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

Interim Report 2018

Contents

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

CHANG Le (resigned on 27 August 2018)

LI Jie (appointed on 27 August 2018)

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

Nomination Committee

LEE Kwan Hung *(Chairman)*

LEE Kuo-Lin

FAN Ren Da, Anthony

LO Wah Wai

Remuneration Committee

FAN Ren Da, Anthony *(Chairman)*

LEE Rie-Ho

LO Wah Wai

LEE Kwan Hung

LEE Chia Ling

Corporate Information

REGISTERED OFFICE

P.O. Box 2681

Cricket Square, Hutchins Drive

Grand Cayman KY1-1111

Cayman Islands

HEADQUARTERS IN THE PEOPLE'S REPUBLIC OF CHINA (THE "PRC")

2901 Building C

Xinjing Commerce Center

No. 25 Jiahe Road

Xiamen

the PRC

Tel: +86-592-3389334

Fax: +86-592-3389086

Email: tenfu@tenfu.com

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room E, 22/F

CNT Tower

338 Hennessy Road

Wanchai

Hong Kong

AUTHORIZED REPRESENTATIVES

LEE Chia Ling

MOK Ming Wai (resigned on 27 August 2018)

LAM Yuk Ling (appointed on 27 August 2018)

COMPANY SECRETARY

MOK Ming Wai (FCS, FCIS)
(resigned on 27 August 2018)

LAM Yuk Ling (appointed on 27 August 2018)

PRINCIPAL SHARE REGISTRAR

SMP Partners (Cayman) Limited

Royal Bank House-3rd Floor

24 Shedden Road, P.O. Box 1586

Grand Cayman KY1-1110

Cayman Islands

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited

Shops 1712-1716

17th Floor, Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

Corporate Information

PLACE OF LISTING

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

NAME OF STOCK

Tenfu (Cayman) Holdings Company Limited (the "**Company**")

STOCK CODE

6868

(listed on the Stock Exchange since 26 September 2011) (the "**Listing Date**")

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

BUSINESS REVIEW AND OUTLOOK

In the first half of 2018, the Group achieved revenue of RMB818.9 million, up 5.0% from the corresponding period in 2017, and recorded profit for the period of RMB130.0 million, up 12.8% from the corresponding period in 2017. The increase in the Group's revenue for the period was attributable mainly to the increase in wholesale revenue to retail outlets and retail points.

In the first half of 2018, the macro economy recovered in the PRC and the consumer market got upward trend. Under this environment, the Group is still maintaining its market position, pursuing further development and adjusting its marketing strategies to protect and expand its market share, and achieved good performance in results.

1. **Leading brand position.** Being ranked first among 2016 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, as well as its diversified product range, the Group believes that it is in a good position to continue to occupy a large market share of branded traditional Chinese tea leaves and wait for the market re-bounce.

2. **Adjusting and optimising sales network.** The Group has continued adjusting retail outlets and retail points with a view to optimising the reach of its sales network for its tea products in the PRC. As at 30 June 2018, the Group had a total of 1,116 self-owned and third-party owned retail outlets and retail points, down a net of 13 retail stores and retail points from a total of 1,129 as at 31 December 2017.

3. **Adjustment in each tea product category and development of diversified product lines.** In the first half of 2018, the Group adjusted its tea product categories, focusing on the sale of middle-and lower-ended but functional products instead of higher-ended products to meet Chinese consumers' need.

4. **Strengthened costs control.** The Group has strengthened its costs control on all items in accordance with prevailing economic environment and market conditions, and as a result, aggregation of distribution costs and administrative expenses decreased as compared to the corresponding period in 2017 while revenue and profit increased as compared with the corresponding period in 2017.

In addition, the successful initial public offering on the main board of the Stock Exchange on 26 September 2011 (the "**Listing**") provided the Company with a fully-integrated financial platform to support its future development. The Company raised net proceeds of RMB933.3 million from the Listing. 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 at 30 June 2018:

	Planned use of net proceeds at Listing	Net proceeds used as at 30 June 2018
Expand and optimize network of self-owned retail outlets and retail points	40.0%	26.1%
Acquire store premises for self-owned retail outlets	25.0%	25.0%
Working capital and other general corporate purposes	10.0%	10.0%
Maintain and promote brands	15.0%	9.4%
Expand production capacity	10.0%	10.0%
Total	100.0%	80.5%

In the second half of 2018, with the recovery of the macro economy in the PRC, the Group plans to keep its market share, continue with its expansion, optimise its network of self-owned retail outlets and retail points. In particular, the Group plans to:

1. **Continue to adjust and optimise its retail sales network.** The Group will further adjust retail outlets and retail points, including both self-owned and third-party owned retail outlets and retail points, according to the economic development of the PRC. As part of this goal, the Group plans to establish new retail outlets on high-traffic streets in the central business districts of selected cities, as well as retail points in popular shopping malls. In addition, the Group plans to continue to strengthen its business relationships with major department stores and hypermarkets by entering into further cooperation agreements to expand the circulation of its tea products. To capture more customers who prefer to buy their tea products on-line, the Group continues to promote internet sales through its subsidiary, namely, Xiamen Tianyu Commerce and Trading Co., Limited (廈門天鈺商貿有限公司). 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.

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. The Group will devote further efforts to promote its products and brands during major traditional Chinese festivals, and continue opening tea cultural flagship stores in order to maintain and promote the well-known "Tenfu" (天福) brand. The Group also plans to continue the promotion of an enhanced rewards program for its customers in order to encourage repeating business and increase customer loyalty.

3. **Continue to develop new concepts for tea-related products.** The Group believes that a broad portfolio of products will help it maintain its leading brand awareness and keep pace with constantly changing consumer preferences and trends. To this end, the Group plans to develop and introduce new concepts for tea-related products and expand its product portfolio. Xiamen Tianqia Catering Management Co., Limited (廈門天洽餐飲管理有限公司), a subsidiary of the Group, offers the tea drink (including milk tea) with the trademark of "放牛斑". Xiamen Daily Plus Food Beverage Management Co., Ltd. (廈門天天佳盈餐飲管理有限公司), a joint venture company with Ten Ren Tea (Hong Kong) Limited (天仁茶業股份有限公司), further developed the tea drink business with the trademark of "喫茶趣 TO GO". The Group will further monitor the opportunity and expand its market share in other tea products once available.

