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 2016

Contents

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 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 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 flavours 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) and "Uncle Lee" (安可李) brands which are primarily sold through our concession points at hypermarkets in the PRC.

As at 31 December 2016, our tea products were sold in 1,208 retail outlets and retail points across 31 provinces, autonomous regions and municipalities in the PRC, including stores with shop fronts at street level and in shopping malls and concession counters in department stores and hypermarkets.

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
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Cayman Islands

HEADQUARTERS IN THE PRC

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room E, 22/F
CNT Tower
338 Hennessy Road
Wanchai
Hong Kong

AUTHORISED 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 since 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

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 of directors of the Company (the "Board") proposed a final dividend of HKD0.07 per share (equivalent to RMB0.06 per share).

Comparison of Key Financial Figures

Results

	For the year ended 31 December (RMB '000)				
	2012	2013	2014	2015	**2016**
Revenue	1,706,598	1,661,577	1,688,589	1,518,045	**1,484,718**
Gross profit	1,094,704	1,017,189	1,049,869	931,600	**909,281**
Gross profit margin (%)	64.1	61.2	62.2	61.4	**61.2**
Profit before income tax	407,135	369,035,	378,362	227,640	**245,703**
Profit for the year, all attributable to the owners of the Company	294,597	267,133	270,198	146,354	**165,420**
Net profit margin (%)	17.3	16.1	16.0	9.6	**11.1**

Assets and liabilities

	As at 31 December (RMB '000)				
	2012	2013	2014	2015	**2016**
Total assets	2,134,370	2,341,394	2,844,607	2,502,749	**2,406,261**
Total equity	1,828,578	1,890,357	1,963,785	1,924,830	**1,986,889**
Total liabilities	305,792	451,037	880,822	577,919	**419,372**
Gearing ratio (%)	5	6	23	12	**5**
Trade receivables turnover days (days)	111	99	106	118	**123**
Trade payables turnover days (days)	58	64	68	60	**60**
Inventories turnover days (days)	239	222	239	274	**287**

Chairman's Statement

In 2016, China's consumption market continued to be stagnant. 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 adjusting 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 revenue of RMB1.5 billion in 2016. Meanwhile, the Group strived to increase its procurement and production efficiency, continuously optimise 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 2016

In order to make the Tenfu tea products and brands more popular in the ultimate markets and distribution channels and maintain its leading position and advantage in the highly competitive Chinese tea market, in 2016, the Group continued to implement a number of significant operational measures to streamline the Group's organisation structure, adopt active marketing strategy to satisfy customers' demand, sell tea products together with tea beverage to expand product categories and sales channels. In 2017, the Group will pursue the following moves to meet market demands:

1. Continuing to develop new stores and optimise sales network;
2. Holding tea fairs in major cities, promoting tea culture and the sales of tea and tea ware;
3. Developing new tea products, expanding market share of milk tea, and promoting the sales of milk tea, such as "放牛斑" brand milk tea, to meet the needs of different consumer groups and their changing preferences for fashion;
4. Promoting famous teas of different origins by selling them at our sales outlets so as to truly cater for the local consumption preference;
5. Adjusting the product structure to meet the demand of the consumers in accordance with the consumer groups in different areas and shops;
6. Emphasising on the number of visitors and enhancing the quality of services provided to customers in order to increase the number of successful deals;
7. Introducing loyalty cards to consolidate and develop our customer base; and
8. Continuing to carry out various marketing activities.

We believe that we have a good 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 2017

Considering China's large population, we believe that there are huge business opportunities in the food, beverage and retail industries in China, with the progress of urbanisation and the enhancement in the per capita disposable income. The Group still has full confidence in the potential growth of the tea consumption market in China. The tea beverage sector the Group expanded in 2016 will become another growth engine, which will bring the Group additional revenue contribution and profitability and facilitate the Group's business development in the broad portfolio of tea products. The Group will continue to strengthen the brand image and competitive advantage and actively implement the significant operational measures as follows:

1. Actively exploring new outlets
   (1) In addition to the first and second-tier cities, accelerating the development of outlets in the third and fourth-tier cities and develop e-commerce;
   (2) Building No.1 brand image through opening flagship stores across the country; and
   (3) Expanding into international market, for example, the Group had entered into a joint venture agreement with Rise General Trading LLC for establishing a joint venture, to sell tea leaves and tea snacks in the Middle East.
2. Upgrading the benefits offered to the core management and staff 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. Prioritising 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. Strengthening control over all aspects of the costs and eliminate extravagance and waste;
6. Emphasising computerised operation and 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 Group;
8. Actively organising 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. localisation 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 our management and 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, 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, 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, 20 March 2017

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 RMB473.9 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 profits less losses of investments accounted for using the equity method

Share of profits 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 *RMB'000*	Between 1 and 2 years *RMB'000*	Between 2 and 5 years *RMB'000*	Over 5 years *RMB'000*	Total *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 unfulfillment of vesting conditions, i.e., unrealisation of performance targets set out for the three years ended 31 December 2014 and the resignation of the employees, respectively, and none of the share options were exercised by the grantees, or cancelled by the Company during the year ended 31 December 2015. During the year ended 31 December 2016, 8,191,000 and 10,000 share options were lapsed due to unfulfillment 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.

Directors and Senior Management

Directors

Executive Directors

LEE Rie-Ho (李瑞河), aged 81, 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 65 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 57, 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 Tenfu Tea Industry Co., Ltd.) from 1993 to 1997. Mr. Lee is a nephew of Mr. Lee Rie-Ho and a cousin of both Mr. Lee Kuo-Lin and Mr. Lee Chia Ling. He graduated from National Chung Hsing High School (previously known as Taiwan Provincial Chung Hsing High School) in 1978.

LEE Chia Ling (**李家麟**), aged 54, 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 25 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 55, 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 25 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 Tenfu 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 60, 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 43, 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 53, 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 25 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 51, 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 Holdings Limited; Asia Cassava Resources Holdings Limited; Futong Technology Development Holdings Limited; Newton Resources Ltd; Red Star Macalline Group Corporation Ltd.; China Goldjoy Group Limited; FSE Engineering Holdings Limited; Ten Pao Group Holdings Limited; China BlueChemical Ltd. and Landsea Green Properties Co., Ltd. Mr. Lee was also an independent non-executive director of Yuexiu REIT Asset Management Limited, Far East Holdings International Limited and Walker Group Holdings Limited (all of which are listed on the Main Board of the Stock Exchange).

FAN Ren Da, Anthony (范仁達), aged 57, 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 New Energy Holdings Co., Ltd. and Neo-Neon Holdings Limited, which are all listed on the main board of the Stock Exchange.

Senior management

LEE Min-Zun (李銘仁), aged 52, 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 15 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 72, 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 55, 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 47, is the Head of the Marketing and Enterprise Planning Department of the Company. He is responsible for the business positioning, brand development, product research and development and the overall marketing initiatives of the Group. He joined the Group as the manager of the sale planning department in 2004. Mr. Lee was the manager of the Procurement and Research and Development Division of Ten Ren in 1996 and 2001, respectively. In 2003, he worked as the sales manager of Ten Ren Tea & Ginseng Co., Ltd. in Toronto, Canada. Mr. Lee graduated from Tsoying Senior High School (高雄市立左營高中) in Taiwan in 1988.

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report in the Group's Annual Report for the year ended 31 December 2016.

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 emphasise the importance of a quality Board, effective internal controls and accountability to shareholders.

For the year ended 31 December 2016, the Company has complied with the code provisions included in the Corporate Governance Code (the "Corporate Governance Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and there has been no deviation from the code provisions as set forth under the Corporate Governance Code for the year ended 31 December 2016.

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.

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	Chairman
Mr. LEE Shih-Wei	Vice Chairman
Mr. LEE Chia Ling	Chief Executive Officer
Mr. LEE Kuo-Lin	Chief Operating Officer

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 pages 20 to 23 of this annual report.

During the year ended 31 December 2016, 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 Group's day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organisational 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.

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 2016 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 12 April 2017 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 2016.

The Nomination Committee held 1 meeting during the year ended 31 December 2016 and the attendance records are set out below:

Name of Director	Attendance/Number of Meetings
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 2016, 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 to 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 2016 is as follows:

	Type of continuous professional development programmes
Executive Directors	
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
Non-executive Directors	
Mr. TSENG Ming-Sung	1, 2, 3
Mr. WEI Ke	1, 2, 3
Independent Non-executive Directors	
Mr. LO Wah Wai	1, 2, 3
Mr. LEE Kwan Hung	1, 2, 3
Mr. FAN Ren Da, Anthony	1, 2, 3

Notes:

1. *Reading materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements.*
2. *Internal 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.*

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 Group 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 2016, 4 regular Board meetings were held, including for reviewing and approving the interim results for the six months ended 30 June 2016, and considering and approving the overall strategies and policies of the Group.

The attendance records of each Director at the Board meetings during the year ended 31 December 2016 are set out below:

Name of Director	Attendance/Number of Meetings
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 2016.

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 Group 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 Group 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 2016 are set out in Note 36 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 2016 is within the following bands:

	Number of individuals	
	2016	2015
Nil – RMB500,000	**3**	3
RMB500,001 – RMB1,000,000	**1**	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 Group, and the remuneration packages of the executive Directors and the senior management for the year ended 31 December 2016.

The Remuneration Committee held 1 meeting during the year ended 31 December 2016 and the attendance records are set out below:

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

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 2016.

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.

Risk Management and Internal Control

Responsibility of the Board

The Board acknowledges that it is the responsibility of the Board for ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems and reviewing the effectiveness of such systems on an annual basis. The Board is also aware of the fact that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable assurance and not absolute assurance against material misstatement or loss.

The Risk Management and Internal Control Systems

The Group adopted the three lines of defence model in the management of risk. Operational management forms the core of the first line of defence as they contact with the risk sources in the first place. They are responsible for identifying, reporting and preliminarily managing risks in their daily operations. Our second line of defence is aimed to facilitate and monitor the implementation of effective risk management practices by operational management and assists risk owners in defining risk exposures and reporting adequate risk-related information throughout the Group. Our internal audit function is the core of the third line of defence and mainly responsible for checking, auditing and monitoring the work performed by the first and second lines of defence.

The Group's risks are identified from business processes in our established enterprise-wide risk assessment methodologies. We select key participants across the Group who are involved in each of the business process as interviewees to identify the risks to form our risk universe. Each risk within the risk universe is assessed in terms of likelihood of occurrence and the significance of impact, taken into account the current internal controls in place to mitigate these risks. The risk assessment results are reported to senior management and the Board for the confirmation of our risk response strategies, based on their preferences towards risk, the available resources for risk mitigation, and the current controls in place.

The Group's internal control system is based on Internal Control — Integrated Framework of the Committee of Sponsoring Organisations of the Treadway Commission ("**COSO**"), and has five components, namely Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities. The system intends to facilitate the design and functioning of good control practices and reduce the likelihood and impact of risks to an acceptably low level, in order for us to achieve our objectives in operations, reporting, and compliance.

Any material internal control defects identified are timely communicated and carefully evaluated for their potential impacts. The departments or functions who are owners of these controls, are required to propose corrective measures and obtain approval from management before implementation. The implementation status are monitored by both management and the internal audit function to ensure these control defects are properly resolved in a timely manner. The Group has also established policies and procedures for the handling and dissemination of inside information. The information to be disclosed should be properly reviewed and approved by our compliance functions and management to ensure its appropriateness and accuracy, and is closely monitored after disclosure. The Group plans to use its best endeavour to continuously refine our internal control system whenever necessary.

Internal Audit Function

The Group's internal audit department plays a major role in the monitoring of the Group's internal governance processes. The major tasks of the department include providing reasonable assurance on the effectiveness of the Group's governance, risk management and internal controls in areas of operations, safeguarding of assets, reporting, and compliance, and conducting risk-based audits of all branches and subsidiaries of the Group on a regular basis with recommended action plans to audit findings. The department also provides consulting services in risk management and internal control related issues within the Group.

Review of the Effectiveness and Adequacy of Our Systems

We prepare and submit reports to the Board in risk and control related issues at least annually, detailing our risk management activities, the overall risk exposures, prioritisation of risks based on risk assessment results and management's risk preferences with a careful evaluation of the current internal control systems and availability of resources. The Board reviews the reasonableness of reports and representations from management and makes sufficient enquiries whenever they feel necessary, before reaching their conclusions.

During the Review Period, the Board has conducted a review of the effectiveness of the Group's risk management and internal control systems with the application of the above review process, and considered our risk management and internal control systems effective and adequate in all material aspects in both design and operations.

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 and risk management systems of the Group, reports to the Board on any material issues, and makes recommendations to the Board.

During the year ended 31 December 2016, the Audit Committee discussed with the management of the Company the internal controls, risk management and financial reporting matters, and reviewed the accounting principles and practices adopted by the Group and the effectiveness of the Group's internal control and risk management systems. The Audit Committee also met with the external auditor twice and reviewed the annual and interim reports of the Company.

The Audit Committee held 2 meetings during the year ended 31 December 2016 and the attendance records are set out below:

Name of Director	Attendance/Number of Meetings
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 73.

During the year ended 31 December 2016, the remuneration paid/payable to the Company's external auditor, PricewaterhouseCoopers, is set out below:

Service Category	Amount (RMB '000)
Annual audit services	3,650
Non-audit services	
– Interim review services	1,000
– Other non-audit services	543
Total	5,193

Note:

the amount for other non-audit services mainly represented the professional fees payable by the Group for food safety consultation, environmental, social and governance report consultation and tax consultation services.

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 recognises 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 and 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 shareholders' meetings.

The Chairman of the Board, members of the Board and external auditor attended the 2016 annual general meeting of the Company ("AGM") held on 12 May 2016. The attendance record of the Directors at the AGM is set out below:

Name of Director	AGM Attendance/Number of Meetings
Mr. LEE Rie-Ho	1/1
Mr. LEE Shih-Wei	1/1
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 2016 AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

The Chairman of the Board, members of the Board and external auditor attended the 2016 extraordinary general meeting of the Company ("EGM") held on 13 December 2016. The attendance record of the Directors at the EGM is set out below:

Name of Director	EGM Attendance/Number of Meetings
Mr. LEE Rie-Ho	1/1
Mr. LEE Shih-Wei	1/1
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 2017 AGM will be held on 17 May 2017 (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, 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 2016.

Shareholder rights

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

All resolutions put forward at shareholders' 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 shareholders' meeting.

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

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

- Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company (the "Eligible Shareholder(s)") shall at all times have the right, by written requisition to the Board or the company secretary of the Company (the "Company Secretary"), to require an EGM to be called by the Board for the transaction of any business specified in such requisition, including making proposals or moving a resolution at the EGM.
- The Eligible Shareholders who wish to convene an EGM for the purpose of making proposals or moving a resolution at the EGM must deposit a written requisition (the "Requisition") signed by the Eligible Shareholder(s) concerned to the principal place of business of the Company in Hong Kong at 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 2016.

