譚木匠

2016 ANNUAL REPORT

譚木匠控股有限公司*
CARPENTER TAN HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: **837**

* *For identification purpose only*

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Tan Chuan Hua *(Chairman)*
Mr. Geng Chang Sheng
Mr. Tan Di Fu

NON-EXECUTIVE DIRECTORS

Madam Tan Yinan *(appointed on 1 January 2016)*
Mr. Tan Cao *(resigned on 1 January 2016)*
Mr. Liu Chang *(resigned on 28 February 2017)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chau Kam Wing, Donald
Madam Huang Zuoan *(re-designated to a non-executive Director on 28 February 2017)*
Mr. Yang Yang *(appointed on 1 January 2016)*
Mr. Yu Ming Yang *(resigned on 1 January 2016)*

MEMBERS OF THE AUDIT COMMITTEE

Mr. Chau Kam Wing, Donald *(Chairman)*
Madam Huang Zuoan *(re-designated to a non-executive Director on 28 February 2017)*
Mr. Yang Yang *(appointed on 1 January 2016)*
Mr. Yu Ming Yang *(resigned on 1 January 2016)*

MEMBERS OF THE REMUNERATION COMMITTEE

Mr. Chau Kam Wing, Donald *(Chairman)*
Madam Huang Zuoan *(re-designated to a non-executive Director on 28 February 2017)*
Mr. Yang Yang *(appointed on 1 January 2016)*
Mr. Yu Ming Yang *(resigned on 1 January 2016)*

MEMBERS OF THE NOMINATION COMMITTEE

Mr. Chau Kam Wing, Donald *(Chairman)*
Madam Huang Zuoan *(re-designated to a non-executive Director on 28 February 2017)*
Mr. Yang Yang *(appointed on 1 January 2016)*
Mr. Yu Ming Yang *(resigned on 1 January 2016)*

COMPANY SECRETARY

Mr. Chan Hon Wan *CA*

AUTHORISED REPRESENTATIVES

Mr. Geng Chang Sheng
Mr. Chan Hon Wan *CA*

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Cayman Islands

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Jiangsu Province
The PRC

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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The PRC

Agricultural Bank of China
Wanzhou Fen Hang Ying Ye Bu
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LEGAL ADVISORS TO THE COMPANY

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Hong Kong

STOCK CODE

837

COMPANY WEBSITE

www.ctans.com

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		Changes
	2016	2015	Increase/
	RMB'000	RMB'000	(decrease)
Financial Highlights			
Revenue	**263,783**	276,062	(4.4)%
Cost of sales	**(90,772)**	(97,956)	(7.3)%
Gross profit	**173,011**	178,106	(2.9)%
Profit before taxation	**143,787**	148,368	(3.1)%
Profit attributable to owners of the Company	**114,003**	119,906	(4.9)%
Basic earnings per share (RMB cents)	**45.60**	47.96	(4.9)%
Proposed final dividend per share (HK cents)	**25.49**	29.22	(12.8)%
Liquidity and Gearing			
Current ratio[(1)]	**9.97**	8.97	N/A
Quick ratio[(2)]	**8.18**	7.54	N/A
Asset-liability ratio[(3)]	**N/A[(4)]**	N/A[(4)]	N/A

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) Asset-liability ratio is calculated as total bank borrowings divided by total assets and multiplied by 100%.

(4) As at 31 December 2016 and 2015, the Group did not have any bank borrowings. The calculation of asset-liability ratio is not meaningful.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Carpenter Tan Holdings Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2016 (the "Year Under Review") to the shareholders for your review.

People may be disturbed by the downward trend shown in the 2016 operating performance as compared to that in 2015. Someone may wonder, is that caused by the market conditions or the marketing model of the Company? Is transformation required? When such concerns and recommendations came to my attention, I started to ask myself: what kind of company is Carpenter Tan, and where will it go to in the future?

It has been nineteen years since the establishment of Carpenter Tan. Nineteen years may just be a blink of an eye compared to the long human history, but is also a period in which Carpenter Tan grew from an obscure startup to a listed company with annual sales of over RMB250 million. It has never been an easy road for the establishment of the brand where Carpenter Tan encountered numerous difficulties, but the Company has always been focusing on one tiny wood comb. In its development path, the Company was offered many opportunities and temptations, some of which were considered very precious as they may double the capital of the Company in a short time, and it may seem stupid not to seize these opportunities, but Carpenter Tan is exactly an honest "stupid". The Company has established the philosophy of "Honesty, Work and Happiness" at the beginning of its history. Instead of being just a slogan, such philosophy was put into practice throughout the development of Carpenter Tan. We understand that the short-term and low-cost capital operation will only make Carpenter Tan lost in such a materialistic world, and overnight millionaires will never settle again to make a good quality wood comb. Fortune Global 500 is never the pursuit of Carpenter Tan, instead, it lays its eyes on a 500-year operation, in which Carpenter Tan can pass such a fine traditional culture of comb to the future generations. The distinctive characteristics that make Carpenter Tan look a little bit unfit in such an acquisitive world are the same characteristics that steer the Company towards the success today.

Carpenter Tan will adhere to the craftsman's spirit in its operation and convey its corporate culture and value through a quality comb.

EXPECTED RESULTS OF OPERATION UNDER SMOOTH TRANSITION

During the Year Under Review, with its continuous business development strategies and effective implementation, the Group recorded a revenue of approximately RMB263,783,000 for the year ended 31 December 2016, representing a decrease of 4.4% as compared to the previous year. Of which, revenue of combs was approximately RMB65,609,000, accounting for 24.9% of total revenue of the Group, revenue of box sets was approximately RMB195,105,000, accounting for 74.0% of total revenue of the Group, while revenue of mirrors was approximately RMB1,065,000, accounting for 0.4% of total revenue of the Group. Profit attributable to shareholders was approximately RMB114,003,000, representing a decrease of 4.9% as compared to the previous year. The overall gross profit margin increased slightly to 65.6%. Earnings per share was RMB45.6 cents, representing a decrease of 4.9% as compared to the previous year. The Board believes that the performance was attributable to the long-term support from our shareholders. In order to express its gratitude for the support of our shareholders, the Board has recommended the payment of a final dividend of HK25.49 cents per share for the year ended 31 December 2016, amounting to approximately HK$63,725,000, representing a total payout ratio of 50.0% of the profit for the year or 39.4% of the profit before taxation of the Company. The Board believes that the healthy financial position and cash flow of the Company are sufficient to support the long-term development of the Company.

CHAIRMAN'S STATEMENT

ACKNOWLEDGEMENT

I wish to thank all my fellow directors at the Board, the management and all staff sincerely for their devotion. I also wish to express my heartfelt gratitude to the long-term support of our shareholders and our customers. The Group will continue to uphold the practical and innovative principles in its business development, so as to achieve more outstanding results, and bring more desired returns for shareholders and investors in the future.

Mr. Tan Chuan Hua
Chairman of the Board

Hong Kong, 30 March 2017

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT REVIEW

The Company encountered the disruption from re-location of the headquarter in 2014. Even though we started the planning half year before the actual move, a lot of work was behind schedule. The families and houses of our staffs are in Chongqing, less than one third of the original office staff team move to the new quarter in Jurong with us. In particular, the research and development team, nearly the whole team did not move with us. Under such situation, the Company needed to start again just like when we set up the business at the very first beginning. In 2015 the Company entered the phase of stable operation through organizational restructuring and adjustment. During the year, Mr. Zhang Chuanjin, an outstanding regional manager, was appointed as an offline segment operation controller, Mr. Luo Hongping, a factory chief, was redesignated as the administration controller, Ms. Liu Kejia is responsible for online marketing and overseas business development, and Mr. Tan Lizi was redesignated as the assistant to Chairman, responsible for coordinating with the operation controller. The new management team of the Company closely cooperated with each other, worked on fundamental tasks in a humble manner despite their positions and broke the barriers between different levels and departments to reduce the communication costs. Joint efforts were made by management and frontline staff. Chairman Tan Chuan Hua, the founder of the Company, attended every weekly meeting, led the team to handle the problems in operation step by step, continuously strengthened the healthy value set, purified the character of the team and put the corporate philosophy of “Honesty, Work and Happiness” into practice. The team guided Carpenter Tan through an extraordinary year in a humble and practical manner, which made the brand more glamorous and created new momentum for the Company’s operation.

MANAGEMENT DISCUSSION AND ANALYSIS

1. **Sales from offline physical stores started to increase from dropping**

After the sales and marketing team became mature, the Company started to strengthen the internal management and service and increase efforts in external expansion and training based on the principal of "daily clearance", so as to "finish the daily tasks within the same day". The Company encouraged the franchisees to renovate their stores through the comparison of sales data between new and old stores. During the Year Under Review, a total of 315 stores were renovated, and recorded year-on-year increase of 11% in operating results. Instead of letting the franchisees to find stores for approval on their own, the Company's marketing managers indentified outstanding stores in shopping centers and chose outstanding franchisees for operation to avoid losing good chances. Stores in key markets will be negotiated by the Company. During the Year Under Review, special training assistants were appointed to strengthen the training for franchisees and employees with focus on strengthening the corporate philosophy and enhancing the awareness and ability of services. The Company created the position of market supervisor to conduct back-to-back inspection on regional operation, which supplemented the deficiency of regional managers and provided comprehensive marketing support. We seized the opportunities from the preparation activities for new store opening and festival topics by follow-up promotion, encouragement and sharing. We also implemented experiential marketing initiatives and carried out nationwide wood comb color painting activities in physical stores to enhance the participation of consumers and increase their time stayed in stores. The Company adhered to the commitment of "lifetime comb repairing service for free" to increase the recurring sales activities. It also implemented topic marketing for launch of new products and hunger marketing for designer products by offering customized carving masterpiece with collection value. The Company benchmarked the outstanding franchisees such as Zhao Ling and shared their stories through videos to reduce the negative emotion and improve the management standard of the stores. The Company also conducted spot check and random check on stores with abnormal data, investigated, dissuaded and punished non-compliant online sales, and implemented the franchisee credit deposit system. The Company planned to open 100 new stores and finished with 151 new stores. The average same-store sales of new stores recorded year-on-year increase from RMB40,000 in 2015 to RMB43,000 in 2016.

Despite the decrease in total number of franchised stores, with their good shop image, new stores performed far better than old stores and recorded increase in same-store growth, which provided confidence to the franchisees. As such, in December, the Company recorded increase in operating results when compared to the same period last year despite the decrease of 95 stores in total number of franchised stores.

As at 31 December 2016, Carpenter Tan had 1,281 franchised stores in China.

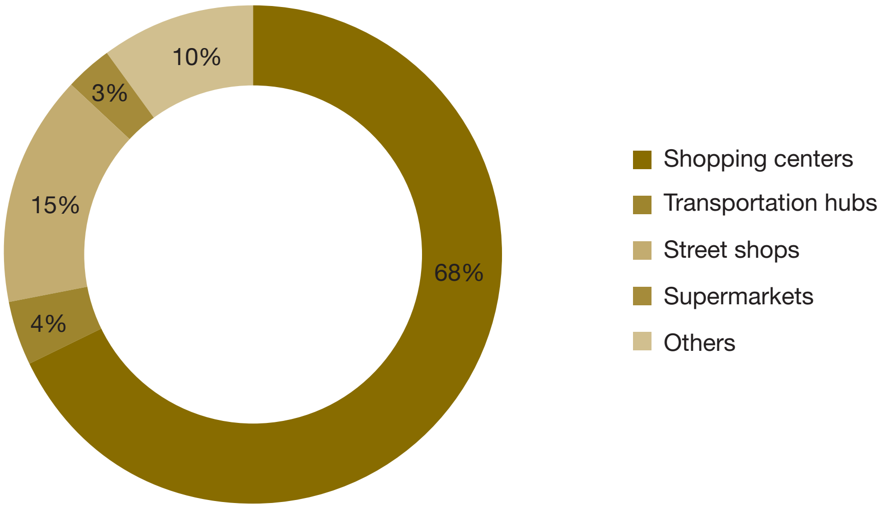
	At 31 December	
	2016	2015
Mainland China	1,281	1,376

The decrease in number of franchised stores in China was due to the shift of urban commercial area and overexpansion of stores in supermarkets in the last few years, which resulted in the close of 246 old stores.