4. **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. The Group has production facilities strategically located in different parts of China, which would achieve optimisation in procurement costs.

5. **Quality control.** The Group considers product quality control to be essential to its operations, and places particular emphasis on inspecting and controlling the quality of raw materials in its supply chain. The Group will continue its commitment to quality assurance going forward by further enhancing its internal testing capabilities. 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.

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

FINANCIAL REVIEW

Revenue

During the six months ended 30 June 2018, the Group was 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 also operates the sales of tea drink (including milk tea) with the trademark of "放牛斑" and "喫茶趣 TO GO".

During the six months ended 30 June 2018, the Group derived substantially all of its revenue from the sales of tea leaves, tea ware and tea snacks. The revenue of the Group increased by 5.0% from RMB779.8 million for the six months ended 30 June 2017 to RMB818.9 million for the six months ended 30 June 2018. The following table sets forth a breakdown of revenue by product category for the periods indicated:

	Six months ended 30 June			
	2018		2017	
	RMB'000	**%**	RMB'000	%
Revenue contributed from:				
Sales of tea leaves	572,104	69.9	539,966	69.2
Sales of tea snacks	107,624	13.1	110,697	14.2
Sales of tea ware	97,323	11.9	89,111	11.4
Others(1)	41,890	5.1	40,010	5.2
Total	818,941	100.0	779,784	100.0

Note:

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

Management Discussion and Analysis

Revenue from sales of the Group's tea leaves increased by 6.0% from RMB540.0 million for the six months ended 30 June 2017 to RMB572.1 million for the six months ended 30 June 2018. Revenue from sales of the Group's tea snacks decreased by 2.8% from RMB110.7 million for the six months ended 30 June 2017 to RMB107.6 million for the six months ended 30 June 2018. Revenue from sales of the Group's tea ware increased by 9.2% from RMB89.1 million for the six months ended 30 June 2017 to RMB97.3 million for the six months ended 30 June 2018. The increase in revenue in tea leaves and tea ware was mainly due to a change in product structure and a success in sales promotion.

As of 30 June 2018, the Group had approximately 300 self-owned retail outlets and 200 wholesalers throughout Mainland China accounted for approximately 54% and 41% of the total revenue respectively, compared with approximately 323 self-owned retail outlets and 200 wholesalers as of 31 December 2017.

Cost of sales

Cost of sales of the Group primarily comprises costs of inventory (mainly including costs of raw materials) and labour costs. Cost of sales of the Group increased by 4.7% from RMB303.9 million for the six months ended 30 June 2017 to RMB318.1 million for the six months ended 30 June 2018, primarily due to increase in sales.

Gross profit and gross profit margin

As a result of the foregoing factors, gross profit of the Group increased by 5.2% from RMB475.9 million for the six months ended 30 June 2017 to RMB500.9 million for the six months ended 30 June 2018, with gross profit margin increasing from 61.0% for the six months ended 30 June 2017 to 61.2% for the six months ended 30 June 2018.

Distribution costs

The distribution costs of the Group decreased by 2.7% from RMB222.6 million for the six months ended 30 June 2017 to RMB216.6 million for the six months ended 30 June 2018. The decrease of distribution costs was primarily due to optimisation of self-owned retail outlets.

Administrative expenses

Administrative expenses for the Group increased by 5.6% from RMB106.2 million for the six months ended 30 June 2017 to RMB112.2 million for the six months ended 30 June 2018. The increase was primarily due to an increase of labour costs.

Other income

Other income of the Group increased by 57.3% from RMB6.4 million for the six months ended 30 June 2017 to RMB10.1 million for the six months ended 30 June 2018. The increase was primarily due to an increase in PRC government grants which were recognised as income immediately.

Other losses – net

Other losses of the Group was RMB0.4 million for the six months ended 30 June 2018, as compared to other losses of RMB0.2 million for the six months ended 30 June 2017, primarily due to an increase in losses from the disposal of property, plant and equipment.

Finance income

Finance income of the Group decreased from RMB6.1 million for the six months ended 30 June 2017 to RMB5.1 million for the six months ended 30 June 2018, primarily due to a decrease in interest income.

Finance costs

Finance costs of the Group decreased by 30.7% from RMB5.8 million for the six months ended 30 June 2017 to RMB4.0 million for the six months ended 30 June 2018, primarily due to a decrease in interest expense on bank borrowings, reflecting a decrease in the Group's weighted average 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 profit amounting to RMB0.8 million and a net gain amounting to RMB0.6 million for the six months ended 30 June 2018 and 2017, respectively.

Income tax expense

Income tax expense of the Group increased by 37.9% from RMB39.0 million for the six months ended 30 June 2017 to RMB53.7 million for the six months ended 30 June 2018, primarily due to an increase in the Group's profit before tax from RMB154.2 million for the six months ended 30 June 2017 to RMB183.8 million for the six months ended 30 June 2018.

Profit for the period

As a result of the foregoing factors, profit of the Group, all of which was attributable to the owners of the Company, increased by RMB14.8 million, or 12.8%, from RMB115.3 million for the six months ended 30 June 2017 to RMB130.0 million for the six months ended 30 June 2018. Net profit margin of the Group increased from 14.8% for the six months ended 30 June 2017 to 15.9% for the six months ended 30 June 2018, primarily due to increase in revenue.

Liquidity and capital resources

Cash position

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

The Group's cash and cash equivalents increased by RMB175.6 million, or 35.4%, from RMB496.7 million as at 31 December 2017 to RMB672.3 million as at 30 June 2018, primarily due to cash generated from operations.

The Group had net cash inflow from operating activities of RMB148.1 million, net cash inflow from investing activities of RMB54.8 million and net cash outflow from financing activities of RMB26.9 million for the six months ended 30 June 2018.

