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 2018

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 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, 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 2018, our tea products were sold in 1,120 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

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

Remuneration Committee

FAN Ren Da, Anthony *(Chairman)*

LEE Rie-Ho

LO Wah Wai

LEE Kwan Hung

LEE Chia Ling

Nomination Committee

LEE Kwan Hung *(Chairman)*

LEE Kuo-Lin

FAN Ren Da, Anthony

LO Wah Wai

REGISTERED OFFICE

P.O. Box 2681

Cricket Square, Hutchins Drive

Grand Cayman KY1-1111

Cayman Islands

HEADQUARTERS IN THE PRC

2901 Building C

Xinjing Commerce Center

No. 25 Jiahe Road

Xiamen

the PRC

Tel: +86-592-3389334

Fax: +86-592-3389086

Email: tenfu@tenfu.com

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room E, 22/F

CNT Tower

338 Hennessy Road

Wanchai

Hong Kong

AUTHORISED 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 (resigned on 27 August 2018)

LAM Yuk Ling (appointed on 27 August 2018)

Corporate Information

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

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 2018 increased by 3.7% from RMB1,576.6 million for 2017 to RMB1,635.6 million;
- Gross profit for the year ended 31 December 2018 increased by 3.2% from RMB955.3 million for 2017 to RMB985.8 million, with a decrease in gross profit margin from 60.6% for 2017 to 60.3% for the year ended 31 December 2018;
- Profit for the year ended 31 December 2018 increased by 10.3% from RMB243.5 million for 2017 to RMB268.6 million, which corresponded to an increase in net profit margin from 15.4% for 2017 to 16.4% for the year ended 31 December 2018;
- Basic earnings per share for the year ended 31 December 2018 was RMB0.22; and
- The Board proposed a final dividend of HKD0.14 per share (equivalent to RMB0.12 per share).

Comparison of Key Financial Figures

Results

	For the year ended 31 December (RMB'000)				
	2014	2015	2016	2017	**2018**
Revenue	1,688,589	1,518,045	1,484,718	1,576,561	**1,635,562**
Gross profit	1,049,869	931,600	909,281	955,273	**985,750**
Gross profit margin (%)	62.2	61.4	61.2	60.6	**60.3**
Profit before income tax	378,362	227,640	245,703	335,106	**371,272**
Profit for the year, all attributable to the owners of the Company	270,198	146,354	165,420	243,511	**268,618**
Net profit margin (%)	16.0	9.6	11.1	15.4	**16.4**

Assets and liabilities

	As at 31 December (RMB'000)				
	2014	2015	2016	2017	**2018**
Total assets	2,844,607	2,502,749	2,406,261	2,696,591	**2,837,648**
Total equity	1,963,785	1,924,830	1,986,889	2,101,922	**2,037,678**
Total liabilities	880,822	577,919	419,372	594,669	**799,970**
Gearing ratio (%)	23	12	5	7.9	**14.7**
Trade receivables turnover days (days)	106	118	123	116	**96**
Trade payables turnover days (days)	68	60	60	59	**72**
Inventories turnover days (days)	239	274	287	287	**330**

Chairman's Statement

Chairman's Statement

In 2018, China's consumption market started to pick up, as China's economy has reversed its downward trend since 2011 and achieved a recovering trend. Recovering economy together with a picking-up domestic demand had turned up the sentiment of the Group's customers. In line with such a warning 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 RMB1.6 billion in 2018. 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 2018

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 2018, 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 2019, 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, and operating Caffaina Coffee Gallery in Shanghai, 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 2019

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 2018 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 more into food and beverage market, for example, the Group cooperated with Caffaina Coffee Gallery, a Taiwan dessert and coffee restaurant brand, to open a restaurant in Shanghai.
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, 27 March 2019

Business Review and Outlook

In 2018, the Group achieved revenue of RMB1,635.6 million, up 3.7% from 2017, and recorded profit for the year of RMB268.6 million, up 10.3% from 2017. The increase in the Group's revenue for the year was mainly due to adjustment of sales network to maximize the profitability.

In 2018, 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 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, 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 2018, the Group had a total of 1,120 self-owned and third-party owned retail outlets and retail points, compared with a total of 1,129 as of 31 December 2017.

3. **Growth in net profit margin.** In 2018, net profit margin increased to 16.4% from 15.4% for 2017 mainly due to the increase of sales and cost control policy.

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, labelling, 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 2018, the aggregate percentage of purchases attributable to the Group's five largest suppliers accounted for approximately 23.9% 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 4.4% 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 2018, the Group did not incur any material costs in relation to these complaints and there had not been any material product recall.

In 2019, the Group plans to continue to adjust and optimise its network of self-owned retail outlets and retail points, including both self-owned and third-party owned retail outlets and retail points, tap the profitability of existing self-owned retail outlets and retail points and maximize the enthusiasm of the third-party.

In particular, the Group plans to:

1. **Continue to adjust and optimise 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.

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, Pu'er tea 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. In December 2017, the Group cooperated with Caffaina Coffee Gallery, a Taiwan dessert and coffee restaurant brand, to open a restaurant in Shanghai, with a total investment amount of RMB12,000,000 by the Group as the registered capital of the Shanghai Caffaina Coffee Gallery. Through cooperation with Caffaina Coffee Gallery, the Group will expand its sale channel and achieve in-depth market involvement in food and beverage.

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

In 2018, 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 2018, 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 2018, the Group derived substantially all of its revenue from the sales of tea leaves, tea snacks and tea ware. The revenue of the Group increased by 3.7% from RMB1,576.6 million for the year ended 31 December 2017 to RMB1,635.6 million for the year ended 31 December 2018. The following table sets forth a breakdown of revenue by product category for the years indicated:

	Year ended 31 December			
	2018		2017	
	RMB'000	**%**	*RMB'000*	*%*
Revenue contributed from:				
Sales of tea leaves	**1,117,338**	**68.3**	1,082,566	68.7
Sales of tea snacks	**241,997**	**14.8**	227,791	14.4
Sales of tea ware	**194,135**	**11.9**	184,106	11.7
Others[(1)]	**82,092**	**5.0**	82,098	5.2
Total	**1,635,562**	**100.0**	1,576,561	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 increased by 3.2% from RMB1,082.6 million for the year ended 31 December 2017 to RMB1,117.3 million for the year ended 31 December 2018. Revenue from sales of the Group's tea snacks increased by 6.2% from RMB227.8 million for the year ended 31 December 2017 to RMB242.0 million for the year ended 31 December 2018. Revenue from sales of the Group's tea ware increased by 5.4% from RMB184.1 million for the year ended 31 December 2017 to RMB194.1 million for the year ended 31 December 2018. The revenue increases from sales of the Group's tea leaves and tea ware were primarily due to a change in product structure and a success in sales promotion. 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 2018, the Group had approximately 278 self-owned retail outlets and approximately 200 wholesalers throughout Mainland China accounted for approximately 51.4% and 43.6% of total revenue respectively, compared with approximately 323 self-owned retail outlets and approximately 200 wholesalers as of 31 December 2017.

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 increased by 4.6% from RMB621.3 million for the year ended 31 December 2017 to RMB649.8 million for the year ended 31 December 2018, primarily due to the increase in sales and different sales mix.

Gross profit and gross profit margin

As a result of the foregoing factors, gross profit of the Group increased by 3.2% from RMB955.3 million for the year ended 31 December 2017 to RMB985.8 million for the year ended 31 December 2018, with gross profit margin decreased by 0.5% from 60.6% for the year ended 31 December 2017 to 60.3% for the year ended 31 December 2018.

Distribution costs

The distribution costs of the Group decreased by 3.9% from RMB432.4 million for the year ended 31 December 2017 to RMB415.5 million for the year ended 31 December 2018. The decrease was primarily due to optimisation of self-owned retail outlets.

Administrative expenses

Administrative expenses for the Group increased by 9.3% from RMB205.6 million for the year ended 31 December 2017 to RMB224.7 million for the year ended 31 December 2018. The increase was primarily due to an increase of labour costs.

Other income

Other income of the Group increased by 51.6% from RMB15.5 million for the year ended 31 December 2017 to RMB23.5 million for the year ended 31 December 2018. The increase was primarily due to the increase in PRC local government grants which were recognised as income immediately from RMB11.6 million for the year ended 31 December 2017 to RMB17.1 million for the year ended 31 December 2018.

Other gains and losses – net

The Group recorded other gains of RMB0.8 million for the year ended 31 December 2018, primarily due to an increase in foreign exchange gains. The Group recorded other losses of RMB0.1 million for the year ended 31 December 2017, primarily due to net foreign exchange gains of RMB0.1 million which were offset by losses on the disposal of property, plant and equipment of RMB0.2 million.

Finance income

Finance income of the Group decreased by 5.8% from RMB13.9 million for the year ended 31 December 2017 to RMB13.1 million for the year ended 31 December 2018. The decrease was primarily due to the decrease in foreign exchange gains from cash and cash equivalent.

Finance costs

Finance costs of the Group increased by 24.1% from RMB11.2 million for the year ended 31 December 2017 to RMB13.9 million for the year ended 31 December 2018, reflecting an increase in interest expenses 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 each of a net gain and a net loss amounting to RMB2.4 million and RMB0.3 million for the years ended 31 December 2018 and 2017, respectively. The increase was primarily due to the profits gain from newly invested business.

Income tax expense

Income tax expense of the Group increased by 12.1% from RMB91.6 million for the year ended 31 December 2017 to RMB102.7 million for the year ended 31 December 2018, primarily due to an increase in the Group's profit before tax of the subsidiaries of the Group located in mainland China for the year ended 31 December 2018 compared with the year ended 31 December 2017.

Profit for the year

As a result of the foregoing factors and primarily due to optimisation of self-owned retail outlets and cost control, profit of the Group, all of which was attributable to the owners of the Company, increased by RMB25.1 million, or 10.3%, to RMB268.6 million for the year ended 31 December 2018 as compared to RMB243.5 million for the year ended 31 December 2017. Net profit margin of the Group increased from 15.4% for the year ended 31 December 2017 to 16.4% for the year ended 31 December 2018, primarily due to changes in the structure of products sold and cost saving policies.

Liquidity and capital resources

Cash position

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

The Group's cash and cash equivalents increased by RMB170.1 million, or 34.2%, from RMB496.7 million as of 31 December 2017 to RMB666.8 million as of 31 December 2018.

The Group had net cash inflow from operating activities of RMB278.7 million, net cash inflow from investing activities of RMB54.6 million and net cash outflow from financing activities of RMB163.6 million for the year ended 31 December 2018.

Bank borrowings and gearing ratio

The Group had total bank borrowings of RMB349.8 million as of 31 December 2018, compared to RMB180.0 million as of 31 December 2017. As of 31 December 2018, the weighted average effective interest rate of the Group's bank borrowings was 4.2%, and 100% of the Group's bank borrowings were denominated in RMB. Bank borrowings as at 31 December 2018 and those in corresponding period last year were charged at variable interest rate.

The long-term bank borrowing of RMB7,489,000 represented the mortgage loan for the purchase of a store premise under construction. The borrowing 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.

The secured short-term bank borrowings of the Group of RMB30,000,000 as at 31 December 2017 were secured by the pledge of land use rights and property, plant and equipment of the Group.

As at 31 December 2018, short-term bank borrowings of the Group of RMB172,302,000 (2017: RMB41,796,000) were guaranteed by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, all of them are directors of the Company (2017: Mr. Lee Rie-Ho, director of the Company).

The Directors are of the view that the guarantee of bank borrowings of RMB172.3 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 Rules.

The table below summarises 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 2018	**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	**343,088**	**827**	**2,756**	**3,120**	**349,791**
Interest payments on borrowings *(Note)*	**652**	**326**	**692**	**261**	**1,931**
Trade and other payables	**207,458**	**–**	**–**	**–**	**207,458**
	551,198	**1,153**	**3,448**	**3,381**	**559,180**

As at 31 December 2017	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	172,543	785	2,615	4,089	180,032
Interest payments on borrowings *(Note)*	692	367	827	446	2,332
Trade and other payables	166,503	–	–	–	166,503
	339,738	1,152	3,442	4,535	348,867

Note: The interest payments on borrowings are calculated based on borrowings held as at 31 December 2018 and 2017, 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 2018, the gearing ratio of the Group was 14.7%, compared to 7.9% as of 31 December 2017. The increase in the gearing ratio during 2018 was primarily due to increase of bank borrowings.

Capital and other commitments

As of 31 December 2018, the Group had total investment, capital and operating lease commitments of RMB198.3 million, as compared to RMB244.6 million as of 31 December 2017. The Group plans to fund these commitments primarily with available cash.

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

	As of 31 December	
	2018	2017
	RMB'000	*RMB'000*
Investments in joint ventures	**5,577**	16,467

The Group's capital commitments comprise unpaid amounts under executed agreements for purchasing property, plant and equipment and intangible assets, 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	
	2018	2017
	RMB'000	*RMB'000*
Property, plant and equipment	**35,960**	63,901
Intangible assets	**3,647**	3,647
	39,607	67,548

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	
	2018	2017
	RMB'000	*RMB'000*
No later than 1 year	**72,214**	76,693
Later than 1 year and no later than 5 years	**71,914**	77,428
Later than 5 years	**9,004**	6,454
	153,132	160,575

Working capital

	As of 31 December	
	2018	2017
	RMB'000	*RMB'000*
Trade and other receivables	**243,778**	279,165
Trade and other payables	**255,579**	287,418
Inventories	**648,687**	544,194
Trade receivables turnover days(1)	**96**	116
Trade payables turnover days(2)	**72**	59
Inventories turnover days(3)	**330**	287

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 RMB35.4 million from RMB279.2 million as of 31 December 2017 to RMB243.8 million as of 31 December 2018, 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 RMB31.8 million from RMB287.4 million as of 31 December 2017 to RMB255.6 million as of 31 December 2018, primarily due to (i) advances from customers have been presented as contract liabilities as at 31 December 2018, and (ii) decrease in other tax payable.

The Group's inventories comprise raw materials (including packaging materials), work-in-progress and finished products. The Group's inventories increased by RMB104.5 million from RMB544.2 million as of 31 December 2017 to RMB648.7 million as of 31 December 2018, primarily reflecting increased procurement.

As of 31 December 2018, 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 2018, 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 2018.

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 2018.