The Directors are pleased to present their report and the audited consolidated financial statements for the year ended 31 December 2016 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 2016 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 and outlook

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

Financial key performance indicators

The financial key performance indicators of the Group for the year are set out in the section "Financial Highlights" of this annual report.

Compliance with laws and regulations and environmental policies

For the year ended 31 December 2016, the Group kept in compliance with the relevant laws and regulations applicable to the Group, including Food Safety Law, Product Quality Law, Consumer Protection Law, Trademark Law, Patent Law, Environmental Protection Law and Labour Contract Law of the PRC, etc. 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.

Relationship with stakeholders

For the year ended 31 December 2016, coping with the external and internal uncertainties and changes, the Group gained valuable experience, which 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.

Principal risks and uncertainties facing the Group

Key risks and uncertainties	Analysis	Mitigating measures
The downturn of retail industry in the PRC is not expected to be improved in a short term, which may adversely affect the market share and profitability of the Group.	Our business is very sensitive to macroeconomic trends as retail purchases tend to decline in recessionary periods. A recession in the Chinese economy, or uncertainties regarding future economic prospects of the PRC, could lead to a reduction in Chinese consumer spending, which in turn could have an adverse effect on our business, results of operations and financial condition.	The Group implements cutting cost policy in order to control the cost and save budget, develops new products to attract customers and carries out various marketing activities, including tea exhibitions, new tea tasting and tea art teaching activities.
Unfavourable publicity or consumer perception of our products, or of similar products sold by other companies, could have a material adverse effect on our business.	We are highly dependent upon consumer perception regarding the safety, efficacy and quality of our products and of tea, tea ware products and snack food products in general. Consumer perceptions can be significantly influenced by factors beyond our control, such as scientific research or findings, national media attention and Internet articles and commentary, some of which may be negative. Research reports, findings or publicity that are perceived as negative or that question the safety, efficacy or benefits of our or similar products could have an adverse effect on the effectiveness of our marketing campaigns, the demand for our products and our business and results of operations.	The marketing and training departments of the Group monitor the news releases by various media, update the sales department and stores with the latest market trends and discuss the corresponding measures.
Changes in consumer preferences and demand for tea leaves, tea snacks or tea ware in the PRC could adversely affect our business, financial condition and results of operations.	Our continued success depends, in large part, upon the popularity of and demand for our tea leaves and tea ware as well as our tea snacks that are blended and infused with the flavours of tea leaves. However, consumer preferences and demand in the PRC may shift away from such products for various reasons, including but not limited to: • a general decrease in consumer preferences for tea leaves or tea snacks as compared to other types of products that may be viewed by consumers as substitutes for, or alternatives to such products, including coffee and coffee-related products;	The sales department and factories of the Group organize monthly meetings to collaborate the production supply and sales demand, communicate the latest market updates and customers purchase demand, and make the production plans adapted to the market.

Key risks and uncertainties	Analysis	Mitigating measures
	• a change in consumer preferences for tea leaves sold in the form of tea bags to other forms, such as ready- to-drink bottled tea; • a change in consumers' perception that traditional Chinese tea leaves and tea snacks may be effective in achieving certain anticipated health benefits; and • negative publicity regarding tea leaves, tea snacks, tea ware or other tea products supplied by other producers or in general. Shifts in consumer preferences and demand away from Chinese tea leaves, tea snacks or tea ware could adversely affect our business prospects, financial condition and results of operations.	

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 20 March 2017 (Monday), it was proposed that a final dividend of HKD0.07 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 (the "Shareholders") 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 AGM 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 dividend.

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).

Reserves

Details of the changes in reserves of the Group during the year ended 31 December 2016 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 2016, the Company had distributable reserve amounting to approximately RMB94,972,000.

Property, plant and equipment

The changes in property, plant and equipment of the Group during the year ended 31 December 2016 are set out in Note 8 to the Consolidated Financial Statements.

Major customers and suppliers

The Company always maintains good relationship with customers and suppliers.

During the year, 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.

During the year, 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 subsequently settlement of trade receivables within the credit term. The Company 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 Company fails to maintain good relationships with such parties, the business, financial condition and results of operations of the Company could be materially and adversely affected. Since 2008, the Company 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.

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 Group as at 31 December 2016 are set out in Note 19 to the consolidated financial statements of the Company.

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

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 2016 is set out in Note 36 to the consolidated financial statements of the Company.

In accordance with article 84(1) of the Articles of Association, Mr. Lee Shih-Wei, Mr. Tseng Ming-Sung and Mr. Lee Kwan Hung 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 2016 interim report of the Company, 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 2016 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 annual general meeting stipulating that the Company may not terminate the appointment without compensation payment (other than the statutory compensation).

Directors' interests in transactions, arrangements or contracts

Other than those transactions disclosed in Note 34 to the Consolidated Financial Statements and in the section "Connected transactions" below, there was no other 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.

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 "Covenantor") 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 2016.

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.

For the year ended 31 December 2016, no options have been granted under the Share Option Scheme. During the year ended 31 December 2016, 8,191,000 share options were lapsed due to unfulfillment of vesting conditions, i.e., unrealisation of performance targets set out for the three years ended on 31 December 2015, and 10,000 share options were lapsed due to resignation of the employees. 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. The followings are details of the options pursuant to the Share Option Scheme for the year ended 31 December 2016:

Grantee	Position of the grantee	Date of grant of options	Number of options granted during the year	Exercise price per share HK$	Closing price immediately before grant of options HK$	Number of options as at 1 January 2016	Number of options exercised/ cancelled/lapsed during the year	Number of options as at 31 December 2016	Approximate percentage of shareholding upon the exercise of the options	Exercisable period
Lee Rie- Ho	Executive Director and substantial shareholder	19 March 2013	–	4.28	4.20	708,000	(708,000)	0		19 March 2013 to 18 March 2023
			–			708,000	(708,000)	0	0%	
Lee Chia Ling	Executive Director and substantial shareholder	19 March 2013	–	4.28	4.20	354,000	(354,000)	0		19 March 2013 to 18 March 2023
			–			354,000	(354,000)	0	0%	
Lee Shih-Wei	Executive Director	19 March 2013	–	4.28	4.20	354,000	(354,000)	0		19 March 2013 to 18 March 2023
			–			354,000	(354,000)	0	0%	
Lee Kuo-Lin	Executive Director	19 March 2013	–	4.28	4.20	354,000	(354,000)	0		19 March 2013 to 18 March 2023
			–			354,000	(354,000)	0	0%	
Tseng Ming-Sung	Non-executive Director	19 March 2013	–	4.28	4.20	245,000	(245,000)	0		19 March 2013 to 18 March 2023
			–			245,000	(245,000)	0	0%	
Lo Wah Wai	Independent non-executive Director	19 March 2013	–	4.28	4.20	245,000	(245,000)	0		19 March 2013 to 18 March 2023
			–			245,000	(245,000)	0	0%	
Lee Kwan Hung	Independent non-executive Director	19 March 2013	–	4.28	4.20	245,000	(245,000)	0		19 March 2013 to 18 March 2023
			–			245,000	(245,000)	0	0%	
Fan Ren Da, Anthony	Independent non-executive Director	19 March 2013	–	4.28	4.20	245,000	(245,000)	0		19 March 2013 to 18 March 2023
			–			245,000	(245,000)	0	0%	
Employees		19 March 2013	–	4.28	4.20	5,082,000	(5,082,000)	0		19 March 2013 to 18 March 2023
			–			5,082,000	(5,082,000)	0	0%	
Independent third party distributors		19 March 2013	–	4.28	4.20	369,000	(369,000)	0		19 March 2013 to 18 March 2023
			–			369,000	(369,000)	0	0%	
Total			–			8,201,000	(8,201,000)	0	0%	

Debenture

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

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

As at 31 December 2016, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required, pursuant to Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 to the Listing Rules, are as follows:

(i) Interest in the Company

Name of Director	Nature of interest	Number of securities[3]	Approximate percentage of shareholding
Mr. Lee Rie-Ho[1]	Interest in a controlled corporation	188,760,000 (L)	15.38%
Mr. Lee Shih-Wei	Personal interest/individual	4,719,000 (L)	0.38%
Mr. Lee Chia Ling[2]	Settlor of The KCL Trust	377,520,000 (L)	30.76%
	Personal interest/individual	24,400,000 (L)	1.99%
Mr. Lee Kuo-Lin[2]	Beneficiary of The KCL Trust	377,520,000 (L)	30.76%
Mr. Tseng Ming-Sung	Personal interest/individual	4,719,000 (L)	0.38%

Notes:

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

(2) *The entire issued share capital of Trackson Investments Limited is held by Tiger Nature Holdings Limited ("Tiger Nature") which is in turn ultimately held by 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.*

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

(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/or short positions

As at 31 December 2016, 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 interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO:

Name	Capacity in which interests are held	Number of Shares[5]	Approximate percentage of shareholding
Discerning Group Limited[1]	Registered owner	188,760,000 (L)	15.38%
Ms. Lee Tsai Li-Li[1]	Interest as a spouse	188,760,000 (L)	15.38%
UBS TC (Jersey) Ltd.[2] [3]	Trustee	377,520,000 (L)	30.76%
Trackson Investments Limited[2]	Registered owner	377,520,000 (L)	30.76%
Tiger Nature Holdings Limited[2]	Interest in a controlled corporation	377,520,000 (L)	30.76%
The KCL Trust[2]	Interest in a controlled corporation	377,520,000 (L)	30.76%
Mr. Lee John L[2]	Beneficiary of The KCL Trust	377,520,000 (L)	30.76%
Ms. Zhou Nan-Nan[2]	Interest as a spouse	401,920,000 (L)	32.75%
General Atlantic Singapore Fund Pte. Ltd.[4]	Registered owner	120,530,830 (L)	9.82%
General Atlantic Singapore Fund Interholdco Ltd.[4]	Interest in a controlled corporation	120,530,830 (L)	9.82%
General Atlantic Partners (Bermuda) II, L.P.[4]	Interest in a controlled corporation	120,530,830 (L)	9.82%
General Atlantic Partners (Bermuda) III, L.P.[4]	Interest in a controlled corporation	120,530,830 (L)	9.82%
General Atlantic GenPar (Bermuda), L.P.[4]	Interest in a controlled corporation	120,530,830 (L)	9.82%
GAP (Bermuda) Limited[4]	Interest in a controlled corporation	120,530,830 (L)	9.82%
Spring Cheers Overseas Ltd.	Registered owner	95,861,273 (L)	7.81%

Notes:

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

(2) *The entire issued share capital of Trackson Investments Limited is held by Tiger Nature 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.*

(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 held by General Atlantic Singapore Fund Pte. Ltd., GA Interholdco, GAP II LP, GAP III LP, GA GenPar and GAP (Bermuda) Limited were stated herein by referring to their disclosures of interests on the website of the Stock Exchange.*

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

Subsidiaries

Details of the major subsidiaries of the Company as of 31 December 2016 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.

Equity-linked agreements

Save for the share option scheme as set out in the section of "Share option scheme" above, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2016.

Connected transactions

The Group's related parties transactions for the year ended 31 December 2016 set out in Note 34 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[1]	福州天福茗茶銷售有限公司 (Fu Zhou Tian Fu Tea Sales Co., Ltd.)	Ms. Chen Xiu-Duan 陳秀端 (daughter-in-law of the Director, Mr. Lee Rie-Ho and wife of the Director, Mr. Lee Kuo-Lin)	Term: Three years from 10 September 2015 to 9 September 2018 Rental: 15,000/month	Store premises with a gross floor area of approximately 158.0 square meters
2.	Fujian[1]	福州天福茗茶銷售有限公司 (Fu Zhou Tian Fu Tea Sales Co., Ltd.)	Mr. Lee Min-Zun (the Chief Financial Officer and cousin of Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, the Directors)	Term: Three years from 1 September 2015 to 31 August 2018 Rental: 40,000/month	Store premises with a gross floor area of approximately 87.9 square meters
3.	Hainan[1]	廣東天福茗茶銷售有限公司 (Guang Dong Tian Fu Tea Sales Co., Ltd.)	Mr. Lee Min-Zun (the Chief Financial Officer and cousin of Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, the Directors)	Term: Two years from 1 October 2015 to 30 September 2017 Rental: 28,000/month	Store premises with a gross floor area of approximately 376.3 square meters
4.	Hubei	湖北天福茗茶銷售有限公司 (Hu Bei Tian Fu Tea Sales Co., Ltd.)	Mr. Lee Kuo-Lin (the Director and son of Mr. Lee Rie-Ho, the Director and Chairman)	Term: Three years from 1 July 2016 to 30 June 2019 Rental: 93,935/month.	Store premises with a gross floor area of approximately 584.3 square meters

No.	Location	Member of the Group as tenant	Connected party as landlord	Term and rental (RMB)	Type of premises
5.	Shandong	濟南天福茗茶有限公司 (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: Three years from 1 November 2016 to 31 October 2019 Rental: 21,000/month	Store premises with a gross floor area of approximately 158.9 square meters
6.	Heilongjiang	黑龍江天福茗茶銷售有限公司 (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: One year from 1 December 2016 to 30 November 2017 Rental: 200,000/annum	Store premises with a gross floor area of approximately 643.6 square meters
7.	Shanghai[1]	上海天福茗茶銷售有限公司 (Shanghai Tenfu Tea Co., Ltd.)	Ms. Chen Xiu-Duan 陳秀端 (daughter-in-law of the Director, Mr. Lee Rie-Ho and wife of the Director, Mr. Lee Kuo-Lin)	Term: Three years from 1 September 2014 to 31 August 2017 Rental: 9,200/month	Store premises with a gross floor area of approximately 143.6 square meters
8.	Xinjiang	新疆天福茗茶銷售有限公司 (Xin Jiang Tian Fu Tea Sales Co., Ltd.)	Mr. Lee Chien-Te 李建德 (cousin of Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, the Directors)	Term: Five years from 1 August 2012 to 30 July 2017 Rental: 35,000/month	Store premises with a gross floor area of approximately 70.0 square meters
9.	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 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 7 and items 2 and 3 are with the same landlord, their respective applicable ratios have been aggregated.

Lease Agreements with Mr. Lee Chia Ling

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

During the year ended 31 December 2016, the amount of rental paid/payable by the Group in respect of the lease agreements between the Group and Mr. Lee Chia Ling were RMB960,000.

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	Connected party as landlord	Term and rental (RMB)	Type of premises
1.	Liaoning	吉林省天福茗茶銷售有限公司 (Jilin Province Tian Fu Tea Sales Co., Ltd.)	Mr. Lee Chia Ling	Term: Three years from 23 September 2014 to 22 September 2017 Rental: 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 (Sichuan Tenfu Tea Sales Co., Ltd.)	Mr. Lee Chia Ling	Term: Five years from 19 May 2016 to 18 May 2021 Rental: 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 announcements of the Company dated 11 December 2013, 1 November 2016 and 4 November 2016 in respect of the continuing connected transactions under the 2013 Renewed Lu Yu Master Purchase Agreement and the 2016 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.

