Carpenter Tan Holdings Limited
譚木匠控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 837)

Annual Report 2009

* For identification purpose only

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EXECUTIVE DIRECTORS
Mr. Tan Chuan Hua *(Chairman)*
Mr. Geng Chang Sheng

NON-EXECUTIVE DIRECTORS
Mr. Tan Cao
Mr. Liu Chang

INDEPENDENT NON-EXECUTIVE DIRECTORS
Madam Du Xin Li
Mr. Yu Ming Yang
Mr. Chau Kam Wing, Donald

MEMBERS OF THE AUDIT COMMITTEE
Mr. Chau Kam Wing, Donald *(Chairman)*
Madam Du Xin Li
Mr. Yu Ming Yang

MEMBERS OF THE REMUNERATION COMMITTEE
Mr. Chau Kam Wing, Donald *(Chairman)*
Madam Du Xin Li
Mr. Yu Ming Yang

COMPANY SECRETARY
Mr. Chan Hon Wan CPA

AUTHORISED REPRESENTATIVES
Mr. Geng Chang Sheng
Mr. Chan Hon Wan

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STOCK CODE
837

COMPANY WEBSITE
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	For the year ended 31 December		% Change
	2009	2008	Increase/
	RMB'000	RMB'000	(Decrease)
Financial Highlights			
Turnover	**139,791**	108,656	28.7%
Cost of sales	**(54,464)**	(47,629)	14.4%
Gross profit	**85,327**	61,027	39.8%
Profit before taxation	**57,758**	32,185	79.5%
Profit attributable to owners	**45,922**	25,874	77.5%
Basic earnings per share (RMB cents)	**24**	14	71.4%
Proposed final dividend per share (HK cents)	**10.45**	—	N/A
Liquidity and Gearing			
Current ratio(1)	**3.35**	1.36	146.3%
Quick ratio(2)	**2.79**	0.88	217.1%
Gearing ratio(3)	**0.19**	0.36	(47.2%)

Notes:

(1) Current ratio is calculated as current assets divided by current liabilities.

(2) Quick ratio is calculated as current assets less inventories divided by current liabilities.

(3) Gearing ratio is calculated as total debts (interest-bearing bank borrowings) divided by shareholders' fund.

Dear Shareholders,

I, on behalf of the board of directors (the "Board"), am pleased to present this annual report of Carpenter Tan Holdings Limited (the "Company", together with its subsidiaries, the "Group") for the year ended 31 December 2009 (the "Year") to the shareholders (the "Shareholders") for their review.

2009 was very important and meaningful to the development of the Group. The Company was successfully listed on the Main Board of the Hong Kong Stock Exchange on 29 December 2009, representing a milestone in the history and development of the Company. The proceeds raised from the listing enabled the Company to implement our development plans. The listing also significantly enhance our profile and brought opportunities to explore other promising business.

In 2009, the general public was deeply affected by the unfavourable global economic condition. Fortunately, the economy emerged from the unprecedented financial crisis in the second half of the Year and market sentiment improved and consumption began to pick up. During the Year, the Group seized the opportunity from the market recovery to further expand its retail business of wooden accessories by leveraging on its expertise and the results were remarkable.

Due to its prudent business strategy, the Group achieved encouraging results for the Year. Sales revenue of the Group for the Year amounted to RMB139.8 million, representing an increase of 28.7% when compared with that of last year. The profit attributable to shareholders for the Year amounted to RMB45.9 million, representing an increase of 77.5% when compared with last year.

To recognize the support of our shareholders, the Board has proposed a final dividend of HK10.45 cents per Share for the year ended 31 December 2009, representing a total payout ratio of 50% of the profit attributable to equity owners. The Board believes that the strong financial position and cashflow of the Company are sufficient to support the future investments for sustainable growth of the Company. The Company will try to maximize dividend payout to provide satisfactory return on the investment of the Shareholders.

The Group has established an extensive distribution network in China by establishing franchise shops through its franchise program. In view of the favorable conditions of the domestic consumer market, the Group established 146 additional franchise shops during the Year, making a total of 866 franchise shops across China. Franchise shops were also established in Singapore, Malaysia and the United States. There are also four self-operated "Carpenter Tan" stores in Hong Kong.

While expanding its sales network, the Group also dedicates to further improve its retail business through store renovations, strategic management over franchise shops and massive marketing activities so as to enlarge the penetration of the "Carpenter Tan" brand in the local consumer market.

During the Year, 123 new products were introduced to the market. Our products represent a perfect blend of tradition, innovation and trendiness. We have high reputation in the wooden accessories market in China and have secured a leading position in the industry. The Group has an excellent team of talents specialized in product design and research and development. Our products have a sense of simplicity, elegance and high quality and are well received by customers. Product design is also outsourced to designers from Europe to enrich the variety of our products.

During the Year, we have organized various campaigns, namely "Dedicated Artistry with Love and Care (愛的輪廓，用心勾畫)", "DIY Tribute to Mother (感恩母愛，孝行DIY)", "Sharing Joyful Stories with Comb Graffiti (快樂塗鴉，梳說夢想)", "Pledging Love with Adorable Combs at Seven Sisters Festival (牽手七夕，木梳定情)", "Promoting China's Sophisticated Comb Craftsmanship (弘揚國粹文化，暢想祖國未來)" and "Sending Message of Love at Christmas (浪漫聖誕，愛的傳遞)", to promote our products and our "Carpenter Tan" brand. To fulfill our social responsibilities, the Group is committed to assisting people with disabilities to enter into the job market by providing them with practical training and job opportunities.

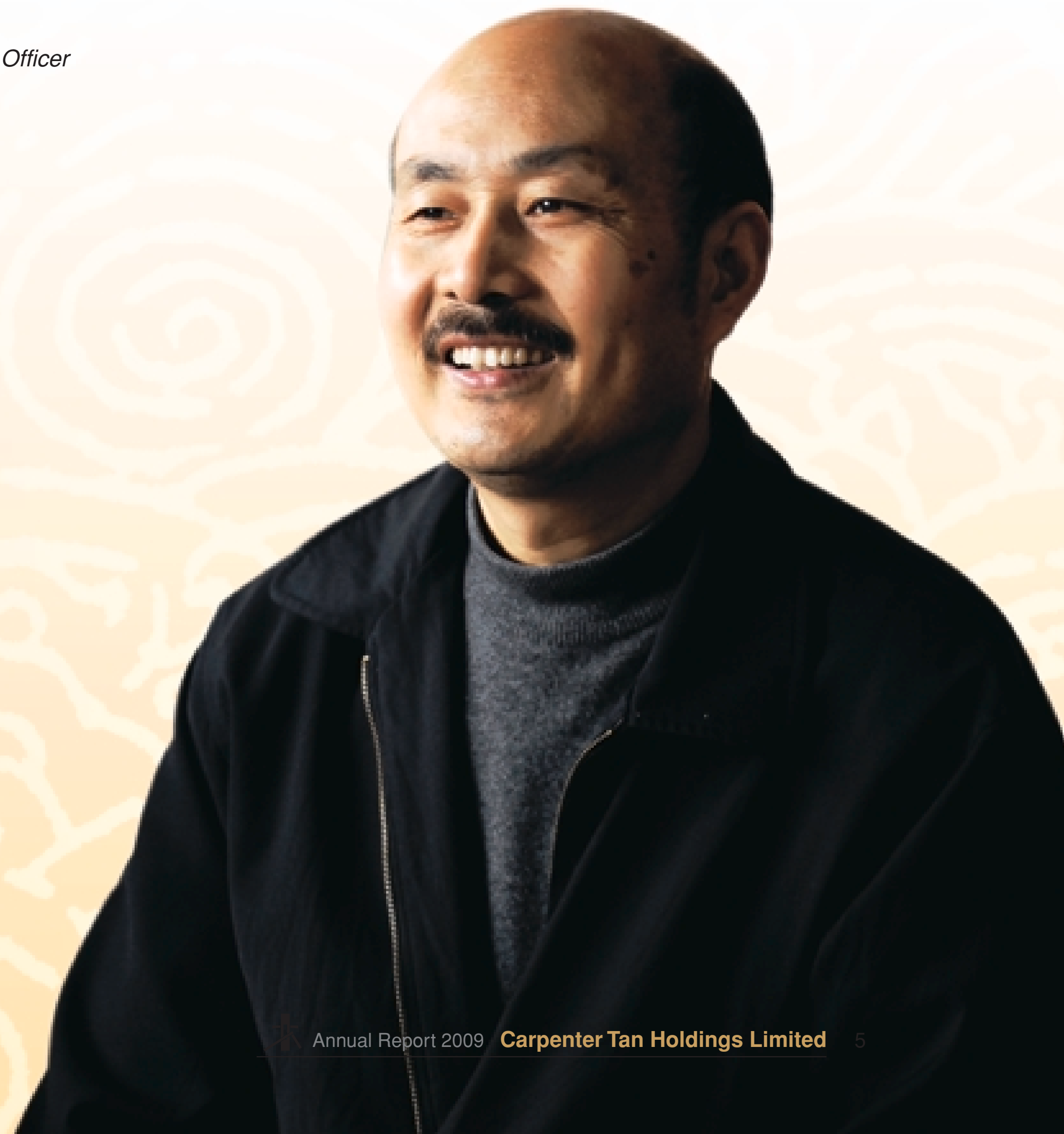
As the economy of China is growing rapidly, the consumption power of the consumers in China has improved significantly and living standard has been rising, resulted in higher demand of quality. To cater for the market development trend, especially the high-end consumers, the Group has formulated comprehensive development plan to further expand its sales network and upgrade its franchise shops to "Modern Shops" which are more spacious and modern. The Group will also promote the "Tan's" brand of high-end home accessories and establish flagship stores and showrooms in different regions.

"Honesty, Work and Happiness" are the essences of our corporate culture. We aim to develop the "Carpenter Tan" brand into an everlasting famous brand. With the promising prospect of the accessories market, we are confident that we can grasp market opportunities to further expand its coverage in international market. The Group will further improve its product quality and management efficiency to satisfy our customers and achieve new milestones so as to provide higher return to the Shareholders.

The success of the Group was attributable to all of its staff, customers and business partners. On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all of them for their support and trust. The Group will continue to strike for the best returns for the Shareholders.

Tan Chuan Hua
Chairman and Chief Executive Officer

Hong Kong, 17 April 2010



MARKET REVIEW

2009 was a challenging year that consumers' confidence was noticeably shaken by the global financial crisis. Although China is an emerging market with rapid growth, the economy of the Mainland China was still affected to a certain extent and the domestic consumer goods retailing industry was confronted by difficulties and challenges. Nevertheless, facing the weakening domestic economy, the Government fully implemented a package of measures and policies to cope with the global financial crisis, including carrying out aggressive fiscal policies and easing monetary policies, implementing policies to stimulate domestic demand gradually, and launching stimulus policies such as the Top Ten Industry Promotion Planning. As a result, China's economy has recovered gradually. Being driven by the investment and consumption led by the Central Government, the economy of the Mainland China was back on track for rapid growth in 2009 and the GDP for the year reached 8.7%. The Group adopted a prudent and positive attitude to cope with the changing operational environment and thus satisfactory results have been achieved.

BUSINESS REVIEW

Sales network

The Group has developed an extensive distribution network by operating the franchise programme in the PRC. As at 31 December 2009, the Group had 866 franchise shops in the PRC, representing an increase of 146 shops as compared with that in the last year, with wide geographical spread covering 31 provinces and autonomous regions and more than 300 cities. The franchise shops are generally operated in convenient shopping areas and business districts in order to increase the market penetration of its products. In addition, the Group has five franchise shops each in Singapore and Malaysia and one franchise shop in the United States and Korea respectively. The Group has also established four overseas self-operated retail shops under the name of "Carpenter Tan" in Hong Kong.

	As at 31 December			
	2009	2008	2007	2006
Number of franchise shops	**866**	720	679	524

Sales network in the PRC

Sales management

The Group carries out an effective management for its franchise shops and distributes to every franchisee an operation manual which contain detailed policies and procedures that are important for operating a franchise shop. Such policies and procedures help the franchisees to train their staff and outline duties of them. The Group also offers a free 24 hours service hotline to handle customers and franchisees' inquiries.

To assure a consistent quality of services and corporate image of franchise shops, the Group requires all franchise shops to have unified colour, materials, designs in shop decoration and window dressing.

Modern shops are the "upgrade version" of franchise shops. Unlike the franchise shops, modern shops have an outlook characterized by contemporary decoration mixed with traditional Chinese cultural elements, and the shops sell products at a price higher than the products sold in franchise shops. The Group intends that these modern shops will be operated by its franchisees. Existing franchisees who are interested to operate modern shops are required to open new shops rather than redecorating or renovating their existing shops.


我善治木

Design and product development

As at 31 December 2009, the Group's design and development team comprised 15 staff with experience and expertise in colouring, inlaying, packaging, catalog design and graphic design. The Group engaged external designers from Europe to enhance its product development capability on a contract basis.

The Group has developed and launched over 2,000 products to the market so far, in which the Group has registered 66 patents and has filed applications for registration of 9 patients. The Group has established a technology centre in Wanzhou which is responsible to study on stabilising wood size and discolouration of wooden materials. In 2005, the Group's technology centre was granted the status of "Municipal Technology Centre" designated by Chongqing Municipal Government. The Group's technology centre is planning to apply for the State Technology Centre status which is expected to be issued by the Central Government in September 2010.

Production capacity

As at 31 December 2009, the Wanzhou Factory of the Group had in total 690 full-time staff for production. The Group's existing production capacity is mainly designed for the production of combs and mirrors, which is expected to be able to support its sales of combs and mirrors in the foreseeable future.

Marketing and Promotion

The Group believes that successful marketing is an important element to make a brand popular among the public. There are 101 staff in the sales and marketing department of the Group, who are responsible for formulating the Group's marketing strategy and carrying out promotional events.

As a long term promotion strategy, the Group distributes healthcare brochures and booklets at the franchise shops in order to raise understanding of the public about "Carpenter Tan" including its culture, product characteristics as well as advantages of using products of the Group.

The brochures and booklets mainly introduce the benefits of wooden combs, the history of the Group, the importance of healthy body, and provide information relating to Chinese traditional handicraft and the source and development of small wooden accessories.

The Group organizes various promotional activities and publishes advertisements regularly to draw attention of the public, especially during festivals. In addition, the Group has launched advertising campaigns through different media to enhance the popularity of the brand.

Awards and Accreditation

The Group has won various awards in its history. During 2007, the Group was awarded China Outstanding Retail Franchiser Top 10 Brand 2006-2007 (二零零六至二零零七年度中國零售業十大優秀特許加盟品牌) and Certificate of Chongqing Famous Trademark (重慶市著名商標證書) from China Chain Store and Franchise Association (中國連鎖經營協會) and Chongqing Administration for Industry and Commerce (重慶市工商行政管理局) respectively. It was also listed as One of the Top 100 Highest Growth Potential Enterprises in the PRC (中國潛力100榜) by Forbes, China Edition. During 2008, the Group was again awarded China Outstanding Retail Franchiser Top 10 Brand 2007-2008 (二零零七至二零零八年度中國零售業十大優秀特許加盟品牌) from China Chain Store and Franchise Association (中國連鎖經營協會) . The Group also listed as One of the Top 100 Highest Growth Potential Enterprises in the PRC (中國潛力100 榜) by Forbes, China Edition for the year 2008 and 2009.