Employee and Remuneration Policy

As of 31 December 2018, the Group had a total of 4,337 employees, with 4,333 employees based in the PRC and 4 employees based in Hong Kong. For the year ended 31 December 2018, the staff cost of the Group was RMB312.9 million, compared to RMB293.5 million for the year ended 31 December 2017.

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 2018.

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 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 two years ended 31 December 2017 and 2018, the Company did not grant any options to subscribe for Shares. The Company has no outstanding share options as at 31 December 2018.

DIRECTORS

Executive Directors

LEE Rie-Ho (李瑞河), aged 83, 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 59, is an executive Director and the Vice Chairman of the Group. He was appointed as the executive Director on 31 August 2011. Mr. Lee is one of the founders of the Group, and is primarily responsible for the management of the Group and coordination of the factory operations and retail businesses of the Group. He has been a director of the Group since 1997. Mr. Lee has more than 25 years of experience in the tea industry. Between 1987 and 1998, he worked for Ten Ren in Taiwan, and acted as the head of the international trading department of Ten Ren since 1987. Mr. Lee has been a director of Ten Ren since 2007. Mr. Lee joined the Group in 1993 and served as the general manager of 福州天福茶業有限公司 (Fuzhou Tianfu Tea Industry Co., Ltd.) from 1993 to 1997. Mr. Lee is a nephew of Mr. Lee Rie-Ho and a cousin of both Mr. Lee Kuo-Lin and Mr. Lee Chia Ling. He graduated from National Chung Hsing High School (previously known as Taiwan Provincial Chung Hsing High School) in 1978.

Directors and Senior Management

LEE Chia Ling (李家麟), aged 56, 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 57, 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 Tianfu Tea Industry Co., Ltd.) since 1998, and 漳浦天福觀光茶園有限公司 (Zhangpu Tian Fu Tea Garden Co., Ltd.) since 1999. Mr. Lee is the son of Mr. Lee Rie-Ho and the elder brother of Mr. Lee Chia Ling and a cousin of both Mr. Lee Shih-Wei and Mr. Lee Min-Zun. He received his associate in arts degree from Los Angeles City College in the United States in 1988.

Non-executive Directors

TSENG Ming-Sung (曾明順), aged 62, 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.

LI Jie (李潔), aged 39, is a non-executive Director. She was appointed as the non-executive Director on 27 August 2018. Ms. Li is an operating vice president at General Atlantic as part of the firm's Resources Group and focuses on providing financial and analytical expertise to the portfolio companies in China. Prior to joining General Atlantic in February 2018, Ms. Li was the chief financial officer at GLP (a leading global provider of modern logistics facilities and technology-led solutions) in the financial services segment from February 2017 to January 2018. From January 2016 to January 2017, she was the chief financial officer of Yunmanman, a start-up logistic platform. Ms. Li also has more than 10 years of financial due diligence experience with PricewaterhouseCoopers Transaction Services in China and Australia M&A markets. From June 2018, Ms. Li is an alternate director of a non-executive director of Xiabuxiabu Catering Management (China) Holdings Co., Ltd. (Stock code: 520), a company listed on the main board of the Stock Exchange. Ms. Li has a bachelor degree in International Journalism from Shanghai International Studies University and a bachelor degree in Law from Fudan University.

Independent Non-executive Directors

LO Wah Wai (盧華威), aged 55, 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 practicing 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. Save from serving as an incumbent director of BMI Consultants Limited, Mr. Lo is also an independent non-executive director of each of Chongqing Machinery & Electric Co., Ltd. (Stock code: 2722) and Shangdong Xinhua Pharmaceutical Company Limited (Stock code: 719), all of which are listed on the main board of the Stock Exchange. Mr. Lo is an outside director of Fasteps Co., Ltd. (Stock code: 23380), a company listed on the Tokyo Stock Exchange.

LEE Kwan Hung (李均雄), aged 53, 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 of the Company. He is also a member of the audit committee and the remuneration committee of the Company. 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 practicing lawyer, joined Howse Williams 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; Newton Resources Ltd; Red Star Macalline Group Corporation Ltd.; China Goldjoy Group Limited; FSE Services Group Limited; Ten Pao Group Holdings Limited; China BlueChemical Ltd. and Landsea Green Group Co., Ltd. Mr. Lee was also an independent non-executive director of Asia Cassava Resources Holdings Limited, Futong Technology Development Holdings Limited and Walker Group Holdings Limited (now known as Vestate Group Holdings Limited) (all of which are listed on the main board of the Stock Exchange).

FAN Ren Da, Anthony (范仁達), aged 59, 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 and the managing director 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, Technovator International Limited, China Development Bank International Investment Limited, Semiconductor Manufacturing International Corporation and Neo-Neon Holdings Limited, which are all listed on the main board of the Stock Exchange. Mr. Fan was also an independent non-executive director of LT Commercial Real Estate Limited, CGN New Energy Holdings Co., Ltd. and Guodian Technology & Environment Group Corporation Limited, all of which are listed on the main board of the Stock Exchange. Mr. Fan is the President of Hong Kong Independent Non-Executive Director Associate.

SENIOR MANAGEMENT

LEE Min-Zun (李銘仁), aged 54, 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 74, 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 57, 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 49, is the Head of the Marketing and Enterprise Planning Department of the Company. He is responsible for the business positioning, brand development, product research and development and the overall marketing initiatives of the Group. He joined the Group as the manager of the sale planning department in 2004. Mr. Lee was the manager of the Procurement and Research and Development Division of Ten Ren in 1996 and 2001, respectively. In 2003, he worked as the sales manager of Ten Ren Tea & Ginseng Co., Ltd. In Toronto, Canada. Mr. Lee graduated from Tsoying Senior High School (高雄市立左營高中) in Taiwan in 1988.

The Board is pleased to present this Corporate Governance Report in the Group's Annual Report for the year ended 31 December 2018.

Corporate governance practices

The Group strives to maintain high standards of corporate governance to enhance shareholder's value and safeguard shareholder's 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 2018, 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 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 2018.

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

The Board of Directors

Responsibilities

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

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

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

Corporate Governance Report

Board composition

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

The Company has complied with Rule 3.10A of the Listing Rules for the Board to have at least one-third of its membership comprising independent non-executive Directors. The composition of the Board is set out below:

Executive Directors

Mr. LEE Rie-Ho	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

Ms. CHANG Le (resigned on 27 August 2018)

Ms. LI Jie (appointed on 27 August 2018)

Independent Non-executive Directors

Mr. LO Wah Wai

Mr. LEE Kwan Hung

Mr. FAN Ren Da, Anthony

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

The relationships among the members of the Board are disclosed under "Directors and Senior Management" on page 19 to 22 of this annual report.

During the year ended 31 December 2018, 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 Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with 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 of the Company 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.

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 Nomination 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 2018 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 9 April 2019 contains detailed information of the Directors standing for re-election.

The Nomination Committee reviewed the nomination policy and procedures, which includes the nomination procedures and process and criteria adopted by the Nomination Committee to select and recommend candidates for directorship during the year ended 31 December 2018. The nomination policy and procedures of the Company summarised below:

The Board should have a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. To ensure changes to the Board composition can be managed without undue disruption, there should be a formal, considered and transparent procedure for selection, appointment and re-appointment of Directors, as well as plans in place for orderly succession (if considered necessary), including periodical review of such plans. The appointment of a new Director (to be an additional Director or fill a casual vacancy as and when it arises) or any re-appointment of Directors is a matter for decision by the Board upon the recommendation of the proposed candidate by the Nomination Committee.

The criteria to be applied in considering whether a candidate is qualified shall be his or her ability to devote sufficient time and attention to the affairs of the Company and contribute to the diversity of the Board as well as the effective carrying out by the Board of the responsibilities which, in particular, are set out as follows:

(a) participating in Board meetings to bring an independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conducts;

(b) taking the lead where potential conflicts of interests arise;

(c) serving on the Audit Committee, the Remuneration Committee, the Nomination Committee (in the case of candidate for non-executive Director) and other relevant Board Committees, if invited;

(d) bringing a range of business and financial experience to the Board, giving the Board and any committees of the Company on which he or she serves the benefit of his or her skills, expertise, and varied backgrounds and qualifications and diversity through attendance and participation in the Board/committee meetings;

(e) scrutinising the Company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance;

(f) ensuring the committees of the Company on which he or she serves to perform their powers and functions conferred on them by the Board; and

(g) conforming to any requirement, direction and regulation that may from time to time be prescribed by the Board or contained in the constitutional documents of the Company or imposed by legislation or the Listing Rules, where appropriate.

The Nomination Committee also review the board diversity policy and the measurable objectives during the year ended 31 December 2018. The Board has adopted a board diversity policy setting out the approach to diversity of members of the Board on 30 August 2013. 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. On 27 August 2018, the Board appointed Ms. Li Jie as a non-executive Director, which satisfied the board diversity policy and the measurable objectives.

The Nomination Committee held 2 meeting during the year ended 31 December 2018 and the attendance records are set out below:

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

Induction and continuing development of Directors

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

Directors are 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 2018, 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, the Laws of Hong Kong), the amended Corporate Governance Code and Corporate Governance Report taking effect on 1 January 2019 as set out in Appendix 14 to the Listing Rules, the Director Training Programme as set out in the website of the Stock Exchange and other regulatory regime, the first e-training for directors of companies listed on the Stock Exchange and Guidance for Boards and Directors.

According to the records provided by the Directors, a summary of training received by the Directors for the year ended 31 December 2018 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
Ms. CHANG Le (resigned on 27 August 2018)	1, 2, 3
Ms. LI Jie (appointed on 27 August 2018)	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 2018, 6 regular Board meetings were held, including for reviewing and approving the interim results for the six months ended 30 June 2018, 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 2018 are set out below:

Name of Director	Attendance/Number of Meetings
Mr. LEE Rie-Ho	6/6
Mr. LEE Shih-Wei	6/6
Mr. LEE Chia Ling	6/6
Mr. LEE Kuo-Lin	6/6
Mr. TSENG Ming-Sung	6/6
Ms. CHANG Le (resigned on 27 August 2018)	3/3
Ms. LI Jie (appointed on 27 August 2018)	3/3
Mr. LO Wah Wai	6/6
Mr. LEE Kwan Hung	6/6
Mr. FAN Ren Da, Anthony	6/6

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 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 2018.

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

The Board has established three committees, namely, the Nomination Committee, Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference which are available to shareholders upon request.

The Board also has the full support of the Chief Executive Officer and the senior management for the discharge of its responsibilities.

Remuneration of Directors and senior management

The Company has established a formal and transparent procedure for formulating policies on remuneration of senior management of the Group. Details of the remuneration of each of the Directors for the year ended 31 December 2018 are set out in Note 35 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 2018 is within the following bands:

	Number of individuals	
	2018	2017
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 2018.

The Remuneration Committee held 1 meeting during the year ended 31 December 2018 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 2018.

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 year ended 31 December 2018, 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 2018, 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 2018 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 58.

During the year ended 31 December 2018, 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	650
Total	5,300

Note: The amount for other non-audit services mainly represented the professional fee payable by the Group for the services related to share option scheme planning and the service of tax consultation.

Communication with Shareholders and investors/investor relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also 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 the shareholders' meetings.

The Chairman of the Board, members of the Board and external auditor of the Company attended the 2018 annual general meeting of the Company ("AGM") held on 10 May 2018. 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
Ms. CHANG Le (resigned on 27 August 2018)	1/1
Ms. LI Jie (appointed on 27 August 2018)	0/0
Mr. LO Wah Wai	1/1
Mr. LEE Kwan Hung	1/1
Mr. FAN Ren Da, Anthony	1/1

The external auditor of the Company also attended the 2018 AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor's independence.

The 2019 AGM will be held on 14 May 2019 (Tuesday). The notice of AGM will be sent to the shareholders of the Company 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 2018.

Shareholders' rights

To safeguard shareholders' 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 the Company's Articles of Association and the 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(s) will be verified with the Hong Kong share registrar of the Company. 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(s) 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(s) at the EGM.
- If within 21 days of the deposit of the Requisition, the Board has not advised the Eligible Shareholder(s) 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 Company's 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 engaged Ms. Mok Ming Wai, director of TMF Hong Kong Limited, as its Company Secretary from 1 January 2018 to 27 August 2018 and engaged Ms. Lam Yuk Ling, a manager of the Listing Services Department of TMF Hong Kong Limited, as its Company Secretary from 27 August 2018 to 31 December 2018. Their 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, each of Ms. Mok and Ms. Lam has undertaken no less than 15 hours of relevant professional training during the year ended 31 December 2018.

The Directors are pleased to present their report and the audited consolidated financial statements for the year ended 31 December 2018 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 ended 31 December 2018 are set out in the Consolidated Statement of Comprehensive Income. The financial position as at 31 December 2018 of the Group is set out in the Consolidated Balance Sheet. The cash flow position of the Group during the year ended 31 December 2018 is set out in the Consolidated Cash Flow Statement.

Business review and outlook

The business review and outlook of the Group for the year ended 31 December 2018 is set out in the section headed "Management Discussion and Analysis" of this annual report.

Financial key performance indicators

The financial key performance indicators of the Group for the year ended 31 December 2018 are set out in the section headed "Financial Highlights" of this annual report.

Compliance with laws and regulations and environmental policies

For the year ended 31 December 2018, 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. Further information about the Group's compliance with laws and regulations, please refer to the Environmental, Social and Governance Report to be issued by the Company separately pursuant to Rule 13.91 and Appendix 27 to the Listing Rules.

Relationship with stakeholders

For the year ended 31 December 2018, 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

The principal risks and uncertainties facing the Group are set out below.

Key risks and uncertainties	Analysis	Mitigating measures
There is uncertainty in China economy's downturn, and the Chinese economic growth is not expected to be optimistic, which may reduce the market share and profitability of the Company.	Chinese economic development has entered a normal slow pace and recovery of the consumer market remains fragile. Additionally, other operating costs, including commercial real estate, rental costs and labour costs, continue to rise. The continued sluggishness of the retail industry affected by these factors will not be expected to be improved in the short term, the situation of the consumer market development will become more severe and the retailers will face greater operating pressure.	1 The Group will continue to promote the policy of "Not easy to earn, not difficult to save" in order to strictly control the costs of each segment for the possible slowdown in business growth. 2 The Group will actively promote franchising business to effectively expand business locations and control exhibition store costs and future operating costs. 3 The Group will actively organize competition of King of Tea of Tenfu Cup, increase the media reports and dissemination, promote the brand name and attract more consumer purchase. 4 The Group will actively plan annual, festival, tea exhibition, pot exhibitions, etc., in order to promote consumer purchase.