MANAGEMENT DISCUSSION AND ANALYSIS

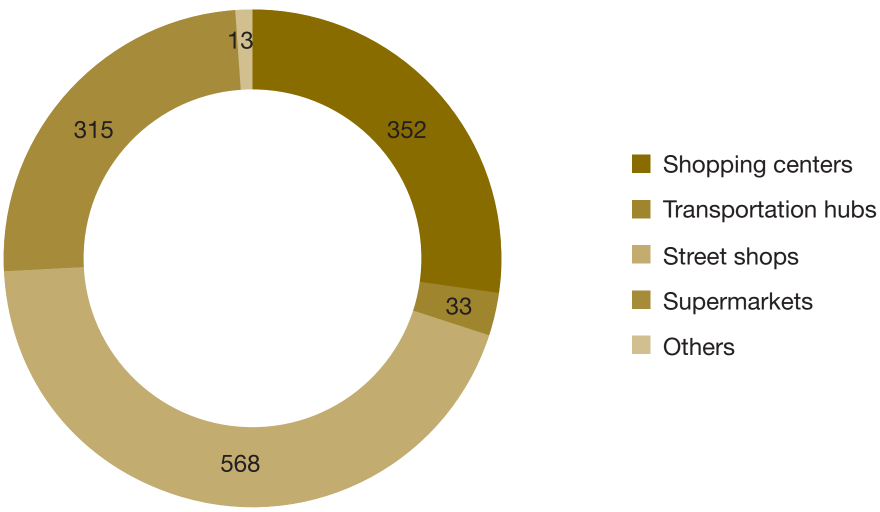
The situation for expansion of new franchised stores is as follow:

Expansion of New Stores in China Market in 2016



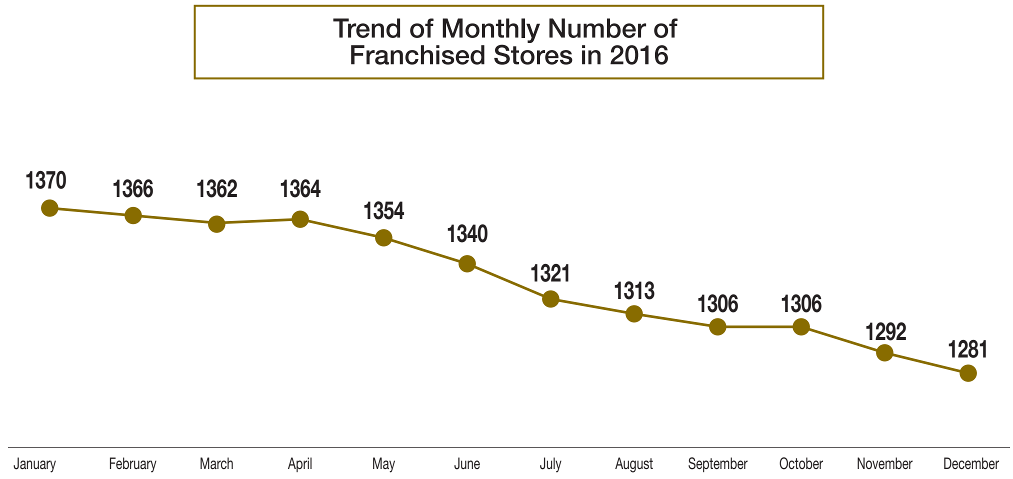
Franchised stores distribution of Carpenter Tan in China as at 31 December 2016:

Total Number of Physical Franchised Stores

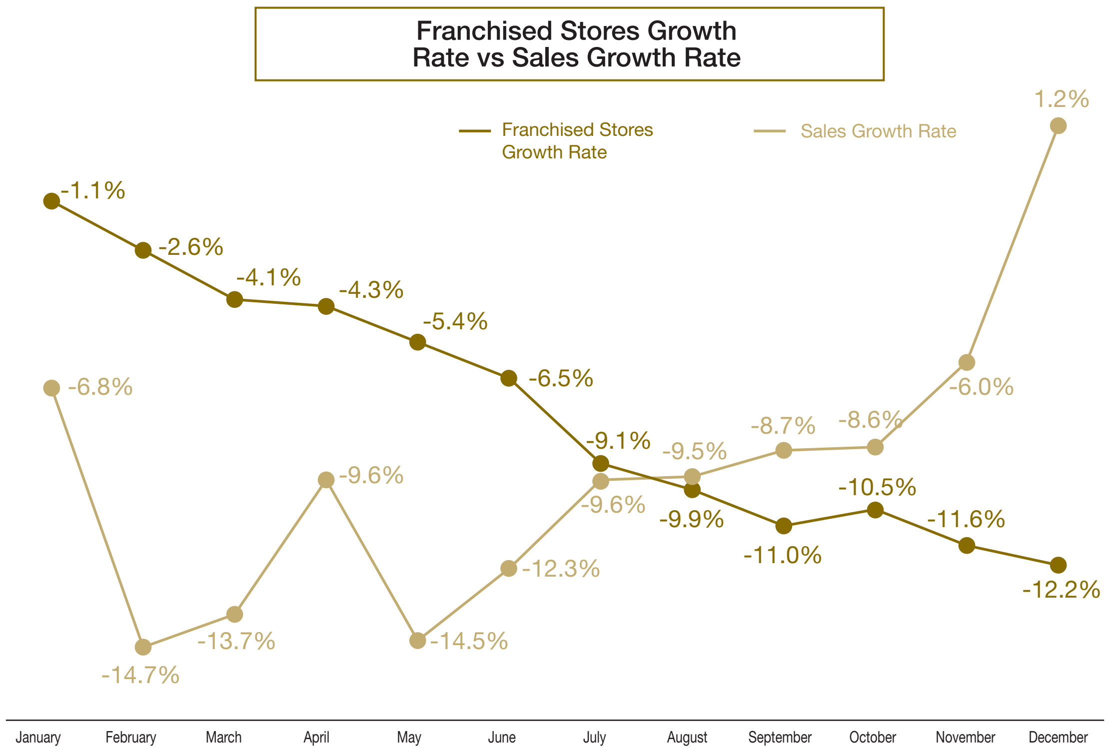


MANAGEMENT DISCUSSION AND ANALYSIS

Trend of monthly number of franchised stores:



The actual number of stores in operation as at 31 December 2016 decreased by 95 stores as compared to that as at 31 December 2015, but recorded a positive growth of 1.2%.



MANAGEMENT DISCUSSION AND ANALYSIS

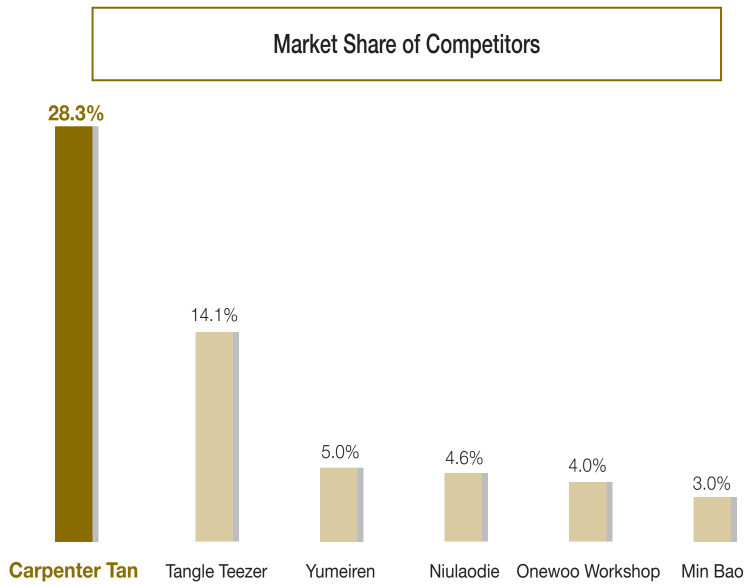
2. **Online segment maintained strong growth**

With outstanding position in wood comb sector of T Mall and Jingdong, Carpenter Tan implemented the cooperation model of online sales and offline repairing services, and adhered to the principal of same price for online and offline purchase. Carpenter Tan's sales network covers various major e-commerce platforms including T Mall, Jingdong, Suning, Amazon, Yihaodian and Dangdang. In 2016, the Company recorded sales of more than RMB70 million, representing an increase of more than 24% as compared to 2015. Among the 115,445 vendors in comb category of the Taobao platform, the daily ranking of Carpenter Tan's official flagship store in "family/personal sanitary products" category ranged from second to sixth, comb products accounted for 88.25% in this category and ranked first, and our ranking in payment received in the last 30 days maintained in the second or third place. We ranked number one in "comb" category.

During the Year Under Review, T Mall and Jingdong remained to be our major online sales platforms:

	Total number of visitors (period-on-period increase)	Average views per month	Number of customers	Number of products sold	Conversion rate	Average spending per customer (period-on-period increase)
T mall	7,640,000 (22%)	5,070,000	33,000	47,000	5.24%	167.49 (2.3%)
Jingdong	1,490,000 (35.7%)	900,000	8,000	10,000	6.48%	198 (7.6%)

Throughout the year, our top five competitors in comb category and their rankings are as follows:



Online operation has the features of relatively simple business mode and more intensive competition with competitors of different levels. In response to such unique features, Carpenter Tan's e-commerce team, led by controller Liu Kejia, actively carried out innovative activities with their hard work. During key marketing periods such as Chinese and Western Valentine's Day, Double 11 Day, International Women's Day, Mother's Day and other important festivals, the management and frontline staff made joint efforts to work on the tasks in a passionate and hardworking manner often seen in small companies without bureaucracy or haggling, which reflected Carpenter Tan's corporate culture.

MANAGEMENT DISCUSSION AND ANALYSIS

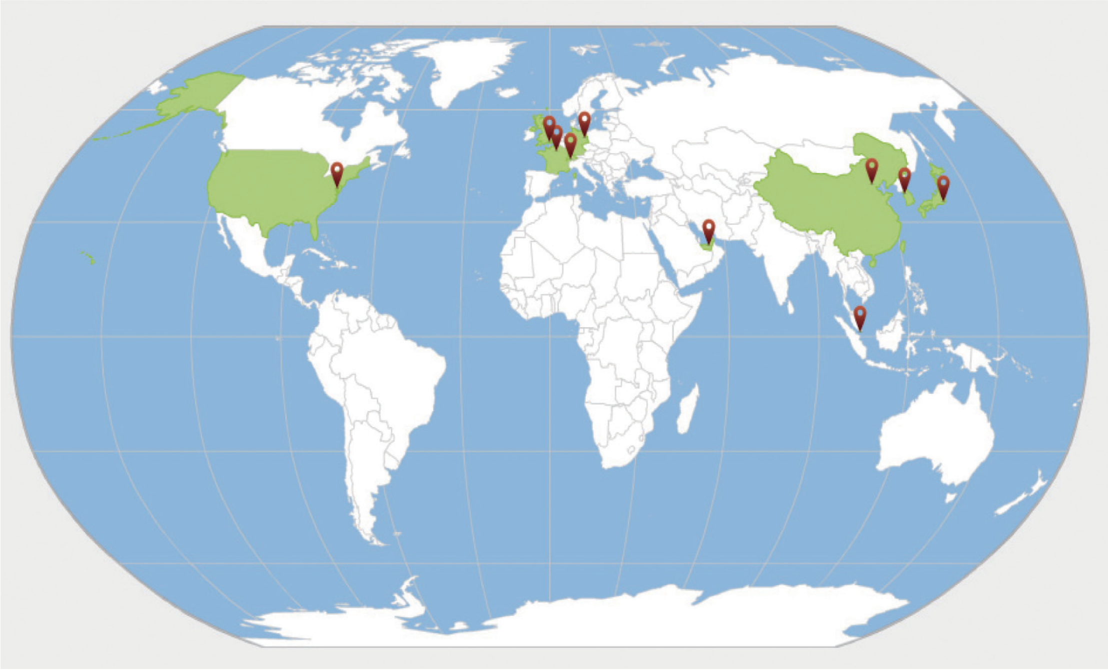
3. **Underperformance in overseas market expansion**

Hong Kong market has been considered to be the starting point for the overseas expansion of Carpenter Tan. However, due to the high rent and labour cost in Hong Kong, the Company is too conservative in the development of Hong Kong and overseas market. As a result, the progress for the business expansion is slow. The Company continuous to adopt a self-operation model for Hong Kong market, and closed two stores with relatively low popularity. Currently, three stores in Hong Kong remain in operation, namely Hong Kong MTR station, Mong Kok MTR station and The One shopping center.