FINANCIAL REVIEW

Turnover

The Group recorded turnover of approximately RMB139.8 million for the year ended 31 December 2009, representing a growth of 28.7% as compared with that of last year. The growth was attributable to the enhanced competitiveness by grasping opportunities in the recovery of the China economy, which resulted in an increase in the number of franchise shops and purchase of products. The franchise fee income also significantly rose by 84.3% to approximately RMB1.6 million as compared with that of last year.

	For the year ended 31 December			
	2009		2008	
	(RMB '000)	**%**	(RMB '000)	%
Sales				
– Combs	**49,878**	**35.7**	44,292	40.8
– Mirrors	**1,762**	**1.3**	2,568	2.4
– Box sets	**78,328**	**56.0**	54,544	50.1
– Other accessories*	**8,260**	**5.9**	6,404	5.9
Franchise fee income	**1,563**	**1.1**	848	0.8
	139,791	**100.0**	108,656	100.0

* Other accessories include small home accessories as well as furniture.

Cost of Sales

The cost of sales of the Group was approximately RMB54.5 million for the year ended 31 December 2009, representing an increase of 14.3% as compared to approximately RMB47.6 million of last year, which was basically consistent with the growth of turnover.

Gross Profit and Gross Profit Margin

As at 31 December 2009, gross profit of the Group was approximately RMB85.3 million, representing an increase of 39.8% as compared with that of last year. The gross profit margin rose from 56.2% in 2008 to 61.0% in 2009. The increase in gross profit margin was mainly due to the adjustment of sales mix of the Group and growing market demands for some products with a higher profit margin. Besides, the Group has committed to develop innovative products with high added values, and increased its investments in promotion and marketing to strengthen its long term competitive edges.

Other Revenue and Net Income

Other revenue and net income was approximately RMB18.2 million for the year ended 31 December 2009, representing an increase of 51.4% as compared to that of approximately RMB12.0 million of last year. The increase was mainly due to an increase of PRC VAT tax concession from approximately RMB7.7 million in 2008 to approximately RMB10.7 million in 2009; and an increase of change in fair value of investment properties from approximately RMB2.2 million in 2008 to approximately RMB5.4 million in 2009.

Administrative Expenses

The administrative expenses of the Group was approximately RMB18.4 million for the year ended 31 December 2009, representing a slight increase of 4.1% as compared to that of approximately RMB17.7 million of last year. The increase was mainly due to an increase of design and sampling expenses from approximately RMB0.4 million in 2008 to approximately RMB1.5 million in 2009.

Selling and Distribution Expenses

The selling and distribution expenses, including advertising and market expansion expenses, design fees, rental expenses, salaries and benefits, and travelling expenses, amounted approximately RMB19.0 million for the year ended 31 December 2009, representing an increase of 14.3% as compared to that of approximately RMB16.6 million in 2008. The increase was primarily attributable to substantial resources that were invested in advertising and market expansion by the Group during the year.

Profit for the Year

The Profit for the year ended 31 December 2009 was approximately RMB45.9 million, representing an increase of 77.5% as compared to that of approximately RMB25.9 million in 2008. The increase was due to the growth of profit margin as well as turnover.

Final dividends

In order to express its gratitude for the supports of all Shareholders, the Company recommends a final dividend of HK10.45 cents per share for the financial year ended 31 December 2009, representing a total payout ratio of 50% of the profit attributable to owners of the Company, to the shareholders whose names appear on the register of members of the Company on 11 June 2010, subject to the approval of the Company's annual general meeting on the same date. The expected date for such dividend is on or before 25 June 2010.

Contingent liabilities

For the year ended 31 December 2009, the Group did not have any significant contingent liabilities.

OUTLOOK

With the promising outlook of the Chinese economy, the economic growth is expected to improve gradually as driven by the domestic demand. The Group is optimistic towards the development outlook. We will continue to enhance our edges in respect of brand value, capability of product design and sales network in order to grasp more opportunities for business growth.

In 2010, as a part of its major development strategies, the Group will develop the domestic sales network and establish different kinds of shops. Targeted at customers with higher consumption power, approximately 60 modern shops will be established mainly in major cities such as Chongqing, Beijing and Shanghai by the end of 2010. In addition, the Group plans to establish approximately 30 Tan's high-end home accessories shops mainly in major cities such as Shanghai and Beijing for developing the high-end market in the PRC by the end of 2011. Leveraged on our well-established brand value of "Carpenter Tan", we will establish flagship shops in the PRC.

The Group plans to set up three Lifestyle Handicrafts Company, the lifestyle handicraft stores which mainly display and sell most of the products of the brands of "Carpenter Tan" and "Tan's".

The Group also plans to develop the overseas market. It is expected that approximately 25 international shops will be established by the end of 2010. The Group plans to develop the "Tan's" brand into one of the internationally recognised brand of wooden home accessories products. The Group is registering the trademark of Tan's, which is specially designed, in various regions, such as Hong Kong and the United States.

The Group plans to enhance the image of its consignment shops. The Group strives to develop the brand of "Carpenter Tan" in the overseas market through selected distributors in different regions and to improve the image of existing consignment shops.

The Group plans to strengthen the capability in product design and development and operating efficiency. In order to enhance the Group's innovation capability, it plans to cooperate with domestic and overseas well-known design houses and development companies for improving and innovating its products and packaging. In addition, the Group also plans to acquire new production equipment and apply new manufacturing techniques to the production of wooden handicrafts and high-end home accessories in order to improve the quality and design of products. In respect of operating efficiency, the Group plans to develop a point-of-sales (POS) system which allows it to access the sales and inventories of the franchisees. The POS system will be integrated with the enterprise resources planning system. As a result, the planning of production, sales, distribution and procurement of raw materials will be more accurate.

Looking forward, the Group strives to make further development and continue to develop potential business opportunities with its market insight. The Group is committed to moving forward and developing "Carpenter Tan" into a time-honored and leading brand of wooden accessories products in the world, as well as bringing remarkable returns for its investors.

SOCIAL RESPONSIBILITY

As a responsible enterprise, the Group always considers contribution to the community as its principal goal. The Group employs a number of disabled persons and provides them with practical job training and employment opportunities, so that they can move from welfare-reliance to self-reliance. Chongqing City Wan Zhou Qu Ziqiang Muye Company Limited（重慶市萬州區自強木業有限公司）(" Ziqiang Muye"), a subsidiary of the Group, obtained a social welfare enterprise permit since April 2004 from Chongqing City Affairs Bureau (重慶市民政局) and was regarded as a social welfare enterprise in the PRC.

The Group is in strict compliance with the criteria of social welfare enterprise. The actual number of the disabled persons employed by an enterprise accounts for 25% and the enterprise enters into work agreement with a term of not less than one year with each disabled employee. During the year, the Group provided employment opportunities to 301 disabled persons to prove to the public that their abilities are not inferior than that of the able-bodies.

In addition, the Group has actively participated in other charity events.

HUMAN RESOURCES AND TRAINING

During the year, the Group employed a total of 874 employees in the mainland China, Hong Kong and overseas, with a total staff cost of approximately RMB23.1 million (2008: RMB22.1 million).

Besides providing employment opportunities for disabled persons, the Group is committed to seeking talents and retaining capable staff. Through various incentive schemes, forums and activities, the Group encourages all staff to participate in product design and development. In addition, the future success of the Group is mainly attributable to the effort of our executive directors. Therefore, the Group entered into service agreements with all Executive Directors with an initial term of three years since the date of listing.

The attitude, behaviour, belief and value of the staff of the Company are highly influenced by our corporate culture. Based on our corporate value of "Honesty, Work and Happiness", the Group always educates its staff and franchisees about the importance of honesty to customers and encourages its employees to progress and pursue excellence through sharing and on-the-job training. As a result, the staff will feel happy as the customers are satisfied.

DIRECTORS

Executive Directors

Mr. Tan Chuan Hua (譚傳華), aged 52, is an Executive Director, the co-founder of the Group, the chairman and the chief executive officer of the Company. He is responsible for the overall strategic planning, formulation of the corporate policies, the corporate development and also the day-to-day management of the Group. Mr. Tan has over 15 years of experience in the industry of manufacturing small size wooden handicrafts. Mr. Tan has been appointed as the Chairman of Chong Qing Art and Handicraft Association (重慶工藝美術行業協會) since 2004. He has been a member of the Third Political Consultative Conference Chong Qing Committee (重慶市第三屆政協委員) since January 2008 and was a member of the Second Political Consultative Conference Chong Qing Committee (重慶市第二屆政協委員) from January 2003 to December 2007. Mr. Tan was awarded by the Ministry of Personnel (人事部) of the PRC and China Disabled Persons' Federation (中國殘疾人聯合會) as a Country Self-motivated Model (全國自強模範) in 2003. He was also awarded as 2005 China Outstanding Franchise Executive (2005中國特許企業優秀管理者) by China Chain Store and Franchise Association (中國連鎖經營協會). He is the director of Lead Charm Investments Limited ("Lead Charm"), the Company's controlling shareholder and Global Craft Collection Association (國際手工藝術集藏協會). He is the spouse of Madam Fan Cheng Qin and father of Mr. Tan Di Fu, the elder brother of both Madam Tan Yao and Mr. Tan Cao, and the uncle of Mr. Tan Xiao Chuan. Mr. Tan was appointed as the Director on 20 June 2006.

Mr. Geng Chang Sheng (耿長生), aged 61, is an Executive Director and deputy general manager of the Group and he is responsible for the Group's financial function including reviewing the Group's financial position and responsible for the strategic investment planning and corporate finance activities of the Group. Mr. Geng has 9 years of management experience in the transportation industry during the period from 1987 to 1996 when he was a deputy general manager of a motor company in Chongqing and over 3 years of management experience in the property development industry during the period from 1999 to 2002 when he was a deputy general manager of a property company in the PRC. He studied Mechanics and graduated from Sichuan Broadcasting TV University (四川廣播電視大學). He is currently the director of Fame Good Investments Limited ("Fame Good"). Mr. Geng joined the Group in August 2002 as the assistant general manager of Chongqong Carpenter Tan Handicrafts Company Limited (重慶譚木匠工藝品有限公司) and has been responsible for the general administration and human resources function since August 2002. Mr. Geng was appointed as a director of Chongqong Carpenter Tan Handicrafts Company Limited (重慶譚木匠工藝品有限公司) in August 2003 and the Executive Director of the Company on 30 August 2006.

Non-executive Directors

Mr. Tan Cao (譚操), aged 46, is a Non-executive Director responsible for the corporate financial activity and legal matters of the Group. He is currently the director of Kau Luk Investment Company Limited（歌樂投資有限公司）of which the principal business is investment. He is also the director of Chongqing Rui Feng Agricultural Integrated Exploitation Co., Ltd. (重慶瑞豐農業綜合開發有限公司). He has over 19 years of management experience in the government and property management industry. He holds a bachelor's degree in Law from the Southwest University of Political Science and Law (西南政法大學). He is the younger brother of Mr. Tan Chuan Hua, the younger brother-in-law of Madam Fan Cheng Qin, the elder brother of Madam Tan Yao, and the uncle of Mr. Tan Xiao Chuan and Mr. Tan Di Fu. He joined the Group in August 2003 and was appointed as the Director on 30 August 2006.

Mr. Liu Chang (劉暢), aged 36, is a Non-executive Director responsible for the corporate financial activity and management of the Group. He worked for Beijing Anxintaifu Trading Company Limited (北京安信泰富商貿有限公司) of which the then principal business was trading of furniture in the PRC and was responsible for the overall strategic planning, corporate development and day-to-day management of this company. He has over 7 years of experience in investment banking. He holds a bachelor's degree in Law from the China Youth University for Political Sciences (中國青年政治學院). Mr. Liu joined the Group in September 2004 and was appointed as the Director on 30 August 2006.

Independent non-executive Directors

Madam Du Xin Li (杜新麗), aged 53, is an Independent Non-executive Director. Ms. Du obtained a doctorate degree in China University of Political Science and Law in 2004. She is currently the professor of law in China University of Political Science and Law. She is also an arbitrator of China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會) and an attorney at law in Beacon Law Firm, the PRC. She has extensive experience in international trade law, international investment law and international commerce law. She was appointed as the Independent Non-executive Director on 4 September 2007.

Mr. Yu Ming Yang (余明陽), aged 45, is an Independent Non-executive Director. Mr. Yu graduated from Fudan University (復旦大學) with a doctorate degree in management. He is currently the professor of Shanghai Jiao Tong University (上海交通大學). He is also an independent director of Dalian Zhangzidao Fishery Group Co., Ltd (大連獐子島漁業集團股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange. He is also an independent non-executive director of Noble Jewellery Holdings Limited, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange. He has extensive experience in branding strategy and management. He was appointed as the Independent Non-executive Director on 4 September 2007.

Mr. Chau Kam Wing, Donald (周錦榮), aged 47, is an Independent Non-executive Director. Mr. Chau is currently practising as a certified public accountant in Hong Kong and is a council member of The Society of Chinese Accountants & Auditors in Hong Kong. He has over 20 years' experience in auditing, taxation and financial management of various listed companies. Mr. Chau obtained a master's degree in business administration from the University of San Francisco, the United States and is a fellow member of the Association of Chartered Certified Accountants and a practising member of Hong Kong Institute of Certified Chartered Accountants. Mr. Chau is currently an independent non-executive director of China Water Affairs Group Limited, a company listed on the Main Board of the Hong Kong Stock Exchange. He is also an independent non-executive director of each of Eco-Tek Holdings Limited, China Nonferrous Metals Company Limited and Zhejiang Shibao Company Limited, all of which are listed on The Growth Enterprise Market of the Stock Exchange. Mr. Chau was appointed as the Independent Non-executive Director on 17 November 2009.

SENIOR MANAGEMENT

Madam Fan Cheng Qin (范成琴) aged 45, is the co-founder and quality controller of the Group. She is responsible for the quality control of the Group including supervision of the quality control team of the logistic centre. She has over 13 years' experience in the industry of manufacturing small wooden handicrafts. Madam Fan is the spouse of Mr. Tan Chuan Hua, the mother of Mr. Tan Di Fu the elder sister-in-law of both Mr. Tan Cao and Madam Tan Yao, and the aunt of Mr. Tan Xiao Chuan.

Madam Tan Yao (譚堯) aged 40, is the deputy general manager of the Group responsible for assisting Mr. Tan Chuan Hua to oversee the market development of high-end home accessories products. Madam Tan is responsible for research and product development, and technology teams. She joined the Group in January 2005. Prior to joining the Group, she has over 13 years of experience working for the Office for Moral, Ideological, and Political Education (精神文明辦公室) of the government of Chongqing as an officer for the period from August 1988 to March 2002 and was a deputy general manager of Chongging Three Gorges Gas (Group) Company Limited（重慶三峽燃氣（集團）有限公司）during May 2002 to January 2005. Madam Tan is the younger sister of Mr. Tan Chuan Hua and Mr. Tan Cao, the younger sister-in-law of Madam Fan Cheng Qin, and the aunt of Mr. Tan Xiao Chuan and Mr. Tan Di Fu.