Key risks and uncertainties	Analysis	Mitigating measures
1 "New retailing" strategy continues to develop, the online giant companies had entered into retail business and the forms of retailing is becoming more diversified. 2 Flow of people and atmosphere of purchase are weak in some shopping districts and hypermarkets, which is not good for store operation of the Group.	1 Internet retailing enterprises transfer into the offline, bringing new opportunities and providing new business model for real retailing enterprises. Some real retailing enterprises joined Alibaba circle or some other circles, achieving the operation layout of "internet and real entity". New retailing opened up online and offline closed consumption loops and data precipitation and implanted more consuming scenarios into areas not covered by traditional retail formats. 2 Second- and third-tier cities in China actively developed new high areas and the atmosphere of purchase in old shopping districts of some cities continued to decline. The rise of traditional e-commerce and new mobile internet marketing models has affected the flow of people and atmosphere of purchase in many hypermarkets.	1 The Group has implemented diversified measures, Xiamen Tianyu Commerce and Trading Co., Limited (廈門天鈺商貿有限公司) has been in cooperation with Tmall and JD.com for more than 10 years and achieved steady growth. 2 The Group has established Strategic Implementation Group ("SIG"), which consists of 8 youths born in 1990s, in order to study the latest business management information and marketing techniques to find the appropriate implementation plan for each business entity. 3 The sales subsidiaries of the Group proactively pay attention to the changes in the new and old shopping districts and respond immediately, negotiate with management of each store in hypermarket on the selling status for improvement and plan the exit mechanism for those stores that continued not to improve.

Key risks and uncertainties	Analysis	Mitigating measures
1 Under the environmental pressure in China, the Group has to comply with Environmental regulations and may have responsibilities or potential costs due to environmental non-compliance.	1 If there is any unpredictable amendment to the relevant environmental regulations, the Group may need to have capital expenditures and install, replace, upgrade or supplement pollution control equipment or make operational changes to control any adverse effects or potential adverse effects on the environment in order to comply with the new environmental protection regulations.	1 The Group will actively pay attention to the newly implemented environmental regulations in order to respond as soon as possible.
2 The Group cannot guarantee that the suppliers of the Group will not intentionally or unintentionally contaminate raw materials or provide unqualified raw materials.	2 The suppliers of the Group may intentionally or unintentionally provide part of the raw materials used in the production, which may contain harmful chemicals or substances and unqualified raw materials leading to have adverse side effects or injuries to consumers.	2 The Group has its quality control department to strictly sample and inspect each batch of tea materials. 2.1 Before each batch of tea materials is purchased, the Group samples and tests the tea materials physicochemically and only purchases after the tea materials pass the test. 2.2 After the tea materials has been purchased, the Group arranges re-inspection of the tea materials before storing in warehouse and only put into storage those passed the inspection in order for easy tracking of sourcing. 2.3 The Group makes batch management for finished tea products before storing in warehouse in order for easy tracking of shipment.

Share capital

The changes in the share capital of the Company during the year ended 31 December 2018 are set out in Note 14 to the Consolidated Financial Statements.

Final dividend

At the Board meeting held on 27 March 2019 (Wednesday), it was proposed that a final dividend of HKD0.14 per ordinary share (equivalent to RMB0.12 per ordinary share) be paid on or after 31 May 2019 to the shareholders of the Company (the "Shareholders") whose names appear on the Company's register of members on 20 May 2019 (Monday). The proposed final dividend is subject to approval by the Shareholders at the AGM to be held on 14 May 2019 (Tuesday).

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 AGM, the register of members of the Company will be closed from 8 May 2019 (Wednesday) to 14 May 2019 (Tuesday), both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares, accompanied by the relevant share certificates, must be lodged with the Hong Kong share registrar of the Company, 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 7 May 2019 (Tuesday).

For determining the entitlement to the proposed final dividend, the register of members of the Company will be closed on 20 May 2019 (Monday), during which 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 Hong Kong share registrar of the Company, 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 17 May 2019 (Friday).

Reserves

Details of the changes in reserves of the Group during the year ended 31 December 2018 are set out in Note 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 Association; 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 2018, the Company had distributable reserve amounting to approximately RMB245,228,000.

Dividend policy

The Board may declare dividends in the future after taking into account the Group's financial and business conditions, earnings, capital requirements and other factors as it may deem relevant at such time. Any declaration and payment, as well as the amount, of dividends will be subject to the requirements of the constitutional documents and the Companies Law. The Shareholders in general meeting must approve any declaration of dividends, which may not exceed the amount recommended by the Board. In addition, the Directors may from time to time pay such interim dividends as appear to the Board to be justified by the Group's profits, or special dividends of such amounts and on such dates as they think fit. No dividend shall be declared or payable except out of the Group's profits and reserves lawfully available for distribution.

Future dividends payments will also depend upon the availability of dividends received from the subsidiaries of the Company in the PRC. PRC laws require that dividends be paid only out of accumulated profits as determined in accordance with accounting standards and regulations in the PRC. Each of the Company's PRC subsidiaries is required to set aside at least 10% of its after-tax profit under PRC accounting standards each year to its general reserves or statutory capital reserve fund until the aggregate amount of such reserves reaches 50% of its respective registered capital. These reserves are not available for distribution as cash dividends.

Subject to the considerations and constraints above, the Company currently intend to distribute as dividends to all the Shareholders not less than 20% of the Group's consolidated net profit after tax in respect of each financial year.

Property, plant and equipment

The changes in property, plant and equipment of the Group during the year ended 31 December 2018 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 23.9% 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 4.4% 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 2018, 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 2018 are set out in Note 18 to the Consolidated Financial Statements.

Directors

The Directors in office during the year and as at the date of this report are as follows:

Executive Directors

Mr. LEE Rie-Ho

Mr. LEE Shih-Wei

Mr. LEE Chia Ling

Mr. LEE Kuo-Lin

Non-executive Directors

Mr. TSENG Ming-Sung

Ms. CHANG Le (resigned on 27 August 2018)

Ms. LI Jie (appointed on 27 August 2018)

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 headed "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 2018 is set out in Note 35 to the Consolidated Financial Statements.

In accordance with article 83(3) of the Articles of Association, Ms. Li Jie will retire and being eligible, will offer herself for re-election as the Director at the Annual General Meeting. In accordance with article 84(1) of the Articles of Association, Mr. Lee Rie-Ho, Mr. Lee Kuo-Lin 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

Ms. Chang Le resigned as a non-executive Director on 27 August 2018 due to her personal development.

Ms. Li Jie was appointed as a non-executive Director on 27 August 2018.

Mr. Lo Wah Wai was appointed as an independent non-executive Director of Shangdong Xinhua Pharmaceutical Company Limited (Stock cord: 719) on 29 June 2018.

Mr. Fan Ren Da, Anthony resigned as an independent non-executive Director of CGN New Energy Holdings Co., Ltd. (Stock code: 1811) on 26 June 2018 and was appointed as an independent non-executive Director of Semiconductor Manufacturing International Corporation (Stock code: 981) on 22 June 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 2018 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 33 to the Consolidated Financial Statements and in the section headed "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 competing business

A deed of non-competition dated 31 August 2011 (the "Non-competition Deed") was entered into by and among other parties and the controlling shareholders, including the Directors namely Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Shih-Wei (collectively, the "Covenantors") in favour of the Company. The Company has received an annual written confirmation from each of the Covenantors in respect of the compliance by them and their associates with the Non-competition Deed.

The independent non-executive Directors have reviewed the Non-competition Deed and whether the controlling shareholders have abided by the non-competition undertaking. The independent non-executive Directors confirmed that they had determined that the controlling shareholders have not been in breach of the non-competition undertaking during the year ended 31 December 2018.

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 (the "Share Option Scheme") whereby the Board can grant share options for the subscription of the Company's shares (the "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 share 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 share options that may be granted to a Participant under the Share Option Scheme 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 share options that may be granted under the Share Option Scheme to the independent non-executive Directors, chief executive 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 share options must be held before they become exercisable, and the share options granted shall be exercised within the period decided by the Board, however no share options shall be exercised 10 years after they have been granted. The exercise price of the share options shall be the higher of (a) the closing price of the Shares on the daily quotation sheet of the Stock Exchange on the date of grant; (b) the average closing price of the Shares on the daily quotation sheet of the Stock Exchange for the five business days immediately preceding the date of grant; and (c) nominal value of the Share. Each grantee shall pay a consideration of HK$1.00 at the time the 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 19 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 and 2018, the Company did not grant any options to subscribe for Shares. The Company has no outstanding share options as at 31 December 2018.

The total number of Shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme is 122,720,746 Shares, representing 10.2% of the total issued Shares of the Company as at the date of this annual report.

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.

Interests or short positions of Directors and Chief Executives in the Shares, underlying Shares or debentures

As at 31 December 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 interests 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) Interests 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)	15.73%
Mr. Lee Shih-Wei	Personal interest/individual	4,719,000 (L)	0.39%
Mr. Lee Chia Ling[2]	Settlor of The KCL Trust	377,520,000 (L)	31.46%
	Personal interest/individual	48,400,000 (L)	4.03%
Mr. Lee Kuo-Lin[2]	Beneficiary of The KCL Trust	377,520,000 (L)	31.46%
Mr. Tseng Ming-Sung	Personal interest/individual	4,719,000 (L)	0.39%

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, Mr. Lee Kuo-Lin and Mr. Lee John L 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) Interests 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 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)	15.73%
Ms. Lee Tsai Li-Li(1)	Interest as a spouse	188,760,000 (L)	15.73%
UBS TC (Jersey) Ltd.(2)(3)	Trustee	377,520,000 (L)	31.46%
Trackson Investments Limited(2)	Registered owner	377,520,000 (L)	31.46%
Tiger Nature Holdings Limited(2)	Interest in a controlled corporation	377,520,000 (L)	31.46%
The KCL Trust(2)	Interest in a controlled corporation	377,520,000 (L)	31.46%
Mr. Lee John L(2)	Beneficiary of The KCL Trust	377,520,000 (L)	31.46%
Ms. Zhou Nan-Nan(2)	Interest as a spouse	425,920,000 (L)	35.49%
General Atlantic Singapore Fund Pte. Ltd.(4)	Registered owner	120,838,830 (L)	10.07%
General Atlantic Singapore Fund Interholdco Ltd.(4)	Interest in a controlled corporation	120,838,830 (L)	10.07%
General Atlantic Partners (Bermuda) II, L.P.(4)	Interest in a controlled corporation	120,838,830 (L)	10.07%
General Atlantic Partners (Bermuda) III, L.P.(4)	Interest in a controlled corporation	120,838,830 (L)	10.07%
General Atlantic Partners (Bermuda) IV, L.P.(4)	Interest in a controlled corporation	120,838,830 (L)	10.07%
General Atlantic GenPar (Bermuda), L.P.(4)	Interest in a controlled corporation	120,838,830 (L)	10.07%
GAP (Bermuda) Limited(4)	Interest in a controlled corporation	120,838,830 (L)	10.07%
Spring Cheers Overseas Ltd.	Registered owner	114,379,023 (L)	9.53%

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, Mr. Lee Kuo-Lin and Mr. Lee John L 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) IV, L.P. ("GAP IV LP") and other shareholders of GA Interholdco include General Atlantic Partners (Bermuda) II, L.P. ("GAP II LP") and General Atlantic Partners (Bermuda) III, L.P. ("GAP III LP"). The general partner of each of GAP IV LP, 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 held by General Atlantic Singapore Fund Pte. Ltd., GA Interholdco, GAP II LP, GAP III LP, GAP IV LP, GA GenPar and GAP (Bermuda) Limited were stated herein by referring to the 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 2018 are set out in Note 30 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 ended 31 December 2018.

Equity-linked agreements

Save for the Share Option Scheme as set out in the section headed "Share Option Scheme" above, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2018.

Connected transactions

The Group's related parties transactions for the year ended 31 December 2018 set out in Note 33 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.) ("Fuzhou Tenfu")	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: One year from 1 January 2018 to 31 December 2018 Rental: 21,400/month	Store premises with a gross floor area of approximately 158.0 square meters
2.	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 2017 to 31 August 2020 Rental: 10,580/month	Store premises with a gross floor area of approximately 143.6 square meters
3.	Hainan	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 January 2018 to 31 December 2019 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
5.	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 2018 to 30 November 2019 Rental: 20,000/month	Store premises with a gross floor area of approximately 643.6 square meters
6.	Fujian[1]	Fuzhou Tenfu	Mr. Lee Chien-Te 李建德 (cousin of Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, the Directors)	Term: Three years from 1 December 2017 to 30 November 2020 Rental: 62,000/month	Store premises with a gross floor area of approximately 451.7 square meters

No.	Location	Member of the Group as tenant	Connected party as landlord	Term and rental (RMB)	Type of premises
7.	Fujian[1]	福建天福茗茶銷售有限公司 (Fujian Tian Fu Sales Co., Ltd.) ("Fujian Tenfu")	Mr. Lee Chien-Te 李建德 (cousin of Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, the Directors)	Term: Nine months from 1 January 2018 to 30 September 2018 Rental: 40,000/month	Store premises with a gross floor area of approximately 100.9 square meters
8.	Fujian	廈門天鈺商貿有限公司 (Xiamen Tianyu Commerce and Trading Co., Ltd.) ("Tianyu")	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
9.	Shandong[1]	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) ("Mingfeng"), 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 158.6 square meters
10.	Liaoning[1]	吉林省天福茗茶銷售有限公司 (Jilin Province Tian Fu Tea Sales Co., Ltd.)	Mingfeng, 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: Four years from 1 January 2017 to 31 December 2020 Rental: 35,000/month	Store premises with a gross floor area of approximately 174 square meters
11.	Fujian[1]	Tianqia Catering Management Co., Limited (廈門天洽餐飲管理有限公司) ("Tianqia")	Mingfeng, 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: Five years from 1 August 2017 to 31 July 2022 Rental: 6,000/month	Dormitory premises with a gross floor area of approximately 153.36 square meters
12.	Fujian[1]	Tianqia	Mingfeng, 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: Five years from 1 August 2017 to 31 July 2022 Rental: 6,000/month	Dormitory premises with a gross floor area of approximately 158.15 square meters
13.	Xiamen	Tianqia	Mingfeng, 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: Five years from 1 August 2017 to 31 July 2022 Rental: 6,000/month	Dormitory premises with a gross floor area of approximately 153.36 square meters

No.	Location	Member of the Group as tenant	Connected party as landlord	Term and rental (RMB)	Type of premises
14.	Xiamen	Tianyu	Mingfeng, 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: Five years from 1 August 2017 to 31 July 2022 Rental: 36,000/month	Store premises with a gross floor area of approximately 944.1 square meters

Note 1: As the continuing connected transactions under items 1 and 2, items 6 and 7 and items 9 to 14 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 2018, the amount of rental paid/payable by the Group in respect of the lease agreements between the Group and Mr. Lee Chia Ling were RMB1,320,000.