The Company and Lu Yu have entered into the renewed Lu Yu master purchase agreement (the "2013 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 annual cap not exceeding RMB20,000,000, RMB24,000,000 and RMB28,800,000 for the three years ending 31 December 2016, respectively.

As the 2013 Renewed Lu Yu Master Purchase Agreement would expire on 31 December 2016, the Company and Lu Yu has entered into the renewed Lu Yu master purchase agreement (the "2016 Renewed Lu Yu Master Purchase Agreement") on 1 November 2016, to renew the purchase of tea ware from Lu Yu for a further period of three years commencing on 1 January 2017 to 31 December 2019, subject to the renewed annual cap not exceeding RMB20,000,000, RMB22,000,000 and RMB24,200,000 for the three years ending 31 December 2019, respectively. The renewed annual caps under the 2016 Renewed Lu Yu Master Purchase Agreement have been determined based on the projected 10% 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 renewed 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 2015 and for the nine months ended 30 September 2016; and (4) the expected future growth of the tea ware business.

During the year ended 31 December 2016, the amounts that the Group paid/payable to Lu Yu for the purchase of tea ware were approximately RMB15,588,000.

Master Processing Agreement with Tenfu Group (Samoa) Holdings Company Limited ("Samoa Company") and its Subsidiaries ("Samoa Group")

Reference is made to the announcements of the Company dated 11 December 2013, 1 November 2016 and 4 November 2016 in respect of the continuing connected transactions under the 2013 Renewed Samoa Master Processing Agreement and the 2016 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 "2013 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 annual cap not exceeding RMB4,950,000, RMB5,445,000 and RMB5,989,000 for the three years ending 31 December 2016, respectively.

As the 2013 Samoa Master Processing Agreement would expire on 31 December 2016, the Company and Samoa Company has entered into the renewed Samoa master processing agreement (the "2016 Renewed Samoa Master Processing Agreement") on 1 November 2016, to renew the provision of tea leaves processing service by Samoa Group for a further period of three years commencing on 1 January 2017 to 31 December 2019, subject to the renewed annual cap not exceeding RMB5,000,000, RMB5,500,000 and RMB6,050,000 for the three years ending 31 December 2019, respectively. The renewed 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 aged tea leaves in the amount of 303,000 kilograms to be identified by the Group and returned from the third-party retailers in 2017; and (3) the projected 10% increase of the estimated aged tea leaves required processing. In arriving at the renewed annual caps, the Directors have considered (1) the tea leaves processed by Samoa Company 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 amounts of the aged tea leaves that required processing in the previous year and the expected future growth of the aged tea leaves required processing.

During the year ended 31 December 2016, the amount of services fees that the Group paid/payable to Samoa Group in respect of the Master Processing Agreement was RMB1,653,000.

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 announcements of the Company dated 11 December 2013, 20 August 2015, 1 November 2016 and 4 November 2016 and the circular of the Company dated 7 September 2015 and 21 November 2016 in respect of the continuing connected transactions under the 2013 Renewed Samoa Master Purchase Agreement and the 2016 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 on 11 December 2013, as amended by a supplemental agreement dated 20 August 2015, (the "2013 Renewed Samoa Master Purchase Agreement"), 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 annual cap not exceeding RMB70,000,000, RMB132,000,000 and RMB132,000,000 for the three years ending 31 December 2016, respectively.

As the 2013 Samoa Master Purchase Agreement would expire on 31 December 2016, the Company and Samoa Company has entered into the renewed Samoa master purchase agreement (the "2016 Renewed Samoa Master Purchase Agreement") on 1 November 2016, to renew the purchase of tea leaves from Samoa Group for a further period of three years commencing on 1 January 2017 to 31 December 2019, subject to the renewed annual cap not exceeding RMB117,000,000, RMB128,700,000 and RMB141,570,000 for the three years ending 31 December 2019, respectively. The renewed 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 renewed 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 2015 and for the nine months ended 30 September 2016; (2) the expected purchase amount for the year ending 31 December 2016 estimated based on the historical proportion of the actual purchase amount for the nine months ended 30 September 2016 to that for the full year ending 31 December 2016; (3) the expected steady demand of the Group's tea products in 2016 thanks to the prospects of the internet sales of the Group's tea products and the steady tea consumption in the PRC for the past ten years; and (4) the expected gradual shift from production of the tea products by the Group itself to the direct sourcing of the processed tea products from Samoa Group after a new factory of Samoa Group has commenced its production in Jiangsu in early 2015, taking into account the cost saving advantage resulting from the direct sourcing of tea products from Samoa Group.

During the year ended 31 December 2016, the amounts that the Group paid/payable to Samoa Group for the purchase of tea leaves were RMB105,869,000.

The Group adopted the following internal control measures to ensure that the transactions with Lu Yu and Samoa Group will be conducted on normal commercial terms going forward:

(i) where applicable and commercially sensible, the Group will continue to request Yu Lu and Samoa Group to provide the service or the products through a bidding process, on arm's length basis and on the best available terms, with reference to the prevailing market prices;

(ii) as part of the internal control measures, the implementation of the master agreements and the actual number and amount of the services or the products provided thereunder will be monitored and reviewed by the Board (including the independent non-executive Directors) and the senior management on a regular basis, with reference to terms of similar transactions with the independent third parties;

(iii) the relevant operational divisions of the Group will report regularly to senior management with respect to the actual performance of the transactions under the master agreements;

(iv) the Director(s) and/or the Shareholder(s) with an interest in the relevant transaction(s) shall abstain from voting in respect of the resolution(s);

(v) the Group shall use the best endeavour to comply with the relevant reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules for the continuing connected transactions;

(vi) the Company will engage its auditor to report on the connected transactions between the Group and Lu Yu or Samoa Group contemplated under the master agreement every year in accordance with Rule 14A.56 of the Listing Rules; and

(vii) the Group will duly disclose in the annual reports and accounts the transactions under the master agreements during each financial period, together with the conclusions (with basis) drawn by the independent non-executive Directors whether the transactions are conducted on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

The internal audit department of the Company reviewed the continuing connected transactions and the adequacy and effectiveness of the internal control procedures, and provided the findings to the independent non-executive Directors to assist them in performing their annual reviews. The independent non-executive Directors also made appropriate enquiries with the management to ensure that they have sufficient information to review the transactions and the internal control procedures. So all independent non-executive Directors 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.

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 policies of the Group if the transactions involve the 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 announcements dated 11 December 2013 and 20 August 2015 and the Company's circular dated 7 September 2015.

Employee and remuneration policies

As of 31 December 2016 the Group had an aggregate of 4,905 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 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 optimise 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.*

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 and there has been no deviation from the code provisions as set forth under the Corporate Governance Code for the year ended 31 December 2016. 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 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.

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

Report of the Board of Directors

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 2016.

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 coming AGM to re-appoint PricewaterhouseCoopers as the auditor of the Company.

For and on behalf of the Board of Directors

LEE Rie-Ho

Chairman

Hong Kong, 20 March 2017

This "Environmental, Social and Governance Report" for 2016 is prepared by Tenfu (Cayman) Holdings Company Limited (the "Company" and together with its subsidiaries, the "Group") in accordance with the "Environmental, Social and Governance Reporting Guide" (ESG Report Guide) under Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The reporting period is from 1 January 2016 till 31 December 2016. Elaborating on its sustainability and corporate social responsibility concepts in the two major areas of the environment and society, this report covers the Group's principal business endeavours including tea, food, candied fruits and tea ware production of all its subsidiaries.

The Group is a professional tea group founded by Mr. Lee Rie-Ho, dubbed Worldwide King of Tea, in mainland China in 1993. After more than a decade, Tenfu Tea has become a comprehensive tea brand with tea leaves processing, sales, research, culture and travel combined into one. In 2013, 2014 and 2015, The Group was rated by the "China Tea Leaves Circulation Association" as the No.1 leader on the "Top 100 Tea Enterprises (Overall Strength)" list. The Group's flagship brands include "Tenfu", "Tenfu Tianxin", "Tianxi", "Uncle Lee", "Just Tea" and "放牛斑", which occupy various segments in the traditional Chinese tea market.

The Board of Directors supports the Group's endeavour to fulfill its corporate social responsibilities and undertake all obligations towards the Group's environmental, social and governance strategies and reporting. The Board of Directors is responsible for evaluating and determining the Group's environmental, social and governance-related risks, and ensuring that the Group has put in place appropriate, effective environmental, social and governance risk management and internal control systems. The Group's management should confirm with the Board whether the related systems are effective.

In order to implement its environmental, social and governance management work comprehensively, the Group has established an ESG team, headed by the Group's financial department, which comprises staff members from its production, warehouse, general affairs, quality management, financial, human resources and procurement departments, with the direct involvement of the respective department heads. Dedicated personnel is made responsible for implementing ESG management and reporting work, and regularly reporting the status of ESG management and the progress of such work to the Company's management.

Embracing a sustainable development strategy alongside its environmental, social and governance policy, the Group strives to provide employees with a safe and healthy working environment and a scientifically formulated and practical training plan, to push forward the establishment of a transparent, proper and eco-friendly supply chain and a positive and healthy industry environment, as well as offering customers safe and healthy products. In order to fulfill its corporate social responsibilities, the Group has actively taken part in various charitable activities, promoted the tea culture and supported educational undertakings. In light of the internal evaluations conducted and corresponding feedback collected from external sources, the Group believes the key ESG issue is how to maintain its output of legitimate and standard-compliant products and ensure food safety. Regarding this, the Group has formulated and established a series of management policies and systems, such as the HACCP management system certification and ISO22000 food safety management systems, and been gradually building a tracking system on tea leaves quality.

The Group has adopted policies and procedures for evaluating and improving risk management and internal control functions. The Company's Board of Directors will review the design, implementation and monitoring of the risk management and internal control systems. For details, please refer to the Corporate Governance Report published as part of the Company's 2016 Annual Report.

A Environment

Upholding a development philosophy of focusing on "quality, safety and the environment", the Group strictly complies with the laws and regulations including "Environmental Protection Law of the People's Republic of China", stands firm on maintaining a green and low-carbon production and operational model, continually fosters a green and low-carbon industry environment and facilitates the sustainable development of the tea industry.

Compliant to national benchmarks and industry standards, the Group attaches importance to reducing emissions from its production and operational processes and uplifting the environmental awareness of employees. With regard to the environmental impact of its manufacturing process, the Group has installed environmental equipment and deployed professional management personnel to ensure waste emissions and disposal are compliant to local laws and regulations and that emissions are carried out only after these standards have been reached.

A1 Emissions

The Group adopts a "Reduce, Recycle and Reuse" approach to handle sewage, exhaust gases, dust, solid waste and greenhouse gases, with a "Tenfu environmental protection and management system" policy enacted and implemented to regulate emission of exhaust and greenhouse gases, sewage and land-related discharges as well as the production of hazardous and non-hazardous waste. The policy also ensures essential control of critical environmental factors as determined by the Group, along with the prevention and mitigation of factors detrimental to the environment.

With regard to exhaust gases and dust, The Group strictly complies with laws and regulations including the "Air Pollution Prevention Law of the People's Republic of China". When tea leaves are subject to initial processing and classification, it is likely that a large quantity of tea powder dust is produced, thereby affecting the work environment. To enhance overall work environment hygiene, we have installed vacuum cleaners in our factories in Zhangpu to suck tea dust to outdoor collection of buckets through tubes on each piece of equipment so as to keep the entire production area clean and tidy. As for exhaust gas emission from production boilers, our factories in Zhangpu actively promoted the use of natural gases as fuel, devised a set of "Boilers Safety Operational Procedures" and commissioned third parties to carry out tests on the smoke and sulphur dioxides in the boilers' exhaust, to ensure that the effluent concentration is compliant to Class Two Category Second Timeslot Standards of the "Emission Standards of Boilers Exhaust Contaminants" (GB13271-2001).

With regard to sewage, The Group strictly complies with laws and regulations including the "Air Pollution Prevention Law of the People's Republic of China". Targeting sewage generated from candied fruits production, our factories in Zhangpu are equipped with sewage treatment facilities to measure the sewage volumes emitted. Processed sewage that meets the standards will be reused, for landscape and agricultural irrigation on the factory premises, etc. pollutant indicator from the processed sewage have meet to Class 2 emission standards of the "Overall Sewage Emission Standard" (GB8978-1996).

With regard to greenhouse gases, the Group strictly complies with relevant regulations of the "13th Five-year Plan Working Scheme on Greenhouse Gas Emission". As its greenhouse gas emission primarily consists of "Category 1" boilers fossil fuel and combustion-based emissions and "Category 2" exported energy emissions, the Group has, over the recent years, actively adopted energy conservation and emissions reduction measures to raise energy efficiency, such as advocating energy conservation and switching to energy-saving LED lightings in the production areas, in order to reach its greenhouse gas emission objectives.

With regard to waste disposal, the Group abides by the requirements set out in the "Tenfu Environmental Protection and Management System", to carry out classifications of hazardous waste and non-hazardous waste. On hazardous waste, the Group strictly complies with the requirements of the "Solid Waste Environmental Pollution Prevention Law of the People's Republic of China". Based on the "National Hazardous Waste Catalogue", hazardous waste including used engine oil is identified and third parties are commissioned to carry out decontamination, to reduce its environmental impact. On non-hazardous waste, the Group strictly complies with the requirements of "Solid Waste Environmental Pollution Prevention Law of the People's Republic of China" carrying out classification-based management, followed by recycling of recyclable refuse for external sale and multipurpose usage. Industrial slag and sewage sludge generated from production are processed into organic fertilizers for use in tea plantations. Unrecyclable household garbage and other non-hazardous waste will be transferred to third parties for incineration or landfill etc. to be brought to safe level.

A2 Resource Usage

The Group strictly complies with the "Energy Conservation Law of the People's Republic of China", and strives to raise the efficiency of usage of various energy, water and materials, in order to improve the efficiency of resource usage continually. To improve compliance to national and local laws on business operation and reduce the usage of various natural resources, the Group has issued "Tenfu Energy Conservation and Management System". When joining our Company, all new employees are required to take trainings in relation to energy conservation and emission reduction, in order to raise their awareness in energy conservation and emission reduction, and enable them to firmly bear in mind energy conservation and emission reduction during the work process, with whom the Group partners in implementing its energy conservation and emission reduction endeavours.

Electricity use for production and fuel usage in boilers constitute the bulk of energy consumed within the Group. Therefore, the Group has actively undertaken energy-saving measures, including switching to LED lights and using natural gases as fuel in some of its production facilities. Apart from this, the Group requires its employees to turn off equipment, such as: lights, computers and printers when they are not in use.