Bank borrowings and gearing ratio

The Group had total bank borrowings of RMB293.0 million as at 30 June 2018 compared to RMB180.0 million as at 31 December 2017. As at 30 June 2018, the weighted average effective interest rate of the Group's bank borrowings was 4.4%, and 85.6% of the Group's bank borrowings were denominated in RMB, while 14.4% were denominated in HKD.

During the year ended 31 December 2016, Fujian Tian Fu Sales Co., Ltd., a subsidiary of the Company 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 30 June 2018, Fujian Tenfu repaid RMB368,000 and the remaining balance is RMB7,868,000. As at 30 June 2018, short-term bank borrowings of RMB165,155,000 (31 December 2017: RMB41,796,000) of the Group are guaranteed by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, all of them are Directors, either separately or jointly (31 December 2017: Mr. Lee Rie-Ho). As at 30 June 2018, the Group has no secured short-term bank borrowings. As at 31 December 2017, short-term bank borrowings of RMB30,000,000 of the Group are secured by the pledge of 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 RMB165,155,000 as at 30 June 2018 by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, being a form of financial assistance (as defined in the Listing Rules) 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 Rules.

The Group regularly monitors its gearing ratio, which represents total debt as a percentage of total capital. Total debt is calculated as total borrowings. Total capital is calculated as total equity plus total debt. As at 30 June 2018, the gearing ratio of the Group was 12.3%, compared to 7.9% as at 31 December 2017. The increase during the first half of 2018 was primarily due to increase in total borrowings.

Working capital

	As at 30 June 2018 RMB'000	As at 31 December 2017 RMB'000
Trade receivables	178,678	258,597
Trade and other payables	189,239	287,418
Inventories	587,800	544,194
Trade receivables turnover days[(1)]	86	116
Trade payables turnover days[(2)]	61	59
Inventories turnover days[(3)]	320	287

Notes:

(1) *Trade receivables turnover days = the average of the beginning and ending trade receivables balances for the period, 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 channels mainly representing wholesales to other end customers for the period, multiplied by the number of days in the period.*

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

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

The Group's trade receivables represent primarily balances due from third-party retailers. The Group's trade receivables decreased by RMB79.9 million from RMB258.6 million as at 31 December 2017 to RMB178.7 million as at 30 June 2018, primarily due to a decrease of trade receivables from the 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 from RMB287.4 million as at 31 December 2017 to RMB189.2 million as at 30 June 2018, primarily due to (i) advances from customers have been presented as contract liabilities as at 30 June 2018, (ii) decreases in trade payables due to third parties and other taxes payable.

The Group's inventories comprise raw materials (including packaging materials), work-in-progress and finished goods. The Group's inventories increased from RMB544.2 million as at 31 December 2017 to RMB587.8 million as at 30 June 2018, because of an increase in purchase volume.

As at 30 June 2018, the Group has sufficient working capital and financial resources to support for 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 at 30 June 2018, most of the operating entities' revenues, 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.

Any future depreciation of 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 at 30 June 2018.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2018, the Group had a total of 4,308 employees with 4,304 employees based in the PRC and 4 employees based in Hong Kong. For the six months ended 30 June 2018, the labour cost of the Group was RMB149.0 million.

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

The Group also provides continuous learning and training programs to its employees to enhance their skills and knowledge, so as to maintain their competitiveness and improve customer service. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or any material labour dispute during the six months ended 30 June 2018.

The Company adopted a share option scheme on 17 December 2010. During the six months ended 30 June 2018, the Company did not grant any options to subscribe for shares of the Company, none of the share option was lapsed, exercised or cancelled and the Company has no outstanding share option as at 30 June 2018.

SHARE OPTION SCHEME

On 17 December 2010, the Company adopted a share option scheme ("**Share Option Scheme**") whereby the board of directors of the Company (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 of the Company in general meeting, the number of Shares that may be granted to a Participant under the options shall not exceed 1% within any 12-month period other than those granted to the substantial shareholders (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (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.

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 unfulfilment of vesting conditions, i.e., unrealisation of performance targets set out for the three years ended on 31 December 2015 and the resignation of the employees, respectively, and none of the share options were exercised by the grantees, or cancelled by the Company during the year ended 31 December 2016. During the year ended 31 December 2017, the Company did not grant any options to subscribe for Shares and none of the share option was lapsed, exercised or cancelled.

During the six months ended 30 June 2018, the Company did not grant any options to subscribe for Shares and none of the share option was lapsed, exercised or cancelled. The Company has no outstanding share options as at 30 June 2018.

INTERIM DIVIDEND

At the Board meeting held on 27 August 2018, it was resolved that an interim dividend of HK$0.06 (equivalent to RMB0.052) per share (2017 interim dividend: HKD0.05 (equivalent to RMB0.043) per share) be paid on or around 28 September 2018 to the shareholders of the Company whose names appear on the Company's register of members on 17 September 2018. The total amount of the dividend to be paid is approximately 50% of the consolidated after tax net profit of the Group for the six months ended 30 June 2018, which is similar to the basis of dividend paid for the same period last year.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to the interim dividend, the register of members of the Company will be closed from 13 September 2018 to 17 September 2018, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the interim 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 12 September 2018.

INTERESTS OR SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

As at 30 June 2018, 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 (the "**Model Code**") as set out in Appendix 10 of the Listing Rules, are as follows:

(i) Interest in the Company

Name of Director	Nature of interest	Number of securities[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	48,400,000 (L)	3.94%
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 30 June 2018, 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 Divisions 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	425,920,000 (L)	34.71%

Name	Capacity in which interests are held	Number of Shares[5]	Approximate percentage of shareholding
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	114,379,023 (L)	9.32%

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.

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 six months ended 30 June 2018, the Board is of the view that the Company has complied with Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 of the Listing Rules and there has been no deviation from the code provisions as set forth under the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as the standards for the Directors' dealing in the securities of the Company. Specific enquiry has been made of all Directors and all Directors have confirmed their compliance with the Model Code throughout the six months ended 30 June 2018.