Mr. Tan Xiao Chuan (譚小川), aged 33, is the deputy general manager of the Group responsible for the Group's sales and marketing function including supervision of the Group's local and overseas business development, sales management and the Group's product logistics. He joined the Group since incorporation of the Group in 1997 and has over 10 years of experience in the industry of manufacturing small wooden handicrafts. He studied Marketing and graduated from the University of Chengdu (成都大學). He is the nephew of Mr. Tan Chuan Hua, Madam Fan Cheng Qin, Mr. Tan Cao and Madam Tan Yao, and the cousin of Mr. Tan Di Fu.

Mr. Tan Di Fu (譚棣夫), aged 24, is the assistant to the president of the Group and responsible for assisting the formulation of its business development strategy. He enrolled in Sichuan International Studies University (四川外語學院) with bachelor degree in professional English language and literature (英語語言文化專業). He joined the Group in 2005 and has worked for various functional departments of the Group to obtain basic management training including production and human resources. He was subsequently promoted to the head of Wan Zhou Factory in 2007 and is responsible for its day-to-day operational management. Mr. Tan Di Fu is the son of Mr. Tan Chuan Hua and Madam Fan Cheng Qin, the nephew of Mr. Tan Cao and Madam Tan Yao and the cousin of Mr. Tan Xiao Chuan.

Madam Wang Ping (王萍), aged 45, is the managing director of Chongqing Meiyu Accessories Company Limited（重慶美裕飾品有限公司）("CQMY"). Madam Wang is responsible for the overall corporate development, production, sales and administration functions of CQMY, and the marketing and product development of high end home accessories. Madam Wang has 16 years of experience in management of training programmes and 6 years of experience in property development, in which Madam Wang was the general manager of a construction development company. She studied Politics and graduated from No. 2 Party School of Communist Party of China (CPC) Sichuan Municipal Committee (中共四川省委第二黨校). She joined the Group in March 2005.

Madam Nie Jian (聶劍), aged 38, is the deputy general manager of the Group responsible for the administration and human resources functions of the Group including supervision of the Group's general administration team, human resources management team and the Group's strategic development. Madam Nie studied management engineering and graduated from Sichuan Light Chemical Engineering College. Ms. Nie joined the Group in April 2005. Prior to joining the Group, Ms. Nie was an executive manager of a property company.

Mr. Luo Hong Ping (羅洪平), aged 41, is the general manager of Ziqiang Muye and is responsible for the operation in the Wan Zhou Factory. Mr. Luo graduated from Hefei Industrial University (合肥工業大學) in 1989. Mr. Luo has over 13 years in industrial management. Mr. Luo joined the Group in July 2003 and has been responsible for the production function of the Group since July 2003. Prior to joining the Group, Mr. Luo was the deputy factory manager of a silk factory and was the assistant of general manager of a electrical company.

Mr. Liu Nian (劉念), aged 36, is a senior accountant and the head of the Group's accounting and finance department in the PRC and responsible for PRC related accounting and finance matters. Mr. Liu graduated from Chongqing Jianzhu University (重慶建築大學) in 1995 with professional qualifications in construction finance and accounting. Mr. Liu joined the Group in 2003 and had worked as the head of the Group's date and information centre, deputy finance manager and was subsequently promoted as finance manager. Mr. Liu has accumulated more than 14 years of experience in financial management. Prior to joining the Group in 2003, Mr. Liu worked as a finance officer for an industrial equipment installation company and a finance manager for a real estate and property development company.

Mr. Huang Chao (黃超), aged 33, is the deputy finance manager of the Group's accounting and finance department in the PRC and responsible for PRC related accounting and finance matters. Mr. Huang graduated from Sichuan Broadcasting TV University (四川廣播電視大學) in 1996 with professional qualification in finance, accounts and computer application. Mr. Huang joined the Group in March 1997 and has accumulated more than 10 years experience in financial management.

Mr. Chan Hon Wan (陳漢雲), aged 49, is the financial controller and company secretary of the Company and joined the Group in June 2008. Mr. Chan graduated with a Master Degree in Accountancy from the Hong Kong Polytechnic University and a Bachelor Degree in Economics from Macquarie University in Australia. He is currently an associate member of The Hong Kong Institute of Certified Public Accountants (HKICPA), and an associate member of The Institute of Chartered Accountants in Australia. He has over 24 years of extensive experience in accounting and finance fields, gaining from one of the "Big-4" international accounting firms and various listed corporations. He is responsible for overseeing the Group's accounting and finance matters.

The Group recognises the value and importance of high corporate governance standards in the enhancement of corporate performance and accountability

The Board is committed to creating value and maximizing returns to the shareholders while striving to maintain high standards of corporate governance. The Board will continue to review and enhance the quality of corporate goverance practices with reference to local and international standards.

The Company since its listing on the Stock Exchange on 29 December 2009 (the "Listing Date"), has adopted and complied with all applicable code provisions under the Code on Corporate Governance practices ("CG Code") as set forth in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviation from provision A.2.1 of the CG Code.

The CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Currently, Mr. Tan Chuan Hua holds both the positions of the Chairman of the Board and the Chief Executive Officer of the Company. The Board believes that vesting the role of both positions in Mr. Tan provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies. The Board also considers that this structure will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a strong and independent non-executive element on the Board. The Board believes that the structure outlined above is beneficial to the Company and its business.

MODEL CODE FOR SECURITIES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set forth in Appendix 10 to the Listing Rules as its own code of conduct for dealing in securities by the Directors of the Company. Based on specific enquiry with the directors (the "Directors"), all the Directors confirmed that they have complied with the required standards as set out in the Model Code throughout the period from the Listing Date to 31 December 2009.

BOARD OF DIRECTORS

The Board is responsible for formulating the Group's overall strategic policies, setting objectives for the management and monitoring the performance of the management.

The Board comprises seven Directors, including two Executive Directors, two non-executive Directors (the "Non-executive Directors") and three independent non-executive Directors (the "Independent Non-executive Directors"), The Non-executive Directors who have diverse business and professional backgrounds have brought in a wealth of experience and expertise that promote the best interests of the Group and the shareholders.

All the Directors are aware of their collective and individual responsibilities to the shareholders and have exercised their duties with care, skill and diligence, contributing to the successful performance of the Group.

The Company has appointed three Independent Non-executive Directors that met the requirements of the Listing Rules, with at least one Independent Non-executive Director possessing the appropriate professional qualifications, or accounting or related financial management expertise. The Board has received from each of the Independent Non-executive Directors an annual confirmation of his independence and considers that all the Independent Non-executive Directors are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

Under the Company's Articles of Association, three of the Directors must retire, thus becoming eligible for re-election at each annual general meeting. This year, Executive Directors, Mr. Tan Chuan Hua and Mr. Geng Chang Sheng and Non-Executive Director, Mr. Liu Chang shall retire at the forthcoming annual general meeting. The retiring Directors, all being eligible, shall offer themselves for re-election. None of the Directors for re-election at the forthcoming annual general meeting has a service contract with any member of the Group which is not determinable by the relevant employer within one year without payment of compensation.

BOARD COMMITTEES

The Board has established two committees, namely the Audit Committee and the Remuneration Committee, to oversee particular aspects of the Company's affairs. Both of the committees have been established with written terms of references in compliance with the CG Code as set out in Appendix 14 of the Listing Rules.

A summary of the membership, duties and responsibilities of each of the committees are set out below:

AUDIT COMMITTEE

The Company established the Audit Committee on 17 November 2009. The Audit Committee has three members comprising all the Independent Non-executive Directors. Members of the Audit Committee include Madam Du Xin Li, Mr. Yu Ming Yang and Mr. Chau Kam Wing, Donald, in which Mr. Chau Kam Wing, Donald is the chairman of the Audit Committee.

Duties and responsibilities Include:

- Provide an independent review of the effectiveness of the financial reporting process and the internal control and risk management systems
- Review and monitor the external auditors' independence and objectivity, and the effectiveness of the audit process
- Monitor the integrity of the Company's financial statements, annual report and accounts
- Review the Group's financial and accounting policies and practices

The Audit Committee had reviewed the internal control and annual results of the Group for the year ended 31 December 2009 and the accounting principles and practices adopted by the Group. Our Financial Controller, external auditor and senior management attended the meetings to answer questions raised by the Audit Committee.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 17 November 2009. The Remuneration Committee currently has three members, namely Madam Du Xin Li, Mr. Yu Ming Yang and Mr. Chau Kam Wing, Donald, all of whom are Independent Non-executive Directors. Mr. Chau Kam Wing, Donald is the chairman of the Remuneration Committee.

Duties and responsibilities include:

- Recommend to the Board on the Company's policy and structure for all remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration
- Review and approve performance - based remuneration by reference to corporate goals and objectives
- Review and approve compensation arrangements relating to dismissal or removal of the Directors for misconduct
- Consider the granting of share options to the Directors pursuant to any share option scheme adopted by the Company

For the period between the Listing Date and 31 December 2009, there was no change in the policy and structure of the remuneration for Directors and senior management of the Group, and accordingly, the Remuneration Committee did not convene any meeting.

BOARD MEETINGS AND INDIVIDUAL ATTENDANCES

The Board is scheduled to meet regularly at least 2 times a year, and the Directors will receive at least 14 days, prior written notice of such meetings. For any ad hoc Board meetings, the Directors are given as much notice as is reasonably practicable in those circumstances.

Details of the Directors' attendance at the Board meetings and the Board committee meetings held since the Listing Date to 31 December 2009 are set forth in the following table:

Number of meetings held during the year (since the Listing Date)	Board	Audit Committee	Remuneration Committee
Executive Directors			
Mr. Tan Chuan Hua (Chairman)	—	—	—
Mr. Geng Chang Sheng	—	—	—
Non-executive Directors			
Mr. Tan Cao	—	—	—
Mr. Liu Chang	—	—	—
Independent Non-Executive Directors			
Ms. Du Xin Li	—	—	—
Mr. Yu Ming Yang	—	—	—
Mr. Chau Kam Wing, Donald	—	—	—

Note: As there were merely 3 calendar days from the Listing Date up to the financial year ended 31 December 2009, no Board meetings and Board committee meetings were held during such a short period of time.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND EXTERNAL AUDITORS

The Directors are responsible for the preparation of the financial statements, which give a true and fair view of the state of affairs, results and cash flow of the Group in accordance with relevant law and disclosure requirements under the Listing Rules. The external auditors are responsible for forming an independent opinion, based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the shareholders as a body and for no other purpose.

INTERNAL CONTROL AND INTERNAL COMPLIANCE GUIDELINES

The Board has overall responsibility for maintaining the soundness and effectiveness of the internal control and risk management systems of the Group. Such systems are designed to meet the Group's particular needs and the risk by which it is exposed. Procedures have been set up for safeguarding the Group's assets against any unauthorized use or disposition and ensuring an appropriate maintenance of accounting records and the availability of reliable financial information for internal or external use.

The Board has engaged an external consultant to conduct a review of the effectiveness of the Group's internal control systems, workflows and the management systems which were assessed to be satisfactory and were functioning properly in compliance with the internal compliance guidelines to safeguard the Group's assets.

For the year ended 31 December 2009, the Board had, through the Audit Committee's reviews, the findings of the external consultant, reviewed the Group's internal control procedures and compliance with the internal compliance guidelines and considered them having been effectively implemented and properly complied with.

COMPLIANCE ADVISER

Pursuant to the compliance adviser agreement dated 14 December 2009 entered into between the Company and First Shanghai Capital Limited ("First Shanghai"), First Shanghai has been appointed as the compliance adviser as required under the Listing Rules for the period from the Listing Date to the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of the Company's financial results for the year ended 31 December 2010. First Shanghai has received a fee for acting as the Company's compliance adviser during the period.

As notified by First Shanghai, save as disclosed above, neither First Shanghai nor its respective directors, employees or associates (as defined in the Listing Rules) had any interest in the shares of the Company, or had any options or rights to subscribe for or to nominate persons to subscribe for the shares of the Company as at 31 December 2009.

Pursuant to Rule 3A. 23 of the Listing Rules, First Shanghai will advise the Company on the following matters:

- the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchase;

- where the Company proposes to use the net proceeds of the share offer in a manner different from that detailed in the prospectus or where the business activities, developments or results of the Company deviate from any forecast, estimate, or other information in the prospectus; and
- where the Stock Exchange makes an inquiry of the Company regarding unusual movements in the price or trading volume of the securities of the Company.

EXTERNAL AUDITOR'S REMUNERATION

For the year ended 31 December 2009, the total remuneration for the audit services provided by the external auditor amounted to RMB0.72 million (equivalent to approximately HK$0.81 million).

For the year ended 31 December 2009, the total remuneration for the permissible non-audit services (namely, review of the Group's internal control system) provided by the external auditors amounted to RMB0.18 million (equivalent to approximately HK$0.20 million).

CCIF CPA Limited has been recommended by the Audit Committee and endorsed by the Board and is subject to approval by the shareholders at the forthcoming annual general meeting.

INVESTOR RELATIONS

The Company believes that effective communications with the investment community are pivotal in enhancing investors' understanding of the Company's business and development. To achieve this and to enhance transparency, the Company maintains a proactive approach in promoting investor relations and communications. As such, the objectives of the Company's investor relations policy is to enable investors to have access, on a fair and timely basis, to information relating to the Group so that they can make informed decisions.

Investors are welcome to share their views with the Board by writing to the Company or sending enquiries to the Company's website at www. ctans. com. The website also enables investors and the public to obtain up-to-date corporate information of the Group.

On behalf of the Board
Carpenter Tan Holdings Limited
Tan Chuan Hua
Chairman

Hong Kong, 17 April 2010

The Directors have pleasure in presenting the annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2009.

GROUP REORGANISATION

The Company is a limited liability company incorporated in the Cayman Islands on 20 June 2006. Pursuant to a group reorganization in preparation for listing on the Stock Exchange, the Company had become the holding company of the subsidiaries now comprising the Group since 29 August 2007. Further details of the Group's reorganization are set forth in the Company's listing prospectus dated 15 December 2009 (the "Prospectus"). Shares in the Company had been listed on the Main Board of the Stock Exchange since 29 December 2009 (the "Listing Date").

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in (i) the design, manufacture and distribution of small size wooden accessories which are mainly made of natural wood and designed with traditional Chinese cultural features and with high artistic qualities; (ii) the operation of a franchise and distribution network primarily in the PRC; (iii) the operation of retailing shops for direct sale of its products in Hong Kong; and (iv) manufacture and sale of high-end home accessories and Chinese-style furniture. The Group's products are mainly classified into four categories, namely (i) wooden or horn combs such as coloured drawing combs, grass-and-tree dyed wooden combs and carved combs; (ii) pocket-size wooden mirrors such as coloured drawing mirrors and carved mirrors; (iii) other wooden accessories and adornments such as bead bracelets (香珠手鏈), pendants (鏈墜), barrettes (髮夾), hair bobs (髮簪) and massage tools; and (iv) box sets which combine its different products featured in themes for gift purpose. The Group's products are mainly sold under the brandname of "**Carpenter Tan**" (譚木匠).

RESULTS AND DIVIDENDS

The Group's profit of the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 36 to 42.

The Directors recommend the payment of a final dividend of HK10.45 cents per share (equivalent to approximately RMB 9.18 cents per share) in respect of the year, to the shareholders whose names appear on the register of members of the Company on Friday, 11 June 2010.

The register of members of the Company will be closed from Monday, 7 June 2010 to Friday, 11 June 2010, both days inclusive, during which period no transfer of shares in the Company will be effected. In order to qualify for the proposed final dividend and attending the forthcoming annual general meeting of the Company, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 4 June 2010.