In addition, the Group has corresponding water conservation measures. These include treating the sewage generated from candied fruits production and recycling the processed water landscape and agricultural irrigation use within the factory area if it meets the requirements. At the same time, the Group promotes the water conservation habit and equips its restrooms with water-saving facilities, in order to continually raise the efficiency of water utilization of the Group.

The Group categorizes its waste. With regard to recyclable waste, including paper cartons and iron scrap, it will be recycled for exports and multipurpose usage, which have uplifted the efficiency of our waste material utilization significantly.

A3 Environmental and Natural Resources

The Group's production activities include processing tea leaves, food and candied fruits, which should not be considered as operating a high energy consuming or polluting business. Resources used by the Group are primarily electricity, natural gas and water, as elaborated in the A2 Resource Usage Section. Except for these, the Group will not extensively use other environmental and natural resources. As such, A3 environmental and natural resources are not applicable.

B Society

The Group deeply believes that maintaining a good relationship with employees is one of the keys to business success. Every employee is valuable resource and asset to the Group. In return, the Group fully respects each of its employees and champions a staff deployment philosophy based of on "mutual respect, mutual love, mutual reverence, mutual trust, mutual understanding, mutual patience, mutual help and mutual encouragement", in order to foster a harmonious work environment for them.

B1 Employment

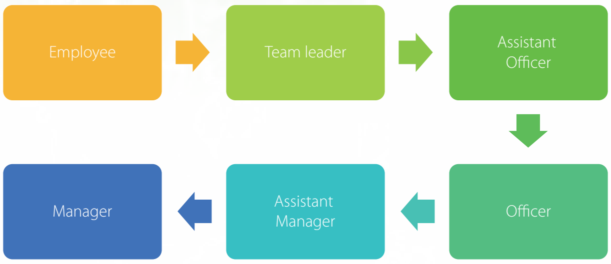
To help employees understand its employment policy better, the Group has compiled an "Employee Handbook", which specifies its recruitment policies, human resources system, performance review system and welfare benefits system. Based on the requirements of "Labour Law of the People's Republic of China" and "Labour Contract Law of the People's Republic of China", the Group provides its staff with basic welfare. In addition, the Company provides several additional benefits for employees, enabling them to fully attain professional growth and development opportunities.

The Group has a standard remuneration management system offering its employees protection above the minimum living standards stipulated. Adding to this are income increments from work promotions due to academic upgrading, years of experience position allowances, technical upgrading, job-related allowances and performances, which enable its staff to enjoy protection of competitive income. The Group also pays for relevant insurances such as, social security and health insurance, for its staff, in accordance with the "Social Insurance Law of the People's Republic of China". With regard to work hours, the Group requires its employees comply with related state laws on the number of hours they put in at work and offered the employees the right to take leave. Apart from the statutory public holidays, its employees are entitled to paid annual leaves which accrue as they rise in seniority, and paid sick leave, paid condolence leave, paid marriage leave and paid maternity leave. During the Mid-Autumn and Lunar New Year festivals, the Group presents its self-produced tea products, tea candied fruits and tea leaves as festive gifts to its employees. The Group also organizes vacation tours for the employees regularly as part of staff benefits.

With regard to staff recruitment and dismissal, the Group strictly complies with the "Labour Law of the People's Republic of China", in signing labour contracts with employees and fulfilling its corporate obligations in accordance with the contracts. When signing and dissolving labour contracts, the Group strictly complies with the statutory procedures and protects the legitimate rights of the employees. At the same time, the Group maintains extensive channels to carry out the employees recruitment via the community, the internet and internal staff recommendations. According to its "Employee Handbook", the Group's employment policy is to "provide equal employment and promotion policies, regardless of nationality, race, religion or gender", and struck to "equal pay for equal work" and "employment for multiple nationalities".

The Group boldly undertakes its social obligations to provide jobs for disabled people. Over a long period, the Group has firmly supported the skills training provided at Zhangpu county Special Needs Education

College (for the deaf), through which it holds regular skills trainings for deaf students and employs the outstanding ones for suitable postings within the Company.



The Group maintains smooth channels for internal promotion, with clear promotional pathways, and respects the career development plans of its employees. Their outstanding performance and willingness to grow will be rewarded opportunities for promotion and salary increase.

B2 Health and Safety

The Group strictly complies with the related laws and regulations, including "Production Safety Law of the People's Republic of China" and "Occupational Disease Prevention Law of the People's Republic of China", pays attention to employee work safety, provides its staff members with a safe and comfortable work environment and protects them from occupational hazards. The Group has formulated a "Tenfu Health and Safety Management System" to strengthen production safety and occupational health management and adopt several measures to safeguard employees' health and safety, including the following:

- Organise fire drills and earthquake evacuation exercises each year on an ad hoc basis;
- Provide free health checks to staff who have completed a full year of service and above;
- Equip worksites with safety facilities including social insurance, fire safety equipment, emergency aid kits and warning banners;
- Conduct regular inspections and registration checks on fire safety equipment through the Security Department and General Affairs Department to see if their expiry dates are past;
- Strictly require employees to wear helmets when travelling on motorcycles for or off work;
- Build bridge across main avenue in Zhangpu Factory Area to facilitate safe entry and exit for employees.

In 2016, The Group undertook the following occupational health and safety training activities, including:

1. fire drills

2. safety knowledge seminars for female employees

3. transport safety knowledge training

4. emergency first-aid knowledge training

Owing to its special business nature, the Group has a higher ratio of female employees. Therefore, the Group has lavished greater care and concern for its female staff. In February 2015, the Group received the "Nationwide May 1st Female Pacesetter Sentry" title from the All-China Federation of Trade Union.

In addition, The Group holds numerous activities related to the physical and mental health of employees and their family life, such as parent and child activities.

B3 Development and Training

Talents are the foundation of every company's success. According to its "Employee Handbook", the Group encourages its staff to work diligently to enhance their personal abilities through formal or informal trainings provided to them internally. The Group also provides them with an external training programmes, with the expectation that the employees could apply their upgraded skills for the Group's future developments.

The Group has established a good training mechanism, make the annual training plans based on training demands and assign the training targets to each department. Skills trainings are conducted based on individual job requirements and training plans were formulated according to the training demands of the various departments, and submitted for approval by management. The Group has long emphasized the need to carry out highly sustained and highly focused educational training for its staff in order to heighten employee quality and abilities at various levels.

The Group values and encourages its employees to raise their professional skills required by the positions they hold. If employees obtain the relevant professional certificates for academic elevation and job-related professional knowledge exam grades (tea tasters, tea artisans, accountants and human resources professionals), the Group will provide them with incentive pay. In addition, the Group has established a good collaborative relationship with Zhangzhou College of Science & Technology, which offers it a continuous supply of talents.

The Group's training activities are provided in the following four major areas:

- Induction training for new employees

- Departmental job-position skills training

- Development training for management personnel

- External training for management personnel

Case study: Uplifting management skills through team leadership training – Management training held by Second Division of the Group's General Management Department

On 12 May 2016, the Second Division of the Group's General Management Department organised a skills development training programme, aimed at better facilitating various work projects. The theme of this training is team leadership , which was divided into five parts – "Team Leadership" seminar conducted by a teacher from business school of Zhangzhou College of Science & Technology; a team development game; sharing of gratitude, award presentation and evaluations from the participants' work superiors. Through this development training, everybody learned more about the importance of team communication, team leadership, team execution power and team cohesiveness, all of which are instrumental for the smooth implementation of work.

B4 Labour Regulations

The Group strictly complies with the laws and regulations including "Labour Law of the People's Republic of China" and "Prohibition of Child Labour Regulations" forbidding the hiring of child labour or forced labour. According to its "Employees Handbook," stringent criteria are to be applied in staff recruitment to prevent employment of child labour, forced labour and other potential law violations. Before being employed, all job applicants should take the required exams, face-to-face interviews and assessments. Job seekers under age 16 or those who provide false or untrue identity proof and documents will not be employed by the Group.

The Group's "Employees Handbook" also clearly states that staff working hours must be strictly complied with the "Labour Law of the People's Republic of China". The Group respects the leisure hours of its employees and prohibits forced overtime work. If overtime work is required due to business needs, employees' participation must be voluntary and overtime payment is to be made in accordance with the national and local laws.

B5 Supply Chain Management

The Group attaches high importance to supply chain management, actively carries out communication with various types of suppliers and guides the industry's sustainable developments.

(1) Tea leaves procurement

Faced with the issue of environmental pollution caused by tea leaves cultivation and increasingly severe food safety challenges, the Group is working diligently towards tea leaves quality tracking system, where "production records are available, information can be double-checked, product flows can be tracked, accountability can be pursued and products can be recalled". The Group has ceaselessly strengthened and refined its suppliers management system, actively inculcated environmental concepts in its suppliers and farmers, nurtured their environmental awareness, provided suppliers and farmers with skills training, actively responded to the objectives of cutting down on pesticides use formulated by the country and strived to reduce pesticides usage.

The Group maintains a stable relationship with its suppliers, to ensure a supply of raw materials and packaged materials produced on a daily basis. In addition, due to the industry's special nature, the market supply of raw materials and packaged materials is sufficient, with diverse choices of suppliers available. The Group has formulated a series of suppliers selection policies and processes, where suppliers are managed on an Activity Based Classification (ABC) basis. Every year, a classification exercise is undertaken. For example, Grade A tea leaves suppliers are required to have their tea plantations accredited through the SC quality management system, actively support the Group's procurement demands, ensure product quality and attain a certain supply output each year.

The Group's appraisal of its suppliers includes raw materials testing and soil testing, along with sample inspections of pesticide for the procured tea-leaf. Those who pass the tests are allowed to be procured while those who fail will be returned. At the same time, the Group also carries out heavy metal testing on soil samples taken from tea plantations of new suppliers and conduct exchanges with suppliers on an ad-hoc basis. The Group will also carry out safety instructions and inspections on tea plantations in relation to pesticide and fertilizers use so as to ensure the production process remains green and decontaminated from the source.

Based on the procurement process stipulated in its "Procurement Management System", the Group will make a corresponding requirement on every critical part of the process. The Group's "Tea Procurement Policies and Processes" clearly sets out the standard procedures and payment procedures for tea procurement staff to ensure proper tea procurement. "QC Department Tea Leaves Procurement Management System" of the Group sets out the processes and detailed requirements for sampling required for tea procurement and tea leaves and finished products available to warehouse storage. This procurement management system imposes stringent requirement on various parts to ensure standardisation of the entire procurement process.

(2) *Tea ware and tea packs*

The Group requires its suppliers to provide registration information and business licenses based on their business nature together with product test reports issued by national inspection organizations. As for its packaging materials suppliers, the Group requires them to provide documentary proof, including their business licenses, tax registration certificates, organization code certificates, production licenses, printing licenses and inspection reports of the materials with which the tea leaves have direct contact.

When determining which suppliers to engage, the Group carries out field inspections and investigations into the supply strengths of its suppliers, including product quality, the ability to sustain product supply, punctuality of product delivery and after-sales services. The Group also updates tables on its suppliers' capabilities regularly, establishes suppliers database and raises various suggestions for improvements through communications with its suppliers. Therefore, in its long-term cooperation with them, the Group has seen visible improvements of its suppliers and the development and elevation of the entire industry.

(3) *Candied fruits procurement*

The Group requires its suppliers to prepare a complete set of documents including business licenses, production licenses and official inspection reports. In addition, the Group carries out onsite audits of suppliers, compiles a catalogue of eligible suppliers, assesses their abilities, categorises them and continues to keep in touch with the suppliers by a consultative letter on a sustained basis.

B6 Product responsibility

The Group strictly complies with laws and regulations including the "Food Safety Law of the People's Republic of China", "Product Quality Law of the People's Republic of China", "Consumer Rights Protection Law of the People's Republic of China", "Trademark Law of the People's Republic of China" and "Patent Law of the People's Republic of China", with a great emphasis placed on food safety, and conducts several quality inspections throughout the production process, to ensure the relevant quality requirements are complied with.

The Group has obtained the HACCP Management System Certificate and ISO22000 Food Safety Management System Certificate. Tenfu Tea Factory has also obtained the processing certificates for some of its organic tea products sold overseas. All these accreditations attest to the Group's management standards on product quality and food safety. The Group always establishes factories in the areas of origin for reputable tea leaves, combined with the application of scientific and stringent management, to ensure excellent and stable quality. Factories with advanced equipment, scientific management and strict quality control ensure Tenfu products excellent and stable in quality. Transparent display windows installed at the production workshop allows consumers to view the entire production process for a "you get what you see" experience. Allowing consumers to directly view and supervise the production process gives them greater confidence in the quality and hygiene standards of Tenfu products. In October 2015, the Group obtained eligibility certifications for its eggroll and candies production lines and related supplementary areas, meeting the overall benchmark of the foremost food and safety scheme of the American Institute of Baking.

(1) *Product safety*

Product safety is always at the heart of the Group's production management. The Group has passed a series of management systems and regulations to protect food products safety. Taking Zhangzhou Tenfu Tea Industry Co Limited as an example, the company has "Production Facility Management System", with detailed control and inspection requirements to cover areas including safety of processing water; the hygiene of the food interfaces; prevention of cross contamination; hand-washing, disinfection and restroom facilities; prevention of food contamination; labeling, storage and usage of hazardous chemicals; employee health and hygiene, pest and rodents control; packaging; transportation and storage. The frequency of inspections and improvement measures are clearly specified too.

- The company possesses the "food production licenses" for products including confectionery, beverages, convenience food, tea leaves and related products and vegetable products.

- The company has established Hazard Analysis and Critical Control Point (HACCP) system and obtained a HACCP certificate through third-party accreditation.

HACCP 体系认证证书

证书编号：001HACCP1200520

兹证明

漳州天福茶业有限公司

Signed by: Wang Kejian

中国质量认证中心

- The Company has established Food Safety Management System (GB/T22000-2006/ISO22000:2005) and obtained a Food Safety Management System Certificate through third-party accreditation.

食品安全管理体系认证证书

证书编号：001FSMS1200665

兹证明

漳州天福茶业有限公司

GB/T 22000-2006 / ISO 22000:2005

Signed by: Wang Kejian

中国质量认证中心

In addition, the Company has established a "Quality Management Process" and "Tea Leaves Quality Control Process" to carry out monitoring and authentication of quality of tea leaves product, in the entire process from procurement to finished products. In the production process, the Company has engaged a professional organization specialising in quality inspection to regularly monitor pesticide, color additives and lead content and test their compositions to ensure the various indicators are compliant with the country's "Maximum Quantity Limits on Pesticide Tracks in Food" (GB 2763-2014) and the industry standards.

The Group has also established the "Management Methods in Food Production Hygiene", to regulate management of areas, including personal hygiene; workshop and warehouse hygiene; equipment and appliance hygiene and environmental hygiene.