DISCLOSURE OF INFORMATION OF DIRECTORS UNDER RULES 13.51(2) AND 13.51B(1) OF THE LISTING RULES

Save as disclosed in the 2017 annual report of the Company, Mr. Lee Kwan Hung resigned as an independent non-executive director of Asia Cassava Resources Holdings Limited (stock code: 0841) on 14 May 2018.

Save as mentioned above, there is no change of information of each Director that is required to be disclosed under Rules 13.51(2) and 13.51B(1) of the Listing Rules since the publication of the 2017 annual report of the Company.

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 during the six months ended 30 June 2018.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information available to the Company and within the knowledge of the Directors, the Company maintained adequate public float during the six months ended 30 June 2018.

Other Information

AUDIT COMMITTEE

The Company has an audit committee (the "**Audit Committee**") which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and risk management and internal control systems. The Audit Committee comprises four members, including three independent non-executive Directors and one non-executive Director, namely Mr. Lo Wah Wai, Mr, Fan Ren Da, Anthony, Mr. Lee Kwan Hung and Mr. Tseng Ming-Sung. The Audit Committee and the Company's management have reviewed the accounting principles and practices adopted by the Group, and discussed risk management, internal control and financial reporting matters. The unaudited interim results and the interim report of the Group for the six months ended 30 June 2018 have been reviewed by the Audit Committee. The condensed consolidated interim financial statements of the Group for the six months ended 30 June 2018 have also been reviewed by PricewaterhouseCoopers, the external auditor of the Company, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF INTERIM REPORT

This interim report is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.tenfu.com). This report will be despatched to the shareholders of the Company and made available for review on the aforesaid websites.

For and on behalf of the Board

Tenfu (Cayman) Holdings Company Limited

Lee Rie-Ho

Chairman

Hong Kong, 27 August 2018

Condensed Consolidated Balance Sheet

As at 30 June 2018

	Note	As at 30 June 2018 Unaudited RMB'000	As at 31 December 2017 Audited RMB'000
ASSETS			
Non-current assets			
Land use rights	8	278,325	269,703
Investment properties	8	9,707	10,011
Property, plant and equipment	8	702,413	717,325
Intangible assets	8	3,688	4,151
Investments accounted for using the equity method		5,587	5,984
Deferred income tax assets		39,988	38,050
Prepayments – non-current portion	9	17,554	34,623
		1,057,262	1,079,847
Current assets			
Inventories	10	587,800	544,194
Trade receivables	9	178,678	258,597
Other receivables		7,355	20,568
Prepayments	9	68,436	72,720
Time deposits	11	172,773	223,981
Cash and cash equivalents	11	672,286	496,684
		1,687,328	1,616,744
Total assets		2,744,590	2,696,591

Condensed Consolidated Balance Sheet

As at 30 June 2018

	Note	As at 30 June 2018 Unaudited RMB'000	As at 31 December 2017 Audited RMB'000
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	12	100,816	100,816
Other reserves	13	516,288	516,288
Retained earnings		1,475,274	1,484,818
Total equity		2,092,378	2,101,922
LIABILITIES			
Non-current liabilities			
Borrowings	15	7,101	7,489
Deferred income of government grants		31,623	31,216
Deferred income tax liabilities		28,562	20,504
		67,286	59,209
Current liabilities			
Trade payables	14	98,696	115,704
Other payables		90,543	171,714
Current income tax liabilities		45,101	56,560
Borrowings	15	285,922	172,543
Contract liabilities	16	64,664	–
Other liabilities		–	18,939
		584,926	535,460
Total liabilities		652,212	594,669
Total equity and liabilities		2,744,590	2,696,591

The notes on pages 32 to 68 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2018

	Note	Six months ended 30 June 2018 Unaudited RMB'000	2017 Unaudited RMB'000
Revenue	7	818,941	779,784
Cost of sales		(318,091)	(303,898)
Gross profit		500,850	475,886
Distribution costs		(216,561)	(222,584)
Administrative expenses		(112,171)	(106,239)
Other income	17	10,099	6,422
Other losses – net	18	(374)	(150)
Operating profit		181,843	153,335
Finance income		5,099	6,129
Finance costs		(4,011)	(5,790)
Finance income – net		1,088	339
Share of profits less losses of investments accounted for using the equity method		828	556
Profit before income tax		183,759	154,230
Income tax expense	20	(53,725)	(38,952)
Profit for the period, all attributable to the owners of the Company		130,034	115,278
Other comprehensive income for the period		–	–
Total comprehensive income for the period, all attributable to the owners of the Company		130,034	115,278
Earnings per share for profit attributable to the owners of the Company			
– Basic earnings per share	21	RMB0.11	RMB0.09
– Diluted earnings per share	21	RMB0.11	RMB0.09

The notes on pages 32 to 68 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

		Unaudited			
		Attributable to the owners of the Company			
	Note	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total equity RMB'000
Balance at 1 January 2018		100,816	516,288	1,484,818	2,101,922
Profit and total comprehensive income for the six months ended 30 June 2018		–	–	130,034	130,034
Final dividend for 2017	22	–	–	(139,578)	(139,578)
Balance at 30 June 2018		100,816	516,288	1,475,274	2,092,378
Balance at 1 January 2017		100,816	499,759	1,386,314	1,986,889
Profit and total comprehensive income for the six months ended 30 June 2017		–	–	115,278	115,278
Final dividend for 2016	22	–	–	(75,708)	(75,708)
Balance at 30 June 2017		100,816	499,759	1,425,884	2,026,459

The notes on pages 32 to 68 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2018