Carpenter Tan has yet to identify the most suitable channel for development of overseas market. For overseas market promotion, the Company selectively participated in the Hong Kong Gifts & Premium Fair and Tokyo International Gift Show. Carpenter Tan's Chinese logo was shown in international exhibitions. As the only Chinese brand at the Tokyo International Gift Show, Carpenter Tan exhibited its products with special decoration in the professional hall, which drew great attention from the expo organizers and the guests, and the brand received great exposure from the event. Through years of accumulation, Carpenter Tan has been getting more attention from the overseas distributors, and the procedure for selection and training of distributors is becoming more mature gradually. Progress was made in the channel development of European sales agents. Also, our products became available in ten stores of Eslite Bookstores in Taiwan. Overseas market began to make certain contribution to the operating results of the Company.

As at 31 December 2016, Carpenter Tan directly operated three stores in Hong Kong, and had three franchised stores and over ten sales agents and distributors in other countries and regions.

For overseas operation, the Company adopted various cooperation models such as franchisees, distributors and exclusive sales agents mainly scattered in Singapore, Korea, Japan, France, United Kingdom, Switzerland, Germany, United Arab Emirates, United States and Taiwan.



4. **More efforts were made in the research and development of innovative designs**

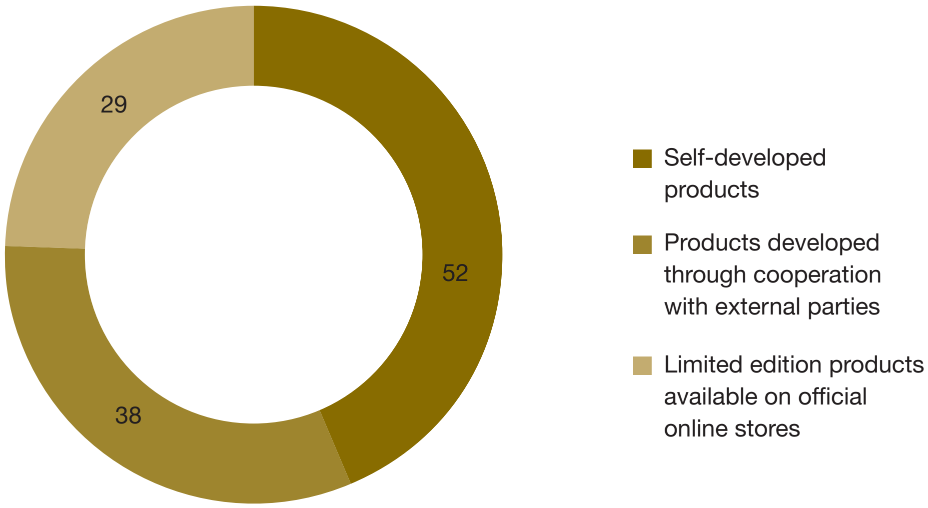
Carpenter Tan has been focusing on self-development supplemented with certain external designs. In over twenty years of operation, we found that the ideas and designs of many designers were "quantified" under the quantitative assessment system after they were hired by the Company. As such, the Company made a bold decision to break the existing pattern by integrating the external design resources in an open manner in addition to cultivating its own internal design team, and thereby gaining access to more resources in research and development as a small company. After the successful initial launch of the "Global Comb Design Competition" on the official website in 2015, the Company further expanded the design competition in 2016 through the cooperation with "ZCOOL (站酷)", a well-known design platform in China, which provided abundant internet design resources to Carpenter Tan. Over 2,700 designers participated in Carpenter Tan's design competition with over 3,000 pieces of designs, and 34 of which were launched in the market, among which 8 became regular products through trial sales. "Uncle Nextdoor (隔壁大叔)", an independent designer in Northeast China, was prized for seven of his designs with one winning the grand award, and rewarded with RMB170,000. "Sun Wukong (齊天大聖)", one of his designs, gained the popularity among younger generation. Overseas cooperation team also showed progress with the products ("Another Companion (一半一伴)" and "Noah's Ark (諾亞方舟)") designed by Taiwanese designer "Biaugust (兩個八月)" available for sales in ten stores of "Eslite Bookstore" in Taiwan. Designer products cooperated with Nanjing University of the Arts and Jiangnan University will also be launched in the market soon. Through the integration of various resources, product design experienced fundamental changes with more elements of younger generation, and became more fashionable and more close to the consumers.

During the Year Under Review, we focused on the stability of the third-generation implanted teeth comb, combination of wood and mixed material, production techniques of metallic mirrors, cooperation with external design teams and prototyping of awarded designer works. On top of the development and improvement of classic products, we put extra effort in the products catering to younger generation. We offered adequate training to our own designer team and actively cooperated with external design teams. During the year, we established good cooperation and delivered satisfactory results with the School of Design of Nanjing University of the Arts, the School of Design of Jiangnan University, Biaugust in Taiwan, Jose in Germany, Yunma Design, Chengdu Beyond Design and the team of Liu Zhaoqun.

During the Year Under Review, we launched a total of 119 new products and 4 promotional products, among which 52 were self-developed products, 38 were products developed through cooperation with external parties and 29 were limited edition products available on official online stores including 8 products turned to regular sales. The carving workshop completed the design of 4 image products and physical prototyping of 5 designs and the design of 39 general products and physical prototyping of 38 designs, completed two copies of "Shuoguoleilei" as scheduled, and 13 packaging designs were also launched.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Research and Development



5. **Skilled production technology and continuous technical innovation are also the beauty of Carpenter Tan.**

The skilled production technology team of Carpenter Tan is formed by more than 50% of disabled workers. They overcome their disabilities and help each other to form a happy group which loves their work and strives for self-improvement. Despite their disabilities, they create many complete products. It is their work, which is also their life.

Carpenter Tan maintains its leading position in the industry through technical innovation and invention. The Company values inventions, hence proposes over 10 projects on technological breakthroughs and encourages employees to tender. It was outstandingly successful in 2016: Zeng Zhiqiang, the engineer of technology center, overcame the difficulties in automatic blade milling machine technology, which was brought into application, with efficiency enhanced by 2 times. The team of painting workshop led by Liu Xueping conducted new craft transformation of colour painting, with efficiency enhanced by more than 2 times and was brought into use. The processing efficiency of the tridentate quick pasting project led by the team of Zhang Yichun, the deputy factory manager, increased by 40%. The average dislocation quality of dentate pasting decreased from 1.5mm to 0.5mm, and production difficulty reduced by 50%. The processing efficiency of dentate trimming project by the team led by Huang Xuejun increased by 80% and production difficulty reduced by 70%. During the year, rewards for the above amounted to RMB73,000.

The Company perennially establishes Technological Progress Awards and Annual Innovation Awards. During the year, the Company achieved technology breakthroughs and promoted the adoption of teeth root polishing to provide smooth combing experience without hair damage. The Company adopted new processing of implanted teeth comb with hair protection, enhancing efficiency by nearly 100%. The Company established and promoted safety visualization, and recorded “nil” production safety incidents during the year. During the Year Under Review, rewards for the above amounted to approximately RMB30,000.

Through implementation of "Innovation Star Award" and "Factory Manager Reward", the Company mobilized staff's innovation initiatives. Staff actively identify the problems for the whole process of factory production and the organizational improvement was enhanced. The red lacquer testing by the team led by Zhang Wanli was successful; polisher enhancement by Zhang Yongwei, the staff of first-tier workshop, drilling improvement by the team of Tan Bangmei and Zhang Yongwei as well as improvement in shaping process and dust removal were achieved. During the Year Under Review, the Company had over 20 innovations. Enrichment of product categories, improvement of working environment, ensuring of product quality, enhancement of production efficiency and production safety well proceeded and supported internal coherence and development of the Company. During the Year Under Review, rewards for the above amounted to RMB48,000.

The Wanzhou Factory of Carpenter Tan had a total of 734 production workers, 94% of whom were skilled workers (under employment for over one year). The factory focused on the production of combs, and also produced proper amount of mirrors and other accessories. During the Year Under Review, we put great efforts in safe production, performance management and process control to enhance the production efficiency. We also fully cooperated with the designers in prototyping of new products and mass production with focus on ensuring the sales progress. The factory was well organized and achieved the result of "nil" accident and "nil" compensation.

Actual production and comparison with the corresponding period last year are set out below:

	For the year ended 31 December	
	2016	2015
Combs	3,306,278	3,435,651
Mirrors	749,828	778,913
Total	4,056,106	4,214,564

6. The brand philosophy of "Honesty, Work and Happiness" is the core value of Carpenter Tan

During the Year Under Review, we held the "Touching Design with Creativity-Find Out the Most Touching Product of the Year" (情懷之作，創意之舉) design competition on our official website, and cooperated with "ZCOOL (站酷)" (an outstanding design website in China) to hold the "Beauty of Ingenuity (別具匠心的美好)" design competition, and received more than 3,000 works from over 2,700 designers during the Year Under Review, and the competition webpage recorded over 1,560,000 clicks. Through such competitions, more outstanding designers can participate in Carpenter Tan's design and brand promotion activities.

MANAGEMENT DISCUSSION AND ANALYSIS

We carefully prepared and provided various training materials based on the need of corporate development and operation of stores. The videos of "The Story of A Comb" and "Artisans in Carpenter Tan" demonstrated Carpenter Tan's deep feelings about the comb to the stores and public. The promotional video of "Craftsmanship Spirit" based on combs conveyed Carpenter Tan's craftsmanship spirit of endeavoring to "make comb for the whole world" in an honest manner. The serial videos of "Store Managed by Zhao Ling" related to an outstanding staff provided practical marketing cases to the stores through various dimensions and perspectives such as staff management, data analysis, product display, target management and group purchase for promotion.

We published information related to new products, promotional activities, operational activities and "Small Stories of Carpenter Tan's Staff" through our official website and Wechat platform. We also developed new functions on Wechat platform so as to keep our customers updated on the latest development of Carpenter Tan and attract our customers to the stores for shopping.

We organized various brand culture activities such as designers' visit to Wanzhou Factory, ZCOOL market, "Combing Dearest Mother" campaign, design competition in Shanghai University, "Knowing Carpenter Tan (走進譚木匠)" investor relationship activity (cooperated with Chinese Securities Journal), 2016 comb colour painting competition and Carpenter Tan's brand promotion in Nanjing University.

MANAGEMENT DISCUSSION AND ANALYSIS

7. **Strict governance is the guarantee of brand quality**

In 2016, the Company proposed "transformation" and operated with focus on meticulous operation and services marketing by all staff. The Company optimized the management structure and assigned the staff with more experiences to important positions. The Company appointed Mr. Luo Hong Ping, the factory manager, as chief executive officer for better coordination between departments, service enhancement and supervision on rectification, to strengthen the teamwork. We also provided comprehensive training in different situations and different forms with focus on important aspects and weak points so as to improve the overall quality of the Company.

We implemented the Rules of Professional Practices, and included franchisees in the franchise contracts to ensure the sustainable and healthy development of franchise system. We also established the risk assessment mechanism, strengthened the target responsibility system, optimized and streamlined the positions, enhanced the execution efficiency and achieved practical working manner. A beneficial situation was formed through the competition among suppliers. We established a regulatory system to eliminate internal corruption, and encouraged the recommendation of talents regardless of whether they are relatives or not. The Company formulated the requirement of "no hospitality expenses" and provided staff with a clean environment, so as to establish a healthy and transparent supply security system for the Company.