To ensure stable quality of product in storage, the Company has drafted "Product Storage and Preventive Management Procedures" to step up management of storage against flood contingencies of raw materials, products as well as spare parts and accessories. The Company stringently executes delivery inspection projects and inspection methods as stipulated in relevant benchmarks. Every batch of products shall pass the inspections of the Quality Control Department prior to delivery. Products that fail the microorganism tests are not allowed retests but will be directly labeled ineligible and not allowed to be delivered. With regard to overstocked fragrant tea leaves in customer warehouses, the company guarantees product returns for two seasons each year, to ensure product quality.

(2) *Product quality*

The Group attaches importance to quality, safety and environment, and endeavours to fulfil social responsibilities and facilitate sustainable development of the tea industry. The Group formulated "Tea Leaves Quality Management System", which sets out the quality safety management of tea leaves production, from ten areas including tea plantations and trees management and harvesting.

- Tea plantations and tea trees management system:

  Regulations have been implemented in areas including pruning of tea shoots, weeding and farming, documentation of farming activities, pest control and weed management.

- Fresh tea leaves harvest system:

  Harvest principles including the combination of pick and leave; balanced emphasis on quality and quantity; and harvest based on the tea plantations, to ensure the continual and healthy growth of tea trees.

- Tea leaves processing system:

  Processing workers must take job-related training and health checks. Equipment cleaning is required before processing. Strict compliance with the processing procedures and production hygiene is also required during processing to ensure safety and hygiene of the tea products.

- Tea leaves storage system:

  Clear requirements for the warehouses and staff of tea leaves, and reinforced management and documentation for tea leaves storage.

- Epidemics and infectious diseases surveillance system:

  Dissemination and education work of disease, and pest control knowledge of tea trees to tea plantation workers. Daily documentation of observation of disease and pests control of tea plantations and timely treatment measures for problems discovered.

- Management systems for pesticides use and fertilizers application in tea plantations:

  The Group regulates pesticide and fertilizers use from a whole ecological perspective including tea trees, pests, weeds and beneficial organisms, combining the application of various preventive measures, creating a host of environmental conditions detrimental to the survival of pests and weeds and reproduction of their natural enemies, maintaining ecological balance and biological diversity, using lightings and colored lights to kill pests in order to reduce the loss caused by pests and weeds and machines to capture pests in order to reduce the loss caused by pests and weeds. Prevention is emphasised when dealing with disease and pests to reduce the likelihood of their early encroachment and cut the vicious cycle they perpetuate. Machines and manual labour are used to eliminate weeds and prevent their growth. Under exceptional circumstances where the use of pesticides is needed, the Group will comply with the usage standards of pesticides of organic tea. The Group records pesticide and waste materials use at tea plantations for future follow-up inspection.

- Tea plantations production and records tracking management system:

  Raw materials of tea leaves are the basic materials. Raw materials batch management is at the heart of tea plantation management, which helps tracks the sources and plantation origins of tea leaves. Therefore, the Group strictly complies with stringent and scientifically implementation of batch system for tea plantation.

- Toxic and hazardous substances management system:

  Toxic and hazardous substances not only endanger the safety of tea plantations but also the safety of responsible staff. Therefore, the Group shall ensure monitoring work over toxic and hazardous substances at the tea plantations to ensure safety and health of tea plantations.

Case: Pilot demonstration of tracking system for tea plantations

To strengthen management of tea farmers and plantations, to enhance food safety control at source of tea leaves, the Group has commissioned a professional third-party company for consultancy services on demonstration of tracking systems for tea plantations in 2016. Through onsite risks inspections and training at the trial plantations, review of the list of fertilisers currently used by Tenfu tea farmers, the Group found the lack of control of tea farmers and plantations and the gap between the list of fertilisers by tea farmers and the regulator requirement. In addition, the Group compiled a set of inspection standards incorporated benchmarks such as Global G.A.P, China G.A.P and industry experience, and carried out onsite inspections and processing factory inspections at 6 tea plantations. Based on best industry practices, the Group drafted the training materials of Tenfu tea plantations and tea farmers, and organised 7 tea-related food safety

trainings at various major regions of tea production. The training included presentations of food safety laws, demonstration of good farming practices, usage of fertilizers, personnel safety and the international tea industry. More than 300 participants took part in the training, including tea dealers and farmers. Through this project, the Group started to build a Tenfu showcase

tea plantation, pushed for a documentation-based quality management system for Tenfu tea plantations and gradually put in place a comprehensive tracking system to cover the process from tea plantations to Tenfu factories and other critical points including cultivation, processing and sales.

(3) Advertising and labeling

The Group strictly complies with the regulations of the "Advertising Law of the People's Republic of China" to carry out advertising and publicity. In terms of label management, labels will be verified as per "National Food Safety Standard General Rules for the Labeling of Prepackaged Foods" so as to meet (GB 7718-2011) related national and industrial requirements.

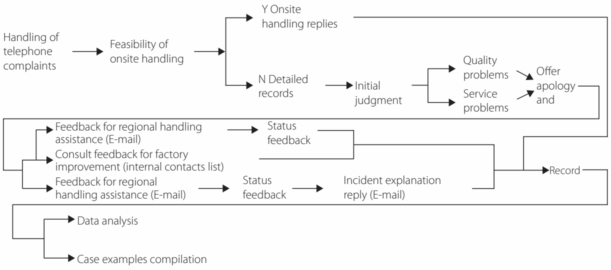
(4) Customer Services

As a responsible enterprise, the Group firmly believes that its operations are totally complied with the related regulatory policies. The Group set up a stringent supply chain management system to guarantee high-quality customer services and adequate importance on production health and safety and paid continual attention to the customers and the customer satisfaction.

The Group formulated a number of systems including "Procedures for Measuring and Controlling Customer Satisfaction", "Procedures on Customer Service Telephone Operations" and "Procedures Handling on Customer Complaints." A series of investigations in relation to customer satisfaction was taken to find whether the Group truly understood and satisfied the current and future demands and expectations of customers. Based on the investigations results, the Group endeavours to improve its quality systems in a timely manner, to continually raise customer satisfaction.

Customers can make complaints by telephone at 0592-3257991 and email at tenfu@tenfu.com. Handling procedures for specific customers complaints are provided as follows:

Handling of customer complaints workflow



On safeguarding consumers' privacy, the Group formulated a "Privacy Rights Policy," to offer a transparent and open explanation to consumers on the collection, format and usage of personal information.

B7 Anti-Corruption

The Group stands firm on operating its business with integrity and prevents any form of corruption or bribery. The Group strictly complies with various laws and regulations including "Association Law of the People's Republic of China", "Tender Invitation and Bidding Law of the People's Republic of China", "Countering Inappropriate Competition Law of the People's Republic of China", "Temporary Regulations About Prohibition of Business Corruption Behavior" and "Anti-money Laundering Law of the People's Republic of China. The Group provides legal knowledge trainings for new employees, which covers business ethics and relevant legal knowledge, including anti-corruption, anti-bribery anti-embezzlement and anti-money laundry, and requires:

- During the business operations, employees of the Group are not allowed to demand or receive rebates and commissions from the businesses they deal with; it will be deemed as bribery and once discovered, the Group will make punishment according to rules and regulations. As for acts that constitute a crime, offenders will be handed over to the law enforcement agencies;
- When dealing with other businesses, employees should insist the legal and proper occupational ethics and norms, refraining from receiving benefits through unethical means;
- Employees should not obtain personal benefits by using insider information under conditions that it is detrimental to the Group's interest or the employees are at more favourable positions than individuals outside the Group;
- Employees should not misappropriate the company's funds for personal gains or help others to obtain personal benefits;
- Employees should not misappropriate the company's funds to finance their private consumptions.

The Group incorporated "anti-corruption and anti-commercial bribery" clauses into its contracts with suppliers and customers for their compliance.

B8 Community Involvement

The Group firmly bears in mind its corporate social responsibilities and mission actively serves the society, and keeps enthusiastic for public welfare to pay back society and facilitate development and progress of the society. To better regulate the Group's philanthropic and community welfare activities for better pay back to society, the Group has formulated a "Tenfu philanthropic and Community Welfare Management System" which set out the Group should leverage its unique business features to support diverse community welfare activities, including tea culture promotion and publicity, community services, environmental protection, knowledge dissemination, social support and volunteers activities.

(1) Tea culture promotion

In the early years, when Mr. Lee Rie-ho was in Taiwan, he noticed tea farmers offered free tea beverages to passers-by as a habitual practices constitute. Mr. Lee was inspired and decided to run a tea shop to carry forwards this fine tradition. He believed that to invite passers-by to have a delicately brewed tea gave expression to positive interpersonal relationship which demonstrated the spirit of tea. However, he also believed that promoting the spirit of tea cannot be done by offering a cup of tea alone. Subsequently, Mr. Lee Rie-ho organised to open two tea museums, one in Zhangpu of Fujian and another in Jiajiang of Sichuan, to popularise tea culture and promote the traditional Chinese tea industry.

Zhangpu Tenfu Tea Museum is the world's largest tea museum, rated as the national "Grade AAAA Tourist Attraction" and among the first batch of the National Agricultural Tourism Demonstration. Since the opening of Tenfu Tea Museum, the Group used it as a base for establishing tea ceremony classrooms, tea ceremony demonstration halls and international tea ceremony department, to actively explore the value of tea art and organise or attend various tea ceremony exchange activities held internationally and domestically.

"Serving guests with tea instead of wine in the cold night" best expresses the essence of Chinese hospitality. Serving one's guests with tea upon their arrival and when meeting them has been a Chinese tradition since the ancient times. Tea is an invigorating drink, while tea ceremonies are considered refined and elegant. Tea gatherings can uplift one's spirit. Exuding a unique appeal, tea plays a social lubricant role on many occasions.

Mastering these unique traits of tea leaves, the Group fully capitalises on the "diplomacy advantage" through the medium of tea to make friends from all industries and promotes Chinese tea culture, facilitates the development of society and civilization and realises the harmony world which is rich, courteous, peaceful and happy.

The Group collaborated with Xiamen Huming Primary School to offer tea culture classes for its primary students.

(2) Donations of education subsidies

Established by Mr. Lee Rie-ho in 2008 with his own private funds, the Zhangzhou City Lee Rie-ho Cultural Education Foundation seeks to realise his vision of "what comes from the tea should be used for the tea and the society". Over the past eight years, education subsidies in excess of RMB1.6 million were granted to more than 800 students from the Zhangzhou College of Science & Technology (Tenfu Tea College), motivating them to work hard on their studies.

The Group has also established a "Star of Tenfu Scholarship" as a contribution to the educational undertakings.

Case:

On 4 August 2016, a "Star of Tenfu Scholarship" award ceremony was held under the Zhangzhou City Lee Rie-ho Cultural Education Foundation. The Group Chairman Mr. Lee Rie-ho awarded scholarships of RMB10,000 to outstanding students from Pantuo Town.

On 26 May 2016, Zhangzhou Tenfu Tea Industry Co Ltd donated RMB10,000 to Pantuo center Primary School, to help improve the school environment for its students.

(3) Disaster relief

In July 2016, Wuhan city in Hubei province was swept by a devastating flood. Zhangzhou Tenfu Tea Industry Co Ltd seized the earliest opportunity to send 200 boxes of apple puffs to the victims of the disaster-hit areas, providing a heart-felt token for them to tide over the difficult period.

(4) Care and love for the elderly and children

The Group is concerned with the lives of the elderly people and children. On 15 January 2016, Zhangzhou Tenfu Tea Industry Co Limited donated RMB5,000 to the Pantuo Pan Shang Dong Elderly Association for procurement of facilities and equipment.

(5) Community publicity

In the evening of 14 March 2016, a delegation of the Group took part in the Consumer Rights Protection and Knowledge Competition, jointly organized by the CCP Zhangpu County Publicity Department, Zhangpu County Market Supervision and Management Bureau, Zhangpu County Consumer Rights Protection Committee and Zhangpu County Integrity Promotion Association. Our delegation obtained a score of 260 to be named champion of the competition, which reflected the Group's culture of honesty and trustworthiness.

(6) Collaboration with an academic institution

Zhangzhou Tenfu Tea Industry Co., Ltd. has signed an employment agreement with Zhangzhou College of Science & Technology, under which, Zhangzhou College of Science & Technology agreed to provide outstanding and eligible interns or graduates to Tenfu's various business units. In June 2016, Zhangzhou Tenfu Tea Industry Co Ltd was awarded a plaque bearing the words of "Employment and Internship Base for Tertiary Graduates of Zhangzhou City" from the Human Resources and Social Security Bureau of Zhangzhou.

羅兵咸永道

To the Shareholders of Tenfu (Cayman) Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Tenfu (Cayman) Holdings Company Limited and its subsidiaries (together, the "Group") set out on pages 78 to 152, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of this report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue Recognition Refer to Note 2.24 and Note 5 to the consolidated financial statements. Revenue of the Group for the year ended 31 December 2016 is RMB1,484.7 million. The Group's major revenue transactions are from retail and wholesale sales. For retail, the Group had close to 400 self-owned retail outlets located throughout Mainland China and accounted for approximately 63% of the total revenue of the Group. Sales of goods are recognised when the risks and rewards of the goods have been transferred to the customer once a group entity sells a product to a customer. Retail sales are settled either in cash or by credit card. We focused on this area due to the risks arising from the huge volume of revenue transactions generated from the sale of numerous kinds of products to a significant number of customers that take place in many different locations. A significant amount of audit effort was spent on this area to test the occurrence and accuracy of the transactions. For wholesale, the Group had close to 200 wholesalers throughout Mainland China who accounted for approximately 32% of the total revenue of the Group. Sales of goods are recognised when the risks and rewards of the goods have been transferred to the wholesaler, which usually happens upon pick up of the products from a warehouse and the wholesaler accepts the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. We focused on this area due to the risk of revenue being recognised inappropriately close to the year-end and the possibility for significant sales returns after the year-end.	We understood, evaluated and validated management's controls in respect of the Group's sales transactions. In addition, we tested the general IT control environment and related automated control of the Group's systems. We also conducted substantive testing of the different revenue streams separately: For retail sales, our procedures performed included: a. test of details by selecting revenue transactions on a sample basis from retail outlets and retail points and examined the relevant supporting documents, such as the cash receipts or credit card slips. b. test of details specifically on the newly set up retail outlets on a particular high-volume transaction day by examining the relevant supporting documents and reconciling the daily revenue recorded to cash collection and bank slips. For wholesale sales, our procedures performed included: a. testing of revenue recorded, on a sample basis and covering different wholesalers, by examining the relevant supporting documents; b. confirmation of a sample of wholesalers' receivable balances at the balance sheet date and their transaction amounts during the year. The transaction amounts making up the balances tested were selected on a sample basis by considering the amount, nature and characteristics of those wholesalers; c. post balance sheet date sales return test on a sample basis by tracing to the relevant supporting documents of the original sales and the sales return; d. cut-off testing to assess whether revenue was recognised in the correct reporting periods. Based on the procedures we performed, we did not find any significant exceptions.