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: Two years from 23 September 2018 to 22 September 2020 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
3.	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 1 January 2017 to 31 December 2019 Rental: 30,000/month	Store premises with a gross floor area of approximately 450.58 square meters

Continuing connected transactions which are subject to the reporting, annual review and announcement requirements but exempt from independent shareholders' approval requirement

Renewed Lu Yu Master Purchase Agreement with Lu Yu

Reference is made to the announcements of the Company dated 1 November 2016, 4 November 2016 and 3 December 2018 in respect of the continuing connected transactions under the Renewed Lu Yu Master Purchase Agreement (defined as below) in relation to the purchases of tea ware from Lu Yu (defined below).

The Company has been purchasing tea ware from 陸羽茶藝股份有限公司 (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 beneficially owned as to 83.75% by Ms. Zhou Nannan, the spouse of Mr. Lee Chia Ling (a substantial shareholder of the Company and a Director), 10% by Mr. Tsai Shan Jen, the cousin of Mr. Lee Chia Ling (a substantial shareholder of the Company and a Director), and 6.25% by Mr. Lee Rie-Ho (a substantial shareholder of the Company and a Director), respectively, the purchase of tea ware by the Group from Lu Yu constitutes a continuing connected transaction for the Company.

The Company and Lu Yu has entered into the renewed Lu Yu master purchase agreement on 1 November 2016 and the supplemental agreement on 3 December 2018 (the "Renewed Lu Yu Master Purchase Agreement"), 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 and to revise the annual caps for the two years ending 31 December 2019, subject to the renewed or revised annual cap not exceeding RMB20,000,000, RMB27,000,000 and RMB31,050,000 for the three years ending 31 December 2019, respectively.

The renewed or revised annual caps under the 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 2018, the amounts that the Group paid/payable to Lu Yu for the purchase of tea ware were approximately RMB26,289,000.

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

Reference is made to the announcement of the Company dated 1 November 2016 in respect of the continuing connected transactions under the Renewed Samoa Master Processing Agreement (defined as 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 substantial shareholder of the Company and a Director, the procurement of the processing services of the tea leaves by the Group from Samoa Group constitutes a continuing connected transaction for the Company.

The Company and Samoa Company has entered into the renewed Samoa master processing agreement (the "Renewed Samoa Master Processing Agreement") on 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 2018; 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 2018, the amount of services fees that the Group paid/payable to Samoa Group under the Renewed Samoa Master Processing Agreement was RMB1,132,000.

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

Renewed Samoa Master Purchase Agreement with Samoa Group

References are made to the announcement of the Company dated 1 November 2016 and the circular of the Company dated 21 November 2016 in respect of the continuing connected transactions under the Renewed Samoa Master Purchase Agreement (defined as 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 substantial shareholder of the Company and a Director, the purchase of tea leaves by the Group from Samoa Group constitutes a continuing connected transaction for the Company.

The Company and Samoa Company has entered into the renewed Samoa master purchase agreement (the "Renewed Samoa Master Purchase Agreement") on 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 ended 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 2018, the amounts that the Group paid/payable to Samoa Group for the purchase of tea leaves were RMB121,075,000.

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 1 November 2016, 4 November 2016 and 3 December 2018 and the Company's circular dated 21 November 2016.

Employee and remuneration policies

As of 31 December 2018 the Group had an aggregate of 4,337 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 2018:

	Planned use of net proceeds at listing		Net proceeds used as of 31 December 2018		Remaining balance as at 31 December 2018		Expected time of full utilisation of remaining balance
	Amount* (million RMB)	Percentage* (%)	Amount* (million RMB)	Percentage* (%)	Amount* (million RMB)	Percentage* (%)	
Expand and optimise network of self-owned retail outlets and retail points	373.3	40.0	246.5	26.4	126.8	13.6	by 31 December 2024
Acquire store premises for self-owned retail outlets	233.3	25.0	233.3	25.0	0	0	–
Working capital and other general corporate purposes	93.3	10.0	93.3	10.0	0	0	–
Maintain and promote brands	140.0	15.0	105.5	11.3	34.5	3.7	by 31 December 2022
Expand production capacity	93.3	10.0	93.3	10.0	0	0	–
Total	933.3	100.0	771.9	82.7	161.3	17.3	

* *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 2018, 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 2018. Further information of the corporate governance practice of the Company has been set out in the Corporate Governance Report in this annual report of the Company for the year ended 31 December 2018.

Purchase, sale or redemption of shares

The Directors has been granted by the Shareholders at the annual general meeting of the Company held on 10 May 2018 (the "2018 AGM") the general mandate to repurchase up to 122,720,746 Shares (the "Repurchase Mandate"), being 10% of the total number of the issued Shares of the Company as at the date of the 2018 AGM, on the Stock Exchange, as disclosed in the announcement of the Company dated 28 August 2018. During the year ended 31 December 2018, the Company had repurchased a total of 27,568,000 ordinary Shares of HK$0.1 each in compliance with the memorandum and articles of association of the Company, the Listing Rules, the Codes on Takeovers and Mergers and Share Buy-backs, the Companies Law of the Cayman Islands and all applicable laws and regulations to which the Company is subject to. During the year ended 31 December 2018, the aggregate consideration of HK$146,392,490 was paid for the Share repurchase. The Company confirms that the Share repurchase has not resulted in the number of the Shares held by the public falling below the relevant minimum percentage prescribed by the Listing Rules.3,672,000 and 23,538,000 of the repurchased shares were cancelled on 8 October 2018 and 21 December 2018, respectively. Details of the repurchases during the year under review are as follows:

Month of Share repurchase	Total number of Shares repurchased	Highest price paid per Share (HK$)	Lowest price paid per Share (HK$)	Aggregate consideration (HK$)
August 2018	1,216,000	5.29	4.91	6,096,720
September 2018	2,456,000	5.45	5.20	13,240,790
October 2018	14,839,000	5.40	5.15	78,634,330
November 2018	1,758,000	5.60	5.37	9,599,360
December 2018	7,299,000	5.56	5.28	38,821,290

The Board considers that the current trading price of the Shares does not reflect their intrinsic value. The Board believes that the Share Repurchase reflected the Company's confidence in its long term business prospects and would ultimately benefit the Company and create value for the Shareholders. The Board also believes that the Company's strong financial position will enable it to conduct the Share Repurchase while maintaining a solid financial position for the continuation of the Company's business and growth in the current financial year.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2018.

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

Details of significant events after the reporting period of the Group are set out in Note 36 to the Consolidated Financial Statements.

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 Companies Law 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 2018.

Auditor

The Company appointed PricewaterhouseCoopers as the auditor of the Company for the year ended 31 December 2018. The Company will submit a resolution in the forthcoming 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, 27 March 2019

Independent Auditor's Report

羅兵咸永道

To the Shareholders of Tenfu (Cayman) Holdings Company Limited

(Incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Tenfu (Cayman) Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 63 to 140, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- 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 2018, 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.

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

羅兵咸永道

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 2.22 and Note 5 to the consolidated financial statements. Revenue of the Group for the year ended 31 December 2018 is RMB1,635.6 million. The Group's major revenue transactions are from retail and wholesale sales. For retail, the Group had numerous self-operated retail outlets located throughout Mainland China. Sales of goods are recognised when control of the goods has 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 transactions. For wholesale, the Group had multiple wholesalers throughout Mainland China. Sales of goods are recognised when control of the goods has been transferred to the wholesaler, which usually happens upon picking 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 controls 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 examine the relevant supporting documents, such as the copy of receipts or credit card slips, and b. test of details specifically on the newly set up retail outlets on selected high-volume transaction days 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. test of revenue recorded, on a sample basis and covering different wholesalers, by examining the relevant supporting documents; b. performing confirmation procedures on selected wholesalers' receivable balances at the balance sheet date and their transaction amounts during the year. The samples were selected by considering the amount, nature and characteristics of those wholesalers; c. test of post balance sheet date sales return, on a sample basis, by tracing to the relevant supporting documents of the original sales and the sales return; d. cut-off test to assess whether revenue was recognised in the correct reporting periods; and e. interviewing selected newly joint and top ranked wholesalers, understanding their background and reviewing related sales contracts. Based on our work performed, we found the Group's revenue from sales of goods being tested were recognised in a manner consistent with the Group's revenue recognition accounting policy.

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Other Information

The directors of the Company are responsible for the other information set out in the Company's 2018 Annual Report. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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 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, 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.

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.

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.

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

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.

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.

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

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, 27 March 2019

Consolidated Balance Sheet

As at 31 December 2018

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Land use rights	6	**280,419**	269,703
Investment properties	7	**9,460**	10,011
Property, plant and equipment	8	**700,364**	717,325
Intangible assets	9	**3,203**	4,151
Investments accounted for using the equity method	10	**108,492**	5,984
Deferred income tax assets	20	**42,583**	38,050
Prepayments – non-current portion	11(b)	**1,989**	34,623
		1,146,510	1,079,847
Current assets			
Inventories	12	**648,687**	544,194
Trade and other receivables	11(a)	**243,778**	279,165
Prepayments	11(b), 33(b)	**75,053**	72,720
Time deposits	13	**56,800**	223,981
Cash and cash equivalents	13	**666,820**	496,684
		1,691,138	1,616,744
Total assets		**2,837,648**	2,696,591

Consolidated Balance Sheet

As at 31 December 2018
(continued)

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	14	**98,593**	100,816
Treasury shares	14	**(1,735)**	–
Other reserves	16	**409,316**	516,288
Retained earnings	15	**1,531,504**	1,484,818
Total equity		**2,037,678**	2,101,922
LIABILITIES			
Non-current liabilities			
Borrowings	18	**6,703**	7,489
Deferred income on government grants	19	**36,057**	31,216
Deferred income tax liabilities	20	**16,413**	20,504
		59,173	59,209
Current liabilities			
Trade and other payables	17, 33(b)	**255,579**	287,418
Current income tax liabilities		**64,525**	56,560
Borrowings	18	**343,088**	172,543
Contract liabilities	21	**77,605**	–
Other liabilities		**–**	18,939
		740,797	535,460
Total liabilities		**799,970**	594,669
Total equity and liabilities		**2,837,648**	2,696,591

The notes on pages 68 to 140 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 63 to 140 were approved by the Board of Directors on 27 March 2019 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 2018

	Note	2018 RMB'000	2017 RMB'000
		Year ended 31 December	
Revenue	5	**1,635,562**	1,576,561
Cost of sales	24	**(649,812)**	(621,288)
Gross profit		**985,750**	955,273
Distribution costs	24	**(415,460)**	(432,360)
Administrative expenses	24	**(224,734)**	(205,555)
Other income	22	**23,486**	15,489
Other gains/(losses) – net	23	**764**	(121)
Operating profit		**369,806**	332,726
Finance income	26	**13,077**	13,882
Finance costs	26	**(13,998)**	(11,211)
Finance (costs)/income – net	26	**(921)**	2,671
Share of profits less losses of investments accounted for using the equity method	10	**2,387**	(291)
Profit before income tax		**371,272**	335,106
Income tax expense	27	**(102,654)**	(91,595)
Profit for the year, all attributable to the owners of the Company		**268,618**	243,511
Other comprehensive income for the year		**–**	–
Total comprehensive income for the year, all attributable to the owners of the Company	15	**268,618**	243,511
Earnings per share for profit attributable to the owners of the Company			
– Basic earnings per share	28	**RMB0.22**	RMB0.20
– Diluted earnings per share	28	**RMB0.22**	RMB0.20

The notes on pages 68 to 140 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to the owners of the Company					
	Share capital	**Share premium**	**Treasury shares**	**Other reserves**	**Retained earnings**	**Total equity**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2018	**100,816**	**–**	**–**	**516,288**	**1,484,818**	**2,101,922**
Comprehensive income						
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**268,618**	**268,618**
Transactions with owners						
Profit appropriation to statutory reserves (Note 16)	**–**	**–**	**–**	**18,539**	**(18,539)**	**–**
Repurchase of shares (Note 14)	**–**	**–**	**(129,487)**	**–**	**–**	**(129,487)**
Cancellation of shares (Note 14)	**(2,223)**	**–**	**127,752**	**(125,511)**	**–**	**18**
Dividends (Note 29)	**–**	**–**	**–**	**–**	**(203,393)**	**(203,393)**
Total transactions with owners	**(2,223)**	**–**	**(1,735)**	**(106,972)**	**(221,932)**	**(332,862)**
Balance at 31 December 2018	**98,593**	**–**	**(1,735)**	**409,316**	**1,531,504**	**2,037,678**
Balance at 1 January 2017	100,816	–	–	499,759	1,386,314	1,986,889
Comprehensive income						
Profit and total comprehensive income for the year	–	–	–	–	243,511	243,511
Transactions with owners						
Profit appropriation to statutory reserves (Note 16)	–	–	–	16,529	(16,529)	–
Dividends	–	–	–	–	(128,478)	(128,478)
Total transactions with owners	–	–	–	16,529	(145,007)	(128,478)
Balance at 31 December 2017	100,816	–	–	516,288	1,484,818	2,101,922

The notes on pages 68 to 140 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations	31(a)	**395,904**	372,343
Interest paid		**(13,879)**	(11,556)
Income tax paid		**(103,313)**	(76,918)
Net cash inflow from operating activities		**278,712**	283,869
Cash flows from investing activities			
Investment in an associate	10	**(480)**	–
Investment in a joint venture	10	**(101,617)**	(250)
Purchase of land use rights		**(9,092)**	(13,482)
Purchase of property, plant and equipment		**(40,912)**	(71,366)
Purchase of intangible assets		**(16)**	(5)
Purchase of Investment property	7	**(58)**	–
Changes in investments in time deposits with maturity more than 3 months	13	**167,181**	23,176
Proceeds from disposal of property, plant and equipment	31(b)	**2,099**	1,326
Proceeds from disposal of land use rights	31(b)	**77**	–
Interest received		**28,068**	4,546
Dividends received from a joint venture	10	**1,885**	1,660
Assets-related government grants received	19	**7,500**	10,809
Net cash inflow/(outflow) from investing activities		**54,635**	(43,586)
Cash flows from financing activities			
Repurchase of shares of the Company		**(129,469)**	–
Proceeds from borrowings	31(c)	**423,000**	488,502
Repayments of borrowings	31(c)	**(253,747)**	(410,142)
Dividends paid to the owners of the Company	29	**(203,393)**	(128,478)
Changes in restricted cash pledged for borrowings		**–**	34,000
Net cash outflow from financing activities		**(163,609)**	(16,118)
Net increase in cash and cash equivalents		**169,738**	224,165
Effect of foreign exchange rate changes		**398**	2,078
Cash and cash equivalents at beginning of the year		**496,684**	270,441
Cash and cash equivalents at end of the year	13	**666,820**	496,684

The notes on pages 68 to 140 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 have been listed on the main board of The Stock Exchange of Hong Kong Limited since 26 September 2011.

The consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements set out on pages 63 to 140 have been approved for issue by the board of directors (the "Board") of the Company on 27 March 2019.

2 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

(a) Compliance with HKFRS

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (''HKFRS'') and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

(b) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities (including derivative instruments) which are stated at fair value.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(c) New and amended standards adopted by the Group

The following new amendments of HKFRSs are relevant to the Group's operations and are mandatory for the first time for the Group's financial year beginning on 1 January 2018.

HKFRS 2 (Amendments)	Amendments to "Share-based Payment" regarding classification and measurement of share-based payment transactions
HKAS 28 (Amendments)	Amendments to "Investments in Associates and Joint Ventures" on allowing venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL)
HKAS 40 (Amendments)	Amendments to "Investment Property" on clarifying that to transfer to, or from, investment properties there must be a change in use
HKFRS 9	"Financial Instruments"
HKFRS 15	"Revenue from Contracts with Customers"
HKFRIC 22	"Foreign Currency Transactions and Advance Consideration"

The Group had to change its accounting policies and make certain adjustments following the adoption of HKFRS 9 and HKFRS 15. Other newly adopted standards or amendments listed above did not have material impact on the amounts recognised in prior periods and are not expected to significantly affect the amounts for the current or future period.

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 arising from the new impairment rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the consolidated balance sheet as at 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 at 1 January 2018 and the comparative figures are not be restated.

The following tables show the adjustments recognised for each individual line item. The adjustments are explained in more details by standard below.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(c) New and amended standards adopted by the Group (continued)

Relevant balance sheet items	31 December 2017 As originally presented RMB'000	HKFRS 9 RMB'000	HKFRS 15 RMB'000	1 January 2018 Restated 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 is no impact on the statement of comprehensive income and other comprehensive income by adopting HKFRS 9 and HKFRS 15.

(i) 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 adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated as the Group does not have any hedge instrument.

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.

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 significant impairment loss was identified.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(c) New and amended standards adopted by the Group (continued)

(ii) 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.

(1) 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.

(2) 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.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(c) New and amended standards adopted by the Group (continued)

(ii) HKFRS 15 Revenue from Contracts with Customers – Impact of adoption *(continued)*

(3) 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 (2) above.

(d) New standards and interpretations not yet adopted

The following new standards, amendments and interpretations which 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 9 (Amendments)	Prepayment features with negative compensation	1 January 2019
HKFRS 16	Leases (i)	1 January 2019
HKAS 19 (Amendments)	Plan amendment, curtailment or settlement	1 January 2019
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
HKFRS 17	Insurance contracts	1 January 2021
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(d) New standards and interpretations not yet adopted *(continued)*

(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.

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the year in light of the new lease accounting rules in HKFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB153,132,000. Of these commitments, approximately 30% relate to short-term leases and low value leases which will be both recognised on a straightline basis as expense in profit or loss.

For the remaining lease commitments, the Group expects to recognise right-of-use assets and lease liabilities (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018) on 1 January 2019.

The Group expects that profit before income tax will decrease for 2019 as a result of adopting the new rules.

Operating cash flows will increase and financing cash flows will decrease as repayment of the lease liabilities will be classified as cash flows from financing activities.

The amounts impacted by the standard as mentioned above are still under assessment.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the cumulative catch-up approach and will not restate comparative amounts for the year prior to first adoption. The method will recognise the cumulative effect of applying the new standard as an adjustment to the opening balance of equity on adoption which is the difference between the amount of right-of-use assets and the lease liability (adjusted by the amount of any previously recognised prepaid or accrued lease payments relating to that lease).

Apart from HKFRS 16, there are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation

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.

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.

(a) Subsidiaries

(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 acquirer's identifiable net assets.

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

(a) ***Subsidiaries*** *(continued)*

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

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.

(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.

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

(b) Joint ventures

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

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

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

(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.

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

(c) ***Associates*** *(continued)*

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 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, being the operating segments.

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, or more frequently if events or changes in circumstances indicate that they might be impaired. 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.

2.10 Financial assets

2.10.1 Classification

From 1 January 2018, the Group classifies all its financial assets in the measurement category of 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.

2 Summary of significant accounting policies *(continued)*

2.10 Financial assets *(continued)*

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Group measures a financial asset at its fair value.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There is one measurement category into which the Group classifies its debt instruments:

(i) Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as separate line item in the consolidated statement of comprehensive income.

2.10.3 Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. 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.

2.10.4 Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017, The Group classifies all its financial assets under the category of loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

2 Summary of significant accounting policies *(continued)*

2.10 Financial assets *(continued)*

2.10.4 Accounting policies applied until 31 December 2017 (continued)

(i) Classification

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 2.11 and 2.13).

(ii) 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.

(iii) 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)*

2.10 Financial assets *(continued)*

2.10.4 Accounting policies applied until 31 December 2017 *(continued)*

(iv) 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 Summary of significant accounting policies *(continued)*

2.11 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 the estimated costs of completion and the estimated costs necessary to make the sale.

2.12 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. See Note 11 for further information about the Group's accounting for trade and other receivables and Note 2.10.3 for a description of the Group's impairment policies.

2.13 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on 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.

2.14 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.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

2 Summary of significant accounting policies *(continued)*

2.15 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured 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.

2.17 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.

Other borrowing costs are expensed in the period in which they are incurred.

2.18 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(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)*

2.18 Current and deferred income tax *(continued)*

(b) Deferred income tax

Deferred income tax is provided in full, 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. Deferred income tax is also 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 substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss.

2 Summary of significant accounting policies *(continued)*

2.19 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.

2.20 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.

2.21 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)*

2.22 Revenue recognition

(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 control 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.

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. Sale of goods are recognised when control of the goods have been transferred to the customer once a group entity sells a product to a customer. Retail sales are usually settled 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)*

2.23 Dividend income

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

2.24 Interest income

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

2.25 Operating leases

(a) The Group's company is the lessee

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged as expenses to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

(b) The Group's company is the lessor

Properties leased out under operating leases are included in 'investment property' in the consolidated balance sheet (Note 7). See Note 2.22(d) for the recognition of rental income.

2.26 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.

2.27 Customer loyalty programmes

The Group operates a loyalty programme where customers accumulate points for purchases made which entitle them to redeem the Group's products. The reward points are 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 foreign exchange risk, cash flow interest rate risk, fair value 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	
	2018	2017
	RMB'000	RMB'000
Profit after income tax increase/(decrease)		
– Strengthened 5%	**6,454**	(506)
– Weakened 5%	**(6,454)**	506
Equity increase/(decrease)		
– Strengthened 5%	**6,454**	(506)
– Weakened 5%	**(6,454)**	506

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 18 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	
	2018	2017
	RMB'000	RMB'000
Post-tax profit increase/(decrease)		
– 10% higher	**(717)**	(347)
– 10% lower	**717**	347
Equity increase/(decrease)		
– 10% higher	**(717)**	(347)
– 10% lower	**717**	347

(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 2018	**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	**343,088**	**827**	**2,756**	**3,120**	**349,791**
Interest payments on borrowings (note)	**652**	**326**	**692**	**261**	**1,931**
Trade and other payables	**207,458**	**–**	**–**	**–**	**207,458**
	551,198	**1,153**	**3,448**	**3,381**	**559,180**

As at 31 December 2017	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	172,543	785	2,615	4,089	180,032
Interest payments on borrowings (note)	692	367	827	446	2,332
Trade and other payables	166,503	–	–	–	166,503
	339,738	1,152	3,442	4,535	348,867

Note: The interest payments on borrowings are calculated based on borrowings held as at 31 December 2018 and 2017 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 2018, the Group's strategy is to maintain the gearing ratio below 50% (2017: below 50%). The gearing ratios at 31 December 2018 and 2017 were as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Total debt – total borrowings (Note 18)	**349,791**	180,032
Total equity	**2,037,678**	2,101,922
Total capital	**2,387,469**	2,281,954
Gearing ratio	**15%**	8%

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) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(d) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to industry cycles. Management reassesses the estimates at each balance sheet date.

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 2018 and 2017, 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 2018 and 2017. All revenues are derived from external customers.

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Sales of tea leaves	**1,117,338**	1,082,566
Sales of tea snacks	**241,997**	227,791
Sales of tea ware	**194,135**	184,106
Others	**82,092**	82,098
	1,635,562	1,576,561

The segment results for the year ended 31 December 2018:

	Tea leaves RMB'000	Tea snacks RMB'000	Tea ware RMB'000	All other segments RMB'000	Total RMB'000
Segment revenue	1,117,338	241,997	194,135	82,092	1,635,562
Segment results	304,438	30,659	38,149	(7,320)	365,926
Unallocated administrative expenses					(20,370)
Other income					23,486
Other gains – net					764
Finance costs – net					(921)
Share of net profit of investments accounted for using the equity method					2,387
Profit before income tax					371,272
Income tax expense					(102,654)
Profit for the year					268,618

5 Revenue and segment information *(continued)*

Other segment items included in the 2018 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	**35,786**	**12,152**	**6,837**	**9,920**	**8,832**	**73,527**
Depreciation of investment properties	**–**	**–**	**–**	**–**	**609**	**609**
Amortisation of land use rights	**9,127**	**2,194**	**1,849**	**813**	**–**	**13,983**
Amortisation of intangible assets	**378**	**80**	**68**	**18**	**420**	**964**
Losses on disposal of property, plant and equipment, net	**31**	**28**	**4**	**66**	**–**	**129**
Gains on disposal of land use rights, net	**–**	**–**	**–**	**(34)**	**–**	**(34)**

The segment assets and liabilities as at 31 December 2018 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	**1,634,648**	**273,564**	**244,855**	**306,481**	**378,100**	**2,837,648**
– Investments in associates and joint ventures	**374**	**–**	**465**	**107,653**	**–**	**108,492**
– Additions to non-current assets	**41,015**	**9,429**	**7,069**	**26,468**	**–**	**83,981**
Segment liabilities	**259,762**	**52,342**	**17,895**	**18,827**	**451,144**	**799,970**

5 Revenue and segment information *(continued)*

The segment results for the year ended 31 December 2017:

	Tea leaves RMB'000	Tea snacks RMB'000	Tea ware RMB'000	All other segments RMB'000	Total RMB'000
Segment revenue	1,082,566	227,791	184,106	82,098	1,576,561
Segment results	273,954	30,878	34,672	(2,994)	336,510
Unallocated administrative expenses					(19,152)
Other income					15,489
Other losses – net					(121)
Finance income – net					2,671
Share of net profit of investments accounted for using the equity method					(291)
Profit before income tax					335,106
Income tax expense					(91,595)
Profit for the year					243,511

Other segment items included in the 2017 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	35,174	11,927	6,679	9,553	8,171	71,504
Depreciation of investment properties	–	–	–	–	391	391
Amortisation of land use rights	8,116	1,996	1,617	782	–	12,511
Amortisation of intangible assets	417	84	69	18	424	1,012
Losses on disposal of property, plant and equipment, net	69	50	11	40	–	170

5 Revenue and segment information *(continued)*

The segment assets and liabilities as at 31 December 2017 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	1,712,532	307,980	275,579	181,514	218,986	2,696,591
– Investments in associates and joint ventures	–	–	250	5,734	–	5,984
– Additions to non-current assets	50,738	9,124	8,164	34,318	–	102,344
Segment liabilities	206,218	50,896	21,872	16,467	299,216	594,669

The Group has recognised following liabilities related to contracts with customers:

	As at 31 December 2018 RMB'000	As at 1 January 2018 RMB'000
Contract liabilities – advances	**61,952**	55,180
Contract liabilities – customer loyalty programme	**15,653**	18,939
Total contract liabilities	**77,605**	74,119

The following table shows how much of the revenue recognised for the year ended 31 December related to carried-forward contract liabilities that were satisfied in a prior year.

	Year ended 31 December 2018 RMB'000
Contract liabilities – advances	**55,180**
Contract liabilities – customer loyalty programme	**18,939**
	74,119

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	
	2018	2017
	RMB'000	RMB'000
At beginning of the year		
Cost	**320,572**	307,090
Accumulated amortisation	**(50,869)**	(38,358)
Net book amount	**269,703**	268,732
Opening net book amount	**269,703**	268,732
Additions	**24,742**	13,482
Amortisation for the year (Note 24)	**(13,983)**	(12,511)
Disposals (Note 31(b))	**(43)**	–
Closing net book amount	**280,419**	269,703
At end of the year		
Cost	**345,271**	320,572
Accumulated amortisation	**(64,852)**	(50,869)
Net book amount	**280,419**	269,703

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Distribution costs	**11,686**	10,409
Cost of sales	**1,984**	2,102
General and administrative expenses	**313**	–
	13,983	12,511

As at 31 December 2018, land use rights with net book value of RMB8,876,000 have been pledged as securities for long-term bank borrowings of the Group amounting to RMB7,489,000 (2017: nil) (Note 18).

As at 31 December 2017, land use rights with net book value of RMB4,730,000 have been pledged as securities for short-term bank borrowings of the Group amounting to RMB30,000,000 (Note 18).