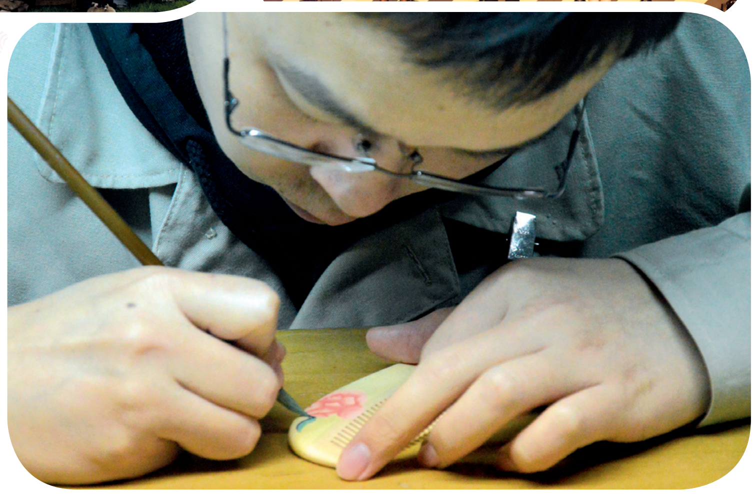
MANAGEMENT DISCUSSION AND ANALYSIS

The Company implemented a scientific and reasonable talent incentive scheme and had a functioning remuneration system which encouraged the employees to work with creativity. Carpenter Tan established its own team and tendering mechanism was implemented on the projects of technology development and improvement. The Company encouraged staff to be creative and active through rewarding. These systems facilitated the Company in technical improvement, human resources conservation, efficiency enhancement, cost reduction and safety assurance. We also established and implemented a sound system for administration and human resources management and worked innovatively to create a clean and positive working environment.

We encouraged all departments to carry out practical caring and welfare activities, cut the formalities and organized public service activities within the capability of our employees, in order to let them enjoy the feelings of “Honesty, Work and Happiness”.

8. **Being an enterprise with social responsibilities**

During the Year Under Review, Carpenter Tan provided a total of 318 jobs for people with disabilities. In Carpenter Tan, employees with disabilities are under the same requirements as ordinary employees. The Company focused on facilitating the employees with disabilities in developing self-reliance ability and healthy mind, improving working skills and performance and strengthening overall competitiveness. In addition, based



on the physical conditions of employees with disabilities, the Company offered special attention to employees with disabilities, formulated relevant rules, provided guaranteed basic salary, increased living allowances and installed relevant living facilities in order to enable the employees to enjoy the dignity of labor and happiness of life in Carpenter Tan.

During the year, the Company cooperated with Jurong Boai Special Education School (句容市博愛特殊教育學校), the management members carried out monthly caring activities in the school such as teaching the kids to draw, knit and play table tennis. The logistics department of Wanzhou Factory paid monthly visits to Wanzhou Linghui Institution for the Mentally Handicapped (萬州區慧靈智障人士機構) to offer care and help and teach the people to draw and make handicrafts. Carpenter Tan has been caring for the disadvantaged groups for twenty years, so that love and gratitude may grow within the Group, and the employees may give back to the society and understand the meaning of "enough is as good as a feast".

9. **Recognitions by the government and the industry during the Year Under Review:**

- Leading Enterprise of Forestry Industry of the City (市級林業龍頭企業) by Forestry Administration of Chongqing;
- Outstanding Organization Award by Federation of Pepople with Disabilities of Wanzhou;
- Grade A Tax-paying Enterprise (A級納稅企業) of 2015 by Wanzhou Taxation Bureau;
- Technology Enterprise in Chongqing;
- ZCOOL Most Respectful Design Enterprise Award by ZCOOL (website);
- "Star of Chain Store" (連鎖之星) by Enterpreneur (magazine);
- Top 100 Valuable Brand in China;
- Top 50 Influential Chain Brand in China; and
- Wooden mirror products were awarded the title of "2016 Brand-name Product in Chongqing".

During the Year Under Review, the Company had 2 newly registered patents and 8 licensed patents. As of the end of the year, Carpenter Tan had 44 patents in total, of which 14 were invention patents.

With positive mind-set of the Company's staff, the Company achieved positive growth in operation results of off-line stores in December 2016. However, Carpenter Tan's business performance was not satisfactory for the year ended 31 December 2016. The Company apologized in the face of shareholders' trust. We know that room for improvement between Carpenter Tan's products and packaging and its brand still exists. We will put emphasis on shop locations, enhancement of new image stores and investments in overseas market. As the gap between the Company and a good company in terms of management details, quality of first-tier service and innovativeness is still large, the Board hereby apologizes to shareholders. In 2017, we will continuously deny ourselves, be humble as a beginner and handle their matters with a practical and simple style as well as an attitude of loving our work and being honest.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

1. Revenue

The Group recorded a revenue of approximately RMB263,783,000 for the year ended 31 December 2016, representing a decrease of RMB12,279,000 or 4.4% as compared to that of approximately RMB276,062,000 for the year ended 31 December 2015. The decrease was attributable to the down turn of the retail market in China, which resulted in a decrease in the sales of products. As at 31 December 2016, the Group had 1,284 franchise shops and 3 directly-operated outlets respectively while as at 31 December 2015, the Group had 1,379 franchise shops and 5 directly-operated outlets respectively. The franchise fee income was approximately RMB381,000 which represents an increase of approximately RMB111,000 when compared to that of approximately RMB270,000 of last year.

	For the year ended 31 December			
	2016		2015	
	RMB'000	%	RMB'000	%
Revenue				
– Combs	**65,609**	**24.9**	73,705	26.7
– Mirrors	**1,065**	**0.4**	1,752	0.6
– Box sets	**195,105**	**74.0**	196,531	71.2
– Other accessories	**1,623**	**0.6**	3,804	1.4
Franchise fee income	**381**	**0.1**	270	0.1
Total	**263,783**	**100.0**	276,062	100.0

2. Cost of sales

The cost of sales of the Group was approximately RMB90,772,000 for the year ended 31 December 2016, representing a decrease of RMB7,184,000 or 7.3% as compared to that of approximately RMB97,956,000 for the year ended 31 December 2015, which was mainly as a result of the drop in revenue.

3. Gross profit and gross profit margin

As at 31 December 2016, gross profit of the Group was approximately RMB173,011,000 representing a decrease of RMB5,095,000 or 2.9% as compared to that of approximately RMB178,106,000 for the year ended 31 December 2015. The gross profit margin increased slightly from 64.5% in 2015 to 65.6% in 2016. The increase in gross profit margin was mainly due to the increase in proportion of online sales which has a higher gross profit margin.

MANAGEMENT DISCUSSION AND ANALYSIS

4. **Other revenue and other net income**

Other revenue and other net income was approximately RMB44,087,000 for the year ended 31 December 2016, representing an increase of RMB3,178,000 or 7.8% as compared to that of approximately RMB40,909,000 for the year ended 31 December 2015. Other revenue and other net income is mainly comprised of net foreign exchange gain of approximately RMB2,037,000, PRC VAT refunds of approximately RMB16,568,000, rental income of approximately RMB7,199,000, interest income of approximately RMB14,056,000, fair value change of investment properties of RMB2,900,000 and fair value gain on derivative financial instruments of approximately RMB nil respectively (2015: PRC VAT refunds of approximately RMB7,860,000, rental income of approximately RMB6,913,000, interest income of approximately RMB14,654,000, fair value change of investment properties of RMB3,630,000 and fair value loss on derivative financial instruments of approximately RMB5,415,000 respectively).

5. **Selling and distribution expenses**

The selling and distribution expenses amounted to approximately RMB42,835,000 for the year ended 31 December 2016, representing an increase of approximately RMB6,284,000 or 17.2% as compared to that of approximately RMB36,551,000 for the year ended 31 December 2015. The selling and distribution expenses mainly including advertising and promotion expenses of approximately RMB10,454,000, delivery charges of approximately RMB6,601,000, rental expenses of approximately RMB3,919,000, salaries and benefits of approximately RMB7,226,000 and travelling expenses of approximately RMB1,929,000 respectively (2015: advertising and promotion expenses of RMB7,532,000, delivery charges of RMB6,256,000, rental expenses of RMB3,537,000, salaries and benefits of RMB7,110,000 and travelling expenses of RMB1,695,000 respectively).

6. **Administrative expenses**

The administrative expenses of the Group was approximately RMB22,226,000 for the year ended 31 December 2016, representing a decrease of approximately RMB1,829,000 or 7.6% as compared to that of approximately RMB24,055,000 for the year ended 31 December 2015. The administrative expenses is mainly comprised of salaries and benefits of approximately RMB8,563,000, legal and professional fee of approximately RMB2,210,000, design and sample expenses of approximately RMB1,430,000, consultancy fee of approximately RMB465,000, depreciation charges of approximately RMB50,000 and audit fee of approximately RMB1,190,000 respectively (2015: salaries and benefits of RMB10,777,000, legal and professional fee of RMB2,592,000, design and sample expenses of RMB1,647,000, consultancy fee of RMB553,000, depreciation charges of RMB272,000 and audit fee of RMB1,152,000 respectively).

7. **Other operating expenses**

Other operating expenses of the Group was approximately RMB8,250,000 for the year ended 31 December 2016, representing an increase of RMB1,359,000 or 19.7% as compared to that of approximately RMB6,891,000 for the year ended 31 December 2015. The increase was mainly due to the increase in loss on disposal of raw materials during the Year Under Review.

MANAGEMENT DISCUSSION AND ANALYSIS

8. Finance costs

Finance costs of the Group was approximately RMB nil for the year ended 31 December 2016, representing a decrease of RMB3,150,000 as compared to approximately RMB3,150,000 for the year ended 31 December 2015. The decrease was mainly due to the decrease in bank borrowings for the Year Under Review. For the year ended 31 December 2016, the Group did not have any bank borrowings.

9. Income tax

For the year ended 31 December 2016, income tax expenses for the Group amounted to approximately RMB29,784,000, increased by approximately RMB1,322,000 or 4.6% when compared to approximately RMB28,462,000 for the year ended 31 December 2015, mainly due to the decrease in written back of deferred tax during the Year Under Review.

The effective tax rate for the Year Under Review was 20.7% when compared to 19.2% for the year ended 31 December 2015.

10. Profit for the year

The profit for the year ended 31 December 2016 was approximately RMB114,003,000, representing a decrease of RMB5,903,000 or 4.9% as compared to that of approximately RMB119,906,000 for the year ended 31 December 2015. The decrease was mainly due to the decrease in gross profit of approximately RMB5,095,000 and increase in selling and distribution expenses of approximately RMB6,284,000 which were partially off-set by the decrease in administrative expenses of approximately RMB1,829,000 and increase in other revenue and other net income of approximately RMB3,178,000 for the Year Under Review.

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF MAJOR CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

1. Property, plant and equipment

The Group's property, plant and equipment consists of building, leasehold improvements, plant and machinery, furniture and equipment, motor vehicles and construction in progress. As at 31 December 2016, the net book value of property, plant and equipment amounted to approximately RMB59,812,000, representing an increase of approximately RMB2,303,000 or 4.0%, as compared with the previous year of approximately RMB57,509,000. The increase was mainly attributable to the addition of plant and equipment for the year ended 31 December 2016.

2. Inventories

The Group's inventories as at 31 December 2016 increased by approximately RMB16,921,000 or 19.4% from approximately RMB87,442,000 as at 31 December 2015 to approximately RMB104,363,000 as at 31 December 2016, primarily due to the increase in raw materials level. Raw materials increasd by RMB15,572,000 or 27.9% from RMB55,814,000 in last year to RMB71,386,000 in this year.