	Note	Six months ended 30 June 2018 Unaudited RMB'000	2017 Unaudited RMB'000
Cash flows from operating activities			
Cash generated from operations		211,317	206,314
Interest paid		(4,117)	(5,925)
Income tax paid		(59,064)	(43,712)
Net cash inflow from operating activities		148,136	156,677
Cash flows from investing activities			
Investment in joint ventures		(660)	(250)
Purchase of land use rights	8	(216)	(6,823)
Purchase of property, plant and equipment	8	(21,220)	(29,703)
Purchase of intangible assets	8	(16)	(5)
Changes in investments in time deposits with maturity more than 3 months	11	51,208	(152,811)
Proceeds from disposal of property, plant and equipment		1,128	1,176
Interest received		20,660	1,907
Dividends received from a joint venture		1,885	1,660
Assets-related government grants received		2,000	4,400
Net cash inflow/(outflow) from investing activities		54,769	(180,449)
Cash flows from financing activities			
Proceeds from borrowings		243,000	383,837
Repayments of borrowings		(130,369)	(216,576)
Dividends paid to the owners of the Company	22	(139,578)	(75,708)
Net cash (outflow)/inflow from financing activities		(26,947)	91,553
Net increase in cash and cash equivalents		175,958	67,781
Effect of foreign exchange rate changes		(356)	1,952
Cash and cash equivalents at beginning of the period		496,684	270,441
Cash and cash equivalents at end of the period	11	672,286	340,174

The notes on pages 32 to 68 are an integral part of these condensed consolidated interim 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").

These condensed consolidated interim financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These condensed consolidated interim financial statements set out on pages 27 to 68 have been approved for issue by the Company's board of directors (the "Board") on 27 August 2018.

These condensed consolidated interim financial statements have not been audited.

2 BASIS OF PREPARATION

These condensed consolidated interim financial statements for the six months ended 30 June 2018 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 'Interim Financial Reporting' issued by the Hong Kong Institute of Certified Public Accountants. The condensed consolidated interim financial statements do not include all the notes of the type normally included in an annual financial statements, and should be read in conjunction with the annual financial statements of the Company for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants.

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies accordingly. The impact of adopting following standards are disclosed below:

(i) HKFRS 9 Financial Instruments, and

(ii) HKFRS 15 Revenue from contracts with customers

The impact of the adoption of these standards and the new accounting policies is disclosed in Note 4 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

3 ACCOUNTING POLICIES *(continued)*

(b) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2018 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after	
HKFRS 16	Leases	1 January 2019	(i)
HK (IFRIC) 23	Uncertainty over Income Tax Treatments	1 January 2019	
HKFRS 17	Insurance contracts	1 January 2021	
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined	

(i) HKFRS 16, Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

3 ACCOUNTING POLICIES *(continued)*

(b) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning on 1 January 2018 and have not been early adopted by the Group: *(continued)*

i) *HKFRS 16, Leases (continued)*

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB167,206,553. Part of these are related to payments for short-term and low-value leases which will be recognised on a straight-line basis as an expense in profit or loss.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

4 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) Impact on the financial statements

HKFRS 9 was generally adopted without restating comparative information with the exception of certain aspects of hedge accounting. The Group used modified retrospective approach while adopting HKFRS 9. The reclassification and adjustments are therefore not reflected in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail by standard below.

Balance sheet (extract)	31 December 2017 As originally presented	HKFRS 9	HKFRS 15	1 January 2018 Restated
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and other payables	287,418	–	(55,180)	232,238
Contract liabilities	–	–	74,119	74,119
Other liabilities	18,939	–	(18,939)	–

4 CHANGES IN ACCOUNTING POLICIES *(continued)*

(b) HKFRS 9 Financial Instruments – Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities which are subject to HKFRS 9.

The Group has trade receivables for sales of products that are subject to HKFRS 9's new expected credit loss model, and the Group was required to revise its impairment methodology under HKFRS 9 for these receivables.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables from initial recognition. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The adoption of new approach did not result in any impact on the amounts reported in the opening balance sheet on 1 January 2018 and the financial information during the six months ended 30 June 2018.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period greater than 140 days past due (credit terms).

While cash and cash equivalents and financial assets at amortised cost are also subject to the impairment requirements of HKFRS 9, no impairment loss was identified.

4 CHANGES IN ACCOUNTING POLICIES *(continued)*

(c) HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

(i) Investments and other financial assets

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

4 CHANGES IN ACCOUNTING POLICIES *(continued)*

(c) HKFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 *(continued)*

(i) Investments and other financial assets (continued)

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Impairment

From 1 January 2018, the Group assesses the expected credit losses associated with its financial assets on a forward looking basis. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

4 CHANGES IN ACCOUNTING POLICIES *(continued)*

(d) HKFRS 15 Revenue from contracts with customers – Impact of adoption

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies. The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated. Following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

	HKAS 18 Carrying amount 31 December 2017	**Reclassification**	**HKFRS 15 Carrying amount 1 January 2018**
	RMB'000	RMB'000	RMB'000
Trade and other payables	287,418	(55,180)	232,238
Contract liabilities	–	74,119	74,119
Other liabilities	18,939	(18,939)	–

There was no impact on the Group's retained earnings as at 1 January 2018 and 1 January 2017.

(i) *Accounting for refunds*

The Group's obligations to provide a refund for faulty products are under the standard warranty terms. Accumulated experience is used to estimate such returns at the time of sale. Because of the large size and low value of each individual product, the amount of products returned were immaterial. It is highly probable that a significant reversal in the cumulative revenue recognised will not occur. Therefore, no refund liability for goods return was recognised. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. As a result, no accounting impact for refunds while applying HKFRS 15.

4 CHANGES IN ACCOUNTING POLICIES *(continued)*

(d) HKFRS 15 Revenue from contracts with customers – Impact of adoption *(continued)*

(ii) Accounting for customer loyalty programme

In previous reporting periods, the consideration received from the sales of goods was allocated to the points and the goods sold based on the relative stand-alone selling prices, which aligns with the requirement of HKFRS 15. As a consequence, the contract liability recognised in relation to the customer loyalty programme on 1 January 2018 was RMB18,939,000, the same as the amount recognised as deferred revenue under the previous policy.

(iii) Presentation of assets and liabilities related to contracts with customers

Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15:

- Contract liabilities in relation to advance receipts from customers were previously included in trade and other payables (RMB55,180,000 as at 1 January 2018).
- Contract liabilities in relation to the customer loyalty programme were previously presented as deferred revenue, see (ii) above.