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Other Information

The directors of the Company are responsible for the other information set out in the Company's 2016 Annual Report. The other information comprises the information included in the chairman's statement and management discussion and analysis (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the corporate profile, corporate information, financial highlights, directors and senior management, corporate governance report, report of the board of directors and environmental, social and governance report which are expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the corporate profile, corporate information, financial highlights, directors and senior management, corporate governance report, report of the board of directors and environmental, social and governance report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the audit committee and take appropriate action considering our legal rights and obligations.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(continued)*

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with the audit committee all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Dou Wang, Angel.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 20 March 2017

Consolidated Balance Sheet

As at 31 December 2016

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Land use rights	6	**268,732**	270,479
Investment properties	7	**3,595**	3,882
Property, plant and equipment	8	**716,452**	689,701
Intangible assets	9	**3,788**	4,573
Investments accounted for using the equity method	10	**9,214**	9,811
Deferred income tax assets	21	**36,234**	39,554
Prepayments – non-current portion	11	**44,631**	29,492
Long-term time deposits	13	**68,500**	67,500
		1,151,146	1,114,992
Current assets			
Inventories	12	**446,060**	471,382
Trade and other receivables	11,34(b)	**243,615**	267,350
Prepayments	11	**82,342**	91,379
Restricted cash	13	**34,000**	34,000
Time deposits	13	**178,657**	144,330
Cash and cash equivalents	13	**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	14	**100,816**	100,816
Share premium	14	**–**	92,211
Other reserves	16	**499,759**	487,428
Retained earnings	15	**1,386,314**	1,244,375
Total equity		**1,986,889**	1,924,830
LIABILITIES			
Non-current liabilities			
Borrowings	19	**8,236**	–
Deferred income on government grants	20	**21,435**	22,021
Deferred income tax liabilities	21	**22,092**	23,210
		51,763	45,231
Current liabilities			
Trade and other payables	18,34(b)	**217,054**	226,535
Current income tax liabilities		**38,479**	34,856
Borrowings	19	**94,145**	251,656
Other liabilities	22	**17,931**	19,641
		367,609	532,688
Total liabilities		**419,372**	577,919
Total equity and liabilities		**2,406,261**	2,502,749

The notes on pages 83 to 152 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 78 to 152 were approved by the Board of Directors on 20 March 2017 and the consolidated balance sheet was signed on its behalf by:

LEE Chia Ling
Director

LEE Shih-Wei
Director

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	5	**1,484,718**	1,518,045
Cost of sales	25	**(575,437)**	(586,445)
Gross profit		**909,281**	931,600
Distribution costs	25	**(473,871)**	(478,073)
Administrative expenses	25	**(203,792)**	(200,384)
Other income	23	**13,020**	10,789
Other losses – net	24	**(3,007)**	(1,043)
Operating profit		**241,631**	262,889
Finance income	27	**15,664**	16,059
Finance costs	27	**(9,032)**	(51,045)
Finance income/(costs) – net	27	**6,632**	(34,986)
Share of profits less losses of investments accounted for using the equity method	10	**(2,560)**	(263)
Profit before income tax		**245,703**	227,640
Income tax expense	28	**(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	15	**165,420**	146,354
Earnings per share for profit attributable to the owners of the Company			
– Basic earnings per share	29	**RMB0.13**	RMB0.12
– Diluted earnings per share	29	**RMB0.13**	RMB0.12

The notes on pages 83 to 152 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to the owners of the Company				
	Share capital	**Share premium**	**Other reserves**	**Retained earnings**	**Total equity**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2016	**100,816**	**92,211**	**487,428**	**1,244,375**	**1,924,830**
Comprehensive income					
Profit and total comprehensive income for the year	**–**	**–**	**–**	**165,420**	**165,420**
Transactions with owners					
Profit appropriation to statutory reserves (Note 16)	**–**	**–**	**12,331**	**(12,331)**	**–**
Dividends (Note 30)	**–**	**(92,211)**	**–**	**(11,150)**	**(103,361)**
Total transactions with owners	**–**	**(92,211)**	**12,331**	**(23,481)**	**(103,361)**
Balance at 31 December 2016	**100,816**	**–**	**499,759**	**1,386,314**	**1,986,889**
Balance at 1 January 2015	100,816	277,520	463,659	1,121,790	1,963,785
Comprehensive income					
Profit and total comprehensive income for the year	–	–	–	146,354	146,354
Transactions with owners					
Profit appropriation to statutory reserves (Note 16)	–	–	23,769	(23,769)	–
Share option scheme					
– value of services from directors, employees and independent third party distributors (Note 16)	–	–	380	–	380
– reversal of the value of services for the year from directors, employees and independent third party distributors (Note 16)	–	–	(380)	–	(380)
Dividends (Note 30)	–	(185,309)	–	–	(185,309)
Total transactions with owners	–	(185,309)	23,769	(23,769)	(185,309)
Balance at 31 December 2015	100,816	92,211	487,428	1,244,375	1,924,830

The notes on pages 83 to 152 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash generated from operations	32(a)	**377,590**	318,717
Interest paid		**(10,080)**	(21,261)
Income tax paid		**(74,458)**	(75,110)
Net cash inflow from operating activities		**293,052**	222,346
Cash flows from investing activities			
Investment in an associate	10	**(3,522)**	(5,110)
Purchase of land use rights	6	**(10,091)**	(69,329)
Purchase of property, plant and equipment	8	**(112,862)**	(70,407)
Purchase of intangible assets	9	**(1,441)**	(539)
Changes in investments in time deposits with maturity more than 3 months	13	**(35,327)**	530,023
Proceeds from disposal of property, plant and equipment	32(b)	**1,618**	1,907
Interest received		**7,932**	22,722
Dividends received from a joint venture	10	**1,559**	1,505
Assets-related government grants received	20	**–**	22,160
Net cash (outflow)/inflow from investing activities		**(152,134)**	432,932
Cash flows from financing activities			
Proceeds from borrowings		**219,000**	564,748
Repayments of borrowings		**(368,398)**	(945,227)
Dividends paid to the owners of the Company	30	**(103,361)**	(185,309)
Changes in restricted cash pledged for borrowings	13	**–**	64,810
Decrease in amounts due to related parties		**–**	(8,093)
Net cash outflow from financing activities		**(252,759)**	(509,071)
Net (decrease)/increase in cash and cash equivalents		**(111,841)**	146,207
Effect of foreign exchange rate changes		**2,966**	1,184
Cash and cash equivalents at beginning of the year		**379,316**	231,925
Cash and cash equivalents at end of the year	13	**270,441**	379,316

The notes on pages 83 to 152 are an integral part of these consolidated financial statements.

1 General information

Tenfu (Cayman) Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") are engaged in the classification, packaging 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 consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements set out on pages 78 to 152 have been approved for issue by the board of directors (the "Board") of the Company on 20 March 2017.

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 all applicable Hong Kong Financial Reporting Standards ("HKFRSs") and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention.

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

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

Changes in accounting policies and disclosures

(a) 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.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

Changes in accounting policies and disclosures *(continued)*

(a) New amendments of HKFRSs adopted by the Group in 2016 *(continued)*

– 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.

(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 2016 and have not been early adopted by the Group

- Amendments to HKAS 12 'Income Taxes' on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value. These amendments are effective for annual periods beginning on or after 1 January 2017.

- Amendment to HKAS 7 'Statement of Cash Flows' introduces an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the HKICPA's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. The amendment is effective for annual periods beginning on or after 1 January 2017.

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 2016 and have not been early adopted by the Group *(continued)*

- HKFRS 15 '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 2018.

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 2016 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 HKAS 39. HKFRS 9 is effective for annual periods beginning on or after 1 January 2018.

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 2016 and have not been early adopted by the Group *(continued)*

- HKFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces HKAS 17 'Leases', and related interpretations. An entity shall apply HKFRS 16 for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to the entity adopting HKFRS 15 'Revenue from Contracts with Customers' at the same time.

- Amendments to HKFRS 10 and HKAS 28 "Sale or contribution of assets between an investor and its associate or joint venture" 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 were originally intended to be effective for annual periods beginning on or after 1 January 2016. The effective date has now been deferred. Early application of the amendments continues to be permitted.

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, except for the new financial reporting standard HKFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019) which the Group is not yet in a position to conclude.

2 Summary of significant accounting policies *(continued)*

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.

(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 recognises 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.

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

(a) Subsidiaries (continued)

(ii) Non-common control business combinations *(continued)*

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 unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(iii) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend 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.

Impairment testing of the investments in subsidiaries is also required according to Note 2.9.

(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 Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

(c) Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in profit or loss section of the consolidated statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profits less losses of investments accounted for using equity method' in profit or loss section of the consolidated statement of comprehensive income.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interests in associates are recognised in profit or loss section of the consolidated statement of comprehensive income.

2 Summary of significant accounting policies *(continued)*

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.

(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.

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.

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.

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.

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.

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. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. 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.

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 ant 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.

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.

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.

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 recognises 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.

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.

Government grants that are not related to future costs nor purchase of property, plant and equipment are recognised directly as income in the consolidated statement of comprehensive income.

2 Summary of significant accounting policies *(continued)*

2.24 Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, when 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 customers, the type of transactions and the specifics of each arrangement.

(a) Sales of goods – wholesale

The Group processes/manufactures and sells a range of tea products in the wholesale market. Revenue from the sales of goods is recognised when the risk and reward of the goods has been transferred to the wholesaler, which usually happens upon pick up of the products from a warehouse and the wholesaler accepts 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 the risks and rewards of the goods have been transferred to the customer once a group entity sells a product to a 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 Summary of significant accounting policies *(continued)*

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.

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 properties' 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.

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	
	2016	2015
	RMB'000	RMB'000
Profit after income tax increase/(decrease)		
– Strengthened 5%	**578**	4,014
– Weakened 5%	**(578)**	(4,014)
Equity increase/(decrease)		
– Strengthened 5%	**578**	4,014
– Weakened 5%	**(578)**	(4,014)

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	
	2016	2015
	RMB'000	RMB'000
Post-tax profit increase/(decrease)		
– 10% higher	**(407)**	(1,391)
– 10% lower	**407**	1,391
Equity increase/(decrease)		
– 10% higher	**(407)**	(1,391)
– 10% lower	**407**	1,391

(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.

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 2016	**Less than 1 year RMB'000**	**Between 1 and 2 years RMB'000**	**Between 2 and 5 years RMB'000**	**Over 5 years RMB'000**	**Total 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 RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total 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.

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 2016, the Group's strategy is to maintain the gearing ratio below 50% (2015: below 50%). The gearing ratios at 31 December 2016 and 2015 were as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Total debt – total borrowings (Note 19)	**102,381**	251,656
Total equity	**1,986,889**	1,924,830
Total capital	**2,089,270**	2,176,486
Gearing ratio	**5%**	12%

3.3 Fair value estimation

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

4 Critical accounting estimates and judgements

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

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

4 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 recognises an amount for the goods or services received during the vesting period based on the best available estimate of the number of equity instruments expected to vest and revises that estimate, if necessary, if subsequent information indicates that the number of equity instruments expected to vest differs from previous estimates. Where the expectation is different from the original estimate, such difference will impact the recognition of share-based payment expense charge in the period in which such estimate is changed.

5 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.

5 Revenue and segment information *(continued)*

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 RMB'000	Tea snacks RMB'000	Tea ware RMB'000	All other segments RMB'000	Total 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**

5 Revenue and segment information *(continued)*

Other segment items included in the 2016 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	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 RMB'000	Tea snacks RMB'000	Tea ware RMB'000	All other segments RMB'000	Unallocated RMB'000	Total 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

5 Revenue and segment information *(continued)*

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

6 Land use rights

Land use rights represent the net book amount of prepaid operating lease payments. All the land use rights of the Group are located in Mainland China and are held on leases from 34 to 50 years.

Movements in land use rights are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
At beginning of the year		
Cost	**297,689**	257,952
Accumulated amortisation	**(27,210)**	(17,067)
Net book amount	**270,479**	240,885
Opening net book amount	**270,479**	240,885
Additions	**9,401**	39,737
Amortisation for the year (Note 25)	**(11,148)**	(10,143)
Closing net book amount	**268,732**	270,479
At end of the year		
Cost	**307,090**	297,689
Accumulated amortisation	**(38,358)**	(27,210)
Net book amount	**268,732**	270,479

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Distribution costs	**9,137**	8,266
Cost of sales	**2,011**	1,877
	11,148	10,143

As at 31 December 2016, land use rights with net book value of RMB4,882,000 (2015: RMB5,035,000) have been pledged as securities for bank borrowings of the Group amounting to RMB50,000,000 (2015: RMB56,645,000) (Note 19).

7 Investment properties

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
At beginning of the year		
Cost	**6,704**	6,704
Accumulated depreciation	**(2,822)**	(2,535)
Net book amount	**3,882**	4,169
Opening net book amount	**3,882**	4,169
Depreciation (Note 25)	**(287)**	(287)
Closing net book amount	**3,595**	3,882
At end of the year		
Cost	**6,704**	6,704
Accumulated depreciation	**(3,109)**	(2,822)
Net book amount	**3,595**	3,882

Depreciation expenses of RMB287,000 have been charged in 'administrative expenses' for the year ended 31 December 2016 (2015: RMB287,000).

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Rental income	**707**	730
Property management fees income	**962**	1,000
Direct operating expenses from properties that generated rental income	**(415)**	(415)
	1,254	1,315

The fair value of the investment properties is RMB7,440,000 as at 31 December 2016 (2015: RMB7,090,000), with carrying amount of RMB3,595,000 (2015: RMB3,882,000). The fair value is determined at each balance sheet date by an external valuer.

7 Investment properties *(continued)*

Fair value hierarchy

Description	Fair value measurements at Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	RMB'000	RMB'000	RMB'000
31 December 2016	–	–	7,440
31 December 2015	–	–	7,090

The valuation was based on income capitalisation approach (term and reversionary method) which use unobservable inputs (Level 3) at 31 December 2016 and 2015, respectively. These inputs at 31 December 2016 include:

Unobservable inputs	Value of unobservable inputs	Explanation for unobservable inputs
Market rent	RMB45,806 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 6.0% to 7.5% according to different cities. The higher the yield, the lower the fair value of the properties.