3. Trade receivables

Generally, franchisees are required to settle the payments for the products prior to delivery. The Group's trade receivables consist of credit sales of products to be paid by some of the Group's franchisees who had better sales performance. As at 31 December 2016, the Group's trade receivables amounted to RMB2,933,000 which is close to that of RMB2,377,000 as at 31 December 2015.

4. Other receivables, deposits and prepayments

The Group's other receivables, deposits and prepayments decreased by approximately RMB19,861,000 or 67.6% from approximately RMB29,368,000 as at 31 December 2015 to approximately RMB9,507,000 as at 31 December 2016. Decrease in other receivables, deposits and prepayments was mainly due to a decrease in interest receivables on deposits at banks when compared to last year.

5. Trade payables

As at 31 December 2016, the Group's trade payables was approximately RMB4,797,000, which is close to that of approximately RMB3,943,000 as at 31 December 2015.

6. Other payables and accruals

The balance consists of dividend payables, other payables, accruals, trade deposits received, provision for sales return, VAT and other non-income tax payables. The Group's payables and accruals decreased slightly by approximately RMB181,000 from approximately RMB26,316,000 as at 31 December 2015 to approximately RMB26,135,000 as at 31 December 2016. The decrease was primarily due to a decrease in other payables and accruals.

MANAGEMENT DISCUSSION AND ANALYSIS

CASH FLOW

The Group's cash is primarily used to meet the demand of financing its working capital requirement, repaying interest and principal due on its indebtedness and providing funds for capital expenditures and growth of the Group's operations.

1. **Net cash generated from operating activities**

   The Group's cash inflow from operations primarily derives from payments for the sale of the Group's products. For the year ended 31 December 2016, the Group's net cash inflow generated from operating activities amounted to approximately RMB109,035,000, representing an increase of net cash inflow generated from operating activities of approximately RMB18,081,000 from approximately RMB90,954,000 for the year ended 31 December 2015. The increase was primarily due to a decrease in other receivables, deposits and prepayments during the Year Under Review.

2. **Net cash (used in)/generated from investing activities**

   For the year ended 31 December 2016, the Group's net cash outflow used in investing activities amounted to approximately RMB4,767,000, representing a decrease of approximately RMB129,648,000 as compared with the cash inflow generated from investing activities of approximately RMB124,881,000 for the year ended 31 December 2015. The decrease is mainly due to the decrease in fixed deposits held at bank of approximately RMB127,756,000 during the Year Under Review.

3. **Net cash generated from/(used in) financing activities**

   For the year ended 31 December 2016, the Group's net cash inflow generated from financing activities amounted to approximately RMB129,831,000, representing an increase of approximately RMB412,324,000 as compared with the net cash outflow used in financing activities of approximately RMB282,493,000 for the year ended 31 December 2015. The increase was primarily due to the decrease in pledged deposit of approximately RMB233,053,000 during the year ended 31 December 2016.

CAPITAL STRUCTURE

1. **Indebtedness**

   As at 31 December 2016, the Group did not have any bank borrowings (as at 31 December 2015: RMB nil).

2. **Gearing ratio**

   As at 31 December 2016 and 2015, the Group did not have any bank borrowings. The calculation of gearing ratio is not meaningful.

3. **Pledge of assets**

   As at 31 December 2016, the Group did not have any pledged assets to the bank (as at 31 December 2015 : approximately RMB233,053,000).

4. **Capital expenditure**

The capital expenditures of the Group primarily included purchases of plant and equipment, leasehold improvements and purchases of motor vehicles. The Group's capital expenditures amounted to approximately RMB4,807,000 and approximately RMB2,935,000 for the year ended 31 December 2016 and the year ended 31 December 2015 respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings. For the year ended 31 December 2016, the Group did not have any bank borrowings. The disclosure of effective interest rates for variable rate loans is not applicable.

Taking into account the cash flow generated from operation and the bank borrowing facilities available to the Group, the directors of the Company are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least the next twelve months from the date of this report.

As at 31 December 2016, the Group had cash and bank balances of approximately RMB463,222,000 (as at 31 December 2015: approximately RMB194,114,000) mainly generated from operations of the Group and funds raised by the Company in 2009.

CAPITAL COMMITMENT

As at 31 December 2016, the Group had capital commitment amounted to approximately RMB883,000 (as at 31 December 2015: approximately RMB172,000).

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2016, the Group had not made any material acquisition and disposal.

OUTLOOK

Carpenter Tan's vision is "becoming a comb of the world". The Company has always been adhering to the corporate philosophy of "Honesty, Work and Happiness" and strives to bring wonderful experience to customers by trendy design, quality craftsmanship and caring service.

In 2017, shopping malls in major cities, first-tier business districts, airports and high-speed railway will continue to be the key development aspects. The Company will close the stores in unfavorable locations, with poor shop images and profitability, and will create new images for old stores. Making DIY products in stores can enhance consumers' loyalty to the brand. Meanwhile, the Company will introduce collectable high-end tailored products from well-known engravers. The Company intends to select some areas for carrying out O2O trial operation to integrate online sales and physical store sales, raising response time and quality of service. The Company's ultimate customer base can be expanded by creating secondary sales and enhancing customer satisfaction through collaboration.

The Company will also increase its investment in the e-commerce business, optimize peer competition strategy, continuously enhance Carpenter Tan's brand and demonstrate the brand culture of kindness and innovation and its position in the industry in terms of product differentiation. The Company will launch activities suitable for target customers, strengthen online shop design, adhere to the principle of offering same price to online sales and physical store sales, strictly combat illegal shops to protect its brand quality and interests of physical store franchisees.

The Company will participate in more overseas exhibitions, enhance the quality of participation and expand the scale of participation to introduce Carpenter Tan to more professional buyers, brand owners and overseas investors. We will try our best to fulfill their products and packaging adjustment requirements and develop products and packaging that meet the consumption habits of overseas customers when appropriate.

The Company's direction of development is to target consumers with various ages and cultures by respective positioning. Classic mature models and young and lively models are to be showcased in the same store. Mixed materials combination, especially silver inlays, is the development focus. Structural research on metal mirror basically has been completed and has entered the product launch process. The Company will continue to cooperate with excellent design teams to develop valuable new products, constantly organize international design contests with an open mind, innovatively explore method of display such as videos and animation, brochures and H5 websites, to meet the demand for display in various environments. To many consumers, Carpenter Tan's products have a strong position. It is often heard that "you may consider it too expensive if you have never used it. However, if you have used combs from Carpenter Tan, you will never use other combs". This is a sincere evaluation of products from Carpenter Tan.

Carpenter Tan puts its brand philosophy of "Honesty, Work and Happiness" into practice from the inside out. We hope to handle every matter sincerely and truthfully. In this era of strong consumer participation, Carpenter Tan set up a small external factory at its headquarter office in Jurong, with a view to teach its management to make combs and to let consumers experience the process from designing combs to making combs. Recently, the small factory

MANAGEMENT DISCUSSION AND ANALYSIS

officially opened to the public and, together with an exhibition on wood craft collections of twelve famous artists from Taiwan, Sweden, Germany and mainland China as well as the first "Carpenter Forum" (匠心論壇) held by Carpenter Tan, Carpenter Tan's culture and brand value will be further enhanced.

Carpenter Tan has been shouldering its social responsibility. The Company allocates special funds every year to provide aids and subsidies to over 300 people with disabilities for acquiring equipment. Mr. Tan Chuan Hua, our chairman, always appreciate the Management's care for people with disabilities. Meanwhile, Carpenter Tan's staff with disabilities also participate in helping the underprivileged and have been helping Wanzhou Hui Ling Organization for Intellectual Disabilities and Jurong Fraternity Special School for years, realizing the value of "It is more blessed to give than to receive".

We will continue to carry forward our excellent quality in the past, identify and make up for our inadequacies, and continuously make innovative improvement. Under the increasing pressure in the retail environment, Carpenter Tan maintains its thrifty style in an orderly manner, works diligently in a pragmatic manner, acts in good faith and cooperates with outstanding teams with an open mind in order to bring long-term value to investors and reward shareholders for their trust to Carpenter Tan.

DIVIDENDS

To extend the Company's gratitude for the support of our shareholders, the Board has recommended the distribution of a final dividend of HK25.49 cents per share for the year ended 31 December 2016 to the shareholders whose names appear on the register of members of the Company on Friday, 9 June 2017, amounting to approximately HK$63,725,000 subject to the approval of the Company's annual general meeting to be held on Wednesday, 31 May 2017. The dividend payout ratio is 50.0% of the profit for the year or 39.4% of the profit before taxation of the Company. The above-mentioned final dividend is expected to be paid on or before Friday, 30 June 2017.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Tan Chuan Hua (譚傳華), aged 59, 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 20 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年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, father of Mr. Tan Di Fu and Mr. Tan Lizi, the elder brother of Mr. Tan Cao and the uncle of Ms. Tan Yinan. Mr. Tan was appointed as the Director of the Company on 20 June 2006.

Mr. Geng Chang Sheng (耿長生), aged 68, is an Executive Director 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 10 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). 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.

Mr. Tan Di Fu (譚棣夫), aged 31, is responsible for assisting the formulation of the business development strategy of the Group. He enrolled in Sichuan International Studies University (四川外語學院) 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. Currently he is the General Manager of Chongqing Carpenter Tan Handicrafts Company Limited and is responsible for the day-to-day management of the Company. Mr. Tan Di Fu is the son of Mr. Tan Chuan Hua and Madam Fan Cheng Qin, the elder brother of Mr. Tan Lizi, the nephew of Mr. Tan Cao and the cousin of Ms. Tan Yinan. Mr. Tan was appointed as the Executive Director of the Company on 18 August 2010.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Non-executive Directors

Mr. Tan Cao (譚操), aged 53, 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 24 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 uncle of Mr. Tan Di Fu, Mr. Tan Lizi and Ms. Tan Yinan. He joined the Group in August 2003 and was appointed as the Non-executive Director on 30 August 2006. Mr. Tan resigned as a Non-executive Director of the Company on 1 January 2016.

Mr. Liu Chang (劉暢), aged 43, 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 11 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 Non-executive Director on 30 August 2006. Mr. Liu resigned as a Non-executive Director of the Company on 28 February 2017.

Madam Tan Yinan (譚佚男), aged 34, worked for Hong Kong Sanxia Gas Investment Limited as director and Chongqing Three Gorges Gas (Corp.) Ltd. as general manager from May 2012 and July 2004 respectively. She has over 11 years experiences in management position. Madam Tan graduated from Japanese Culture and Foreign Language Specialise School (日本文化外國語專門學校) in June 2004. She is the niece of Mr. Tan Chuan Hua, the Chairman of the Company and Mr. Tan Cao, the cousin of Mr. Tan Di Fu. Madam Tan was appointed as the Non-executive Director of the Company on 1 January 2016.

Independent non-executive Directors

Mr. Yu Ming Yang (余明陽), aged 52, 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 Shandong Haodanjia Ocean Development Company Limited (山東好當家海洋發展有限公司), the shares of which are listed on the Shanghai Stock Exchange. He is also an independent non-executive director of Noble Jewelery Holdings Limited, the shares of which are listed on the Main Board of the 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. Yu resigned as an Independent Non-executive Director of the Company on 1 January 2016.

Madam Huang Zuoan (黃佐安), aged 57, worked for the Ministry of Public Security of the PRC as team head of the economic crime investigation unit at Chongqing City Wanzhou branch from May 2007 to August 2012 and zhengchuji investigator of Wanzhou district police school from August 2012 to December 2013. Madam Huang has over 30 years experiences in public security governmental authorities. She was appointed as the Independent Non-executive Director on 22 May 2014. Madam Huang was re-designated to a Non-executive Director on 28 February 2017.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chau Kam Wing, Donald (周錦榮), aged 54, has over 22 years of experience in auditing, taxation and financial management and had been appointed as financial controller of a number of companies listed in Hong Kong. Mr. Chau obtained a master degree in business administration from the University of San Francisco, US in 2000. He is also a fellow member of The Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. Mr. Chau is currently the finance director of Winox Holdings Limited (Stock Code: 6838) and he is an independent non-executive director of China Water Affairs Group Limited (Stock Code: 0855), which are both listed on the Main Board of the Hong Kong Stock Exchange ("HKEx"). He is also an independent non-executive director of Ching Lee Holdings Limited (Stock Code: 8318), Eco-Tek Holdings Limited (Stock Code: 8169) and Zhejiang Chang'an Renheng Techndogy Co., Ltd. (Stock Code: 8139) which are listed on the Growth Enterprise Market of the HKEx. Mr. Chau was also an independent non-executive director of Zhejiang Shibao Company Limited (Hong Kong Stock Code: 1057 and Shenzhen Stock Code: 2703) which is listed on both the Main Board of HKEx and the SME Board of Shenzhen Stock Exchange from November 2009 to June 2015. Mr. Chau has been appointed as an Independent Non-executive Director of the Company since 17 November 2009.