(e) HKFRS 15 Revenue from contracts with customers – Accounting policies applied from 1 January 2018

(i) 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 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.

4 CHANGES IN ACCOUNTING POLICIES *(continued)*

(e) HKFRS 15 Revenue from contracts with customers – Accounting policies applied from 1 January 2018 *(continued)*

(i) Sales of goods – wholesale (continued)

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.

(ii) Sales of goods – customer loyalty programme

The group operates a loyalty programme where retail customers accumulate points for purchases made which entitle them to discount on future purchases. Revenue from the award points is recognised when the points are redeemed or when they expire 12 months after the initial sale.

A contract liability is recognised until the points are redeemed or expire.

5 ESTIMATES

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2017.

6 FINANCIAL RISK MANAGEMENT

6.1 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 and cash flow interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

There have been no changes in the risk management department since 2017 year end or in any risk management policies.

6.2 Liquidity risk

Compared to 2017 year end, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

6.3 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.

7 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 restaurants, hotels, tourists, 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.

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 condensed consolidated interim 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.

7 REVENUE AND SEGMENT INFORMATION *(continued)*

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

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

Revenue

Revenue of the Group consists of the following revenues for the six months ended 30 June 2018 and 2017. All revenues are derived from external customers.

	Six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
	RMB'000	RMB'000
Sales of tea leaves	572,104	539,966
Sales of tea snacks	107,624	110,697
Sales of tea ware	97,323	89,111
Others	41,890	40,010
	818,941	779,784

7 REVENUE AND SEGMENT INFORMATION *(continued)*

The segment results for the six months ended 30 June 2018:

	Unaudited				
	Tea leaves	**Tea snacks**	**Tea ware**	**All other segments**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	572,104	107,624	97,323	41,890	818,941
Segment results	153,754	12,170	19,412	(2,806)	182,530
Unallocated administrative expenses					(10,412)
Other income					10,099
Other losses – net					(374)
Finance income – net					1,088
Share of profits less losses of investments accounted for using the equity method					828
Profit before income tax					183,759
Income tax expense					(53,725)
Profit for the period					130,034

7 REVENUE AND SEGMENT INFORMATION *(continued)*

Other segment items included in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2018:

	Unaudited					
	Tea leaves	**Tea snacks**	**Tea ware**	**All other segments**	**Unallocated**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Depreciation of property, plant and equipment	19,311	5,205	1,482	5,098	4,745	35,841
Depreciation of investment properties	–	–	–	–	304	304
Amortisation of land use rights	4,891	1,019	734	600	–	7,244
Amortisation of intangible assets	234	43	40	10	152	479
Losses on disposal of property, plant and equipment, net	194	51	16	65	–	326

The segment assets and liabilities as at 30 June 2018 are as follows:

	Unaudited					
	Tea leaves	**Tea snacks**	**Tea ware**	**All other segments**	**Unallocated**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	1,737,402	278,466	261,042	204,543	263,137	2,744,590
Segment liabilities	204,676	29,543	15,064	17,583	385,346	652,212

7 REVENUE AND SEGMENT INFORMATION *(continued)*

The segment results for the six months ended 30 June 2017:

	Unaudited				
	Tea leaves RMB'000	Tea snacks RMB'000	Tea ware RMB'000	All other segments RMB'000	Total RMB'000
Segment revenue	539,966	110,697	89,111	40,010	779,784
Segment results	129,312	11,653	18,619	(65)	159,519
Unallocated administrative expenses					(12,456)
Other income					6,422
Other losses – net					(150)
Finance income – net					339
Share of profits less losses of investments accounted for using the equity method					556
Profit before income tax					154,230
Income tax expense					(38,952)
Profit for the period					115,278

7 REVENUE AND SEGMENT INFORMATION *(continued)*

Other segment items included in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2017:

	Unaudited					
	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	19,360	5,215	1,445	3,510	4,452	33,982
Depreciation of investment properties	–	–	–	–	143	143
Amortisation of land use rights	4,324	994	736	600	–	6,654
Amortisation of intangible assets	221	41	26	12	152	452
Losses on disposal of property, plant and equipment, net	99	49	11	39	–	198

The segment assets and liabilities as at 31 December 2017 are as follows:

	Audited					
	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	1,712,532	307,980	275,579	181,514	218,986	2,696,591
Segment liabilities	206,218	50,896	21,872	16,467	299,216	594,669

8 LAND USE RIGHTS, PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND INTANGIBLE ASSETS

	Land use rights	Property, plant and equipment	Investment properties	Intangible assets
	RMB'000	RMB'000	RMB'000	RMB'000
Six months ended 30 June 2018 (unaudited)				
Opening net book amount as at 1 January 2018	269,703	717,325	10,011	4,151
Additions	15,866	22,383	–	16
Disposals	–	(1,454)	–	–
Depreciation and amortisation	(7,244)	(35,841)	(304)	(479)
Closing net book amount as at 30 June 2018	278,325	702,413	9,707	3,688
Six months ended 30 June 2017 (unaudited)				
Opening net book amount as at 1 January 2017	268,732	716,452	3,595	3,788
Additions	6,823	39,384	–	5
Disposals	–	(1,374)	–	–
Depreciation and amortisation	(6,654)	(33,982)	(143)	(452)
Closing net book amount as at 30 June 2017	268,901	720,480	3,452	3,341

As at 30 June 2018, no land use rights or property, plant and equipment have been pledged as securities for bank borrowings.

As at 31 December 2017, land use rights with net book value of RMB4,730,000 and property, plant and equipment with net book value of RMB3,149,000 have been pledged as securities for bank borrowings of the Group amounting to RMB30,000,000 (Note 15).

8 LAND USE RIGHTS, PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND INTANGIBLE ASSETS *(continued)*

As at 30 June 2018, the fair value of the investment properties is RMB28,014,000 (31 December 2017: RMB14,750,000), with carrying amount of RMB9,707,000 (31 December 2017: RMB10,011,000). The fair value is determined at each balance sheet date by an external valuer.