8 Property, plant and equipment

	Buildings RMB'000	Machinery RMB'000	Vehicles RMB'000	Furniture, fittings and equipment RMB'000	Sculpture and exhibits RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2016							
Cost	704,899	89,064	26,004	177,257	5,463	96,200	1,098,887
Accumulated depreciation	(214,986)	(52,449)	(19,852)	(121,469)	(430)	–	(409,186)
Net book amount	489,913	36,615	6,152	55,788	5,033	96,200	689,701
Year ended 31 December 2016							
Opening net book amount	489,913	36,615	6,152	55,788	5,033	96,200	689,701
Additions	1,692	7,273	1,322	20,359	–	68,956	99,602
Transfers	93,671	97	–	4,604	–	(98,372)	–
Disposals (Note 32(b))	(3,562)	(382)	(185)	(549)	–	–	(4,678)
Depreciation (Note 25)	(32,339)	(5,546)	(2,194)	(27,837)	(257)	–	(68,173)
Closing net book amount	549,375	38,057	5,095	52,365	4,776	66,784	716,452
At 31 December 2016							
Cost	793,425	95,261	24,921	189,159	5,463	66,784	1,175,013
Accumulated depreciation	(244,050)	(57,204)	(19,826)	(136,794)	(687)	–	(458,561)
Net book amount	549,375	38,057	5,095	52,365	4,776	66,784	716,452

8 Property, plant and equipment *(continued)*

	Buildings RMB'000	Machinery RMB'000	Vehicles RMB'000	Furniture, fittings and equipment RMB'000	Sculpture and exhibits RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2015							
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
Year ended 31 December 2015							
Opening net book amount	503,597	38,142	8,130	62,170	5,290	19,345	636,674
Additions	7,086	5,604	1,493	16,571	–	92,263	123,017
Transfers	10,853	193	–	4,362	–	(15,408)	–
Disposals (Note 32(b))	(31)	(1,293)	(321)	(595)	–	–	(2,240)
Depreciation (Note 25)	(31,592)	(6,031)	(3,150)	(26,720)	(257)	–	(67,750)
Closing net book amount	489,913	36,615	6,152	55,788	5,033	96,200	689,701
At 31 December 2015							
Cost	704,899	89,064	26,004	177,257	5,463	96,200	1,098,887
Accumulated depreciation	(214,986)	(52,449)	(19,852)	(121,469)	(430)	–	(409,186)
Net book amount	489,913	36,615	6,152	55,788	5,033	96,200	689,701

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

	Year ended 31 December 2016 RMB'000	2015 RMB'000
Distribution costs	**31,483**	31,673
Administrative expenses	**23,761**	23,832
Cost of sales	**12,929**	12,245
	68,173	67,750

As at 31 December 2016, property, plant and equipment with net book value of RMB3,768,000 (2015: RMB4,372,000) have been pledged as securities for bank borrowings of the Group amounting to RMB50,000,000 (2015: RMB56,645,000) (Note 19).

As at the date of issuance of these consolidated financial statements, the certificate of certain property, plant and equipment with carrying amount of RMB132,686,000 (2015:RMB131,415,000) is under application process.

Construction work in progress as at 31 December 2016 mainly comprised retail stores, manufacturing plants and warehouses being constructed.

During the year, the Group has capitalised borrowing costs amounting to RMB684,000 (2015: RMB927,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 4.56% per annum.

9 Intangible assets

	Goodwill RMB'000	Software RMB'000	Trademarks RMB'000	Total RMB'000
At 1 January 2016				
Cost	**1,740**	**8,240**	**648**	**10,628**
Accumulated amortisation	**–**	**(5,567)**	**(488)**	**(6,055)**
Net book amount	**1,740**	**2,673**	**160**	**4,573**
Year ended 31 December 2016				
Opening net book amount	**1,740**	**2,673**	**160**	**4,573**
Additions	**–**	**9**	**62**	**71**
Amortisation charge (Note 25)	**–**	**(784)**	**(72)**	**(856)**
Closing net book amount	**1,740**	**1,898**	**150**	**3,788**
At 31 December 2016				
Cost	**1,740**	**8,233**	**710**	**10,683**
Accumulated amortisation	**–**	**(6,335)**	**(560)**	**(6,895)**
Net book amount	**1,740**	**1,898**	**150**	**3,788**
At 1 January 2015				
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
Year ended 31 December 2015				
Opening net book amount	1,740	3,305	245	5,290
Additions	–	539	–	539
Amortisation charge (Note 25)	–	(1,171)	(85)	(1,256)
Closing net book amount	1,740	2,673	160	4,573
At 31 December 2015				
Cost	1,740	8,240	648	10,628
Accumulated amortisation	–	(5,567)	(488)	(6,055)
Net book amount	1,740	2,673	160	4,573

Amortisation expenses of RMB856,000 (2015: RMB1,256,000) have been charged in 'administrative expenses' for the year ended 31 December 2016.

9 Intangible assets *(continued)*

Impairment tests for goodwill

The intangible assets as at 31 December 2016 and 31 December 2015 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 2016 and 31 December 2015, the business of catering management, beverage production and sales of pre-packaged food did not qualify as a reportable operating segment.

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 2016 is as follows:

– Gross margin	13%
– 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.

Based on management's assessment and up to 31 December 2016, no impairment charge was made on the goodwill.

10 Investments accounted for using the equity method

The amounts recognised in the balance sheet are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Joint ventures	**5,756**	6,228
Associate	**3,458**	3,583
	9,214	9,811

The amounts recognised in the consolidated statement of comprehensive income are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Joint ventures	**1,087**	1,264
Associate	**(3,647)**	(1,527)
	(2,560)	(263)

(a) Investments in joint ventures

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
At beginning of the year	**6,228**	6,469
Share of profits less losses	**1,087**	1,264
Cash dividends declared	**(1,559)**	(1,505)
At end of the year	**5,756**	6,228

10 Investments accounted for using the equity method *(continued)*

(a) Investments in joint ventures *(continued)*

The particulars of the joint ventures of the Group at 31 December 2016 and 2015, all of which are unlisted, are 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 2016	2015	Principal activities
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%**	50%	Catering management, beverage production and sales of pre-packaged food

As at 31 December 2016 and 2015, the Group had paid the first capital injection of USD315,000 (equivalent to RMB1,935,000) to Xiamen Daily Plus, 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 share of the results of the joint ventures, and their aggregated assets and liabilities, are as follows:

	Fujian Petrol		Xiamen Daily Plus		Total	
	2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
Assets	**4,223**	4,679	**2,097**	1,700	**6,320**	6,379
Liabilities	**(53)**	(69)	**(511)**	(82)	**(564)**	(151)
Revenue	**1,951**	2,355	**1,989**	1,226	**3,940**	3,581
Profit/(Losses)	**1,140**	1,491	**(53)**	(227)	**1,087**	1,264
% interest held	**50%**	50%	**50%**	50%	**50%**	50%

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

10 Investments accounted for using the equity method *(continued)*

(b) Investment in an associate

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
At beginning of the year	**3,583**	–
Investment in an associate	**3,522**	5,110
Share of loss	**(3,647)**	(1,527)
At end of the year	**3,458**	3,583

The particulars of the associate of the Group at 31 December 2016 and 2015, which is unlisted, are 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 2016	2015	Principal activities
Tea Trading International DMCC. ("TTI")	United Arab Emirates ("U.A.E"), 20 July 2015	Arab Emirate Dirham ("AED") 2,000,000	AED2,000,000	**49%**	49%	Tea blending, packaging and trading

Pursuant to the resolution of the board of directors of Tenfu (Hong Kong) Holdings Company Limited ("Tenfu HK"), a subsidiary of the Group, dated 30 May 2015, Tenfu HK and Rise General Trading LLC ("Rise"), an independent third party, entered into an agreement dated 17 June 2015 to set up an associate in U.A.E.to undertake such activities as warehousing, blending, packaging, and trading the new brand of tea to serve the Middle East. TTI was established on 20 July 2015 with registered capital of AED 2,000,000 (equivalent to RMB3,381,000, of which Rise and Tenfu HK own 51% and 49% respectively). According to the contract, Rise and Tenfu HK are each committed to invest USD2,800,000 (equivalent to RMB18,182,000) to TTI, including registered capital. As at 31 December 2016, Tenfu HK has paid the capital injection of USD1,329,000 (equivalent to RMB8,632,000) (2015: USD800,000 (equivalent to RMB5,110,000)), and the Group's remaining balance of capital commitment of USD1,471,000 (equivalent to RMB9,802,000) (2015: USD2,000,000 (equivalent to RMB12,987,000)) will be paid in due course.

The Group's share of the results of the associate, and its aggregated assets and liabilities, are as follows:

	2016	2015
	RMB'000	RMB'000
Assets	**3,796**	4,601
Liabilities	**(338)**	(1,018)
Revenue	**401**	2,435
Loss	**(3,647)**	(1,527)
% interest held	**49%**	49%

TTI is a private company and there is no quoted market price available for its shares.

11 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 (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 (2015: nil).

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

(a) 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	
	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 (Note 19)	**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 (Note 34(b))	**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.

12 Inventories

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Raw materials and packaging materials	**124,136**	130,602
Work in progress	**114,233**	107,976
Finished goods	**207,691**	232,804
	446,060	471,382

The cost of inventories recognised as expenses and included in 'cost of sales' amounted to RMB509,482,000 for the year ended 31 December 2016 (2015: RMB520,756,000) (Note 25).

The Group did not have any losses on obsolete inventories or write-down of inventories for the year ended 31 December 2016 (2015: nil).

13 Cash and cash equivalents, time deposits and restricted cash

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Cash at bank and on hand (i)	**551,598**	625,146
Less: Time deposits (ii)	**(178,657)**	(144,330)
Long-term time deposits (ii)	**(68,500)**	(67,500)
Restricted cash (iii)	**(34,000)**	(34,000)
Cash and cash equivalents	**270,441**	379,316

(i) The weighted average effective interest rate on cash placed with banks and deposits for the year ended 31 December 2016 was 2.18% (2015: 1.75%) per annum.

(ii) As at 31 December 2016, the Group has time deposits of RMB178,657,000 (2015: RMB144,330,000) which will mature within one year.

As at 31 December 2016, the Group has long-term time deposits of RMB67,500,000 and RMB1,000,000 which will mature in 2018 and 2019 respectively (2015: RMB67,500,000 maturing in 2018).

(iii) As at 31 December 2016, a subsidiary Pingtan Tenfu Tea Co., Ltd. pledged time deposits of RMB34,000,000 (2015: RMB34,000,000) as collateral for issuance of notes payable which had a nil balance as at 31 December 2016 (2015: RMB33,000,000) (Note 18).

13 Cash and cash equivalents, time deposits and restricted cash *(continued)*

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
RMB	**535,679**	544,146
USD	**2,501**	65,969
HKD	**13,024**	14,665
JPY	**394**	366
	551,598	625,146

14 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 30.

An interim dividend for 2016 amounting to RMB41,725,000 was declared by the Board on 16 August 2016, using RMB30,575,000 of the share premium account and RMB11,150,000 of the retained earnings. Details of the interim dividend declared are set out in Note 30.

15 Retained earnings

	Year ended 31 December 2016 RMB'000	2015 RMB'000
At 1 January	**1,244,375**	1,121,790
Profit for the year	**165,420**	146,354
Dividends (Notes 14 and 30)	**(11,150)**	–
Appropriation to statutory reserves (Note 16)	**(12,331)**	(23,769)
At 31 December	**1,386,314**	1,244,375
Representing:		
Proposed final dividend	**73,632**	–
Others	**1,312,682**	1,244,375
At 31 December	**1,386,314**	1,244,375

16 Other reserves

	Merger reserve (I) RMB'000	Capital reserve (II) RMB'000	Statutory reserves (III) 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 (Note 15)	**–**	**–**	**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 (Note 15)	–	–	23,769	–	23,769
Share option scheme					
– value of services from directors, employees and independent third party distributors (Note 17)	–	–	–	380	380
– reversal of the value of services for the year from directors, employees and independent third party distributors (Note 17)	–	–	–	(380)	(380)
At 31 December 2015	278,811	231	208,386	–	487,428

16 Other reserves *(continued)*

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

(II) Capital reserve mainly comprises exchange differences relating to foreign currency capital injection.

(III) Statutory reserves

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

17 Share-based payments

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

Share Option Scheme

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

17 Share-based payments *(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 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.

18 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 (Note 34(b))	**21,445**	24,052
Total trade payables	**87,997**	104,634
Notes payable (Note 13)	**–**	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.

19 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

19 Borrowings *(continued)*

(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 (Note 6) and property, plant and equipment (Note 8) 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 (Note 34(c)), 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

19 Borrowings *(continued)*

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.

The Group has the following undrawn borrowing facilities:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Fixed rate:		
– expiring within one year (bank borrowings)	**499,632**	304,548

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

20 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 23)	**(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.

21 Deferred income tax assets and liabilities

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Deferred tax assets		
– to be recovered after more than 12 months	**7,798**	6,580
– to be recovered within 12 months	**28,436**	32,974
	36,234	39,554
Deferred tax liabilities		
– to be settled after more than 12 months	**1,032**	1,083
– to be settled within 12 months	**21,060**	22,127
	22,092	23,210

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

	Temporary differences in respect of accruals	Tax losses	Unrealised profit on inventories	Customer loyalty programme	Government grant	Withholding tax on unremitted earnings of certain subsidiaries	Fair value gains	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	**1,607**	**1,923**	**25,612**	**4,907**	**5,505**	**(22,076)**	**(1,134)**	**16,344**
Paid out	**–**	**–**	**–**	**–**	**–**	**14,100**	**–**	**14,100**
(Charged)/credited to the consolidated statement of comprehensive income (Note 28)	**752**	**1,102**	**(4,604)**	**(424)**	**(146)**	**(13,033)**	**51**	**(16,302)**
At 31 December 2016	**2,359**	**3,025**	**21,008**	**4,483**	**5,359**	**(21,009)**	**(1,083)**	**14,142**
At 1 January 2015	8,706	514	27,913	4,032	–	(19,260)	(1,185)	20,720
Paid out	–	–	–	–	–	2,000	–	2,000
(Charged)/credited to the consolidated statement of comprehensive income (Note 28)	(7,099)	1,409	(2,301)	875	5,505	(4,816)	51	(6,376)
At 31 December 2015	1,607	1,923	25,612	4,907	5,505	(22,076)	(1,134)	16,344

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

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 2016, the Group did not recognise deferred income tax assets of RMB17,759,000 (2015: RMB17,020,000) in respect of tax losses amounting to RMB71,332,000 (2015: RMB68,080,000) that can be carried forward to offset against future taxable income due to uncertainty of realisation. As at 31 December 2016, losses amounting to RMB8,461,000 (2015: RMB8,461,000), RMB12,383,000 (2015: RMB12,383,000), RMB9,184,000 (2015: RMB9,184,000), RMB26,239,000 (2015: RMB26,239,000) and RMB14,189,000 (2015: nil) will expire in 2017, 2018, 2019, 2020 and 2021 respectively.