Mr. Yang Yang (楊揚), aged 38, has over 16 years experiences in the capital market and securities industry. During the period from April 2002 to April 2015, he worked as an investment manager, a senior investment manager and an equity managing director at Taikang Asset Management Co., Ltd. with main responsibility for assets investment and equity portfolio management. He was an officer of Bank of China Beijing Branch from July to December 1999. Mr. Yang received his bachelor's degree in economics from Beihang University in 1999 and his master's degree in financial investment from the University of Nottingham in December 2001. Mr. Yang was appointed as the Independent Non-executive Director of the Company on 1 January 2016.

SENIOR MANAGEMENT

Madam Fan Cheng Qin (范成琴) aged 52, 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 17 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 and Mr. Tan Lizi, the elder sister-in-law of both Mr. Tan Cao and the aunt of Ms. Tan Yinan.

Mr. Tan Lizi (譚力子), aged 28, is the asistance to the chief executive officer of the Group. Mr. Tan is responsible for assisting the chief executive officer to manage day-to-day operation of the Group, including sales management, logistic and finance. He graduated with a Bachelor Degree in Business Administration from University of Stirling in UK. Mr. Tan is the son of Mr. Tan Chuan Hua and Madam Fan Cheng Qin, the younger brother of Mr. Tan Di Fu, the nephew of Mr. Tan Cao and the cousin of Ms. Tan Yinan. He joined the Group in September 2012.

Ms. Liu Kejia (劉珂佳), aged 32, is the sales controller of the Group (online sales). Ms. Liu joined the Group in October 2009, and is responsible for the exploration of channels on the network sales platform, business management, risk control, overseas market development. Ms. Liu held a bachelor degree in business administration awarded by Chongqing Postal and Telecommunication University (重慶郵電大學) and was engaged in the project management of Singapore Certis CISCO (策安科技) before joining the Group.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Zhang Chuanjin (張傳金), aged 35, is the sales controller of the Group (offline sales). Mr. Zhang joined the Group in April 2011, and is responsible for the sales development of offline market for franchised shops, brand promotion and product planning. He graduated from Qingdao Binhai Collage in Shangdong (山東青島濱海學院) with major in marketing. Before joining the Group, he was the sales controller of water heater products for Chongqing Trading Company of the Haier Group (海爾集團重慶工貿公司).

Luo Hongping (羅洪平), aged 51, is the administration controller of the Group. Mr. Luo joined the Group in July 2003, and is responsible for human resource and administration, finance and accounting, product design, brand culture, production, processing and logistic. He has been the factory manager of Wanzhou factory and the head of the technical center of the Group. Mr. Luo held a bachelor degree in engineering management. Before joining the Group, he had been the deputy factory manager of Sichuan Huaxi Silk Factory (四川華西絲綢總廠) for over 10 years where he gained experience in production management, and the deputy general manager of Chongqing Longbao Radio and Television Co., Ltd. (重慶龍寶廣電有限公司) for 4 years where he gained experience in sales of electrical appliances.

Mr. Chan Hon Wan (陳漢雲), aged 56, 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 30 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.

CORPORATE GOVERNANCE REPORT

The Board strives to uphold the principles of corporate governance set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and adopted various measures to enhance the internal control system, the Directors' continuing professional training and other areas of practice of the Company. While the Board strives to maintain a high level of corporate governance, it also works hard to create value and achieve maximum return for its shareholders. The Board will continue to conduct review and improve the quality of corporate governance practices with reference to local and international standards.

During the Year Under Review, the Company complied with the code provisions as set out in the CG Code, other than code provision A.2.1 of the CG Code.

According to code provision A.2.1 of the CG Code, 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. 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 arrangement 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 in the Board. The Board believes that the arrangement outlined above is beneficial to the Company and its business.

MODEL CODE FOR SECURITIES TRANSCATIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code governing securities transactions of the Directors. Each of the Directors has confirmed his or her compliance with the Model Code during the Year Under Review. The Company has also adopted written guidelines on no less exacting terms than the Model Code for the relevant employees. The senior management, who, because of their office in the Company, is likely to be in possession of unpublished inside information, has been requested to comply with the provisions of the Model Code and the Company's code of conduct regarding securities transactions by Directors. No incidence of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company during the Year Under Review.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

The Board is the core of the Company's corporate governance framework and its role is clearly separated from that of senior management. The Board is responsible for providing guidance for senior management and maintaining effective supervision over senior management. Since the day-to-day running of the Company has been delegated by the Board to the senior management, the senior management is responsible for the implementation of the policies resolved. In general, the responsibilities of the Board include formulating operation plans and investment proposals of the Company, preparing the proposed and final annual budgets of the Company, assessing the performance of the Company and overseeing the work of senior management.

As at 31 December 2016, the Board comprises a total of eight Directors, being three executive Directors, two non-executive Directors (the"Non-executive Directors") and three independent non-executive Directors (the "Independent Non-executive Directors"). Mr. Tan Chuan Hua, Mr. Geng Chang Sheng and Mr. Tan Di Fu served as executive Directors; Madam Tan Yinan and Mr. Liu Chang served as Non-executive Directors and Madam Huang Zuoan, Mr. Yang Yang and Mr. Chau Kam Wing, Donald served as Independent Non-executive Directors. These Non-executive Directors and Independent Non-executive Directors, who have different business and professional backgrounds, have brought valuable experience and expertise for the best interests of the Group and its Shareholders. Biographical details of and the relationship between the Directors are set out in the paragraph headed "Biography of Directors and Senior Management" of this report.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, and to review and approve the Group's annual and interim results. During the Year Under Review, four Board meetings were held and attendance of each Director at the Board meetings is set out in the paragraph headed "Board Meetings and Individual Attendance" of this report.

All members of the Board fully understand their collective and individual responsibility for the Company's Shareholders, and will try their best to carry out their duties to make contributions to the Group's results.

Throughout the Year Under Review and up to the date of this report, the Company has complied with the requirements under Rules 3.10(1) and (2) and 3.10A of the Listing Rules and has appointed three Independent Non-executive Directors, representing more than one-third of the number of Directors at the Board, with at least one Independent Non-Executive Director possessing the appropriate professional qualifications, or accounting or related financial management expertise.

Every Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management.

Pursuant to the Articles of Association of the Company, one third of the Directors shall retire from office by rotation at each annual general meeting. Accordingly, Mr. Geng Chang Sheng, Mr. Yang Yang and Madam Huang Zuoan shall retire at the forthcoming annual general meeting of the Company. The retiring Directors, all being eligible, offer themselves for re-election.

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

Pursuant to the CG Code, the Board has adopted a board diversity policy (the "Board Diversity Policy"). The Company recognizes and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

BOARD COMMITTEES

The Board has formed three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Committees have been formed with specific written terms of reference in compliance with Appendix 14 to the Listing Rules which deal with their respective authorities and duties.

The Committees' terms of reference are reviewed and updated regularly to ensure they continue to be at the forefront of best practice and to ensure due compliance with the most updated rules and regulations. Copies of the terms of reference are available on the website of the Stock Exchange and the website of the Company.

Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to all Board members and the committees are required to report back to the Board on their decision and recommendations where appropriate. The procedures and arrangements for a Board meeting have been adopted for the committee meetings so far as practicable.

Members, duties and responsibilities of the committees are as follows:

AUDIT COMMITTEE

The Company established the Audit Committee on 17 November 2009 with written terms of reference in compliance with the CG Code. The Audit Committee has three members comprising all the Independent Non-executive Directors. Members of the Audit Committee include Madam Huang Zuoan, Mr. Yang Yang and Mr. Chau Kam Wing, Donald, in which Mr. Chau Kam Wing, Donald is the chairman of the Audit Committee.

The duties and responsibilities of the Audit Committee 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; and
- discuss the risk management and internal control systems with management the ensure that management has performed its duty to have effective systems.

CORPORATE GOVERNANCE REPORT

During the Year Under Review, the Audit Committee had held two meetings. The attendance record of the committee members at these meetings are set out in the section headed "Board Meetings and Individual Attendance" of this report. The work performed by the Audit Committee during the Year Under Review included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2015, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2016 and the effectiveness of the internal control practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly.

The Audit Committee also carried out corporate governance functions during the Year Under Review, including developing and reviewing the Company's policies and practices on corporate governance and other duties prescribed under code provision D.3.1 of the CG Code.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee on 17 November 2009 with written terms of reference in compliance with the CG Code. The Remuneration Committee currently has three members, namely Madam Huang Zuoan, Mr. Yang 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.

The duties and responsibilities of the Remuneration Committee 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; and
- consider the granting of share options to the Directors pursuant to any share option scheme adopted by the Company.

During the Year Under Review, the Remuneration Committee had held two meetings and all the members attended the meeting. The Remuneration Committee has considered the policy for the remuneration of Directors, the performance of Directors, and the terms of Directors' service contracts. The Remuneration Committee adopted the approach under Code Provision B.1.2(c)(ii) of the CG Code to make recommendation to the Board and review the remuneration packages of the individual Directors and senior management of the Company.

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Company established the Nomination Committee on 28 March 2012 with written terms of reference, which was amended and adopted by the Board on 29 August 2013 and the contents of which are in compliance with the provisions of the CG Code. There are three members for the Nomination Committee which includes Madam Huang Zuoan, Mr. Yang Yang and Mr. Chau Kam Wing, Donald who are all Independent Non-executive Directors. The chairman of the Nomination Committee is Mr. Chau Kam Wing, Donald.

The duties and responsibilities of the Nomination Committee includes:

- formulate nomination policy for consideration of the Board and implement the nomination policy laid down by the Board;
- consider the selection criteria of Directors, and develop procedures for the sourcing and selection of members of the Board to be elected by shareholders of the Company;
- identify and nominate candidates to fill causal vacancies of Directors for the Board's approval;
- review the structure, size and composition of the Board at least annually, considering inter alia the skills, knowledge and length of service, the breadth of expertise of the Board as a whole, and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- assess the independence of independent non-executive Directors; and
- make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman, and the chief executive.

To comply with the new provisions in the CG Code on board diversity which became effective on 1 September 2013, the Nomination Committee has adopted a policy concerning diversity of Board members (the "Board Diversity Policy"), which is achieved through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, industry experience, skills, knowledge and length of service in related business areas of the Board members and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. The Nomination Committee will review the Policy on a regular basis and discuss any revisions that may be required, and recommended any such revisions to the Board for consideration and approval. The Company considers that the current Board composition is characterised by diversity, whether considered in terms of gender, professional background, skills and knowledge.

During the Year Under Review, the Nomination Committee had held two meetings and all the members attended the meeting.

CORPORATE GOVERNANCE REPORT

The work performed by the Nomination Committee during the Year Under Review included reviewing the established policy and procedure for the nomination and appointment of new Directors, reviewing the Board Diversity Policy and the measurable objectives that the Board has set for implementing such policy and assessing the independence of the Independent Non-executive Directors. The Nomination Committee, having reviewed the structure, size, composition and diversity of the Board including the gender, age, culture and educational background, professional experience and industry experience of each Director vis-a-vis the Group's business strategy as well as the structure for the rotation of Directors, considered that the existing arrangements were appropriate.