Fair value hierarchy

	Fair value measurements at		
Description	**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
30 June 2018	–	–	28,014
31 December 2017	–	–	14,750

As at 30 June 2018, the fair value of Plant A is RMB15,549,000 (31 December 2017: RMB7,620,000), the fair value of Plant B is RMB12,465,000 (31 December 2017: RMB7,130,000).

8 LAND USE RIGHTS, PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND INTANGIBLE ASSETS *(continued)*

The valuation was based on income capitalisation approach (term and reversionary method) which use unobservable inputs (Level 3) at 30 June 2018 and 31 December 2017, respectively. These inputs at 30 June 2018 include:

Unobservable inputs	Value of unobservable inputs		Explanation for unobservable inputs
	Plant A	Plant B	
Market Rent	RMB121,888 Per Month	RMB92,160 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	5.5%	5.5%	The yield is estimated according to the market evidence, valuer's experience and knowledge of market conditions. The higher the yield, the lower the fair value of the properties.

8 LAND USE RIGHTS, PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES AND INTANGIBLE ASSETS *(continued)*

Impairment tests for goodwill

The intangible assets as at 30 June 2018 and 31 December 2017 include goodwill of RMB1,740,000 which arose from the acquisition of Xiamen Tianqia Catering Management Co., Limited 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 2017 and the six months ended 30 June 2018, 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 cash-generating unit ("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 for the six months ended 30 June 2018 and the year 2017 are as follows:

– Gross margin	19%
– 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. Management determined no impairment loss were charged to these condensed consolidated interim financial statements.

Based on management's assessment and up to 30 June 2018, no impairment charge was made on the goodwill.

9 TRADE RECEIVABLES AND PREPAYMENTS

(i) Trade receivables

	As at 30 June 2018 Unaudited RMB'000	As at 31 December 2017 Audited RMB'000
Trade receivables due from third parties	178,678	258,597

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.

The ageing analysis of the trade receivables based on invoice date is as follows:

	As at 30 June 2018 Unaudited RMB'000	As at 31 December 2017 Audited RMB'000
Up to 140 days	178,050	256,555
141 days to 6 months	296	746
6 months to 1 year	311	1,113
1 year to 2 years	21	183
	178,678	258,597

9 TRADE RECEIVABLES AND PREPAYMENTS *(continued)*

(ii) Prepayments

	As at 30 June 2018 Unaudited RMB'000	As at 31 December 2017 Audited RMB'000
Non-current		
Prepayments for property, plant and equipment (Note 15)	17,554	18,973
Prepayments for land use rights	–	15,650
	17,554	34,623
Current		
Prepayments for lease of property and lease deposits	50,266	49,720
Prepayments to related parties (Note 23(b))	168	744
Prepayments for raw materials and packaging materials	4,974	9,626
Prepaid taxes	13,028	12,630
	68,436	72,720
	85,990	*107,343*

10 INVENTORIES

	As at 30 June 2018 Unaudited RMB'000	As at 31 December 2017 Audited RMB'000
Raw materials and packaging materials	210,484	176,356
Work in progress	162,298	140,979
Finished goods	215,018	226,859
	587,800	*544,194*

11 CASH AND CASH EQUIVALENTS, TIME DEPOSITS AND RESTRICTED CASH

	As at 30 June 2018 Unaudited RMB'000	As at 31 December 2017 Audited RMB'000
Cash at bank and on hand (i)	845,059	720,665
Less: Time deposits (ii)	(172,773)	(223,981)
Cash and cash equivalents	672,286	496,684

(i) The weighted average effective interest rate on cash placed with banks and deposits for the six months ended 30 June 2018 was 1.49% per annum (six months ended 30 June 2017: 1.32% per annum).

(ii) As at 30 June 2018, the Group has time deposits of RMB172,773,000 (31 December 2017: RMB223,981,000) which will be matured within one year.

12 SHARE CAPITAL

	Unaudited			
	Number of authorised shares (thousands)	Number of issued shares (thousands)	Ordinary shares (nominal value) RMB'000	Total RMB'000
At 1 January 2017 and to 30 June 2018	8,000,000	1,227,207	100,816	100,816

13 OTHER RESERVES

	Unaudited			
	Merger reserve RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Total RMB'000
At 1 January 2018 and 30 June 2018	278,811	231	237,246	516,288
At 1 January 2017 and 30 June 2017	278,811	231	220,717	499,759

14 TRADE PAYABLES

	As at 30 June 2018 Unaudited RMB'000	As at 31 December 2017 Audited RMB'000
Trade payables – due to third parties	68,201	88,779
Trade payables – due to related parties (Note 23(b))	30,495	26,925
	98,696	115,704

The ageing analysis of trade payables (including amounts due to related parties of trading in nature) based on invoice date is as follows:

	As at 30 June 2018 Unaudited RMB'000	As at 31 December 2017 Audited RMB'000
Up to 6 months	96,211	108,585
6 months to 1 year	1,221	4,551
1 year to 2 years	1,099	2,092
Over 2 years	165	476
	98,696	115,704

15 BORROWINGS

	As at 30 June 2018 Unaudited RMB'000	As at 31 December 2017 Audited RMB'000
Long-term bank borrowing		
– Secured (i)	7,868	8,236
Less: Current portion	(767)	(747)
	7,101	7,489
Short-term bank borrowings		
– Unsecured (ii)	285,155	141,796
– Secured (iii)	–	30,000
Add: Current portion of long-term bank borrowing	767	747
	285,922	172,543
Total borrowings	293,023	180,032

(i) During the year ended 31 December 2016, a subsidiary of the Group 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 30 June 2018, the remaining balance of the loan was RMB7,868,000.

(ii) As at 30 June 2018, short-term bank borrowings of RMB165,155,000 (31 December 2017: RMB41,796,000) of the Group were 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 (31 December 2017: Mr. Lee Rie-Ho) (Note 23(c)).

15 BORROWINGS *(continued)*

(iii) As at 30 June 2018, the Group had no secured short-term bank borrowings. As at 31 December 2017, short-term bank borrowings of RMB30,000,000 of the Group are secured by the pledge of the land use rights and property, plant and equipment (Note 8) of the Group.