As at 31 December 2016, the unrealised profits on inventories sold by the inter-companies within the Group amounted to RMB84,032,000 (2015: RMB102,448,000), and were eliminated in the Group's consolidated financial statements. Deferred income tax assets were recognised for the unrealised profits.

As at 31 December 2016, deferred income tax liabilities of RMB60,408,000 (2015: RMB70,512,000) have not been recognised for the PRC withholding tax. The corresponding unremitted earnings amounted to RMB851,406,000 as at 31 December 2016 (2015: RMB987,747,000) which are intended to be reinvested.

22 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.

23 Other income

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Government grants	**10,221**	8,802
Income from investment properties (Note 7)	**1,669**	1,730
Amortisation of deferred income (Note 20)	**586**	139
Others	**544**	118
	13,020	10,789

24 Other losses – net

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Losses on disposal of property, plant and equipment, net (Note 32)	**(3,060)**	(333)
Net foreign exchange gains/(losses)	**53**	(710)
	(3,007)	(1,043)

25 Expenses by nature

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Cost of inventories (Note 12)	**509,482**	520,756
Employee benefit expenses – including directors' emoluments (Note 26)	**296,071**	290,918
Amortisation of land use rights (Note 6)	**11,148**	10,143
Depreciation of investment properties (Note 7)	**287**	287
Depreciation of property, plant and equipment (Note 8)	**68,173**	67,750
Amortisation of intangible assets (Note 9)	**856**	1,256
Concession fees	**51,923**	54,161
Transportation expenses	**31,673**	32,210
Operating lease expenses	**135,685**	137,565
Free trial expenses	**32,624**	32,967
Auditor's remuneration		
– Audit services	**3,650**	3,650
– Non-audit services	**1,543**	1,906
Other expenses	**109,985**	111,333
Total cost of sales, distribution costs and administrative expenses	**1,253,100**	1,264,902

26 Employee benefit expenses

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Wages and salaries	**255,617**	250,677
Social security costs	**34,706**	34,224
Other benefits	**5,748**	6,017
	296,071	290,918

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2016 include four (2015: four) directors whose emoluments are reflected in the analysis shown in Note 36. The emoluments payable to the remaining one (2015: one) individual for the year ended 31 December 2016 and 2015 are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Salaries and social security costs	**510**	523

The emoluments fell within the following bands:

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Emolument bands (in RMB)		
Within HKD1,000,000 (RMB895,000)	**5**	5

27 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 (Note 32)	**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 (Note 32)	**(9,032)**	(51,045)
Net finance income/(costs)	**6,632**	(34,986)

28 Income tax expense

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Current income tax		
– PRC corporate income tax	**63,981**	74,910
Deferred income tax (Note 21)	**16,302**	6,376
Income tax expense	**80,283**	81,286

28 Income tax expense *(continued)*

(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.

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	
	2016	2015
	RMB'000	RMB'000
Profit before income tax	**245,703**	227,640
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	**62,404**	68,823
Tax effects of:		
Expenses not deductible for tax purposes	**824**	1,021
Joint ventures' and associate's results reported net of tax	**330**	66
Tax losses for which no deferred income tax asset was recognised (Note 21)	**3,692**	6,560
Withholding tax on the expected distributable profits of the subsidiaries in Mainland China (Note 21)	**13,033**	4,816
Tax charges	**80,283**	81,286

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	
	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.

30 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 HKD88,973,000 (equivalent to RMB73,632,000) (2015: HKD67,496,000 (equivalent to RMB61,636,000)), representing HKD7 cents (equivalent to RMB6 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 these 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).

31 Subsidiaries

Particulars of the subsidiaries of the Group as at 31 December 2016 and 2015 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 2016	2015	Principal activities
Directly owned							
Subsidiaries – incorporated in the British Virgin Islands (the "BVI")							
Ten Rui (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
Indirectly owned							
Subsidiaries – established in the Mainland China							
Zhangzhou Tenfu 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	USD30,000,000	USD21,500,000	**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

31 Subsidiaries *(continued)*

Particulars of the subsidiaries of the Group as at 31 December 2016 and 2015 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 2016	2015	Principal activities
Indirectly owned *(continued)*							
Subsidiaries – established in the Mainland China *(continued)*							
Zhejiang Tianfu Tea Industry Co., Ltd.	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
Guiding Tian Fu Tea Garden Co., Ltd.	PRC, 4 August 2015	Foreign investment enterprise	RMB80,000,000	RMB34,900,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware and provision of hotel, restaurant and related service
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
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	RMB19,676,473	RMB19,676,473	**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

31 Subsidiaries *(continued)*

Particulars of the subsidiaries of the Group as at 31 December 2016 and 2015 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 2016	2015	Principal activities
Indirectly owned *(continued)*							
Subsidiaries – established in the Mainland China *(continued)*							
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	RMB6,519,360	RMB6,519,360	**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	USD24,500,000	USD24,500,000	**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	RMB9,844,100	RMB9,844,100	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Tianjin Tenfu sales Co., Ltd.	PRC, 25 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 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 August 2010	Foreign investment enterprise	USD2,000,000	USD2,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Wuxi Tenfu Tea Co., Ltd.	PRC, 18 October 2010	Foreign investment enterprise	USD2,000,000	USD2,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Hangzhou Tenfu Tea Co., Ltd.	PRC, 27 October 2010	Foreign investment enterprise	USD500,000	USD500,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Shanghai Tenfu Tea Co., Ltd.	PRC, 22 November 2010	Foreign investment enterprise	USD2,000,000	USD2,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Inner Mongolia Tenfu Tea Co., Ltd.	PRC, 10 January 2011	Foreign investment enterprise	USD500,000	USD500,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Xiamen Apex Trading Co., Ltd.	PRC, 29 May 2006	Foreign investment enterprise	USD4,000,000	USD4,000,000	**100%**	100%	Sale of tea leaves and tea snacks

31 Subsidiaries *(continued)*

Particulars of the subsidiaries of the Group as at 31 December 2016 and 2015 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 2016	2015	Principal activities
Indirectly owned *(continued)*							
Subsidiaries – established in the Mainland China *(continued)*							
Henan Tenfu Tea Co., Ltd.	PRC, 9 May 2012	Foreign investment enterprise	USD2,000,000	USD2,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Heilongjiang Tenfu Tea Co., Ltd.	PRC, 12 December 2012	Foreign investment enterprise	USD2,000,000	USD1,600,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Gansu Tenfu Tea Co., Ltd.	PRC, 29 October 2012	Foreign investment enterprise	USD500,000	USD500,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Chongqing Yubeiqu Tenfu Tea Co., Ltd.	PRC, 7 August 2013	Domestic enterprise	RMB1,000,000	RMB1,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Xuzhou Tenfu Tea Co., Ltd.	PRC, 7 August 2013	Domestic enterprise	RMB2,000,000	RMB2,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Xiamen Tianyu Commerce and Trading Co., Limited	PRC, 15 December 2007	Domestic enterprise	RMB1,840,000	RMB1,840,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware (including on internet)
Xiamen Tianqia Catering Management Co., Ltd.	PRC, 4 March 2011	Domestic enterprise	RMB795,690	RMB795,690	**100%**	100%	Catering management, beverage production and sales of pre-packaged food
Pingtan Tenfu Tea Co., Ltd.	PRC, 1 August 2014	Domestic enterprise	RMB50,000,000	RMB50,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Xiamen Tenfu Trading Co., Ltd.	PRC, 30 May 2007	Domestic enterprise	RMB33,868,000	RMB33,868,000	**100%**	100%	Property management
Xiamen Kanuojia Catering Management Co., Ltd.	PRC, 22 April 2016	Sino-foreign joint venture	RMB2,000,000	RMB500,000	**100%**	N/A	Catering management, beverage production and sales of pre-packaged food
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.	Hong Kong, 17 August 2009	Limited liability company	USD1,000	USD1,000	**100%**	100%	Investment holding
Connoisseur (Hong Kong) Holdings Co., Ltd.	Hong Kong, 15 April 2016	Limited liability company	HKD2,000,000	HKD–	**100%**	N/A	Catering management, beverage production and sales of pre-packaged food

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	
	2016	2015
	RMB'000	RMB'000
Profit before income tax	**245,703**	227,640
Adjustments for:		
– Share of net losses of investments accounted for using the equity method (Note 10)	**2,560**	263
– Depreciation of property, plant and equipment (Note 8)	**68,173**	67,750
– Depreciation of investment properties (Note 7)	**287**	287
– Amortisation of land use rights (Note 6)	**11,148**	10,143
– Amortisation of intangible assets (Note 9)	**856**	1,256
– Amortisation of deferred income (Note 20)	**(586)**	(139)
– Losses on disposal of property, plant and equipment (Note 24)	**3,060**	333
– Finance income (Note 27)	**(15,664)**	(16,059)
– Finance costs (Note 27)	**9,032**	51,045
Changes in working capital:		
– Inventories	**25,322**	(48,624)
– Trade and other receivables and prepayments	**37,661**	(29,877)
– Trade and other payables	**(8,252)**	51,201
– Other liabilities	**(1,710)**	3,498
Cash generated from operations	**377,590**	318,717

(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	
	2016	2015
	RMB'000	RMB'000
Net book amount		
– Property, plant and equipment (Note 8)	**4,678**	2,240
Losses on disposal of property, plant and equipment, net (Note 24)	**(3,060)**	(333)
Proceeds from disposal of property, plant and equipment	**1,618**	1,907

33 Commitments

(a) Equity investment commitments

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Investment in a joint venture and an associate (Note 10)	**14,269**	17,454

(b) Capital expenditure commitments

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

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Property, plant and equipment	**83,626**	103,900

(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.

	As at 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

34 Related-party transactions

The Group is controlled by Mr. Lee Rie-Ho, Mr. Lee Shih-Wei and Mr. Lee Chia Ling ("Controlling Shareholders"). The entities owned by the key management, their affiliates and the Group's joint ventures and associates are regarded as related parties. Tenfu Group (Samoa) Holdings Company Limited ("SAMOA") is wholly owned by Mr. Lee Chia Ling. SAMOA and its subsidiaries are regarded as related parties.

(a) Transactions with related parties

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

		Year ended 31 December	
		2016	2015
		RMB'000	RMB'000
(i)	Purchases of goods and services		
	– Subsidiaries of SAMOA	**105,869**	113,197
	– A company controlled by the Controlling Shareholders	**15,588**	11,015
		121,457	124,212
(ii)	Processing fee expenses		
	– Subsidiaries of SAMOA	**1,653**	3,048
(iii)	Rental expenses		
	– The Controlling Shareholders and their affiliates	**3,779**	3,253
	– A subsidiary of SAMOA	**300**	300
	– A company controlled by an affiliate of the Controlling Shareholders	**235**	231
		4,314	3,784
(iv)	Key management compensation	**5,105**	5,126
(v)	Dividends declared from a joint venture	**1,559**	1,505

34 Related-party transactions *(continued)*

(b) Balances with related parties

The Group has the following balances with its related parties as at 31 December 2016 and 2015:

		As at 31 December	
		2016	2015
		RMB'000	RMB'000
(i)	Prepayments to related parties (Note 11(b))		
	– Subsidiaries of SAMOA	**2,263**	12,743
(ii)	Due to related parties (Note 18)		
	Trade related		
	– Subsidiaries of SAMOA	**20,443**	24,052
	– A company controlled by the Controlling Shareholders	**1,002**	–
		21,445	24,052

The payables to related parties for the years ended 31 December 2016 and 2015 arise mainly from purchase transactions. The payables bear no interest and are repayable on demand.

(c) Borrowings guaranteed by related parties

The Group's bank borrowings of RMB33,435,000 (2015: RMB151,656,000) as at 31 December 2016 are guaranteed by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, either separately or jointly (Note 19).

35 Balance sheet and reserve movement of the Company

Balance sheet of the Company

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**860,388**	860,388
Current assets		
Trade and other receivables	**92,766**	2,766
Cash and cash equivalents	**5,774**	42,253
	98,540	45,019
Total assets	**958,928**	905,407
EQUITY		
Capital and reserves attributable to the owners of the Company		
Share capital: nominal value	**100,816**	100,816
Share premium (Note (a))	**–**	92,211
Retained earnings (Note (a))	**94,972**	21,975
Total equity	**195,788**	215,002
LIABILITIES		
Current liabilities		
Other payables	**719,705**	593,945
Borrowings	**43,435**	96,460
	763,140	690,405
Total liabilities	**763,140**	690,405
Total equity and liabilities	**958,928**	905,407

The balance sheet of the Company was approved by the Board of Directors on 20 March 2017 and was signed on its behalf by:

LEE Chia Ling
Director

LEE Shih-Wei
Director

35 Balance sheet and reserve movement of the Company *(continued)*

Note (a) Reserve movement of the Company

	Share premium RMB'000	Retained earnings RMB'000
At 1 January 2016	**92,211**	**21,975**
Profit for the year	**–**	**84,147**
Dividends	**(92,211)**	**(11,150)**
At 31 December 2016	**–**	**94,972**
At 1 January 2015	277,520	70,545
Loss for the year	–	(48,570)
Dividends	(185,309)	–
At 31 December 2015	92,211	21,975

36 Benefits and interests of directors

(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 2016 is set out as follows:

Name	Fees RMB'000	Salaries and social security costs RMB'000	Share option expense RMB'000	Total RMB'000
Mr. Lee Rie-Ho	**–**	**730**	**–**	**730**
Mr. Lee Kuo-Lin	**–**	**634**	**–**	**634**
Mr. Lee Chia Ling (i)	**–**	**597**	**–**	**597**
Mr. Lee Shih-Wei	**–**	**580**	**–**	**580**
Mr. Tseng Ming-Sung	**–**	**209**	**–**	**209**
Mr. Wei Ke	**–**	**–**	**–**	**–**
Mr. Lo Wah Wai	**267**	**–**	**–**	**267**
Mr. Lee Kwan Hung	**267**	**–**	**–**	**267**
Mr. Fan Ren-Da, Anthony	**267**	**–**	**–**	**267**
	801	**2,750**	**–**	**3,551**

36 Benefits and interests of directors *(continued)*

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

The remuneration of each director and the chief executive of the Company for the year ended 31 December 2015 is set out as follows:

Name	Fees RMB'000	Salaries and social security costs RMB'000	Share option expense RMB'000	Total RMB'000
Mr. Lee Rie-Ho	–	749	–	749
Mr. Lee Kuo-Lin	–	651	–	651
Mr. Lee Chia Ling (i)	–	592	–	592
Mr. Lee Shih-Wei	–	598	–	598
Mr. Tseng Ming-Sung	–	197	–	197
Mr. Wei Ke	–	–	–	–
Mr. Lo Wah Wai	253	–	–	253
Mr. Lee Kwan Hung	253	–	–	253
Mr. Fan Ren-Da, Anthony	253	–	–	253
	759	2,787	–	3,546

(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 2016 and 2015, 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.