BOARD MEETINGS AND INDIVIDUAL ATTENDANCE

It is proposed to hold Board meetings at least four times a year regularly. Notice is given to Directors at least fourteen days before a regular Board meeting. Directors will be given reasonable and practicable notification under relevant circumstance for any special Board meeting called.

Before each Board meeting, the Directors are provided with a detailed agenda and sufficient relevant information, so as to enable the Directors to make appropriate decisions in relation to the matters to be discussed therein. All Directors are given an opportunity to include matters of their concern in the agenda of the Board meeting. If any Director or any of his/her associate has material interests in any resolution of the Board meeting, such Director much abstain from voting and should not be counted in the quorum of the meeting.

Details of the attendance records of Directors on Board meetings and board committee meetings for the year ended 31 December 2016 are as follows:

Name of Directors	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Mr. Tan Chuan Hua *(Chairman)*	4/4	—	—	—	1/1
Mr. Geng Chang Sheng	4/4	—	—	—	1/1
Mr. Tan Di Fu	4/4	—	—	—	1/1
Non-executive Directors					
Mr. Tan Cao *(resigned on 1 January 2016)*	—	—	—	—	—
Mr. Liu Chang	4/4	—	—	—	1/1
Madam Tan Yinan *(appointed on 1 January 2016)*	4/4	—	—	—	1/1
Independent Non-Executive Directors					
Mr. Yu Ming Yang *(resigned on 1 January 2016)*	—	—	—	—	—
Mr. Chau Kam Wing, Donald	4/4	2/2	2/2	2/2	1/1
Madam Huang Zuoan	4/4	2/2	2/2	2/2	1/1
Mr. Yang Yang *(appointed on 1 January 2016)*	4/4	2/2	2/2	2/2	1/1

CORPORATE GOVERNANCE REPORT

TRAINING AND SUPPORT OF DIRECTORS

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group. All Directors have been updated on the latest developments regarding the main board listing rules and other applicable regulatory requirement to ensure compliance and enhance their awareness of good corporate governance practices. There is a procedure agreed by the Board to ensure Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses.

The Directors confirmed that they have complied with the Code Provision A.6.5 of the CG Code effective from 1 April 2012 on Directors' training and have provided a record of the training they received to the Company. All Directors have participated in continuous professional development by the following means to develop and refresh their knowledge.

Name of Directors	Training received
Mr. Tan Chuan Hua	— Reading materials/attending external and in house seminars and programmes
Mr. Geng Chang Sheng	— Reading materials/attending external and in house seminars and programmes
Mr. Tan Di Fu	— Reading materials/attending external and in house seminars and programmes
Mr. Tan Cao *(resigned on 1 January 2016)*	— Reading materials/attending external and in house seminars and programmes
Mr. Liu Chang	— Reading materials/attending external and in house seminars and programmes
Madam Huang Zuoan	— Reading materials/attending external and in house seminars and programmes
Mr. Yu Ming Yang *(resigned on 1 January 2016)*	— Reading materials/attending external and in house seminars and programmes
Mr. Chau Kam Wing, Donald	— Reading materials/attending external and in house seminars and programmes
Madam Tan Yinan *(appointed on 1 January 2016)*	— Reading materials/attending external and in house seminars and programmes
Mr. Yang Yang *(appointed on 1 January 2016)*	— Reading materials/attending external and in house seminars and programmes

RESPONSIBILITIES OF THE DIRECTORS AND EXTERNAL AUDITORS

The Directors are responsible for the preparation of the Financial Statements of the Group in accordance with the relevant laws and disclosure stipulations of the Listing Rules and ensuring that these statements give a true and fair view of the state of affairs of the Group, its results and cash flows for the relevant period. The Board also ensures the timely publication of the financial statements of the Group. The Board confirms that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt about the Company's ability to continue as a going concern.

The responsibilities of the external auditors are to express an independent opinion on the Financial Statements prepared by the Directors based on their audit and to report their opinion solely to all the Shareholders, and for no other purpose. The statement of external auditor of the Company, Crowe Horwath (HK) CPA Limited, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the "Independent Auditor's Report" of this report.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF EXTERNAL AUDITORS

For the year ended 31 December 2016, the remuneration paid to the external auditors in Hong Kong and the PRC, for audit services totaled approximately RMB780,000 (equivalent to approximately HK$900,000).

For the year ended 31 December 2016, the total remuneration for the permissible non-audit services provided by the external auditors amounted to approximately RMB324,000 (equivalent to approximately HK$375,000), mainly represents remuneration for interim review services.

FINANCIAL REPORTING, INTERNAL CONTROL AND RISK MANAGEMENT

Financial reporting

The Board acknowledges its responsibility, as set out in the Independent Auditor's Report, to prepare the Company's financial statements which give a true and fair view of the Group's state of affairs, results and cash flows for the year and in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, and the disclosure requirements of the Hong Kong Companies Ordinance. The Company has selected appropriate accounting policies and has applied them consistently based on prudent and reasonable judgments and estimates. The Board considers that the Group has adequate resources to continue in business for the foreseeable future and not aware of any material uncertainties relating to events or conditions that may affect the business of the Company or cast doubts on its ability to continue as going concern.

The responsibilities of Crowe Horwath (HK) CPA Limited, the Company's external auditor, with respect to financial reporting are set out in the section headed "Independent Auditor's Report" in this annual report.

Internal control and risk management

The Board recognizes its responsibility to ensure the Company maintains a sound and effective internal control system and the Board has conducted a review of the effectiveness of the internal control system of the Group during the Year Under Review. The Group's internal control system is designed to safeguard assets against misappropriation and unauthorized disposition and to manage operational risks. Review of the Group's internal controls covering major financial, operational and compliance controls, as well as risk management functions of different systems has been done on a systematic basis based on the risk assessments of the operations and controls. The controls built into the risk management system are intended to manage, not eliminate, significant risks in the Group's business environment. The Group's risk management framework includes the following elements: (i) identify significant risks in the Group's operation environment and evaluate the impacts of those risks on the Group's business; (ii) develop necessary measures to manage those risks; and (iii) monitor and review the effectiveness of such measures. The implementation of risk management framework of the Group was assisted by the Group's internal audit department so that the Group could ensure new and emerging risks relevant to the Group's operation are promptly identified by management, assess the adequacy of action plans to manage these risks and monitor and evaluate the effectiveness of the action plans. These are on-going processes and our Audit Committee reviews the Group's risk management systems from time to time in accordance with the prevailing Group's business environment.

CORPORATE GOVERNANCE REPORT

Audit Committee reported to the Board the implementation of the Group's risk management and internal control policy which, among other things, included the determination of risk factors, evaluation of risk level the Group could take and effectiveness of risk management measures. Based on the reports from the Group's internal control department and the Audit Committee, the Board considers the Group's risk management and internal control system is adequate and effective and the Group has complied with the provisions on risk management and internal controls as set out in the CG code.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

For the purpose of handling and disseminating inside information in accordance with the Listing Rules and the Securities and Futures Ordinance (the "SFO") (Cap 571 of the Laws of Hong Kong), the Group has taken various procedures and measures, including: (i) arousing the awareness to preserve confidentiality of inside information within the Group; (ii) sending blackout period and securities dealing restrictions notification to the relevant directors and employees regularly; and (iii) disseminating information to specified persons on a need-to-know basis and regarding closely to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012.

COMPANY SECRETARY

Mr. Chan Hon Wan was appointed as the company secretary of the Company on 1 June 2008. He is an employee of the Company and has day-to-day knowledge of the Company's affairs. He is responsible for ensuring a good information flow within the Board and the compliance of the board policy and procedures.

During the Year Under Review, Mr. Chan has confirmed that he has duly complied with the relevant requirement under Rule 3.29 of the Listing Rules and taken no less than 15 hours of relevant professional training. His biographical details are set out in the section headed "Biography of Directors and Senior Management" in this report.

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 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 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 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).

COMMUNICATION WITH SHAREHOLDERS

Shareholders' communication policy

On 28 March 2012, the Board adopted a shareholders' communication policy reflecting mostly the current practices of the Company for communication with its Shareholders. Such policy aims at providing the Shareholders and potential investors with ready and timely access to balanced and understandable information of the Company. However, it will be reviewed regularly to ensure its effectiveness and compliance with the prevailing regulatory and other requirements.

The Company has established a number of channels for maintaining an on-going dialogue with its Shareholders as follows:

(i) corporate communications such as annual reports, interim reports and circulars are issued in printed form and are available on the Stock Exchange's website at www.hkex.com.hk and the Company's website at www.ctans.com;

(ii) periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;

(iii) corporate information and the Memorandum and Articles of Association of the Company are made available on the Company's website at www.ctans.com;

(iv) Annual General Meeting and extraordinary general meetings provide a forum for the Shareholders to make comments and exchange views with the Directors and senior management; and

(v) the Company's share registrars serve the Shareholders in respect of share registration, dividend payment, change of Shareholders' particulars and related matters.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to convene an extraordinary general meeting

Extraordinary general meetings shall be convened on the written requisition of any one or more Shareholder(s) holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such requisition shall be made in writing to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself/herself/themselves may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for proposing a person for election as a director

On 28 March 2012, the Board adopted a policy of procedures for proposing a person for election as a director. If a shareholder of the Company wishes to propose a person (other than a retiring Director) for election as a Director (the "Candidate") at a general meeting of the Company, he should:

(i) lodge a written notice of such proposal at the Company's head office in Hong Kong at Room 1009, 10th Floor, Nan Fung Commercial Centre, 19 Lam Lok Street, Kowloon Bay, Kowloon, Hong Kong for the attention of the Company's company secretary, signed by the shareholder who should be qualified to attend and vote at the general meeting;

(ii) provide biographical details of the Candidate as set out in Rule 13.51(2)(a)-(x) of the Listing Rules; and

(iii) provide a written consent signed by the Candidate indicating his/her willingness to be elected.

The period for lodgment of such a written notice will commence on the day after the despatch of the notice of the relevant general meeting appointed for such election and end on the date seven days prior to the date of such general meeting and the minimum length of the period during which such notices to the Company may be given will be at least seven days.

Procedures for directing Shareholders' enquiries to the Board

Shareholders may at any time send their enquires and concerns to the Board in writing through the company secretary whose contact address is Room 1009, 10th Floor, Nan Fung Commercial Centre, 19 Lam Lok Street, Kowloon Bay, Kowloon, Hong Kong.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

CORPORATE GOVERNANCE REPORT

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
Mr. Tan Chuan Hua
Chairman of the Board

Hong Kong, 30 March 2017

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting the annual report together with the audited consolidated financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2016.

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; and (iii) the operation of retailing shops for direct sale of its products in Hong Kong. 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 brand name of “Carpenter Tan” (譚木匠).

RESULTS AND DIVIDENDS

Profit of the Group for the year ended 31 December 2016 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 62 to 125.

To extend the Company’s gratitude for the support of our shareholders, the Board has recommended the distribution of a final dividend of HK25.49 cents per share for the financial year ended 31 December 2016 to the shareholders whose names appear on the register of members of the Company on Friday, 9 June 2017, amounting to approximately HK$63,725,000 subject to the approval of the Company’s annual general meeting to be held on Wednesday, 31 May 2017. The dividend payout ratio is 50.0% of the profit for the year or 39.4% of the profit before taxation of the Company. The above-mentioned final dividend is expected to be paid on or before Friday, 30 June 2017.

CLOSURE OF THE REGISTER OF MEMBERS

To be eligible to attend and vote in the coming annual general meeting

The register of members of the Company will be closed from Thursday, 25 May 2017 to Wednesday, 31 May 2017 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company’s share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 24 May 2017.

REPORT OF THE DIRECTORS

To qualify for the proposed final dividends

The register of members of the Company will be closed from Wednesday, 7 June 2017 to Friday, 9 June 2017 (both days inclusive) during which period no transfer of Shares will be registered. To be qualified for receiving the proposed final dividend, all share transfer documents must be lodged with the Company's share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 6 June 2017.

