	251,656	–	–	–	251,656
Interest payments on borrowings *(Note)*	6,246	–	–	–	6,246
Trade and other payables	166,498	–	–	–	166,498
	424,400	–	–	–	424,400

Note: the interest payments on borrowings are calculated based on borrowings held as at 31 December 2016 and 2015, respectively (excluding the accrued interest payable balance already in trade and other payables) without taking into account future borrowings.

The Group regularly monitors its gearing ratio, which represents total debt as a percentage of total capital. Total debt is calculated as total borrowings (including current and non-current borrowings). Total capital is calculated as total equity plus total debt. As of 31 December 2016, the gearing ratio of the Group was 5%, compared to 12% as of 31 December 2015. The decrease in the gearing ratio during 2016 was primarily due to the repayment of the Group's bank borrowings.

Capital and other commitments

As of 31 December 2016, the Group had total investment, capital and operating lease commitments of RMB258.4 million, as compared to RMB275.6 million as of 31 December 2015. The Group plans to fund these commitments primarily with available cash.

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

	As of 31 December	
	2016	2015
	RMB'000	*RMB'000*
Investments in a joint venture and an associate	**14,269**	17,454

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	
	2016	2015
	RMB'000	*RMB'000*
Property, plant and equipment	**83,626**	103,900

The Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The lease terms are between one to five years, and the majority of the Group's lease agreements are renewable at the end of the lease period at market rate. The table below sets forth the operating lease commitments of the Group as of the dates indicated:

	As of 31 December	
	2016	2015
	RMB'000	*RMB'000*
No later than 1 year	**82,528**	72,384
Later than 1 year and no later than 5 years	**76,218**	81,339
Later than 5 years	**1,761**	514
	160,507	154,237

Working capital

	As of 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade and other receivables	**243,615**	267,350
Trade and other payables	**217,054**	226,535
Inventories	**446,060**	471,382
Trade receivables turnover days[(1)]	**123**	118
Trade payables turnover days[(2)]	**60**	60
Inventories turnover days[(3)]	**287**	274

Notes:

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

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

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

The Group's trade and other receivables represent primarily the balances due from third-party retailers. The Group's trade and other receivables decreased by RMB23.7 million from RMB267.4 million as of 31 December 2015 to RMB243.6 million as of 31 December 2016, primarily due to the settlement of trade receivables due from third parties.

The Group's trade and other payables principally comprise payables to its raw material suppliers, employee benefit payables, other taxes payable, accrued operating expenses and advances from customers. The Group's trade and other payables decreased by RMB9.5 million from RMB226.5 million as of 31 December 2015 to RMB217.1 million as of 31 December 2016, primarily due to decreases in trade payables and notes payable due to third parties.

The Group's inventories comprise raw materials (including packaging materials), work-in-progress and finished products. The Group's inventories decreased by RMB25.3 million from RMB471.4 million as of 31 December 2015 to RMB446.1 million as of 31 December 2016, primarily reflecting a decrease in purchase volume.

As of 31 December 2016, 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 2016, most of the operating entities' revenue, expenses, assets and liabilities were denominated in RMB. The Group's foreign exchange risk mainly arises from the portion of its sales and purchases of products denominated in USD and financing activities denominated in USD and HKD. The Directors are of the view that the Group does not have significant foreign currency risk and RMB will continue to stabilise after going through a downward adjustment in 2016.

Any future depreciation of the RMB could adversely affect the value of any dividends the Group pays to its shareholders. There are limited hedging instruments available in the PRC to reduce our exposure to exchange rate fluctuations between the RMB and other currencies. The Group currently does not engage in hedging activities designed or intended to manage such exchange rate risk.

Contingent liabilities

The Group had no material contingent liabilities as of 31 December 2016.

Employee and Remuneration Policy

As of 31 December 2016, the Group had a total of 4,905 employees, with 4,901 employees based in the PRC and 4 employees based in Hong Kong. For the year ended 31 December 2016, the staff costs of the Group was RMB296.1 million, compared to RMB290.9 million for the year ended 31 December 2015.

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 2016.