Interest expenses on bank borrowings for the six months ended 30 June 2018 amounted to RMB4,011,000 (2017: RMB5,790,000).

The Group has the following undrawn borrowing facilities:

	As at 30 June 2018 Unaudited RMB'000	As at 31 December 2017 Audited RMB'000
Fixed rate:		
– expiring within one year (bank borrowings)	116,426	306,902

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

16 CONTRACT LIABILITIES

	As at 30 June 2018 Unaudited RMB'000	As at 31 December 2017 Audited RMB'000
Advances from customers	46,991	–
Customer loyalty programme	17,673	–
	64,664	–

The Group operates a loyalty programme where customers accumulate reward points for purchases made and the points would 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.

17 OTHER INCOME

	Six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
	RMB'000	RMB'000
Government grants	7,298	4,659
Amortisation of deferred income	1,593	348
Income from investment properties	954	743
Others	254	672
	10,099	6,422

18 OTHER LOSSES – NET

	Six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
	RMB'000	RMB'000
Losses on disposal of property, plant and equipment, net	326	198
Net foreign exchange losses/(gains)	48	(48)
	374	150

19 DEPRECIATION AND AMORTISATION EXPENSES

	Six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
	RMB'000	RMB'000
Amortisation of land use rights	7,244	6,654
Depreciation of investment properties	304	143
Depreciation of property, plant and equipment	35,841	33,982
Amortisation of intangible assets	479	452

20 INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
	RMB'000	RMB'000
Current income tax		
– PRC corporate income tax	47,605	36,688
Deferred income tax	6,120	2,264
Income tax expense	53,725	38,952

(i) Cayman Islands profits tax

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

(ii) Hong Kong profits tax

For the six months ended 30 June 2018 and 2017, 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 period.

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

For the six months ended 30 June 2018 and 2017, CIT is provided at the rate of 25% on the assessable income of entities within the Group incorporated in mainland China.

20 INCOME TAX EXPENSE *(continued)*

(iv) PRC withholding income tax

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

Such withholding tax is recorded under deferred income tax. During the six months ended 30 June 2017, Tenfu (Hong Kong) Holdings Co., Ltd. ("Tenfu HK"), a subsidiary of the Group, acquired qualification for the lower tax rate of 5% for dividend received from its subsidiaries in mainland China. The Group revised its estimate of Tenfu HK for the accrual based on 5% instead of 10% and reversed previous years' charge to 2017's profit or loss.

21 EARNINGS PER SHARE

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 period.

	Six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
Profit attributable to the owners of the Company (RMB'000)	130,034	115,278
Weighted average number of ordinary shares in issue ('000)	1,227,207	1,227,207
Basic earnings per share (RMB)	0.11	0.09

Diluted earnings per share for the six months ended 30 June 2018 and 2017 were the same as the basic earnings per share as there were no dilutive instruments during the periods.

22 DIVIDENDS

	Six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
	RMB'000	RMB'000
Interim dividend declared	63,815	52,770

An interim dividend for 2018 of HKD6 cents (equivalent to RMB5.2 cents) (2017: HKD5 cents (equivalent to RMB4.3 cents)) per share was declared by the Board on 27 August 2018 using RMB63,815,000 of the retained earnings (2017: RMB52,770,000). This interim dividend, amounting to HKD73,632,000 (equivalent to RMB63,815,000) (2017: HKD61,360,000 (equivalent to RMB52,770,000)), has not been recognised as liability in these condensed consolidated interim financial statements. It will be reflected as an appropriation of retained earnings for the year ending 31 December 2018. Similarly, the interim dividend for 2017 declared by the Board on 15 August 2017 was reflected as an appropriation of retained earnings for the year ended 31 December 2017 after 30 June 2017.

The final dividend for 2017 of HKD171,809,000 (equivalent to RMB139,578,000) and the one for 2016 of HKD88,973,000 (equivalent to RMB75,708,000) had been reflected as an appropriation of retained earnings for the six months ended 30 June 2018 and 2017 respectively after obtaining the approval from the shareholders at the Company's annual general meeting held on 10 May 2018 and 17 May 2017 respectively.

The dividends paid in the six months ended 30 June 2018 were RMB139,578,000 (six months ended 30 June 2017: RMB75,708,000).

23 RELATED-PARTY TRANSACTIONS

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

	Six months ended 30 June	
	2018	2017
	Unaudited	Unaudited
	RMB'000	RMB'000
(i) Purchases of goods and services		
– Subsidiaries of SAMOA	57,686	60,751
– A company controlled by the Controlling Shareholders	11,996	7,518
	69,682	68,269
(ii) Processing fee expenses		
– Subsidiaries of SAMOA	517	580
(iii) Rental expenses		
– The Controlling Shareholders and their affiliates	1,754	1,764
– A subsidiary of SAMOA	150	150
– A company controlled by an affiliate of the Controlling Shareholders	480	126
	2,384	2,040
(iv) Key management compensation	2,844	2,708
(v) Dividends received from joint ventures	1,885	1,660

23 RELATED-PARTY TRANSACTIONS *(continued)*

(b) Balances with related parties

The Group has the following balances with its related parties as at 30 June 2018 and 31 December 2017:

	As at 30 June 2018 Unaudited RMB'000	As at 31 December 2017 Audited RMB'000
(i) Prepayments to related parties (Note 9(ii))		
– Subsidiaries of SAMOA	156	–
– A company controlled by an affiliate of the Controlling Shareholders	12	744
	168	744
(ii) Due to related parties (Note 14)		
Trade related		
– Subsidiaries of SAMOA	30,486	26,541
– A company controlled by the Controlling Shareholders	9	384
	30,495	26,925

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

23 RELATED-PARTY TRANSACTIONS *(continued)*

(c) Borrowings guaranteed by related parties

As at 30 June 2018, short-term bank borrowings of RMB165,155,000 (31 December 2017: RMB41,796,000) of the Group are guaranteed by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, all of them are directors of the Company, either separately or jointly (31 December 2017: Mr. Lee Rie-Ho) (Note 15).