USE OF PROCEEDS FROM THE COMPANY'S LISTING

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 29 December 2009, after deduction of the related issuance expenses, amounted to approximately HK$132.9 million (equivalent to approximately RMB116.8 million). As there were only three calendar days from the Listing Date up to the financial year ended 31 December 2009, no net proceeds from the issue of the new shares was utilized as at year end date on 31 December 2009. Details of the expected usage of proceeds from the issue of the new Shares are set forth in the Company's listing prospectus dated 15 December 2009.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in Consolidated Statement of Changes in Equity on page 40 and note 34 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2009, the Company's reserves, including the share premium account, available for distribution, calculated in accordance with the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands ("Companies Law"), amounted to RMB168,872,000, of which RMB22,950,000 (equivalent to approximately HK$26,125,000) has been proposed as a final dividend for the year. Under the Companies Law, a company may make distribution to its shareholders out of the share premium account under certain circumstances.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to approximately RMB2,639 (equivalent to approximately HK$3,000) (2008: RMB21,400).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set forth in note 16 to the financial statements.

INVESTMENT PROPERTIES

The Group's investment properties were revalued at the year end date. The fair value increase on investment properties arising on revaluation amounting to approximately RMB5,350,000 has been credited to the consolidated income statement. Details of movements in the investment properties of the Group are set out in note 18 to the consolidated financial statements of the Company for the year ended 31 December 2009.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

SUBSIDIARIES

Details of the Company's principal subsidiaries as at 31 December 2009 are set out in note 20 to the financial statements.

DIRECTORS

The Directors of the Company since the Listing Date and up to the date of this annual report have been:

Executive Directors
Mr. Tan Chuan Hua (Chairman)
Mr. Geng Chang Sheng

Non-executive Directors
Mr. Tan Cao
Mr. Liu Chang

Independent Non-Executive Directors
Madam Du Xin Li
Mr. Yu Ming Yang
Mr. Chau Kam Wing, Donald

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical information of the Directors and senior management of the Company are set out in the "Biography of Directors and Senior Management" section on pages 16 to 20.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors (including Executive Directors, Non-executive Directors and Independent Non-executive Directors) has entered into a service agreement with the Company. The terms and conditions of such service agreements are briefly described as follows:

(a) each service agreement in respect of Executive Directors commenced on the Listing Date and is for a term of three years unless and until terminated by either party thereto giving to the other party not less than three months' prior written notice or terminated in accordance with the provisions set out in the respective service agreement after the first one year;

Each of the Executive Directors is entitled to their respective remuneration and benefits under statutory retirement scheme which have been agreed with the Company;

In addition, each of the Executive Directors may receive a discretionary bonus as the Board may suggest, the amount of which shall not exceed 5% of the audited consolidated net profits of the Group for the relevant financial year. Such amount has to be approved by the remuneration committee of the Board.

(b) each service agreement in respect of Non-executive Directors commenced on the Listing Date and is for a term of two years. Either party may terminate the appointment by giving to the other party no less than three months' prior written notice. Each of the Non-executive Directors is entitled to their respective remuneration which has been agreed with the Company.

(c) each service agreement in respect of the Independent Non-executive Directors commenced on the Listing Date and is for a term of two years. Either party may terminate the appointment by giving to the other party not less than three months' prior written notice. Each of the Independent Non-executive Directors is entitled to their respective remuneration which has been agreed with the Company.

Save as disclosed herein, none of the Directors has entered into or has proposed to enter into any service agreements with the Company (other than agreements expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2009, none of the Directors was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2009, the interests and short positions of the Directors in the share, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ('SFO")) as recorded in the register maintained by the Company under section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers ("Model Code") were as below:

Interests in shares of the Company:

Name of Director	**Capacity/Nature of interest**	**Number of securities** *(Note 1)*	**Approximate percentage of shareholding**
Tan Chuan Hua *(Note 1)*	Interest in a controlled corporation	169,700,000	67.88%

Note:

1. Mr. Tan is deemed to be interested in 169,700,000 Shares held by Lead Charm by virtue of his 51% interest in Lead Charm under Part XV of the SFO.

Interests in the shares of associated corporations:

Name of Directors	Name of associated corporations	Capacity/ Nature of interest	Approximate percentage of shareholding in associated corporations
Tan Chuan Hua	Lead Charm	Beneficial owner	51%
Tan Cao	Fame Good	Beneficial owner	24.81%
Geng Chang Sheng	Fame Good	Beneficial owner	7.44%

SENIOR MANAGEMENT'S INTEREST IN SECURITIES

Interest in the shares of associated corporations

Name	Name of associated corporations	Capacity/ Nature of interest	Approximate percentage of shareholding in associated corporations
Fan Cheng Qin	Lead Charm	Beneficial owner	49%
Tan Yao	Fame Good	Beneficial owner	14.89%
Tan Xiao Chuan	Fame Good	Beneficial owner	3.47%
Huang Chao	Fame Good	Beneficial owner	2.98%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2009, the interests and long positions of every persons in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital, as recorded in the register maintained and kept by the Company under section 336 of the SFO were as below:

Interests in the Shares of the Company

Name	Capacity/ Nature of interest	Number of shares	Position	Approximate percentage of shareholding
Fan Cheng Qin *(note 1)*	Interest in a controlled Corporation	169,700,000	Long	67.88%
Lead Charm *(note 2)*	Beneficial owner	169,700,000	Long	67.88%
Fame Good *(note 2)*	Beneficial owner	17,800,000	Long	7.12%

Notes:

1. Fan Cheng Qin is deemed to be interested in 169,700,000 Shares held by Lead Charm by virtue of her 49% interest in Lead Charm under Part XV of the SFO. Fan Cheng Qin is a controlling shareholder within the meaning of the Listing Rules.

2. Lead Charm and Fame Good are both controlling shareholders within the meaning or otherwise by virtue of the Listing Rules.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants, including directors, eligible employees, consultants, suppliers, customers, any shareholder of each member of the Group or associated company or any of their respective associates, who contribute to the success of the Group. The Share Option Scheme conditionally approved by a written resolution of the shareholders of the Company dated 17 November 2009.

The Board may offer to make a grant subject to such conditions (including but not limited to terms and condition in relation to vesting, exercise or otherwise) as the Board may think fit, provided that such conditions shall not be inconsistent with any other terms and conditions of the Share Option Scheme. The Board may, at its absolute discretion, fix any minimum period for which an Option must be held, any performance targets that must be achieved and/or any other conditions that must be fulfilled before the Options can be exercised upon the grant of an option to an Eligible Person. Any grant of options to a connected person must be approved by the Independent Non-executive Directors (excluding the Independent Non-executive Director who or whose associates is the grantee of the option).

The subscription price for the Shares under the Share Option Scheme shall be such price as the Board may in its absolute discretion determine at the time of grant of the option but the subscription price shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day ("Offer Date"); (ii) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of a Share, provided that for the purpose of calculating the subscription price, where the Company has been listed for less than five business days the issue price shall be used as the closing price for any business day falling within the period before listing.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Group shall not exceed 30% of the Shares in issue from time to time. The Board shall be entitled to cancel any option granted but not exercised in whole or in part by giving notice in writing to the grantee stating that such option is thereby cancelled with effect from the date specified in such notice. Any Options cancelled cannot be re-granted.

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the Effective date. Upon the expiry of the Share Option Scheme, no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other aspects to the extent necessary to give effect to the exercise of any options granted or exercised prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

The Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon termination of the Share Option Scheme as aforesaid, no further options shall be offered but the provision of the Share Option Scheme shall remain in force and effect in all respects to the extent necessary to give effect to the exercise of Options granted prior to such termination. All options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

As at 31 December 2009, no option has been granted under the Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed in the paragraph headed "Share Option Scheme" in this report, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Other than those transactions set out in the paragraph headed "Related Party Transactions", at the end of the year or at any time during the year, there was no contract of significance in relation to the Company's business, to which the Company or any of its subsidiaries was a party, subsisted, and in which a Director had, whether directly or indirectly, a material interest.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year.

RELATED PARTY TRANSACTIONS

Details of the Group's related party transactions for the year ended 31 December 2009 are set out in note 38 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period from the Listing Date to 31 December 2009, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

MATERIAL ACQUISITION AND DISPOSAL OF THE GROUP

For the year ended 31 December 2009, the Group did not have any material acquisition and disposal.

PLEDGE OF ASSETS

As at 31 December 2009, the Group did not have any assets pledged to the bank (2008: book value of RMB11.1 million).

LIQUIDITY AND FINANCIAL RESOURCES

The Group relied principally on its internal resources to fund its operations. Bank loans will be raised occasionally to meet the different demands of its business. As at 31 December 2009, the Group had raised bank loans of approximately RMB50 million (2008: RMB40 million) and held approximately RMB194.8 million (2008: RMB50.9 million) cash reserves. The gearing ratio (total borrowings to shareholders' fund) is at the level of 0.19 (2008: 0.36). The Group's principal operations are transacted and recorded in Renminbi and Hong Kong dollars. The Group expects that Renminbi will appreciate in a stable pattern in the future. The Group has no significant exposure to other foreign exchange fluctuations.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales to the five largest customers of the Group accounted for approximately 3.6% of the Group's total revenue and sales to the largest customer accounted for approximately 1.1% of the Group's total revenue for the year 2009. The aggregate purchases from the five largest suppliers of the Group accounted for approximately 38.4% of the Group's total purchases and purchases from the largest supplier accounted for approximately 11.1% of the Group's total purchases for the year 2009.

None of the Directors, their associates, or any shareholder which to the knowledge of the Directors own more than 5% of the Company's issued share capital has any interest in the Group's five largest suppliers or the Group's five largest customers.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the date of this annual report, there was a sufficient prescribed public float of the issued shares of the Company under the Listing Rules.

AUDITOR

The financial statements were audited by CCIF CPA Limited who will retire at the conclusion of the forthcoming annual general meeting and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of CCIF CPA Limited as the auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board
Tan Chuan Hua
Chairman

Hong Kong, 17 April 2010

CCIF

CCIF CPA LIMITED

34/F The Lee Gardens
33 Hysan Avenue
Causeway Bay Hong Kong

TO THE SHAREHOLDERS OF
CARPENTER TAN HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Carpenter Tan Holdings Limited (the "Company") set out on pages 36 to 101, which comprise the consolidated and Company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 17 April 2010

Betty P.C. Tse
Practising Certificate Number P03024

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	2009 RMB'000	2008 RMB'000
Turnover	5	**139,791**	108,656
Cost of sales		**(54,464)**	(47,629)
Gross profit		**85,327**	61,027
Other revenue and net income	6	**18,158**	11,990
Administrative expenses		**(18,402)**	(17,684)
Selling and distribution expenses		**(19,001)**	(16,626)
Other operating expenses		**(5,360)**	(4,191)
Profit from operations		**60,722**	34,516
Finance costs	7	**(2,964)**	(2,331)
Profit before taxation	8	**57,758**	32,185
Income tax	9	**(11,836)**	(6,311)
Profit for the year		**45,922**	25,874
Attributable to			
Owners of the Company	14	**45,922**	25,874
Earnings per share	15		
Basic and diluted		**RMB 24 cents**	RMB 14 cents

The notes on pages 43 to 101 form part of these financial statements.

	2009 RMB'000	2008 RMB'000
Profit for the year	**45,922**	25,874
Other comprehensive income for the year (after tax)		
Exchange differences on translation of financial statements of foreign operations	**683**	(294)
Tax expense	**—**	—
Exchange differences on translation of financial statements of foreign operations, net of tax	**683**	(294)
Surplus on revaluation of land and buildings held for own use	**—**	2,297
Tax expense	**—**	(574)
Surplus on revaluation of land and buildings held for own use, net of tax	**—**	1,723
Other comprehensive income for the year	**683**	1,429
Total comprehensive income for the year	**46,605**	27,303
Attributable to		
Owners of the Company	**46,605**	27,303

The notes on pages 43 to 101 form part of these financial statements.

AT 31 DECEMBER 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	16	**35,779**	36,481
Prepaid lease payments	17	**20,430**	20,950
Investment properties	18	**34,650**	29,300
Intangible assets	19	**500**	—
		91,359	86,731
Current assets			
Prepaid lease payments	17	**495**	444
Inventories	21	**42,041**	40,944
Amounts due from related parties	37(b)	**14**	4,759
Trade receivables	22	**427**	420
Other receivables, deposits and prepayments	23	**13,960**	18,986
Cash and cash equivalents	25	**194,797**	50,883
		251,734	116,436
Current liabilities			
Amount due to ultimate holding company	26	**—**	607
Bank loans	28	**50,000**	40,000
Trade payables	29	**3,245**	2,616
Other payables and accruals	30	**19,489**	41,746
Income tax payable	24(a)	**2,329**	614
		(75,063)	(85,583)
Net current assets		**176,671**	30,853
Total assets less current liabilities		**268,030**	117,584
Non-current liabilities			
Deferred tax liabilities	24(b)	**6,142**	2,384
Long-term payable	31	**1,851**	3,574
Deferred income	32	**979**	1,000
		(8,972)	(6,958)
NET ASSETS		**259,058**	110,626
CAPITAL AND RESERVES			
Share capital	33	**2,200**	47
Reserves	34	**256,858**	110,579
TOTAL EQUITY		**259,058**	110,626

The notes on pages 43 to 101 form part of these financial statements.

	Notes	2009 RMB'000	2008 RMB'000
Non-current assets			
Investment in a subsidiary	20	**47**	47
Current assets			
Other receivables, deposits and prepayments	23	**7,016**	34
Amount due from a subsidiary	20	**7,435**	30,150
Cash and cash equivalents	25	**130,584**	—
		145,035	30,184
Current liabilities			
Amount due to subsidiaries	27	**22,388**	79
Other payables and accruals	30	**5,865**	30,000
		(28,253)	(30,079)
Net current assets		**116,782**	105
NET ASSETS		**116,829**	152
CAPITAL AND RESERVES			
Share capital	33	**2,200**	47
Reserves	34	**114,629**	105
TOTAL EQUITY		**116,829**	152

The notes on pages 43 to 101 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Other reserves RMB'000	Property revaluation reserve RMB'000	Currency translation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2008	47	—	2,767	52,480	17,738	—	(85)	40,376	113,323
Dividends	—	—	—	—	—	—	—	(30,000)	(30,000)
Transfer to reserve	—	—	—	5,494	—	—	—	(5,494)	—
Total comprehensive income for the year	—	—	—	—	—	1,723	(294)	25,874	27,303
At 31 December 2008	47	—	2,767	57,974	17,738	1,723	(379)	30,756	110,626
At 1 January 2009	**47**	**—**	**2,767**	**57,974**	**17,738**	**1,723**	**(379)**	**30,756**	**110,626**
Capitalisation issue	**1,604**	**(1,604)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Shares issued under the placing and public offering	**549**	**141,199**	**—**	**—**	**—**	**—**	**—**	**—**	**141,748**
Share issuance costs	**—**	**(24,921)**	**—**	**—**	**—**	**—**	**—**	**—**	**(24,921)**
Dividends	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(15,000)**	**(15,000)**
Transfer to reserve	**—**	**—**	**—**	**7,480**	**—**	**—**	**—**	**(7,480)**	**—**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**—**	**683**	**45,922**	**46,605**
At 31 December 2009	**2,200**	**114,674**	**2,767**	**65,454**	**17,738**	**1,723**	**304**	**54,198**	**259,058**

The notes on pages 43 to 101 form part of these financial statements.