The Company adopted a share option scheme on 17 December 2010. During the years ended 31 December 2010 and 2011, no share options were granted. Subsequently, the Company granted share options to subscribe for an aggregate of 7,046,000 shares on 6 January 2012 to certain Directors, employees and independent third party distributors of the Group and an aggregate of 1,307,000 shares options on 12 January 2012 to certain Directors. On 18 March 2013, the Company granted share options to certain Directors, employees and independent third party distributors of the Group to subscribe for an aggregate of 8,353,000 shares. These share options vest in tranches over a period of up to 3 years. During the three years ended 31 December 2014, 2015 and 2016, no share options were granted. During the year ended 31 December 2015, 8,133,000 and 61,000 share options were lapsed due to unfulfilment of vesting conditions, i.e., unrealisation of performance targets set out for the three years ended 31 December 2014 and the resignation of the employees, respectively, and none of the share options were exercised by the grantees, or cancelled by the Company during the year ended 31 December 2015. During the year ended 31 December 2016, 8,191,000 and 10,000 share options were lapsed due to unfulfilment of vesting conditions, i.e., unrealisation of performance targets set out for the three years ended on 31 December 2015 and the resignation of the employees, respectively, and none of the share options were exercised by the grantees, or cancelled by the Company during the year ended 31 December 2016. The Company has no outstanding share options as at 31 December 2016.

OTHER INFORMATION

Use of Proceeds from Initial Public Offering

In September 2011, the Group completed its listing (the "**Listing**") on the Main Board of the Stock Exchange and raised net proceeds of RMB933.3 million. The table below sets out the Company's planned use of the net proceeds at the time of Listing and its use of such net proceeds as of 31 December 2016:

	Planned use of net proceeds at Listing		**Net proceeds used as of 31 December 2016**	
	Amount* *(million RMB)*	**Percentage** *(%)*	**Amount** *(million RMB)*	**Percentage*** *(%)*
Expand and optimize network of self-owned retail outlets and retail points	373.3	40.0	223.9	24.0
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	87.3	9.4
Expand production capacity	93.3	10.0	93.3	10.0
Total	933.3	100.0	731.1	78.3

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

The Company plans to use the remaining net proceeds as stated in the section headed "Future Plans and Use of Proceeds" of the Company's prospectus dated 14 September 2011.

Final Dividend

At the Board meeting held on 20 March 2017 (Monday), it was proposed that a final dividend of HK$0.07 per ordinary share (equivalent to RMB0.06 per ordinary share) be paid on or after 2 June 2017 (Friday) to the shareholders of the Company whose names appear on the Company's register of members on 23 May 2017 (Tuesday). The proposed final dividend is subject to approval by the shareholders at the annual general meeting of the Company (the "**Annual General Meeting**") to be held on 17 May 2017 (Wednesday).

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

Annual General Meeting

The Annual General Meeting will be held on 17 May 2017 (Wednesday). A notice convening the Annual General Meeting will be published and despatched to the shareholders of the Company in the manner required by the Listing Rules in due course.

Closure of Register of Members

For determining the entitlement to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from 12 May 2017 (Friday) to 17 May 2017 (Wednesday), both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the Annual General Meeting, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 11 May 2017 (Thursday).

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed on 23 May 2017 (Tuesday), during which period no transfer of shares will be registered. In order to qualify for receiving the proposed final dividend, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 22 May 2017 (Monday).

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 2016, the Company has complied with the code provisions included in the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "**CG Code**") and there has been no deviation from the code provisions as set forth under the CG Code for the year ended 31 December 2016. Further information of the corporate governance practice of the Company will be set out in the Corporate Governance Report in the annual report of the Company for the year ended 31 December 2016.

Purchase, Sale or Redemption of Shares

There was no purchase, sale or redemption of any listed securities of the Company by the Company or any of its subsidiaries for the year ended 31 December 2016.

Model Code for Securities Transactions by Directors

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code for the dealings in securities transactions by the Directors. The Company has made specific enquiries with all Directors and the Directors have confirmed their compliance with the required standard set out in the Model Code throughout the year ended 31 December 2016.

Audit Committee

The audit committee of the Company (the "**Audit Committee**") consists of Mr. Lo Wah Wai, Mr. Fan Ren Da, Anthony, Mr. Lee Kwan Hung, all of whom are the independent non-executive Directors, and Mr. Tseng Ming-Sung, the non-executive Director. The chairman of the Audit Committee is Mr. Lo Wah Wai.

The annual results of the Company for the year ended 31 December 2016 have been reviewed by the Audit Committee and agreed with the auditor of the Company, namely PricewaterhouseCoopers.

Auditor

The Company appointed PricewaterhouseCoopers as the auditor of the Company for the year ended 31 December 2016. The Company will submit a resolution in the Annual General Meeting to re-appoint PricewaterhouseCoopers as the auditor of the Company.

Publication of Annual Report

This annual results announcement is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.tenfu.com). The annual report of the Company for the year ended 31 December 2016 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and made available for review on the same websites in due course.

By order of the Board
Tenfu (Cayman) Holdings Company Limited
Lee Chia Ling
Director

Hong Kong, 20 March 2017

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