7 Investment properties

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
At beginning of the year		
Cost	**13,511**	6,704
Accumulated depreciation	**(3,500)**	(3,109)
Net book amount	**10,011**	3,595
Opening net book amount	**10,011**	3,595
Transfer from property, plant and equipment (Note 8)	**–**	6,807
Additions	**58**	–
Depreciation (Note 24)	**(609)**	(391)
Closing net book amount	**9,460**	10,011
At end of the year		
Cost	**13,569**	13,511
Accumulated depreciation	**(4,109)**	(3,500)
Net book amount	**9,460**	10,011

Depreciation expenses of RMB609,000 have been charged in 'administrative expenses' for the year ended 31 December 2018 (2017: RMB391,000).

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Rental income	**1,071**	827
Property management fees income	**1,475**	1,132
Direct operating expenses from properties that generated rental income	**(770)**	(524)
	1,776	1,435

The fair value of the investment properties is RMB24,463,000 as at 31 December 2018 (2017: RMB14,750,000), with carrying amount of RMB9,460,000 (2017: RMB10,011,000). The fair value is determined at each balance sheet date by an external valuer.

7 Investment properties *(continued)*

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
31 December 2018	–	–	24,463
31 December 2017	–	–	14,750

As at 31 December 2018, the fair value of Plant A is RMB12,591,000 (2017: RMB7,620,000), the fair value of Plant B is RMB11,872,000 (2017: RMB7,130,000).

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

Unobservable inputs	**Value of unobservable inputs**		**Explanation for unobservable inputs**
	Plant A	**Plant B**	
Market rent	RMB50,000 per month	RMB31,250 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	4.77%	3.15%	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 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 2018							
Cost	865,534	96,929	26,587	201,056	5,463	37,518	1,233,087
Accumulated depreciation	(282,169)	(61,845)	(18,150)	(152,651)	(947)	–	(515,762)
Net book amount	583,365	35,084	8,437	48,405	4,516	37,518	717,325
Year ended 31 December 2018							
Opening net book amount	583,365	35,084	8,437	48,405	4,516	37,518	717,325
Additions	1,032	721	5,046	16,893	–	35,102	58,794
Transfers	12,165	520	–	1,145	–	(13,830)	–
Reclassification	737	424	–	(1,161)	–	–	–
Disposals (Note 31(b))	(151)	(120)	(126)	(1,831)	–	–	(2,228)
Depreciation (Note 24)	(34,379)	(4,954)	(3,017)	(30,918)	(259)	–	(73,527)
Closing net book amount	562,769	31,675	10,340	32,533	4,257	58,790	700,364
At 31 December 2018							
Cost	880,317	100,930	30,090	203,362	5,463	58,790	1,278,952
Accumulated depreciation	(317,548)	(69,255)	(19,750)	(170,829)	(1,206)	–	(578,588)
Net book amount	562,769	31,675	10,340	32,533	4,257	58,790	700,364

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 2017							
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
Year ended 31 December 2017							
Opening net book amount	549,375	38,057	5,095	52,365	4,776	66,784	716,452
Additions	8,848	3,042	5,421	17,472	–	45,897	80,680
Transfers	63,441	–	–	4,915	–	(68,356)	–
Transfer to investment properties (Note 7)	–	–	–	–	–	(6,807)	(6,807)
Disposals (Note 31(b))	(70)	(546)	(464)	(416)	–	–	(1,496)
Depreciation (Note 24)	(38,229)	(5,469)	(1,615)	(25,931)	(260)	–	(71,504)
Closing net book amount	583,365	35,084	8,437	48,405	4,516	37,518	717,325
At 31 December 2017							
Cost	865,534	96,929	26,587	201,056	5,463	37,518	1,233,087
Accumulated depreciation	(282,169)	(61,845)	(18,150)	(152,651)	(947)	–	(515,762)
Net book amount	583,365	35,084	8,437	48,405	4,516	37,518	717,325

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Distribution costs	**30,887**	33,547
Administrative expenses	**30,510**	24,987
Cost of sales	**12,130**	12,970
	73,527	71,504

8 Property, plant and equipment *(continued)*

As at 31 December 2018, property, plant and equipment with net book value of RMB8,883,000 have been pledged as securities for long-term bank borrowings of the Group amounting to RMB7,489,000 (2017: nil) (Note 18).

As at 31 December 2017, property, plant and equipment with net book value of RMB3,149,000 have been pledged as securities for short-term bank borrowings of the Group amounting to RMB30,000,000 (Note 18).

As at the date of issuance of these consolidated financial statements, the certificate of certain property, plant and equipment with carrying amount of RMB15,109,000 (2017: RMB53,309,000) is under application process.

Construction work in progress as at 31 December 2018 mainly comprised manufacturing plants and warehouses being constructed.

During the year, the Group has capitalised borrowing costs amounting to RMB41,000 (2017: RMB385,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.42% per annum.

9 Intangible assets

	Goodwill RMB'000	Software RMB'000	Trademarks RMB'000	Total RMB'000
At 1 January 2018				
Cost	**1,740**	**9,603**	**715**	**12,058**
Accumulated amortisation	**–**	**(7,236)**	**(671)**	**(7,907)**
Net book amount	**1,740**	**2,367**	**44**	**4,151**
Year ended 31 December 2018				
Opening net book amount	**1,740**	**2,367**	**44**	**4,151**
Additions	**–**	**–**	**16**	**16**
Amortisation charge (Note 24)	**–**	**(938)**	**(26)**	**(964)**
Closing net book amount	**1,740**	**1,429**	**34**	**3,203**
At 31 December 2018				
Cost	**1,740**	**9,522**	**731**	**11,993**
Accumulated amortisation	**–**	**(8,093)**	**(697)**	**(8,790)**
Net book amount	**1,740**	**1,429**	**34**	**3,203**

9 Intangible assets *(continued)*

	Goodwill RMB'000	Software RMB'000	Trademarks RMB'000	Total RMB'000
At 1 January 2017				
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
Year ended 31 December 2017				
Opening net book amount	1,740	1,898	150	3,788
Additions	–	1,370	5	1,375
Amortisation charge (Note 24)	–	(901)	(111)	(1,012)
Closing net book amount	1,740	2,367	44	4,151
At 31 December 2017				
Cost	1,740	9,603	715	12,058
Accumulated amortisation	–	(7,236)	(671)	(7,907)
Net book amount	1,740	2,367	44	4,151

Amortisation expenses of RMB964,000 (2017: RMB1,012,000) have been charged in 'administrative expenses' for the year ended 31 December 2018.

Impairment tests for goodwill

The intangible assets as at 31 December 2018 and 31 December 2017 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 years ended 31 December 2018 and 31 December 2017, 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 2018 is as follows:

– Gross margin	18%
– 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 2018, 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	
	2018	2017
	RMB'000	RMB'000
Joint ventures	**107,777**	5,984
Associates	**715**	–
	108,492	5,984

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Joint ventures	**2,061**	1,638
Associates	**326**	(3,458)
	2,387	(1,820)

(a) Investments in joint ventures

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
At beginning of the year	**5,984**	5,756
Investment in joint ventures	**101,617**	250
Share of profits less losses	**2,061**	1,638
Cash dividends declared	**(1,885)**	(1,660)
At end of the year	**107,777**	5,984

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 2018 and 2017, 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 2018	2017	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") (i)	PRC, 21 January 2014	USD2,100,000	USD630,000	**50%**	50%	Catering management, beverage production and sales of pre-packaged food
Xiamen Biwu Trading Co., Ltd. ("Xiamen Biwu")	PRC, 7 April 2017	RMB500,000	RMB500,000	**50%**	50%	Sales of tea ware
Xiamen Kanuojia Catering Management Co., Ltd. ("Kanuojia") (ii)	PRC, 22 April 2016	RMB2,000,000	RMB1,366,600	**68%**	100%	Catering management, beverage production and sales of pre-packaged food
Xiamen Tianfu Just.Tea Commerce and Trading Co., Ltd. ("Just.Tea") (iii)	PRC, 22 January 2018	RMB1,000,000	RMB500,000	**50%**	N/A	Sale of tea leaves, tea snacks and tea ware
Jiangxi Changtai Tianfu Tea Industry Co., Ltd. ("Jiangxi Changtai") (iv)	PRC, 1 August 2018	RMB200,000,000	RMB200,000,000	**50%**	N/A	Sale of tea leaves, tea snacks and tea ware and provision of hotel, restaurant and related service

(i) As at 31 December 2018 and 2017, 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.

(ii) On 15 December 2017, Kanuojia entered into an agreement with third parties to set up a joint venture, Xiamen Caffaina Catering management Co., Ltd., ("Caffaina") with registered capital of RMB20,000,000. As at 31 December 2018, the capital commitment of RMB12,000,000 of Caffaina will be paid in due course.

On 10 April 2018, a subsidiary Ten Rui (Hong Kong) Sales Holdings Co., Ltd. ("Ten Rui HK") disposed all its shares of Connoisseur (Hong Kong) Holdings Co., Ltd. ("Connoisseur"), an original subsidiary of the Group to two individuals for HKD1 respectively. This transaction led that the Group's shareholding of Kanuojia decreased from 100% to 68%. The Board of Kanuojia is composed of three directors, with two members are appointed by the Group. In addition, all important issues regarding Kanuojia should be voted to and passed by unanimously, thus the Group has joint control to Kanuojia and determines it to be a joint venture of the Group (Note 30).

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

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

(iii) On 22 January 2018, a subsidiary Fujian Tian Fu Sales Co., Ltd. entered into an agreement with an individual to set up a joint venture, Just.Tea, with registered capital of RMB1,000,000 and paid capital of RMB500,000, of which Fujian Tian Fu Sales Co., Ltd. and the individual own 50% respectively to undertake such activities as trading tea leaves, tea snacks and tea ware.

As at 31 December 2018, the Group had paid the first capital injection of RMB250,000 to Just.Tea, and the remaining balance of the capital commitment of RMB250,000 will be paid in due course.

(iv) During the year ended 31 December 2018, a subsidiary Zhangpu Tian Fu Tea Garden Co., Ltd. entered into an agreement with Jiangxi Changtai Expressway Co., Ltd. to set up a joint venture to undertake such activities as trading tea leaves, tea snacks and tea ware and provision of hotel, restaurant and related service. Jiangxi Changtai was established on 1 August 2018 with registered and paid capital of RMB200,000,000, of which Zhangpu Tian Fu Tea Garden Co., Ltd. and Jiangxi Changtai Expressway Co., Ltd. own 50% respectively.

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

RMB'000		Assets	Liabilities	Revenue	Profit/ (Losses)	% interest held
Fujian Petrol	**2018**	4,093	(74)	2,519	1,718	50%
	2017	4,036	(50)	2,267	1,476	50%
Xiamen Daily Plus	**2018**	1,793	(308)	2,395	(17)	50%
	2017	1,891	(389)	1,678	(85)	50%
Xiamen Biwu	**2018**	1,115	(404)	1,734	415	50%
	2017	652	(156)	1,563	247	50%
Kanuojia	**2018**	2,364	(997)	–	(1)	68%
	2017	498	(3)	–	(1)	100%
Just.Tea	**2018**	461	(87)	479	124	50%
	2017	N/A	N/A	N/A	N/A	N/A
Jiangxi Changtai	**2018**	101,996	(2,175)	1,865	(178)	50%
	2017	N/A	N/A	N/A	N/A	N/A

Fujian Petrol, Xiamen Daily Plus, Xiamen Biwu, Kanuojia, Just.Tea, Jiangxi Changtai 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 associates

	Year ended 31 December 2018 RMB'000	2017 RMB'000
At beginning of the year	**–**	3,458
Investment in associates	**480**	–
Share of gains/(losses)	**235**	(1,929)
Impairment	**–**	(1,529)
At end of the year	**715**	–

The particulars of the associate of the Group at 31 December 2018 and 2017, 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 2018	2017	Principal activities
Tea Trading International DMCC. ("TTI") (i)	United Arab Emirates ("U.A.E"), 20 July 2015	Arab Emirate Dirham ("AED") 2,000,000	AED2,000,000	**N/A**	49%	Tea blending, packaging and trading
Xiamen JUST BOBA Catering Management Co., Ltd. ("JUST BOBA") (ii)	PRC, 8 October 2016	RMB3,000,000	RMB1,000,000	**43%**	N/A	Sales of milk tea

(i) Pursuant to the resolution of the board of directors of Tenfu (Hong Kong) Holdings Company Limited ("Tenfu HK"), a subsidiary of the Group, dated 21 June 2017, Tenfu HK and Rise General Trading LLC decided to discontinue the operation of TTI. As at 31 December 2017, fully provision of the corresponding investment was provided.

Tenfu HK transferred its 49% equity interests in TTI to an individual at the consideration of AED49,000 (approximately RMB91,000). Net disposal gain of AED49,000 (approximately RMB91,000) was recognised in the consolidated statements of comprehensive income. This transaction was completed in September 2018, and then TTI ceased to be the associate of the Group.

(ii) On 8 October 2016, a subsidiary Xiamen Tianqia Catering Management Co., Ltd. entered into an agreement with an individual and Zhangpu Tianjian Food Co., Ltd. to set up an associate to undertake such activities as trading milk tea with registered capital of RMB3,000,000. At the end of year 2018, paid capital of JUST BOBA reached to RMB1,000,000, of which Xiamen Tianqia Catering Management Co., Ltd. own 43%.

As at 31 December 2018, the Group had paid the capital injection of RMB430,000 to JUST BOBA, and the remaining balance of the capital commitment of RMB860,000 will be paid in due course.

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

(b) Investment in associates *(continued)*

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

	TTI		JUST BOBA		Total	
	2018	2017	**2018**	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Assets	**N/A**	2,449	**954**	N/A	**954**	2,449
Liabilities	**N/A**	(920)	**(239)**	N/A	**(239)**	(920)
Revenue	**N/A**	819	**2,033**	N/A	**2,033**	819
Gains/(Losses)	**N/A**	(1,929)	**235**	N/A	**235**	(1,929)
% interest held	**N/A**	49%	**43%**	N/A	**43%**	49%

JUST BOBA is 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	
	2018	2017
	RMB'000	RMB'000
Trade receivables from third parties	**233,851**	258,597
Interest receivable on time deposits	**2,053**	17,044
Others	**7,874**	3,524
	9,927	20,568
Total of trade and other receivables	**243,778**	279,165

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 2018 and 2017, the ageing analysis of the trade receivables of the Group based on invoice date is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Up to 140 days	**229,901**	256,555
141 days to 6 months	**1,079**	746
6 months to 1 year	**2,073**	1,113
1 year to 2 years	**760**	183
2 years to 3 years	**38**	–
	233,851	258,597

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

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

As at 31 December 2018, trade receivables of RMB3,950,000 (2017: RMB2,042,000) 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	
	2018	2017
	RMB'000	RMB'000
Past due within 40 days	**1,079**	746
Past due over 40 days and within 220 days	**2,073**	1,113
Past due over 220 days	**798**	183
	3,950	2,042

As at 31 December 2018, no trade receivables were impaired and provided for (2017: nil).