	Note	2009 RMB'000	2008 RMB'000
Operating activities			
Profit before taxation		**57,758**	32,185
Adjustments for:			
Interest expenses		**2,964**	2,331
Interest income		**(149)**	(413)
Change in fair value of investment properties		**(5,350)**	(2,230)
Change in fair value of long-term payable		**—**	1,783
Loss on disposal of property, plant and equipment		**930**	128
Depreciation		**3,258**	3,551
Amortisation of prepaid lease payments		**495**	465
Amortisation of intangible assets		**—**	16
Write back of impairment on trade receivables		**—**	(3)
Impairment on other receivables		**456**	17
Write-down on inventories		**1,392**	3,688
Write off of trade payable		**(189)**	—
Government grant released from deferred income		**(21)**	—
Operating profit before working capital changes		**61,544**	41,518
Increase in inventories		**(2,489)**	(5,371)
Decrease/(increase) in amounts due from related parties		**4,745**	(4,204)
(Increase)/decrease in trade receivables		**(7)**	273
Decrease/(increase) in other receivables, deposits and prepayments		**4,570**	(662)
Decrease in amount due to ultimate holding company		**(607)**	—
Increase/(decrease) in trade payables		**818**	(1,277)
Increase/(decrease) in other payables and accruals		**7,620**	(1,092)
Cash generated from operations		**76,194**	29,185
Dividend paid		**(45,000)**	—
Interest received		**149**	413
Interest paid		**(2,564)**	(1,966)
Income tax paid, net		**(6,363)**	(8,737)
Net cash generated from operating activities		**22,416**	18,895
Investing activities			
Purchase of property, plant and equipment		**(3,601)**	(5,305)
Purchase of intangible assets		**(500)**	—
Prepaid lease payments		**(26)**	(1,088)
Proceeds from disposal of property, plant and equipment		**114**	131
Purchase of investment properties		**—**	(19,870)
Net cash used in investing activities		**(4,013)**	(26,132)

	Note	2009 RMB'000	2008 RMB'000
Financing activities			
Proceeds from issue of new shares		**141,748**	—
Share issuance costs		**(24,921)**	—
New bank loans raised		**50,000**	40,000
Repayment of bank loans		**(40,000)**	(20,000)
Repayment of long-term payable		**(2,000)**	(2,000)
Net cash generated from financing activities		**124,827**	18,000
Net increase in cash and cash equivalents		**143,230**	10,763
Cash and cash equivalents at beginning of year		**50,883**	40,434
Effect of foreign exchange rate changes, net		**684**	(314)
Cash and cash equivalents at end of year	25	**194,797**	50,883
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**194,797**	50,883

The notes on pages 43 to 101 form part of these financial statements.

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 20 June 2006 as an exempted company with limited liability under the Companies Law (Chapter 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the Company's registered office and the principal place of business are Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and at 43rd Floor, Future International Building, Guanyinqiao, Jiangbei District, Chongqing, the People's Republic of China (the "PRC") respectively.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company and its subsidiaries.

The Company is an investment holding company. The subsidiaries of the Company are principally engaged in (i) design, manufacture and distribution of small size wooden handicrafts and accessories, including wooden combs, wooden mirrors, wooden box set and other wooden accessories and adornments, under the brand name of "Carpenter Tan"; (ii) the operation of a franchise and distribution network primarily in the PRC; (iii) the operation of retailing shops for direct sale of the Group's products in Hong Kong; and (iv) manufacture and sale of high-end home accessories and Chinese-style furniture.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the "Group").

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity. These financial statements are presented in RMB, rounded to the nearest thousand except for per share data. RMB is the Company's functional and presentation currency.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as otherwise set out in the accounting policies below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's statement of financial position, an investment in a subsidiary is carried at cost less any impairment losses (see note 2(h)), unless the investment is classified as held for sale.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

d) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(f)) to earn rental income and/or for capital appreciation. These include land held for a currently undertermined future use.

Investment properties are carried in the statement of financial position at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the income statement. Rental income from investment properties is accounted for as described in note 2(q)(iv).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(f)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(f)).

e) Property, plant and equipment

Property, plant and equipment are carried in the statement of financial position at cost less accumulated depreciation and accumulated impairment losses, if any.

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. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

Depreciation is calculated to write off the cost or fair value of property, plant and equipment on a straight-line basis over their estimated useful lives as follows:

Buildings	Over the unexpired lease terms
Leasehold improvements	Over the unexpired lease terms
Plant and machinery	5 to 10 years
Furniture and equipment	5 to 6 years
Motor vehicles	5 to 6 years

Construction in progress represents buildings or leasehold improvements on which construction work has not been completed. It is carried at cost which includes construction expenditures and other direct costs less any impairment losses. On completion, construction in progress is transferred to the appropriate categories of property, plant and equipment at cost less accumulated impairment losses. No depreciation is provided for construction in progress until they are completed and available for use.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

e) Property, plant and equipment – *continued*

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by the end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognised in the income statement on the date of retirement or disposal.

f) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i) Classification of assets leased to the Group

Assets held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

— property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(d)); and

— land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

f) Leased assets – *continued*

ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset or, if lower, the present value of the minimum lease payments of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(e). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(h). Finance charges implicit in the lease payments are charged to the income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

g) Intangible asset

Intangible assets with finite useful lives acquired by the Group are carried in the statement of financial position at cost less accumulated amortisation and impairment losses (see note 2(h)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to the income statement on a straight-line basis over its estimated useful life of 4 years. Both the period and method of amortisation are reviewed annually.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

h) Impairment of assets

i) Impairment of receivables

Current and non-current receivables that are carried at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

If any such evidence exists, any impairment loss is determined and recognised as follows:

— For trade and other receivables, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

h) Impairment of assets – *continued*

ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;

— prepaid lease payments;

— intangible assets; and

— investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

i) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories and recognised as an expense in the period in which the reversal occurs.

j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter carried at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are carried at cost less allowance for impairment of doubtful debts (see note 2(h)).

k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are carried at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

l) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently carried at amortised cost unless the effect of discounting would be immaterial, in which case they are carried at cost.

m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

n) Employee benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are carried at their present values.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of volumtary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided that those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

o) Income tax – *continued*

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

    — the same taxable entity; or

    — different taxable entities which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

p) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

(q) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discount, sale returns, value-added tax and sale tax. Sale returns are recognised when the goods are returned by the customers. Value-added tax expense and refund are accounted for on an accrual basis.

(i) Revenue from sales of goods is recognised when the products are delivered to the customer, the customer has accepted the goods, the related risks and rewards of ownership and collectibility of the related receivables is reasonably assured.

(ii) Franchise fee income is recognised when the franchise agreements are entered into with franchise shops.

(iii) Interest income is recognised on a time-apportioned basis, taking into account the principal outstanding and at the effective rate applicable.

(iv) Rental income is recognised on a straight-line basis over the period of the relevant leases.

(v) Sub-contracting income is recognised when the sub-contracting services have been rendered.

r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies and carried at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised directly in a separate component of equity.

s) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

t) Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are reported separately as other income. Government grants are not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to them.

u) Related parties

For the purpose of these financial statements, parties are considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals, or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually materially operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements.

HKAS 1 (Revised 2007)	Presentation of financial statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation
HKFRS 2 (Amendments)	Shared-based payment-vesting conditions and cancellations
HKFRS 7 (Amendments)	Improving disclosures about financial instruments
HKFRS 8	Operating segments
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 which is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39
HK(IFRIC) - Int 9 & HKAS 39 (Amendments)	Embedded derivatives
HK(IFRIC) - Int 13	Customer loyalty programmes
HK(IFRIC) - Int 15	Agreements for the construction of real estate
HK(IFRIC) - Int 16	Hedges of a net investment in a foreign operation
HK(IFRIC) - Int 18	Transfers of assets from customers

HKFRS 8, the amendments to HKAS 23, HKAS 32 & 1, HK(IFRIC) - Int 9 and HKAS 39, HKFRS 2 and HKFRS 7, Interpretations HK(IFRIC) - Int 13, HK(IFRIC) - Int 15 and HK(IFRIC) - Int 16, HK(IFRIC) - Int 18, and Improvements to HKFRSs (2008) and HKFRSs (2009) have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

— As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expenses are presented in the consolidated income statement, if they are recognsied as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

— The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the entity's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

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 judgements 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.

a) Impairment on property, plant and equipment and prepaid lease payments

The Group assesses annually whether property, plant and equipment and prepaid lease payments have any indication of impairment. The recoverable amounts of property, plant and equipment and prepaid lease payments have been determined based on value-in-use calculations. These calculations require the use of judgements and estimates.

b) Valuation of investment properties

Investment properties are included in the statement of financial position at their open market value, which is assessed by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

c) Write-downs of inventories

Inventories are written down to net realisable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgements and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the periods in which such estimate has been changed.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

d) Impairment on trade and other receivables

Impairment losses for trade and other receivables are assessed and provided based on the Group's regular review of aging analysis and evaluation of collectibles.

In considering the impairment losses that may be required for current receivables, future cash flows need to be determined. One of the key assumptions that has to be adopted is about the ability of the debtors to settle the receivables. Even though the Group has used all available information to make this estimation, inherent uncertainty exists and actual uncollectible amounts may be higher than the amount estimated.

e) Income tax

Determining income tax provision involves judgement on the future tax treatment of certain transactions. The directors carefully evaluate tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, the directors' judgement is required to assess the probability of future taxable profits. The directors' assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

5. TURNOVER

Turnover represents the net invoiced value of goods sold to customers, less value added tax and sale tax, returns and allowances, and franchise fee income. An analysis of the Group's turnover for the year is as follows:

	2009	2008
	RMB'000	RMB'000
Sales of goods	**138,228**	107,808
Franchise fee income	**1,563**	848
	139,791	108,656

6. OTHER REVENUE AND NET INCOME

	2009 RMB'000	2008 RMB'000
Other revenue		
Interest income on financial assets not at fair value through profit or loss - Bank interest income	**149**	413
Government grant	**114**	900
Government grant released from deferred income (note 32)	**21**	—
PRC VAT tax concession (note 9(a)(i))	**10,683**	7,697
Subcontracting income	**35**	—
Rental income from operating leases	**725**	195
Write back of impairment on trade receivables	**—**	3
Write off of trade payable	**189**	—
Others	**892**	552
	12,808	9,760
Other net income		
Change in fair value of investment properties	**5,350**	2,230
	18,158	11,990

7. FINANCE COSTS

	2009 RMB'000	2008 RMB'000
Interest on bank and other borrowings wholly repayable within five years	**2,564**	1,966
Imputed interest expense on long-term payable	**400**	365
Total interest expense on financial liabilities not at fair value through profit or loss	**2,964**	2,331

8. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging and (crediting):

	2009 RMB'000	2008 RMB'000
a) Staff costs (including directors' emoluments)		
– Salaries and other allowances	22,597	21,591
– Contribution to retirement scheme	473	503
Total staff costs	23,070	22,094
b) Other items		
Auditor's remuneration	718	44
Amortisation of prepaid lease payments	495	465
Amortisation of intangible assets	—	16
Change in fair value of long-term payable (note 31)	—	1,783
Cost of inventories (notes 8(i) and 21)	54,464	47,629
Depreciation	3,258	3,551
Impairment on other receivables	456	17
Listing fee	507	—
Loss on disposal of property, plant and equipment	930	128
Operating lease rentals in respect of land and buildings	6,260	5,908
Gross rental income from investment properties	(725)	(195)
Less: Direct outgoings	167	6
	(558)	(189)

Notes:

(i) Cost of inventories includes approximately RMB13,149,000 (2008: RMB12,737,000) relating to staff costs, depreciation and operating lease rentals, which are included in the respective total amounts disclosed separately above.

9. INCOME TAX

a) Taxation in the consolidated income statements represents:

	2009 RMB'000	2008 RMB'000
Current tax		
PRC enterprise income tax (notes 9(a)(i) and (ii))	**7,798**	4,501
Hong Kong profits tax (note 9(a)(iv))	**—**	—
	7,798	4,501
Underprovision in prior years		
PRC enterprise income tax	**280**	—
Deferred tax		
Current year (note 24(b))	**3,758**	1,810
Total	**11,836**	6,311

9. INCOME TAX – *continued*

a) Taxation in the consolidated income statements represents: – *continued*

Notes:

(i) Pursuant to the notice of the State Administration of Taxation (the "SAT"), Ministry of Finance of the PRC on preferential tax policies to social welfare enterprise and the legal opinion issued by the Company's solicitors in the PRC, Ziqiang Muye was registered as a social welfare enterprise in the PRC on 29 April 2004 and was entitled to the tax concessions for the refund of the entire income tax and value added tax ("VAT") paid since its incorporation on 26 February 2004 up to 30 September 2006. According to the preferential tax policies on social welfare enterprise issued by the SAT effective from 1 October 2006, Ziqiang Muye is entitled to income tax concession on a double deduction of salaries paid for its employees with disabilities, and VAT concession on tax refund which is equivalent to its employees with disabilities multiplied by a specified annual cap amount as determined by the SAT. In addition, on 2 November 2006, Ziqiang Muye obtained the SAT's approval for a concessionary income tax rate reduced from 33% to 15% for the five years from 1 January 2006 to 31 December 2010 according to the preferential tax policies granted to companies located in western part of the PRC and the national encouraged business activities.

The Group recognised the VAT and income tax refund in the Group's consolidated income statement on an accrual basis. The amounts of the VAT and income tax refunded to the Group during the year are detailed in notes 6 and 9(b) respectively.

(ii) The provision for PRC income tax is calculated on the assessable profit of the Group's subsidiaries incorporated in the PRC at a statutory income tax rate of 25% (2008: 25%) except for Ziqiang Muye.

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law (the "Implementation Regulations"). The New Law and the Implementation Regulations would impose a single income tax rate of 25% for all the enterprises as from 1 January 2008. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprises Income Tax (Guofa 2007 No. 39) (the "Circular"), transitional arrangement will be imposed for those entities that previously enjoyed the tax preferential treatment prior to the effective date of the New Law. All the Group's subsidiaries incorporated in the PRC will change the income tax rate from 33% to 25% from 1 January 2008 under the New Law, except for Ziqiang Muye. Ziqiang Muye will continue to be entitled to the existing income tax concessions as stated in note 9(a)(i) above according to the tax preferential policies of the Circular.

(iii) The Company is incorporated in the Cayman Islands and is exempted from income tax in the Cayman Islands. The Company's subsidiary established in the British Virgin Islands is exempted from income tax in the British Virgin Islands.

(iv) No provision for Hong Kong profits tax has been made for the years ended 31 December 2009 and 2008 as the subsidiaries did not have assessable profits subject to Hong Kong profits tax for the above years.

(v) Under the Corporate Income Tax Law of the PRC with effect from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or a place of business in the PRC will be subject to withholding income tax at the rate of 10% on various types of passive income such as dividends derived from sources in the PRC. Pursuant to the double tax arrangement between the PRC and Hong Kong effective on 1 January 2007, the withholding income tax rate will be reduced to 5% if the investment by the Hong Kong investor in the invested entities in the PRC is not less than 25%. On 22 February 2008, the SAT approved Caishui (2008) No. 1, pursuant to which dividend distributions out of retained earnings of foreign investment enterprises prior to 31 December 2007 will be exempted from withholding income tax. Deferred tax liabilities of RMB2,420,000 (2008: RMB1,252,000) in respect of the withholding income tax on dividends has been recognised by the Group as at 31 December 2008.