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	**236,295**	278,241
USD	**7,483**	924
	243,778	279,165

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.

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

(b) Prepayments

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Non-current		
Prepayments for property, plant and equipment	**1,989**	18,973
Prepayments for land use rights	**–**	15,650
	1,989	34,623
Current		
Prepayments for lease of property and lease deposits	**54,300**	49,720
Prepayments to related parties (Note 33(b))	**2,246**	744
Prepaid taxes	**13,444**	12,630
Prepayments for raw materials and packaging materials	**5,063**	9,626
	75,053	72,720
	77,042	107,343

During the year ended 31 December 2016, Fujian Tian Fu Sales Co., Ltd., a subsidiary of the Group entered into an agreement to acquire a store premise under construction. Prepayments amounted to RMB17,355,000 and a long-term bank borrowing of RMB8,236,000 (Note 18(i)) were recorded as at 31 December 2017. During the year ended 31 December 2018, the Group completed the acquisition of the store premise, and RMB8,876,000 in land use rights and RMB8,883,000 in property, plant and equipment were transferred from prepayments accordingly.

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	
	2018	2017
	RMB'000	RMB'000
Raw materials and packaging materials	**229,542**	176,356
Work in progress	**172,541**	140,979
Finished goods	**246,604**	226,859
	648,687	544,194

The cost of inventories recognised as expenses and included in 'cost of sales' amounted to RMB568,005,000 for the year ended 31 December 2018 (2017: RMB547,802,000) (Note 24).

The Group did not have any losses on obsolete inventories or write-down of inventories for the year ended 31 December 2018 (2017: nil).

13 Cash and cash equivalents, time deposits and restricted cash

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Cash at bank and on hand (i)	**723,620**	720,665
Less: Time deposits with maturing more than three months (ii)	**(56,800)**	(223,981)
Cash and cash equivalents	**666,820**	496,684

(i) The weighted average effective interest rate on cash placed with banks and deposits for the year ended 31 December 2018 was 1.88% (2017: 1.74%) per annum.

As at 31 December 2018, the Group has cash at securities company of HKD56,583,000 (equivalent to RMB49,578,000) (2017: nil).

(ii) As at 31 December 2018, the Group has time deposits of RMB56,800,000 (2017: RMB223,981,000) which will mature within one year.

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	**534,758**	688,747
USD	**130,603**	6,585
HKD	**57,318**	25,264
JPY	**941**	69
	723,620	720,665

14 Share capital and treasury shares

	Number of authorised shares (thousands)	Number of issued shares (thousands)	Ordinary shares (nominal value) RMB'000	Treasury shares RMB'000	Total RMB'000
At 1 January 2018	**8,000,000**	**1,227,207**	**100,816**	**–**	**100,816**
Repurchase of shares	**–**	**–**	**–**	**(129,487)**	**(129,487)**
Cancellation of shares	**–**	**(27,210)**	**(2,223)**	**127,752**	**125,529**
At 31 December 2018	**8,000,000**	**1,199,997**	**98,593**	**(1,735)**	**96,858**
At 1 January 2017 and At 31 December 2017	8,000,000	1,227,207	100,816	–	100,816

The Company repurchased 27,568,000 ordinary shares of its own through The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from 29 August 2018 to 31 December 2018. The total amount paid to repurchase the shares was approximately HKD146,845,000 (approximately RMB129,487,000) and has been deducted from shareholders' equity.

At the end of year 2018, the Company cancelled 27,210,000 shares repurchased from 29 August 2018 to 17 December 2018. After the cancellation, the Company's ordinary shares in issue were reduced from 1,227,207,460 to 1,199,997,460. The amount of share capital was deducted accordingly.

15 Retained earnings

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
At 1 January	**1,484,818**	1,386,314
Profit for the year	**268,618**	243,511
Dividends (Notes 29)	**(203,393)**	(128,478)
Appropriation to statutory reserves (Note 16)	**(18,539)**	(16,529)
At 31 December	**1,531,504**	1,484,818
Representing:		
Proposed final dividend	**143,957**	139,578
Others	**1,387,547**	1,345,240
At 31 December	**1,531,504**	1,484,818

16 Other reserves

	Merger reserve (I) RMB'000	Capital reserve (II) RMB'000	Statutory reserves (III) RMB'000	Other (IV) RMB'000	Total RMB'000
At 1 January 2018	**278,811**	**231**	**237,246**	**–**	**516,288**
Appropriation to statutory reserves (Note 15)	**–**	**–**	**18,539**	**–**	**18,539**
Cancellation of shares	**–**	**–**	**–**	**(125,511)**	**(125,511)**
At 31 December 2018	**278,811**	**231**	**255,785**	**(125,511)**	**409,316**
At 1 January 2017	278,811	231	220,717	–	499,759
Appropriation to statutory reserves (Note 15)	–	–	16,529	–	16,529
At 31 December 2017	278,811	231	237,246	–	516,288

(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.

(IV) Other

At the end of year 2018, the Company cancelled 27,210,000 shares repurchased, resulted in a reduction to other reserve by RMB125,511,000 including the expenses attributable to the cancellation.

17 Trade and other payables

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade payables – due to third parties	**107,560**	88,779
Trade payables – due to related parties (Note 33(b))	**36,343**	26,925
Total trade payables	**143,903**	115,704
Payables for property, plant and equipment	**2,823**	1,966
Other taxes payable	**20,304**	42,067
Employee benefit payables	**27,817**	23,668
Advances from customers	**–**	55,180
Others	**60,732**	48,833
	255,579	287,418

As at 31 December 2018 and 2017, 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	
	2018	2017
	RMB'000	RMB'000
Up to 6 months	**141,789**	108,585
6 months to 1 year	**542**	4,551
1 year to 2 years	**601**	2,092
Over 2 years	**971**	476
	143,903	115,704

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

18 Borrowings

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Long-term bank borrowing		
– Secured (i)	**7,489**	8,236
Less: Current portion	**(786)**	(747)
	6,703	7,489
Short-term bank borrowings		
– Secured (ii)	**–**	30,000
– Unsecured (iii)	**342,302**	141,796
Add: Current portion of long-term bank borrowing	**786**	747
	343,088	172,543
Total borrowings	**349,791**	180,032

(i) The long-term bank borrowing of RMB7,489,000 represented the mortgage loan for the purchase of a store premise under construction (Note 11(b)). The borrowing 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) The secured short-term bank borrowings of the Group of RMB30,000,000 as at 31 December 2017 were 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 2018, short-term bank borrowings of the Group of RMB172,302,000 (2017: RMB41,796,000) were guaranteed by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, all of them are directors of the Company (2017: Mr. Lee Rie-Ho, director of the Company) (Note 33(c)).

18 Borrowings *(continued)*

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	
	2018	2017
	RMB'000	RMB'000
6 months or less	**192,690**	172,166
7-12 months	**150,398**	377
1-5 years	**3,583**	3,400
Over 5 years	**3,120**	4,089
	349,791	180,032

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	**349,791**	138,236
HKD	**–**	41,796
	349,791	180,032

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

	As at 31 December	
	2018	2017
Short-term bank borrowings	**3.79%**	4.33%
Long-term bank borrowing	**5.15%**	5.15%

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	
	2018	2017
	RMB'000	RMB'000
Fixed rate:		
– expiring within one year (bank borrowings)	**110,647**	306,902
– expiring over one year and within three years (bank borrowings)	**10,000**	–
	120,647	306,902

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

19 Deferred income on government grants

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
At beginning of the year	**31,216**	21,435
Granted during the year	**7,500**	10,809
Amortised as income (Note 22)	**(2,659)**	(1,028)
At end of the year	**36,057**	31,216

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.

20 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 income tax assets and deferred income tax liabilities are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Deferred income tax assets		
– to be recovered after more than 12 months	**5,887**	6,432
– to be recovered within 12 months	**36,696**	31,618
	42,583	38,050
Deferred income tax liabilities		
– to be settled after more than 12 months	**930**	981
– to be settled within 12 months	**15,483**	19,523
	16,413	20,504

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

The gross movement on the deferred income tax assets/(liabilities) is as follows:

	Temporary differences in respect of accruals RMB'000	Tax losses RMB'000	Unrealised profit on inventories RMB'000	Customer loyalty programme RMB'000	Government grant RMB'000	Withholding tax on unremitted earnings of certain subsidiaries RMB'000	Fair value gains RMB'000	Total RMB'000
At 1 January 2018	**2,234**	**1,939**	**23,620**	**4,735**	**5,522**	**(19,472)**	**(1,032)**	**17,546**
Paid out	**–**	**–**	**–**	**–**	**–**	**12,516**	**–**	**12,516**
(Charged)/credited to the consolidated statement of comprehensive income (Note 27)	**(476)**	**1,303**	**4,747**	**(822)**	**(219)**	**(8,476)**	**51**	**(3,892)**
At 31 December 2018	**1,758**	**3,242**	**28,367**	**3,913**	**5,303**	**(15,432)**	**(981)**	**26,170**
At 1 January 2017	2,359	3,025	21,008	4,483	5,359	(21,009)	(1,083)	14,142
Paid out	–	–	–	–	–	7,982	–	7,982
(Charged)/credited to the consolidated statement of comprehensive income (Note 27)	(125)	(1,086)	2,612	252	163	(6,445)	51	(4,578)
At 31 December 2017	2,234	1,939	23,620	4,735	5,522	(19,472)	(1,032)	17,546

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 2018, the Group did not recognise deferred income tax assets of RMB13,219,000 (2017: RMB16,119,000) in respect of tax losses amounting to RMB53,539,000 (2017: RMB64,847,000) that can be carried forward to offset against future taxable income due to uncertainty of realisation. As at 31 December 2018, losses amounting to RMB9,184,000 (2017: RMB9,184,000), RMB26,239,000 (2017: RMB26,239,000), RMB14,189,000 (2017: RMB14,189,000), RMB1,756,000 (2017: RMB1,756,000) and RMB220,000 will expire in 2019, 2020, 2021, 2022 and 2023 respectively.

As at 31 December 2018, the unrealised profits on inventories sold by the inter-companies within the Group amounted to RMB113,466,000 (2017: RMB94,480,000), and were eliminated in the Group's consolidated financial statements. Deferred income tax assets were recognised for the unrealised profits.

As at 31 December 2018, deferred income tax liabilities of RMB53,331,000 (2017: RMB95,071,000) have not been recognised for the PRC withholding tax. The corresponding unremitted earnings amounted to RMB1,066,624,000 as at 31 December 2018 (2017: RMB1,197,237,000) which are intended to be reinvested.

21 Contract liabilities

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Advance receipts from customers	**61,952**	–
Deferred revenue: customer loyalty programme	**15,653**	–
	77,605	–

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.

22 Other income

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Government grants	**17,093**	11,611
Income from investment properties (Note 7)	**2,546**	1,959
Amortisation of deferred income on government grants (Note 19)	**2,659**	1,028
Others	**1,188**	891
	23,486	15,489

23 Other gains/(losses) – net

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Losses on disposal of land use rights and property, plant and equipment, net (Note 31(b))	**(95)**	(170)
Net foreign exchange gains	**859**	49
	764	(121)

24 Expenses by nature

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Cost of inventories (Note 12)	**568,005**	547,802
Employee benefit expenses – including directors' emoluments (Note 25)	**312,945**	293,509
Amortisation of land use rights (Note 6)	**13,983**	12,511
Depreciation of investment properties (Note 7)	**609**	391
Depreciation of property, plant and equipment (Note 8)	**73,527**	71,504
Amortisation of intangible assets (Note 9)	**964**	1,012
Concession fees	**58,099**	57,427
Transportation expenses	**31,452**	29,202
Operating lease expenses	**104,404**	118,729
Free trial expenses	**15,179**	19,464
Auditor's remuneration		
– Audit services	**3,650**	3,734
– Non-audit services	**1,650**	1,155
Other expenses	**105,539**	102,763
Total cost of sales, distribution costs and administrative expenses	**1,290,006**	1,259,203

25 Employee benefit expenses

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Wages and salaries	**266,843**	252,713
Social security costs	**37,820**	34,519
Other benefits	**8,282**	6,277
	312,945	293,509

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2018 include four (2017: four) directors whose emoluments are reflected in the analysis shown in Note 35. The emoluments payable to the remaining one (2017: one) individual for the year ended 31 December 2018 is as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Salaries and social security costs	**725**	776

25 Employee benefit expenses *(continued)*

(a) Five highest paid individuals *(continued)*

The emoluments fell within the following bands:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Emolument bands (in RMB)		
Within HKD1,000,000 (equivalent to approximately RMB876,000)	**1**	1

26 Finance (costs)/income – net

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Finance income		
– Interest income on short-term bank deposits and time deposits	**13,077**	11,095
– Net foreign exchange gains	**–**	2,787
Total finance income (Note 31(a))	**13,077**	13,882
Finance costs		
– Interest expenses on bank borrowings	**(13,931)**	(11,596)
– Less: amounts capitalised in qualifying assets	**41**	385
– Net foreign exchange losses	**(108)**	–
Total finance costs (Note 31(a))	**(13,998)**	(11,211)
Net finance (costs)/income	**(921)**	2,671

27 Income tax expense

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Current income tax		
– PRC corporate income tax	**98,762**	87,017
Deferred income tax (Note 20)	**3,892**	4,578
Income tax expense	**102,654**	91,595

(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 or operated 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% (2017: 25%) on the assessable income of entities within the Group incorporated in Mainland China.

27 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 year ended 31 December 2018, the Company and Ten Rui 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 Ten Rui HK and Tenfu HK for the accrual based on 5% instead of 10% and reversed previous years' charge 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	
	2018	2017
	RMB'000	RMB'000
Profit before income tax	**371,272**	335,106
Tax calculated at domestic tax rates applicable to profits in the respective jurisdictions	**93,670**	83,897
Tax effects of:		
Expenses not deductible for tax purposes	**886**	869
Joint ventures' and associate's results reported net of tax	**(574)**	(91)
Tax losses for which no deferred income tax asset was recognised	**4,518**	475
Previously unrecognised tax losses used to reduce deferred tax expense	**(4,322)**	–
Withholding tax on the expected distributable profits of the subsidiaries in Mainland China (Note 20)	**8,476**	6,445
Tax charges	**102,654**	91,595

28 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 year.

	Year ended 31 December	
	2018	2017
Profit attributable to the owners of the Company (RMB'000)	**268,618**	243,511
Weighted average number of ordinary shares in issue ('000)	**1,222,585**	1,227,207
Basic earnings per share (RMB)	**0.22**	0.20

Diluted earnings per share for the year ended 31 December 2018 and 2017 were the same as the basic earnings per share as there were no dilutive instruments during the periods.

29 Dividends

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Interim dividend declared	**63,815**	52,770
Proposed final dividend	**143,957**	139,578
	207,772	192,348

At a meeting held on 27 March 2019, the Board proposed a final dividend for 2018 of HKD167,950,000 (equivalent to RMB143,957,000) (2017: HKD171,809,000 (equivalent to RMB139,578,000)), representing HKD14 cents (equivalent to RMB12 cents) (2017: HKD14 cents (equivalent to RMB11 cents)) per share, to be appropriated from retained earnings.

The proposed final dividend for 2018 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 2019.

The 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. This interim dividend, amounting to HKD73,632,000 (equivalent to RMB63,815,000) (2017: HKD61,360,000 (equivalent to RMB52,770,000)), has been reflected as an appropriation of retained earnings for the year ended 31 December 2018.

The dividends paid in 2018 were RMB203,393,000 (2017: RMB128,478,000).

30 Subsidiaries

Particulars of the subsidiaries of the Group as at 31 December 2018 and 2017 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 2018	2017	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 Tianfu Tea Industry Co., Ltd.	PRC, 24 December 1998	Domestic enterprise	RMB181,317,305	RMB181,317,305	**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	USD46,500,000	USD46,500,000	**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
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	RMB65,750,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware and provision of hotel, restaurant and related service

30 Subsidiaries *(continued)*

Particulars of the subsidiaries of the Group as at 31 December 2018 and 2017 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 2018	2017	Principal activities
Indirectly owned *(continued)*							
Subsidiaries – established in the Mainland China *(continued)*							
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	Domestic enterprise	RMB6,701,625	RMB6,701,625	**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	Domestic enterprise	RMB13,096,000	RMB13,096,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Shaan Xi Tian Fu Tea Sales Co., Ltd.	PRC, 18 May 2009	Domestic enterprise	RMB19,611,070	RMB19,611,070	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Guang Dong Tian Fu Tea Sales Co., Ltd.	PRC, 10 June 2009	Domestic enterprise	RMB19,660,950	RMB19,660,950	**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	Domestic enterprise	RMB19,863,610	RMB19,863,610	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Guangxi Tenfu Tea Sales Co., Ltd.	PRC,26 June 2009	Foreign investment enterprise	USD1,000,000	USD1,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Hebei Tenfu Tea Sales Co., Ltd.	PRC, 9 June 2009	Domestic enterprise	RMB6,513,420	RMB6,513,420	**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	RMB6,519,390	RMB6,519,390	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Hunan Tenfu Tea Sales Co., Ltd.	PRC, 26 August 2009	Domestic enterprise	RMB6,502,260	RMB6,502,260	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Fujian Tian Fu Sales Co., Ltd.	PRC,4 July 2008	Foreign investment enterprise	USD48,000,000	USD48,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
An Hui Tian Fu Tea Sales Co., Ltd.	PRC, 10 September 2009	Foreign investment enterprise	USD1,000,000	USD1,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Jinan Tenfu Tea Co., Ltd.	PRC, 8 June 1999	Foreign investment enterprise	USD3,000,000	USD3,000,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Yantai Tenfu Tea Co., Ltd.	PRC, 27 August 1996	Foreign investment enterprise	RMB9,844,100	RMB9,844,100	**100%**	100%	Sale of tea leaves, tea snacks and tea ware

30 Subsidiaries *(continued)*

Particulars of the subsidiaries of the Group as at 31 December 2018 and 2017 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 2018	2017	Principal activities
Indirectly owned *(continued)*							
Subsidiaries – established in the Mainland China *(continued)*							
Tianjin Tenfu sales Co., Ltd.	PRC, 25 March 2009	Domestic enterprise	RMB27,352,000	RMB27,352,000	**100%**	100%	Sale of tea leaves, tea snacks and tea ware
Beijing Tenfu Tea Co., Ltd.	PRC, 25 January 2002	Domestic enterprise	RMB31,825,065	RMB31,825,065	**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	Domestic enterprise	RMB3,322,300	RMB3,322,300	**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
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	USD2,000,000	**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

30 Subsidiaries *(continued)*

Particulars of the subsidiaries of the Group as at 31 December 2018 and 2017 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 2018	2017	Principal activities
Indirectly owned *(continued)*							
Subsidiaries – established in the Mainland China *(continued)*							
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. (i)	PRC, 22 April 2016	Sino-foreign joint venture	RMB2,000,000	RMB500,000	**68%**	100%	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. (i)	Hong Kong, 15 April 2016	Limited liability company	HKD2,000,000	HKD-	**0%**	100%	Catering management, beverage production and sales of pre-packaged food

(i) On 10 April 2018, a subsidiary Ten Rui HK disposed all its shares of Connoisseur to two individuals for HKD1 respectively. This transaction led that the Group's shareholding of Kanuojia decreased from 100% to 68%. The Board of Kanuojia is composed of three directors, with two members are appointed by the Group. In addition, all important issues regarding Kanuojia should be voted to and passed by unanimously, thus the Group has joint control to Kanuojia and determines it to be a joint venture of the Group (Note 10(a)).

31 Notes to the consolidated cash flow statement

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

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit before income tax	**371,272**	335,106
Adjustments for:		
– Share of profit less losses of investments accounted for using the equity method (Note 10)	**(2,296)**	291
– Gains on disposal of an associate (Note 10)	**(91)**	–
– Depreciation of property, plant and equipment (Note 8)	**73,527**	71,504
– Depreciation of investment properties (Note 7)	**609**	391
– Amortisation of land use rights (Note 6)	**13,983**	12,511
– Amortisation of intangible assets (Note 9)	**964**	1,012
– Amortisation of deferred income (Note 19)	**(2,659)**	(1,028)
– Losses on disposal of land use rights and property, plant and equipment (Note 23)	**95**	170
– Provision for impairment of long term investment (Note 10)	**–**	1,529
– Finance income (Note 26)	**(13,077)**	(13,882)
– Finance costs (Note 26)	**13,998**	11,211
Changes in working capital:		
– Inventories	**(104,493)**	(98,134)
– Trade and other receivables and prepayments	**18,154**	(19,379)
– Trade and other payables	**(32,748)**	70,033
– Contract liabilities	**77,605**	–
– Other liabilities	**(18,939)**	1,008
Cash generated from operations	**395,904**	372,343

(b) Proceeds from sale of land use rights and property, plant and equipment

In the consolidated cash flow statement, proceeds from sale of land use rights and property, plant and equipment comprise:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Net book amount		
– Property, plant and equipment (Note 8)	**2,228**	1,496
– land use rights (Note 6)	**43**	–
Losses on disposal of plant and equipment, net (Note 23)	**(129)**	(170)
Gains on disposal of land use rights (Note 23)	**34**	–
Proceeds from disposal of land use rights and property, plant and equipment	**2,176**	1,326

31 Notes to the consolidated cash flow statement *(continued)*

(c) Net debt reconciliation

Net debt	2018 RMB'000
Cash and cash equivalents (Note 13)	666,820
Borrowings – repayable within one year (Note 18)	(343,088)
Borrowings – repayable after one year (Note 18)	(6,703)
Net cash	317,029
Cash and cash equivalents	666,820
Gross debt – fixed interest rates	(200,000)
Gross debt – variable interest rates	(149,791)
Net cash	317,029

	Other assets	Liabilities from financing activities		
	Cash and cash equivalents RMB'000	Borrow. due within 1 year RMB'000	Borrow. due after 1 year RMB'000	Total RMB'000
Net cash as at 1 January 2018	496,684	(172,543)	(7,489)	316,652
Cash flows	169,738	(169,253)	–	485
Foreign exchange adjustments	398	(506)	–	(108)
Other non-cash movements	–	(786)	786	–
Net cash as at 31 December 2018	666,820	(343,088)	(6,703)	317,029

32 Commitments

(a) Equity investment commitments

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Investment in joint ventures (Note 10)	**5,577**	16,467

(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	
	2018	2017
	RMB'000	RMB'000
Property, plant and equipment	**35,960**	63,901
Intangible assets	**3,647**	3,647
	39,607	67,548

(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	
	2018	2017
	RMB'000	RMB'000
No later than 1 year	**72,214**	76,693
Later than 1 year and no later than 5 years	**71,914**	77,428
Later than 5 years	**9,004**	6,454
	153,132	160,575

33 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	
		2018	2017
		RMB'000	RMB'000
(i)	Purchases of goods and services		
	– Subsidiaries of SAMOA	**121,075**	99,611
	– A company controlled by the Controlling Shareholders	**26,289**	17,780
		147,364	117,391
(ii)	Processing fee expenses		
	– Subsidiaries of SAMOA	**1,132**	1,210
(iii)	Rental expenses		
	– The Controlling Shareholders and their affiliates	**4,456**	3,544
	– A company controlled by an affiliate of the Controlling Shareholders	**1,607**	1,118
	– A subsidiary of SAMOA	**300**	300
		6,363	4,962
(iv)	Key management compensation	**5,359**	5,510
(v)	Dividends declared from joint ventures	**1,885**	1,660

33 Related-party transactions *(continued)*

(b) Balances with related parties

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

		As at 31 December	
		2018	2017
		RMB'000	RMB'000
(i)	Prepayments to related parties (Note 11(b))		
	– Subsidiaries of SAMOA	**1,474**	–
	– A company controlled by the Controlling Shareholders	**772**	–
	– A company controlled by an affiliate of the Controlling Shareholders	**–**	744
		2,246	744
(ii)	Due to related parties (Note 17)		
	Trade related		
	– Subsidiaries of SAMOA	**36,343**	26,541
	– A company controlled by the Controlling Shareholders	**–**	384
		36,343	26,925

The payables to related parties for the years ended 31 December 2018 and 2017 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 RMB172,302,000 (2017: RMB41,796,000) as at 31 December 2018 were guaranteed by Mr. Lee Rie-Ho, Mr. Lee Chia Ling and Mr. Lee Kuo-Lin, all of them are directors of the Company (2017: Mr. Lee Rie-Ho) (Note 18).

34 Balance sheet and reserve movement of the Company

Balance sheet of the Company

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
ASSETS		
Non-current assets		
Investments in subsidiaries	**860,388**	860,388
Current assets		
Trade and other receivables	**591,114**	266,791
Cash and cash equivalents	**86,460**	21,290
	677,574	288,081
Total assets	**1,537,962**	1,148,469
EQUITY		
Capital and reserves attributable to the owners of the Company		
Share capital	**98,593**	100,816
Treasury shares	**(1,735)**	–
Other reserve (Note (a))	**(125,511)**	–
Retained earnings (Note (a))	**245,228**	137,858
Total equity	**216,575**	238,674
LIABILITIES		
Current liabilities		
Other payables	**1,279,086**	867,999
Borrowings	**42,301**	41,796
	1,321,387	909,795
Total liabilities	**1,321,387**	909,795
Total equity and liabilities	**1,537,962**	1,148,469

The balance sheet of the Company was approved by the Board of Directors on 27 March 2019 and was signed on its behalf by:

LEE Chia Ling
Director

LEE Shih-Wei
Director

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

Balance sheet of the Company *(continued)*

Note (a) Reserve movement of the Company

	Other reserve RMB'000	Retained earnings RMB'000
At 1 January 2018	**–**	**137,858**
Profit for the year	**–**	**310,763**
Dividends	**–**	**(203,393)**
Cancellation of shares (Note 16(IV))	**(125,511)**	**–**
At 31 December 2018	**(125,511)**	**245,228**
At 1 January 2017	–	94,972
Profit for the year	–	171,364
Dividends	–	(128,478)
At 31 December 2017	–	137,858

35 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 2018 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	**–**	**757**	**–**	**757**
Mr. Lee Kuo-Lin	**–**	**615**	**–**	**615**
Mr. Lee Shih-Wei	**–**	**615**	**–**	**615**
Mr. Lee Chia Ling (i)	**–**	**619**	**–**	**619**
Mr. Tseng Ming-Sung	**–**	**212**	**–**	**212**
Ms. Li Jie	**–**	**–**	**–**	**–**
Mr. Lo Wah Wai	**276**	**–**	**–**	**276**
Mr. Lee Kwan Hung	**276**	**–**	**–**	**276**
Mr. Fan Ren-Da, Anthony	**276**	**–**	**–**	**276**
	828	**2,818**	**–**	**3,646**

35 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 2017 is set out as follows:

Name	Fees	Salaries and social security costs	Share option expense	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Lee Rie-Ho	–	742	–	742
Mr. Lee Kuo-Lin	–	664	–	664
Mr. Lee Shih-Wei	–	616	–	616
Mr. Lee Chia Ling (i)	–	600	–	600
Mr. Tseng Ming-Sung	–	214	–	214
Mr. Wei Ke	–	–	–	–
Mr. Lo Wah Wai	276	–	–	276
Mr. Lee Kwan Hung	276	–	–	276
Mr. Fan Ren-Da, Anthony	276	–	–	276
	828	2,836	–	3,664

(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 2018 and 2017, 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.

36 Subsequent events

During January 2019, the Company repurchased 683,000 ordinary shares of its own through the Stock Exchange. The total amount paid to repurchase the shares was approximately HKD3,739,000 (approximately RMB3,253,000). As at 27 March 2019, 1,041,000 ordinary shares of the Company have not been cancelled yet. (Note 14)

Save as disclosed above, there is no other material subsequent event undertaken by the Company or by the Group after 31 December 2018.