9. INCOME TAX – *continued*

b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2009 RMB'000	2008 RMB'000
Profit before tax	**57,758**	32,185
Notional tax on profit before tax, calculated at the rates applicable to profits in the relevant tax jurisdiction	**15,302**	8,532
Tax effect of non-deductible expenses	**616**	1,104
Tax effect of non-taxable incomes	**(2,691)**	(1,962)
Effect of tax concessions granted to a subsidiary (note 9(a)(i))	**(1,146)**	(1,063)
Effect of concessionary tax rate granted to a subsidiary (note 9(a)(i))	**(4,156)**	(2,965)
Unrecognised temporary differences	**281**	635
Unrecognised tax losses	**961**	1,149
Utilisation of tax losses previously not recognised	**(1)**	(371)
Withholding tax on dividends	**2,420**	1,252
Underprovision in prior years	**280**	—
Others	**(30)**	—
Actual tax expenses	**11,836**	6,311

10. DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 161 of the Hong Kong Companies Ordinance are as follows:

For the year ended 31 December 2009

Name of director	Directors' fees RMB'000	Salaries, allowance and benefits in kind RMB'000	Bonus RMB'000	Retirement scheme contribution RMB'000	Total RMB'000
Executive directors					
Tan Chuan Hua	—	251	59	5	315
Geng Chang Sheng	—	176	55	—	231
Independent non-executive directors					
Du Xin Lin	20	—	—	—	20
Wong Yik Chung, John (resigned on 10 November 2009)	—	—	—	—	—
Yu Ming Yang	20	—	—	—	20
Chau Kam Wing, Donald (appointed on 17 November 2009)	—	—	—	—	—
Non-executive directors					
Tan Cao	47	—	—	—	47
Liu Chang	47	—	—	—	47
	134	427	114	5	680

10. DIRECTORS' EMOLUMENTS – *continued*

For the year ended 31 December 2008

Name of director	Directors' fees RMB'000	Salaries, allowance and benefits in kind RMB'000	Bonus RMB'000	Retirement scheme contribution RMB'000	Total RMB'000
Executive directors					
Tan Chuan Hua	—	271	—	6	277
Geng Chang Sheng	—	194	—	—	194
Independent non-executive directors					
Du Xin Lin	—	—	—	—	—
Wong Yik Chung, John	—	—	—	—	—
Yu Ming Yang	—	—	—	—	—
Non-executive directors					
Tan Cao	—	—	—	—	—
Liu Chang	—	—	—	—	—
	—	465	—	6	471

No directors waived any remuneration during the year (2008: nil). No inducement payments to join or upon joining the Group or as compensation for loss of office was paid or payable to any director for the two years ended 31 December 2009 and 2008.

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group during the year included two directors (2008: two) of the Company whose emoluments are disclosed in note 10 above. Details of the emoluments paid by the Group to the remaining three (2008: three) non-director individuals during the year are as follows:

	2009	2008
	RMB'000	RMB'000
Salaries and other allowances	**415**	432
Bonus	**109**	—
Retirement scheme contributions	**20**	26
	544	458

The emoluments fell within the following bands:

	2009	2008
	RMB'000	RMB'000
Nil up to HK$1,000,000	**3**	3

12. SEGMENT REPORTING

Over 90% of the Group's turnover, results and assets are derived from a single business segment which is manufacture and sales of wooden handicrafts and accessories. No business segment information is presented accordingly.

The Group's turnover and results from operations are mainly derived from activities in the PRC. The principal assets of the Group are located in the PRC. Accordingly, no analysis by geographical segment is provided.

Major customers

No analysis of the Group's turnover and contribution from operations by major customers has been presented as there is no transactions with a single external customer equal to or greater than 10 per cent of the Group's total revenues.

13. DIVIDENDS

During the year, dividend paid and proposed to owners of the Company comprised:

	2009	2008
	RMB'000	RMB'000
Interim dividends declared and paid of RMB3 per ordinary share (2008: nil)	**15,000**	—
Final dividend proposed after the end of the reporting period of RMB9.18 cents per ordinary share (2008: nil)	**22,950**	—
	37,950	—

The directors recommend the payment of a final dividend of RMB9.18 cents per ordinary share, totalling RMB22,950,000. Such dividend is to be approved by the shareholders of the Company at the Annual General Meeting scheduled to be held on 11 June 2010. These financial statements do not reflect this dividend payable.

14. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company includes a profit of approximately RMB13,807,000 (2008: RMB30,150,000) which has been dealt with in the financial statements of the Company.

15. BASIC AND DILUTED EARNINGS PER SHARE

a) Basic earnings per share

The calculation of basic earnings per share is based on the net profit attributable to owners of the Company and the weighted average number of ordinary shares in issue during the year, calculated as follows:

(i) Profit attributable to owners of the Company

	2009	2008
	RMB'000	RMB'000
Earnings used in calculating basic and diluted earnings per share (profit attributable to owners of the Company)	**45,922**	25,874

(ii) Weighted average number of ordinary shares

	Number of shares	
	2009	2008
	'000	'000
Issued ordinary shares at 1 January	**187,500**	187,500
Effect of shares issued under placing and public offer	**514**	—
Weighted average number of ordinary shares at 31 December	**188,014**	187,500

In determining the weighted average number of ordinary shares in issue, a total of 187,500,000 ordinary shares were deemed to be in issue on 1 January 2008, comprising 5,000,000 ordinary shares in issue as at 1 January 2008 and 182,500,000 ordinary shares issued as at 29 December 2009 pursuant to the capitalisation issue.

b) Diluted earning per share

There were no dilutive potential shares in issue during the year, the diluted earnings per share is the same as the basic earnings per share during the years ended 31 December 2009 and 2008.

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000 (note 16a)	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2008	17,987	9,057	12,238	3,408	2,911	1,529	47,130
Additions	—	1,015	671	757	646	2,216	5,305
Disposals	—	(114)	(35)	(85)	—	(127)	(361)
Transfer	2,330	—	—	—	—	(2,330)	—
Surplus on revaluation (note 16b)	246	—	—	—	—	—	246
Reclassification to investment properties (note 16b)	(3,400)	—	—	—	—	—	(3,400)
Exchange adjustments	—	(31)	—	—	—	—	(31)
At 31 December 2008	17,163	9,927	12,874	4,080	3,557	1,288	48,889
At 1 January 2009	17,163	9,927	12,874	4,080	3,557	1,288	48,889
Additions	236	2,405	406	110	247	197	3,601
Disposals	—	(1,769)	—	(90)	(290)	—	(2,149)
Transfer	—	—	65	—	—	(65)	—
Exchange adjustments	—	(1)	—	—	—	—	(1)
At 31 December 2009	17,399	10,562	13,345	4,100	3,514	1,420	50,340

16. PROPERTY, PLANT AND EQUIPMENT – *continued*

	Buildings RMB'000 (note 16a)	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Accumulated depreciation							
At 1 January 2008	1,033	1,048	3,858	1,784	1,365	—	9,088
Charge for the year	395	1,070	1,021	580	485	—	3,551
Written back on disposals	—	(12)	(36)	(54)	—	—	(102)
Eliminated on revaluation (note 16b)	(114)	—	—	—	—	—	(114)
Exchange adjustments	—	(15)	—	—	—	—	(15)
At 31 December 2008	1,314	2,091	4,843	2,310	1,850	—	12,408
At 1 January 2009	1,314	2,091	4,843	2,310	1,850	—	12,408
Charge for the year	382	914	1,001	500	461	—	3,258
Written back on disposals	—	(830)	—	(54)	(221)	—	(1,105)
At 31 December 2009	1,696	2,175	5,844	2,756	2,090	—	14,561
Carrying amount							
At 31 December 2009	15,703	8,387	7,501	1,344	1,424	1,420	35,779
At 31 December 2008	15,849	7,836	8,031	1,770	1,707	1,288	36,481

Notes:

a) All buildings are situated on land in the PRC under medium-term leases and held for the Group's own use.

b) During the year ended 31 December 2008, certain buildings of the Group previously held for own use were leased out to independent third parties under operating leases. Upon the change of use, the buildings were revalued at their fair values and a surplus on revaluation of RMB360,000 was recognised in the Group's property revaluation reserve. The buildings were reclassified as investment properties. The fair values were arrived at on the basis of the valuation carried out by DTZ Debenham Tie Leung Limited, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited has among its staff members of the Hong Kong Institute of Surveyors who have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same location and net rental income allowing for reversionary income potential.

17. PREPAID LEASE PAYMENTS

	The Group		
	Land use rights	**Land deposits**	**Total**
	RMB'000	RMB'000	RMB'000
	(Note 17b)	(Note 17c(i) to (iii))	
Cost			
At 1 January 2008	15,902	9,750	25,652
Addition	—	1,088	1,088
Transfer (note 17c(ii))	8,042	(10,114)	(2,072)
Surplus on revaluation (note 17d)	1,887	—	1,887
Reclassification to investment properties (note 17d)	(3,800)	—	(3,800)
At 31 December 2008	22,031	724	22,755
At 1 January 2009	22,031	724	22,755
Addition	—	26	26
At 31 December 2009	22,031	750	22,781
Accumulated amoritsation			
At 1 January 2008	946	—	946
Amortisation for the year	465	—	465
Eliminated on revaluation (note 17d)	(50)	—	(50)
At 31 December 2008	1,361	—	1,361
At 1 January 2009	1,361	—	1,361
Amortisation for the year	495	—	495
At 31 December 2009	1,856	—	1,856
Carrying amount			
At 31 December 2009	20,175	750	20,925
At 31 December 2008	20,670	724	21,394

17. PREPAID LEASE PAYMENTS – *continued*

Notes:

a) Analysed for reporting purposes as follows:.

	The Group	
	2009	2008
	RMB'000	RMB'000
Current portion	**495**	444
Non-current portion	**20,430**	20,950
	20,925	21,394

b) The Group's prepaid lease payments comprise land use rights in the PRC as follows:

	2009	2008
	RMB'000	RMB'000
Medium-term leases	**20,925**	20,670
Long leases	**—**	—
	20,925	20,670

c) i) All land deposits were included in the non-current portion of prepaid lease payments and were made for the acquisition of land use rights in the PRC.

ii) In relation to a deposit of RMB10,114,000 paid by the Group, the Group obtained the land use right title in May 2008 and agreed with the vendor to reduce the consideration by RMB2,072,000 to RMB8,042,000 as the land size reduced. The deposit of RMB8,042,000 was transferred to land use right during the year ended 31 December 2008. The reduced consideration of RMB2,072,000 has been included in other receivables as at 31 December 2008. In the opinion of the Company's directors, the amount will be settled before 30 June 2010.

iii) In relation to a deposit of RMB724,000 as at 31 December 2008 and a deposit of RMB750,000 as at 31 December 2009, the Group obtained the land use rights title in January 2010.

d) During the year ended 31 December 2008, certain pieces of land of the Group previously held for own use were leased out to independent third parties under operating leases. Upon the change of use, the lands were revalued at their fair values and a surplus on revaluation of RMB1,937,000 was recognised in the Group's property revaluation reserve. The lands were reclassified as investment properties. The fair values were arrived at on the basis of the valuation carried out by DTZ Debenham Tie Leung Limited, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited has among its staff members of the Hong Kong Institute of Surveyors who have appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same location and net income allowing for reversionary income potential.

18. INVESTMENT PROPERTIES

	The Group RMB'000
Fair value	
At 1 January 2008	—
Additions	19,870
Reclassification from prepaid lease payments and buildings held for own use	7,200
Change in fair value	2,230
At 31 December 2008	29,300
At 1 January 2009	29,300
Change in fair value	5,350
At 31 December 2009	34,650

a) The fair value of the Group's investment properties as at 31 December 2009 was arrived at on the basis of the valuation carried out on that date by DTZ Debenham Tie Leung Limited, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited has among its staff members of the Hong Kong Institute of Surveyors who have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same location and net rental income allowing for reversionary income potential.

b) The Group's investment properties comprise land use rights in the PRC as follows:

	2009 RMB'000	2008 RMB'000
Medium-term leases	**32,800**	27,570
Long leases	**1,850**	1,730
	34,650	29,300

18. INVESTMENT PROPERTIES – *continued*

c) Investment properties leased out under operating leases

The Group leases out properties under operating leases. The leases typically run for an initial period of one to three years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

The Group's total future minimum lease receivables under non-cancellable operating leases in respect of investment properties are as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Within 1 year	**1,494**	480
After 1 year but within 5 years	**2,030**	310
	3,524	790

19. INTANGIBLE ASSETS

	The Group		
	Licences	**Trademark**	**Total**
	RMB'000	RMB'000	RMB'000
		(note b)	
Cost			
At 1 January 2008 and at 31 December 2008	—	1,037	1,037
At 1 January 2009	—	1,037	1,037
Addition	500	—	500
At 31 December 2009	500	1,037	1,537
Accumulated amortisation			
At 1 January 2008	—	1,021	1,021
Amortisation for the year	—	16	16
At 31 December 2008	—	1,037	1,037
At 1 January 2009 and at 31 December 2009	—	1,037	1,037
Carrying amount			
At 31 December 2009	500	—	500
At 31 December 2008	—	—	—

a) Amortisation expense for 2008 was charged to the consolidated income statements and was included in administrative expenses. No amortisation expense was charged for 2009 as the licences were purchased nearly the year ended date of 31 December 2009.

b) The trademark represents the trademark of certain Group's products registered in the PRC.

20. INTERESTS IN SUBSIDIARIES

	The Company	
	2009	2008
	RMB'000	RMB'000
Investments in unlisted shares at cost	**47**	47
Amount due from a subsidiary	**7,435**	30,150
	7,482	30,197

Amount due from a subsidiary is unsecured, non-interest-bearing and repayable on demand.

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of subsidiary	Place and date of incorporation	Attributable equity interest held by the Company Directly	Indirectly	Issued and fully paid-up capital	Principal activities
Carpenter Tan (BVI) Holdings Group Company Limited ("CTBVI")	British Virgin Islands 2 July 2004	100%	—	USD 50,000	Investment holding
Hong Kong Carpenter Tan Company Limited ("CTHK")	Hong Kong 10 September 2004	—	100%	HK$1	Investment holding
Carpenter Tan Development Company Limited ("CT Development")	Hong Kong 18 March 2008	—	100%	HK$ 10,000	Retailing sale of small size wooden handicrafts and accessories
Chongqing Carpenter Tan Handicrafts Company Limited ("Carpenter Tan") (note i)	The PRC 6 March 1997	—	100%	RMB 17,379,150	Design, manufacture and distribution of small size wooden handicrafts and accessories and the operation of a franchise network

20. INTERESTS IN SUBSIDIARIES – *continued*

Name of subsidiary	Place and date of incorporation	Attributable equity interest held by the Company		Issued and fully paid-up capital	Principal activities
		Directly	Indirectly		
Chongqing Little Carpenter Handicrafts Company Limited ("Little Carpenter") (note ii)	The PRC 6 August 2003	—	100%	RMB 1,000,000	Distribution of small size wooden handicrafts and accessories
Chongqing City Wan Zhou Qu Ziqiang Muye Company Limited ("Ziqiang Muye") (note iii)	The PRC 26 February 2004	—	100%	RMB 2,000,000	Manufacture of small size wooden handicrafts and accessories
Chongqing Meiyu Accessories Company Limited ("CQMY") (note iii)	The PRC 25 April 2006	—	100%	RMB 12,000,000	Manufacturing, processing and sale of wooden household products and accessories
Chongqing Carpenter Tan Lifestyle Handicrafts Store Company Limited ("Lifestyle Handicrafts Company") (note iii)	The PRC 10 January 2007	—	100%	RMB 5,000,000	Sale of high-end home accessories and Chinese style furniture
Chongqing Carpenter Tan Munan Lifestyle Handicrafts Company Limited ("Munan Handicrafts) (note iii)	The PRC 25 August 2007	—	100%	RMB 100,000	Sale of high-end home accessories and Chinese style furniture
Chongqing Carpenter Tan Chennan Lifestyle Handicrafts Company Limited ("Chennan Handicrafts") (note iii)	The PRC 25 August 2007	—	100%	RMB 100,000	Sale of high-end home accessories and Chinese style furniture

20. INTERESTS IN SUBSIDIARIES – *continued*

Name of subsidiary	Place and date of incorporation	Attributable equity interest held by the Company		Issued and fully paid-up capital	Principal activities
		Directly	Indirectly		
Chongqing Carpenter Tan Xiangnan Lifestyle Handicrafts Company Limited (“Xiangnan Handicrafts”) (note iii)	The PRC 25 August 2007	—	100%	RMB 100,000	Sale of high-end home accessories and Chinese style furniture
Beijing Carpenter Tan Handicrafts Company Limited (“Beijing Carpenter Tan”) (note iii)	The PRC 12 November 2008	—	100%	RMB 10,000,000	Property investment
Chongqing Hao Yu Handicrafts Company Limited (“Hao Yu (Handicrafts”) (note iii)	The PRC 6 August 2008	—	100%	RMB 100,000	Sale of high-end home accessories and Chinese style furniture

Notes:

(i) Registered under the laws of the PRC as wholly-foreign-owned enterprise.

(ii) Registered under the laws of the PRC as sino-foreign equity joint venture enterprise.

(iii) Registered under the laws of the PRC as domestic enterprise.

21. INVENTORIES

	The Group	
	2009	2008
	RMB'000	RMB'000
Raw materials	**26,469**	25,141
Work-in-progress	**3,737**	2,395
Finished goods	**11,835**	13,408
	42,041	40,944

The analysis of the amount of inventories recognised as an expense is as follows:

	2009	2008
	RMB'000	RMB'000
Carrying amount of inventories sold	**53,072**	43,941
Write-down of inventories	**1,392**	3,688
	54,464	47,629

22. TRADE RECEIVABLES

Customers are generally required to make payments on the products prior to delivery. Credit terms within 30 days are granted to those customers with high credibility. An ageing analysis of the trade receivables is as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Trade receivables	**430**	423
Less: Allowance for doubtful debts (note 22(b))	**(3)**	(3)
	427	420

22. TRADE RECEIVABLES – *continued*

a) Ageing analysis of trade receivables is as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
0 to 30 days	**327**	262
31 to 60 days	**20**	20
61 to 90 days	**17**	19
91 to 180 days	**55**	111
181 to 365 days	**4**	8
Over 1 year	**7**	3
	430	423

b) Movements in allowance for doubtful debts

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is made against trade receivables directly.

The movement in the allowance for doubtful debts is as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
At 1 January	**3**	6
Reversal of impairment loss recognised in prior years	**—**	(3)
At 31 December	**3**	3

Trade receivables are individually considered to be impaired in accordance with their ageing and their recoverability. The Group does not hold any collateral over these balances.

22. TRADE RECEIVABLES – *continued*

c) The ageing analysis of trade receivables that are not impaired.

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Past due but not impaired		
31 to 60 days past due	**20**	20
61 to 90 days past due	**17**	19
91 to 180 days past due	**55**	111
181 to 365 days past due	**4**	7
More than 1 year past due	**4**	1
	100	158
Neither past due nor impaired	**327**	262

At 31 December 2009 and 31 December 2008, trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good tract record with the Group. Based on past experience, the management of the Group believe that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

23. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other receivables	**10,257**	3,382	**7,016**	—
Less: Allowance for doubtful debts (note 23(a))	**(520)**	(64)	**—**	—
	9,737	3,318	**7,016**	—
Trade and other deposits	**2,585**	1,816	**—**	—
Prepayments	**775**	12,886	**—**	34
VAT and other non-income tax recoverable	**863**	966	**—**	—
	13,960	18,986	**7,016**	34

a) Movements in allowance of doubtful debt

Impairment losses in respect of other debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is made against other receivables directly. The allowance was made related to long overdue debts and was not expected to be recovered.

The movement in the allowance for doubtful debts is as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
At 1 January	**64**	47
Impairment loss recognised	**456**	17
At 31 December	**520**	64

24. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION

a) Current taxation in the consolidated statement of financial position represents:

	The Group	
	2009	2008
	RMB'000	RMB'000
Provision for the year	**7,798**	4,501
Underprovision in prior years	**280**	—
	8,078	4,501
Tax paid	**(6,363)**	(8,737)
	1,715	(4,236)
Balance of provision for income tax related to prior years	**614**	4,850
Net income tax payable	**2,329**	614

b) Deferred tax liabilities recognised:

The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Revaluation surplus of land and buildings	**Revaluation surplus of investment properties**	**Withholding tax on dividends**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	—	—	—	—
Charge to consolidated income statement for the year (note 9(a))	—	558	1,252	1,810
Charge to equity for the year	574	—	—	574
At 31 December 2008	574	558	1,252	2,384
At 1 January 2009	574	558	1,252	2,384
Charge to consolidated income statement for the year (note 9(a))	—	1,338	2,420	3,758
At 31 December 2009	**574**	**1,896**	**3,672**	**6,142**

24. INCOME TAX IN THE STATEMENT OF FINANCIAL POSITION – *continued*

c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of accumulative tax losses of RMB11,941,000 (2008: RMB10,906,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses will expire in the coming two to five years, except for an amount of RMB3,453,000 (2008: RMB3,505,000) which do not expire under current tax legislation.

25. CASH AND CASH EQUIVALENTS

	The Group		**The Company**	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows	**194,797**	50,883	**130,584**	—

Bank balances carry interest at market rates ranging from 0.1% to 0.5% (2008: 0.1% to 1.5%).

26. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount was unsecured, interest-free and repayable on demand. The amount due to ultimate holding company was fully settled on 8 December 2009.

27. AMOUNT DUE TO SUBSIDIARIES

The amounts were unsecured, interest-free and repayable on demand.

28. BANK LOANS

	The Group	
	2009	2008
	RMB'000	RMB'000
Bank loans repayable within one year		
– secured	**—**	10,000
– unsecured	**50,000**	30,000
	50,000	40,000

a) All banks loan are denominated in RMB.

b) During the year, the bank loans carry prevailing market interest rate in the PRC, except for the bank loans of RMB40,000,000 (2008: RMB5,000,000) which carries fixed interest rate of 5.58% (2008: 5.86%). The weighted average effective interest rates are 5.51% (2008: 6.96%).

c) At 31 December 2008, the secured bank loans were secured by pledging the assets of the Group (note 36).

d) As at 31 December 2009, the unsecured bank loans of RMB10,000,000 were guaranteed by a subsidiary. As at 31 December 2008, the unsecured bank loans of RMB10,000,000 were jointly guaranteed by certain directors of the Company and a subsidiary (note 38d).

29. TRADE PAYABLES

The credit terms granted by the suppliers are generally 30 days. Ageing analysis of trade payables is as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
0 to 30 days	**2,251**	818
31 to 60 days	**601**	205
61 to 90 days	**181**	553
91 to 180 days	**64**	18
181 to 365 days	**76**	75
Over 1 year	**72**	947
	3,245	2,616

30. OTHER PAYABLES AND ACCRUALS

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other payables and accruals	**10,272**	3,804	**5,865**	—
Dividend payable	**—**	30,000	**—**	30,000
Current portion of long-term payable (note 31)	**1,723**	1,600	**—**	—
	11,995	35,404	**5,865**	30,000
VAT and other non-income tax payables	**1,569**	1,679	**—**	—
Trade deposits received	**5,925**	4,663	**—**	—
	19,489	41,746	**5,865**	30,000

31. LONG-TERM PAYABLE

	The Group	
	2009	2008
	RMB'000	RMB'000
Long-term payable	**3,574**	5,174
Current portion (note 30)	**1,723**	1,600
Non-current portion	**1,851**	3,574
	3,574	5,174

Long-term payable is repayable as follows:

	2009	2008
	RMB'000	RMB'000
Within 1 year	**1,723**	1,600
After 1 year but within 2 years	**1,851**	1,723
After 2 years but within 5 years	**—**	1,851
	3,574	5,174

The long-term payable is the balance of consideration of RMB15,810,000 payable for the acquisition of certain buildings and land use rights by the Group's subsidiary Carpenter Tan from Wanzhou District Asset Operation Company（萬州區資產經營公司）(the "Creditor"), an independent third party.

31. LONG-TERM PAYABLE– *continued*

Prior to 21 July 2008, the balance of the consideration was payable between 2002 to 2021 by twenty annual instalments. On 21 July 2008, Carpenter Tan and the Creditor entered into a supplementary repayment agreement (the "Supplementary Repayment Agreement"). Pursuant to the Supplementary Repayment Agreement, the then outstanding balance as at 21 July 2008 of approximately RMB7,994,000 was agreed to be repaid by three equal annual installments of RMB2,000,000 each in 2008, 2009 and 2010 and the balance of approximately RMB1,994,000 in 2011. The long-term payable is unsecured and interest-free and has been discounted to its present value at an effective interest rate of 7.74% and hence a fair value gain of RMB1,783,000 was recognised during the year ended 31 December 2008 pursuant to the Supplementary Repayment Agreement.

32. DEFERRED INCOME

Deferred income represents government grant received by the Group. The grant aimed to subsidise the Group for purchasing certain property, plant and equipment. Government grant is recognised as income over the useful lives of the relevant assets. During the year, the entire grant was spent for its intended purpose and the deferred income of RMB21,000 was released from deferred income to the consolidated income statement.

33. SHARE CAPITAL

The Company

	Number of shares	HK$'000	Amount equivalent to RMB$'000
Ordinary shares of HK$0.01			
Authorised:			
At 1 January 2008, 31 December 2008 and 1 January 2009	38,000,000	380	354
Increase in authorised share capital (Note a)	9,962,000,000	99,620	87,572
At 31 December 2009	10,000,000,000	100,000	87,926
Issued and fully paid:			
At 1 January 2008, 31 December 2008 and 1 January 2009	5,000,000	50	47
Capitalisation issue (Note b)	182,500,000	1,825	1,604
Share issued under the placing and public offering (Note c)	62,500,000	625	549
At 31 December 2009	250,000,000	2,500	2,200

33. SHARE CAPITAL – *continued*

(a) Authorised share capital of the Company

The Company was incorporated on 20 June 2006 with an authorised share capital of HK$380,000 divided into 38,000,000 ordinary shares at par value of HK$0.01 each. On 17 November 2009, the authorised share capital of the Company was increased to HK$100,000,000 by the creation of a further 9,962,000,000 ordinary shares at par value of HK$0.01 each.

All shares rank pari passu in respect of voting rights, dividends and distribution of net assets.

(b) Capitalisation issue

On 29 December 2009, pursuant to the written resolution of shareholders of the Company passed on 17 November 2009, a bonus issue of 182,500,000 ordinary shares of HK$0.01 each of the Company were made to the existing shareholders. The amount was paid up in full by applying an amount of HK$1,825,000 (equivalent to RMB1,604,000) standing to the credit of the share premium account of the Company.

(c) Issue of share under the placing the public offering

On 29 December 2009, the Company issued 62,500,000 ordinary shares of HK$0.01 each, at a price of HK$2.58 per share in connection with the placing and public offering, and raised gross proceeds of approximately HK$161,250,000 (equivalent to RMB141,748,000). The proceeds of HK$625,000 (equivalent to RMB549,000) representing the par value of the shares so issued were credited to the Company's share capital. The remaining proceeds of HK$160,625,000 (equivalent to RMB141,199,000), before share issue expenses of RMB24,921,000, were credited to the share premium account.

33. SHARE CAPITAL – *continued*

(d) Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged over the year.

The capital structure of the Group consists of (i) debts, comprising bank loans and long-term payable, proposed final dividends and deducting cash and cash equivalents; and (ii) equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings, less proposed final dividends.

The directors of the Company review the capital structure periodically. The Group considers the cost of capital and risks associated with the capital and will balance its overall capital structure through new share issues of the Company, repayment of debts as well as the raising of new debts.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The details of the net debt to equity ratio of the Group is as follows:

	2009 RMB'000	2008 RMB'000
Current liabilities		
Bank loans	**50,000**	40,000
Non-current liabilities		
Long-term payable	**1,851**	3,574
Total debt	**51,851**	43,574
Add: Proposed final dividends	**22,950**	—
Less: Cash and cash equivalents	**(194,841)**	(50,883)
Net debt	**N/A**	N/A
Total equity	**259,058**	110,626
Less: Proposed final dividends	**(22,950)**	—
Adjusted equity	**236,108**	110,626
Net debt to equity ratio	**N/A**	N/A

34. RESERVES

The Group

	Attributable to owners of the Company							
	Share premium	Capital reserve	Statutory reserves	Other reserves	Property revaluation reserve	Currency translation reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note a)	(note b)	(note c)	(note d)	(note e)	(note f)		
At 1 January 2008	—	2,767	52,480	17,738	—	(85)	40,376	113,276
Dividends	—	—	—	—	—	—	(30,000)	(30,000)
Transfer to reserve	—	—	5,494	—	—	—	(5,494)	—
Total comprehensive income for the year	—	—	—	—	1,723	(294)	25,874	27,303
At 31 December 2008	—	2,767	57,974	17,738	1,723	(379)	30,756	110,579
At 1 January 2009	**—**	**2,767**	**57,974**	**17,738**	**1,723**	**(379)**	**30,756**	**110,579**
Capitalisation issue (note 33(b))	**(1,604)**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,604)**
Shares issued under the placing and public offering (Note 33(c))	**141,199**	**—**	**—**	**—**	**—**	**—**	**—**	**141,199**
Share issuance costs	**(24,921)**	**—**	**—**	**—**	**—**	**—**	**—**	**(24,921)**
Dividends	**—**	**—**	**—**	**—**	**—**	**—**	**(15,000)**	**(15,000)**
Transfer to reserve	**—**	**—**	**7,480**	**—**	**—**	**—**	**(7,480)**	**—**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**683**	**45,922**	**46,605**
At 31 December 2009	**114,674**	**2,767**	**65,454**	**17,738**	**1,723**	**304**	**54,198**	**256,858**

34. RESERVES – *continued*

The Company

	Attributable to owners of the Company			
	Share premium RMB'000 (note a)	Currency translation reserve RMB'000 (note f)	Retained profits RMB'000	Total RMB'000
At 1 January 2008	—	4	(52)	(48)
Dividends	—	—	(30,000)	(30,000)
Total comprehensive income for the year	—	3	30,150	30,153
At 31 December 2008	—	7	98	105
At 1 January 2009	**—**	**7**	**98**	**105**
Capitalisation issue (note 33(b))	**(1,604)**	**—**	**—**	**(1,604)**
Shares issued under the placing and public offering (Note 33(c))	**141,199**	**—**	**—**	**141,199**
Share issuance cost	**(24,921)**	**—**	**—**	**(24,921)**
Dividends	**—**	**—**	**(15,000)**	**(15,000)**
Total comprehensive income for the year	**—**	**1,043**	**13,807**	**14,850**
At 31 December 2009	**114,674**	**1,050**	**(1,095)**	**114,629**

Notes:

a) **Share premium**

Under the Companies Law (Revised) of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

b) **Capital reserve**

Capital reserve represents the excess of paid-up capital over the registered capital of the companies comprising the Group.

34. RESERVES – *continued*

Notes: – *continued*

c) Statutory reserves

The statutory reserves include the following reserves in the PRC:

i) Statutory surplus reserve

The PRC subsidiaries of the Group are required to transfer 10% of the profit after tax, as determined under the PRC accounting rules and according to their articles of associations, to the statutory surplus reserve until the balance reaches 50% of their respective registered capital. The transfer to this reserve must be made before distributing dividends to shareholders. The reserve can be used to make up previous years' losses, expand the existing operations or convert into additional capital of the subsidiaries. The PRC subsidiaries of the Group either had a loss for the year ended 31 December 2008 and 2009 or their respective statutory surplus reserves have reached 50% of their respective registered capital, and therefore did not make any transfer to this reserve for the year ended 31 December 2008 and 2009 accordingly.

ii) Enterprise development and staff welfare funds

Pursuant to regulations in the PRC, a subsidiary Ziqiang Muye, which is registered as a social welfare enterprise in the PRC, is required to transfer 50% and 20% of its tax concessions of income tax and value-added tax, as disclosed in note 9(a)(i), to the enterprise development fund and staff welfare fund respectively. The transfer to these funds must be made before distributing dividends to shareholders. The funds can be used for enterprise development and staff welfare only and are not available for distribution to shareholders. The Group transferred approximately RMB7,480,000 (2008: RMB5,494,000) of its net profit to these funds for the year ended 31 December 2009.

d) Other reserves

Other reserves represent the difference between the consideration for acquisition of the subsidiaries paid by the Group, and the nominal value of the paid-up capital of the subsidiaries. The details of other reserve during the Relevant Periods are as follows:

i) The Group acquired at nil consideration the entire equity interest of a subsidiary Carpenter Tan, of which the nominal value of the paid-up capital was RMB17,379,000, at a consideration of HK$25,250,000 (equivalent to approximately RMB26,260,000) during the year ended 31 December 2005. Lead Charm Investments Limited ("Lead Charm") and Fame Good Investments Limited ("Fame Good"), the ultimate holding company and a shareholder of the Company, borne and paid the entire consideration and injected Carpenter Tan to the Group for a nil consideration. The Group recognised the nominal amount of the shares acquired in the other reserves accordingly.

ii) On 30 August 2007, the Company issued 5,000,000 ordinary shares with a nominal value of HK$0.01 each to the then owners of a subsidiary CTBVI, Lead Charm and Fame Good, in exchange for all the 5,000,000 issued ordinary shares of CTBVI with a nominal value of US$0.01 each (the "Share Swap") held by Lead Charm and Fame Good. The Group recognised other reserves of approximately RMB359,000 on the Share Swap during the year ended 31 December 2007.

e) Property revaluation reserve

Property revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings held for own use in notes 2(e) and (f).

34. RESERVES – *continued*

Notes: – *continued*

f) Currency translation reserve

Currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(r).

g) Distributable reserves

Distributable reserves of the Company as at 31 December 2009 was RMB113,579 (2008: RMB98,000).

35. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	The Group	
	2009	2008
	RMB'000	RMB'000
Financial assets		
Amounts due from related parties	**14**	4,759
Trade receivables	**427**	420
Other receivables	**9,737**	3,318
Bank balances and cash	**194,797**	50,883
Loans and receivables (including cash and cash equivalents)	**204,975**	59,380
Financial liabilities		
Amount due to ultimate holding company	**—**	607
Bank loans	**50,000**	40,000
Trade payables	**3,245**	2,616
Other payables	**11,995**	35,404
Long-term payable	**1,851**	3,574
Financial liabilities at amortised cost	**67,091**	82,201

35. FINANCIAL INSTRUMENTS – *continued*

b) Financial risk management objectives and policies

Details of the Group's financial instruments as stated in note 35(a) are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

i) Currency risk

Certain subsidiaries of the Group have foreign currency bank balances and cash, trade and other receivables and payables, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the respective reporting period are as follows:

	2009	2008
	RMB'000	RMB'000
Assets		
HK$	**144,027**	3,266
US$	**473**	551
Euro	**6**	247
	144,506	4,064
Liabilities		
HK$	**6,122**	724
US$	**—**	—
Euro	**—**	—
	6,122	724

35. FINANCIAL INSTRUMENTS – *continued*

b) Financial risk management objectives and policies – *continued*

i) *Currency risk – continued*

Sensitivity analysis

The Group is mainly exposed to Hong Kong Dollars ("HK$"), United States Dollars ("US$") and Euro Dollars ("Euro").

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is sensitivity rate used which represents management's assessment of reasonably possible changes in foreign exchange rate. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation for a 5% change in foreign currency rate. A positive number indicates an increase in profit where RMB weaken against the relevant foreign currencies. For a 5% strengthening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on the profit and equity, and the balance below would be negative.

	2009		2008	
	Effect on profit after tax and retained profits RMB'000	**Effect on other components of equity RMB'000**	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
HK$	**38**	**6,857**	4	123
US$	**5**	**18**	10	18
Euro	**1**	**—**	12	—
	44	**6,875**	26	141

35. FINANCIAL INSTRUMENTS – *continued*

b) Financial risk management objectives and policies – *continued*

ii) Interest rate risk

The Group is exposed to interest rate risk mainly from its bank deposits and bank borrowings (see notes 25 and 28). Bank deposits and bank borrowings issued at variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management of the Group will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to variable interest rates of bank deposits and bank borrowings of the Group. The analysis is prepared assuming the bank balances and bank borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point increase or decrease is used, which represents management's assessment of reasonably possible changes in interest rates.

If interest rates had been 100 basis point higher and all other variables were held constant, the Group's profit for the year ended 31 December 2009 would increase by approximately RMB1,447,000 (2008: RMB107,000). An equal and opposite impact on the Group's profit for the respective years would result if the interest rates had been 100 basis points lower.

iii) Credit risk

As at 31 December 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is represented by the carrying amounts of the respective recognised financial assets as stated in note 35(a).

The management considers the credit risk exposure of the Group's trade receivables is low as sales are generally settled before delivery of products or within 30 days. The directors of the Company review the recoverable amount of each individual debt regularly, if any, to ensure that adequate impairment losses are recognised for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk in its trade and other receivables, with exposure spread over a large number of counterparties and customers. The credit risk in liquid funds is limited because the counterparties are banks with high credit ratings.

The Group has a concentration of credit risk in respect of amounts due from related parties. In order to minimise the credit risk, the management continuously monitor the level of exposure to ensure that follow up action and/or corrective actions are taken promptly to lower the risk exposure or to recover overdue balances.

35. FINANCIAL INSTRUMENTS – *continued*

b) Financial risk management objectives and policies – *continued*

iv) *Liquidity risk*

The Group's liquidity position is monitored closely by the directors of the Company. In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Company monitors the utilisation of banking facilities and ensures compliance with loan covenants. The Group mainly relies on internal generated funds and banking facilities as a significant source of liquidity.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate RMB'000	Within 1 year RMB'000	1-2 years RMB'000	2-5 years RMB'000	Over 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Total carrying amount RMB'000
At 31 December 2008							
Amount due to ultimate holding company	—	607	—	—	—	607	607
Bank loans	6.96%	40,000	—	—	—	40,000	40,000
Trade payables	—	2,616	—	—	—	2,616	2,616
Other payables (excluding current portion of long-term payable)	—	33,804	—	—	—	33,804	33,804
Long-term payable (including current portion of long-term payable)	7.74%	2,000	2,000	1,994	—	5,994	5,174
		79,027	2,000	1,994	—	83,021	82,201

35. FINANCIAL INSTRUMENTS – *continued*

b) Financial risk management objectives and policies – *continued*

iv) Liquidity risk – continued

	Weighted average effective interest rate RMB'000	Within 1 year RMB'000	1-2 years RMB'000	2-5 years RMB'000	Over 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Total carrying amount RMB'000
At 31 December 2009							
Bank loans	5.51%	50,000	—	—	—	50,000	50,000
Trade payables	—	3,245	—	—	—	3,245	3,245
Other payables (excluding current portion of long-term payable)	—	10,272	—	—	—	10,272	10,272
Long-term payable (including current portion of long-term payable)	7.74%	2,000	1,994	—	—	3,994	3,574
		65,517	1,994	—	—	67,511	67,091

c) Fair value

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities approximate their fair values.

36. PLEDGED OF ASSETS

The Group pledged certain assets in favour of banks to secure bank loans (note 28) granted to the Group. The followings are the carrying amounts of those pledged assets:

	2009 **RMB'000**	2008 RMB'000
Property, plant and equipment	—	6,613
Prepaid lease payments on land use rights	—	4,523
	—	11,136

37. COMMITMENTS

a) Capital commitments

At 31 December 2009, capital commitments not provided for in the financial statements were as follows:

	2009	2008
	RMB'000	RMB'000
Contracted but not provided for in respect of		
– property, plant and equipment	**52**	—
– prepaid lease payments	**43**	160
	95	160

b) Operating lease commitments

i) At 31 December 2009, the total future minimum lease payables under non-cancellable operating leases in respect of premises are as follows:

	2009	2008
	RMB'000	RMB'000
Within one year	**7,161**	5,845
After one year but within five years	**10,741**	8,336
After five years	**6,452**	—
	24,354	14,181

Operating lease payments represent rentals payable by the Group for certain of its office and retail shops. Leases are negotiated for terms ranging from 1 to 10 years.

The above lease commitments represent basic rents only and do not include contingent rental payable in respect of certain retail shops leased by the Group. In general, these contingent rents are calculated with reference to the relevant retail shops' turnover using pre-determined formulae. It is not possible to estimate in advance the amount of such contingent rental payable.

37. COMMITMENTS– *continued*

b) Operating lease commitments– *continued*

(ii) The Group leases out investment properties under operating leases. The leases are negotiated for terms ranging from 1 to 3 years. None of the lease includes contingent rental. At 31 December 2009, the total future minimum lease receivables under non-cancellable operating leases in respect of premises are as follows:

	2009	2008
	RMB'000	RMB'000
Within one year	**1,494**	480
After one year but within five years	**2,030**	310
	3,524	790

38. RELATED PARTY TRANSACTIONS

a) The Group had the following significant transactions with related parties during the year:

	Notes	Nature of transactions	**2009**	2008
			RMB'000	RMB'000
Companies beneficially owned by a director Tan Chuan Hua, and his close family members				
Chongqing Three Gorges Gas (Group) Company Limited	(i)	Sales	**—**	36

38. RELATED PARTY TRANSACTIONS– *continued*

b) Except for those disclosed elsewhere in these financial statements, the Group had balances due from related parties as at 31 December 2009 as follows:

	2009			2008		
	Trade	**Non-trade**	**Total**	Trade	Non-trade	Total
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Directors and key management members						
Geng Chang Sheng	**—**	**14**	**14**	—	12	12
Tan Chuan Hua	**—**	**—**	**—**	—	4,695	4,695
Tan Yao	**—**	**—**	**—**	—	27	27
Shareholders						
Dong Kun Zhu	**—**	**—**	**—**	—	3	3
Liu Yu Ping	**—**	**—**	**—**	—	3	3
Tan Song	**—**	**—**	**—**	—	19	19
Total due from related parties	**—**	**14**	**14**	—	4,759	4,759

c) Maximum non-trade outstanding balances due from related parties disclosed pursuant to Section 161B of the Hong Kong Companies Ordinances are as follows:

	2009	2008
	RMB'000	RMB'000
Directors and key management members		
Geng Chang Sheng	**14**	12
Tan Chuan Hua	**—**	4,695
Tan Yao	**—**	27
Su Jian Ping	**131**	15

d) Guarantees provided by related parties

The Company's directors Geng Chang Sheng, Tan Cao and Tan Chuan Hua and a subsidiary of the Group provided a joint guarantee of RMB10,000,000 to a bank for bank loan granted to the Group during the year ended 31 December 2008 (note 28(d)).

38. RELATED PARTY TRANSACTIONS – *continued*

e) Key management compensation

Renumeration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 10 and certain of the highest paid employees as disclosed in note 11, is as follows:

	2009	2008
	RMB'000	RMB'000
Short-term employee benefits	**1,199**	897
Retirement scheme contributions	**25**	32
	1,224	929

Notes:

i) The transactions were based on the terms mutually agreed between the Group and the related parties. In the opinion of the Company's directors, these related party transactions were conducted in the ordinary course of business of the Group.

ii) The amounts due from related parties were unsecured, interest-free and had no fixed terms of repayment.

39. ULTIMATE HOLDING COMPANY

At 31 December 2009, the directors consider the ultimate holding company of the Company to be Lead Charm Investments Limited, a company incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

40. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2009

The Group and the Company have not early applied the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 [1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 [2]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adoption of Hong Kong Financial Reporting Standards [3]
HKFRS 1 (Revised)	First-time adoption of HKFRSs [1]
HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions [3]
HKFRS 3 (Revised)	Business combinations [1]
HKFRS 9	Financial instruments [7]
HKAS 24 (Revised)	Related party disclosures (Revised) [5]
HKAS 27 (Revised)	Consolidated and separate financial statements [1]
HKAS 32 (Amendment)	Classification of rights issue [4]
HKAS 39 (Amendments)	Eligible hedged items [1]
HK (IFRIC) – Int 14 (Amendments)	Prepayments of and Minimum Funding Requirement [5]
HK (IFRIC) – Int 17	Distributions of non-cash assets to owners [1]
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments [6]

Notes:

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 July 2010
7 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of what the impact of these new and revised standards, amendments and interpretations is expected to be in the period of initial application. So far, it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

	Year ended 31 December			
	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Result				
Turnover	**139,791**	108,656	123,169	95,398
Profit before taxation	**57,758**	32,185	48,332	39,365
Income tax	**(11,836)**	(6,311)	(6,866)	(2,528)
Profit for the year	**45,922**	25,874	41,466	36,837
Attributable to				
Owners of the Company	**45,922**	25,874	41,515	36,976
Minority interests	**—**	—	(49)	(139)
Assets and liabilities				
Total assets	**343,093**	203,167	159,973	132,885
Total liabilities	**(84,035)**	(92,541)	(46,650)	(48,927)
Minority interests	**—**	—	—	(1,061)
Equity attributable to equity holders of the Company	**259,058**	110,626	113,323	82,897

Note:

The summary of the results and assets and liabilities for each of the three years ended 31 December 2008 were extracted from the Company's prospectus dated 15 December 2009 and prepared on a combined basis as if the current structure of the Group has been in existence throughout the years.