BUSINESS REVIEW

A review of the business of the Group for the Year Under Review and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" on pages 7 to 27. An analysis of the Group's performance during the Year Under Review using financial key performance indicators is provided in the "Financial Highlights" on page 4. No important event affecting the Group has occurred since the end of the Year Under Review.

ENVIRONMENTAL POLICY

The Group is committed to supporting the environmental sustainability. Our commitment to protect the environment is well reflected by our continuous efforts in promoting green measures and awareness in our daily business operations. Our Group encourages environmental protection and promote awareness towards environmental protection to the employees. Our Group adheres to the principle of recycling and reducing. It implements green office practices such as double-sided printing and copying, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance.

Our Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of our Group's businesses to move towards adhering the 3Rs – Reduce, Recycle and Reuse and enhance environmental sustainability.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the Year Under Review, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by our Group that has a significant impact on the business and operations of our Group.

RELATIONSHIPS WITH STAKEHOLDERS

The Company recognizes that employees are our valuable assets. Thus our Group provides competitive remuneration package to attract and motivate the employees. Our Group regularly reviews the remuneration package of employees and makes necessary adjustments to conform to the market standard.

Our Group also understands that it is important to maintain good relationship with business partners and bank enterprises to achieve its long-term goals. Accordingly, our senior management have kept good communication, promptly exchanged ideas and shared business update with them when appropriate. During the Year Under Review, there was no material and significant dispute between our Group and its business partners or bank enterprises.

REPORT OF THE DIRECTORS

KEY RISKS AND UNCERTAINTIES

Our Group's financial condition, results of operations, and business prospects may be affected by a number of risks and uncertainties directly or indirectly pertaining to our Group's businesses. The followings are the key risks and uncertainties identified by our Group. There may be other risks and uncertainties in addition to those shown below which are not known to our Group or which may not be material now but could turn out to be material in the future.

Market Risk

Market risk is the risk that deteriorates profitability or affects ability to meet business objectives arising from the movement in market prices. The management of our Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Foreign exchange risk

The Group's principal business is located in the PRC and its major transactions are conducted in Renminbi. Most of its assets and liabilities are denominated in Renminbi, except for certain payables to professional parties that are denominated in Hong Kong dollars.

The Renminbi is not freely convertible. There is a risk that the Chinese government may take actions affecting exchange rates which may have a material adverse effect on the Group's net assets, earnings and any dividends it declares if such dividend is to be exchanged or converted into foreign exchange. The Group has not entered into any hedging transactions to manage the potential fluctuation in foreign currencies. The Group does not consider that it has any significant exposure to the risk of fluctuation in the exchange rate between HK$, US$ and RMB.

Liquidity Risk

Liquidity risk is the potential that our Group will be unable to meet its obligations when they fall due because of an inability to obtain adequate funding or liquidate assets. In managing liquidity risk, our Group monitors cash flows and maintains an adequate level of cash and cash equivalent to ensure the ability to finance the Group's operations and reduce the effects of fluctuation in cash flows.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and departmental levels.

Key functions in our Group are guided by their standard operating procedures, limits of authority and reporting framework. Our management will identify and assess key operational exposures regularly so that appropriate risk response can be taken.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2016, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

REPORT OF THE DIRECTORS

USE OF PROCEEDS FROM THE LISTING OF THE COMPANY

The proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited on 29 December 2009, after deducting the related issuance expenses, amounted to approximately HK$132,900,000 (equivalent to approximately RMB116,800,000). As at 31 December 2016, the Group had used net proceeds of approximately RMB50,700,000, of which approximately RMB22,000,000 had been applied for enhancement of the Group's design and product development and enhancement for operational efficiency, approximately RMB16,500,000 for enhancement for sales network and sales support services, construction of production base and approximately RMB12,200,000 as working capital. The remaining net proceeds have been deposited with banks.

Due to the change in market environment and the Group's business strategy, the Group has held-up the business plan in developing the high-end home accessories shops and lifestyle handicraft stores. The Board is studying the market and other alternative business development opportunities, which would generate better investment return to the Company's shareholders.

SHARE OPTION SCHEME

On 17 November 2009, the Company conditionally adopted a share option scheme (the "Share Option Scheme"), which became effective on 29 December 2009 ("Effective Date"). Under the Share Option Scheme, the Board may, at their absolute discretion, at any time within a period of ten years commencing on the Effective Date offer to grant to any Eligible Persons (as defined herein below), including employees, directors, consultants, suppliers, customers and shareholders of any member of the Group, options to subscribe for Shares.

As at 31 December 2016, there were no outstanding options granted under the Share Option Scheme. There were also no options granted to or exercised by any Director or chief executive of the Company or employee of the Group or any other Eligible Persons (as defined herein below), nor any options cancelled or lapsed under the Share Option Scheme during the year ended 31 December 2016.

The major terms of the Share Option Scheme are as follows:

1. The purpose of the Share Option Scheme is to recognise and motivate Eligible Persons (as defined herein below) to optimise their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

2. "Eligible Persons" include (i) employees or persons being seconded to work for any member of the Group (the "Executive"); (ii) directors (including independent non-executive directors) of any member of the Group; (iii) shareholders of any member of the Group; (iv) suppliers, customers, consultants, business or joint venture partners, franchisees, contractors, agents or representatives of any member of the Group; (v) persons or entities that provide research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group; and (vi) an associate of any of the foregoing persons.

REPORT OF THE DIRECTORS

3. The total number of Shares which may be issued upon exercise of all options which may be granted under the Share Option Scheme and any other schemes of the Group must not in aggregate exceed 25,000,000 Shares, being 10% of the total number of shares in issue as at the date on which the Shares first commenced trading on the Stock Exchange. The 10% limit may be refreshed with approval by ordinary resolution of the Shareholders. The Company may seek separate approval by the Shareholders in general meeting for granting options beyond the 10% limit provided that the options in excess of the 10% limit are granted only to the Eligible Persons specified by the Company before such approval is obtained.

   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. As at 28 March 2016 and 31 August 2016, being the dates of the 2015 annual report of the Company and this interim report respectively, the number of Shares available for issue in respect thereof were 25,000,000 Shares and 25,000,000 Shares, representing approximately 10% and 10% of the then issued shares of the Company respectively.

4. The maximum number of Shares issued and to be issued upon exercise of the options granted to any one Eligible Person (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue from time to time.

5. The exercise period of any option granted under the Share Option Scheme shall be determined by the Board, but such period shall not exceed ten years from the date of grant of the relevant option.

6. The Share Option Scheme does not specify any minimum holding period but the Board may fix any minimum period for which an option must be held before it can be exercised.

7. The acceptance of an offer of the grant of an option must be made within the period as stated in the offer document provided that no such offer shall be open for acceptance after the Share Option Scheme has been terminated with a non-refundable payment of HK$1.00 from the grantee.

8. The subscription price shall be determined by the Board but 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.

9. Subject to early termination by an ordinary resolution in general meeting of Shareholders, the Share Option Scheme shall bevalid and effective for a period of ten years commencing on 29 December 2009. Upon the expiry or termination 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 with respect to options granted thereunder.

REPORT OF THE DIRECTORS

BORROWINGS

The Group did not have any borrowings for the year ended 31 December 2016.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme of the Company as disclosed above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the Year Under Review or subsisted at the end of the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company, the Company's subsidiaries or holding companies, or fellow subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of or at any time during the Year Under Review.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's articles of association of the Company, each Director or other officers of the Company shall be indemnified out of the assets and profits of the Company against all losses or liabilities which he or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto. In addition, the Company has maintained appropriate directors and officers liability insurance in respect of relevant legal actions against the Directors.

GOING CONCERN

Based on the current financial position and financing facilities available, the Group has sufficient financial resources for ongoing operation in the foreseeable future. As such, the financial statements were prepared on a "going concern" basis.

PUBLIC FLOAT

According to information disclosed publicly and as far as the Directors are aware, for the year ended 31 December 2016 and up to the date of this report, at least 25% issued shares of the Company was held by public shareholders.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the year ended 31 December 2016, the Company repurchased a total of 1,024,000 ordinary shares of HK$0.01 each in the share capital of the Company at an aggregate price of approximately HK$3,762,000. The highest price paid and the lowest price paid was HK$4.27 and HK$3.48 respectively. Those repurchased shares had not been cancelled as at 31 December 2016 and the date of this report.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of the share capital of the Company are set out in note 30 to the financial statements.

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 66 and note 31 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2016, 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 approximately RMB73,787,000, of which approximately RMB57,000,000 (equivalent to approximately HK$63,725,000) 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

The Group had charitable donations of approximately RMB110,000 for the year ended 31 December 2016 (2015: RMB nil).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for the year ended 31 December 2016 are set forth in note 15 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 RMB2,900,000 has been credited to the consolidated statement of profit or loss. Details of movements in the investment properties of the Group are set out in note 17 to the consolidated financial statements of the Group for the year ended 31 December 2016.

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 2016 are set out in note 19 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors of the Company during the financial year ended 31 December 2016 and up to the date of this report have been:

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

Non-executive Directors
Madam Tan Yinan (appointed on 1 January 2016)
Mr. Tan Cao (resigned on 1 January 2016)
Mr. Liu Chang (resigned on 28 February 2017)

Independent Non-Executive Directors
Mr. Chau Kam Wing, Donald
Madam Huang Zuoan (re-designated to a non-executive Director on 28 February 2017)
Mr. Yang Yang (appointed on 1 January 2016)
Mr. Yu Ming Yang (resigned on 1 January 2016)

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical information of the Directors and senior management of the Company are set out in the section headed "Biography of Directors and Senior Management" on pages 28 to 31.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company confirmed that it has received from each Independent Non-executive Director a written annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers, based on the confirmations received, the Independent Non-executive Directors remain independent.

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The Remuneration Committee considers and makes recommendation to the Board on the remuneration and other benefits payable to the Directors. The committee regularly oversees the remuneration of all Directors to ensure that their remuneration and compensation are at appropriate level. The Group maintains competitive remuneration packages with reference to the industry standard and according to the business development of the Group to attract and retain its Directors as well as to control costs.

The Board determines the remuneration of the Directors on the basis of the Company's performance, together with the relevant Directors' qualifications, responsibilities, experience, contributions to and positions held with the Company. Details of the remuneration of the Directors are set out in note 10 to the financial statements.

The five highest paid individuals of the Group in the Year Under Review include 1 Director (2015: 2 Directors). Details of the five highest paid individuals are set out in note 11 to the financial statements.

REPORT OF THE DIRECTORS

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 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 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 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.

For the Year Under Review, the annual basic salary payable to each of the Directors is as follows:

	RMB
Executive Directors	
Mr. Tan Chuan Hua *(Chairman)*	687,000
Mr. Geng Chang Sheng	88,000
Mr. Tan Di Fu	88,000
Non-executive Directors	
Mr. Liu Chang	88,000
Mr. Tan Cao (resigned on 1 January 2016)	–
Madam Tan Yinan (appointed on 1 January 2016)	88,000
Independent Non-Executive Directors	
Mr. Chau Kam Wing, Donald	132,000
Madam Huang Zuoan	88,000
Mr. Yu Ming Yang (resigned on 1 January 2016)	–
Mr. Yang Yang (appointed on I January 2016)	88,000

REPORT OF THE DIRECTORS

Each of the executive Directors will also be entitled to reimbursement of reasonable traveling, hotel, entertainment and other expenses properly incurred in the performance of his or her duties under the relevant service contract.

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 2016, 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

(a) Interests and Short Positions of Directors and Chief Executive in the Shares, Underlying Shares and Debentures of the Company and its Associated Corporations

As at 31 December 2016, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(I) Interest in the shares in the Company:

Name of Director	Capacity/Nature of interest	Number of securities	Approximate percentage of shareholding
Tan Chuan Hua (Note 1)	Interest in a controlled Corporation	169,700,000	67.88%
Geng Chang Sheng	Beneficial owner	1,326,597	0.53%

Note:

1. Tan Chuan Hua is deemed to be interested in 169,700,000 Shares held by Lead Charm Investments Limited ("Lead Charm") by virtue of his 51% interest in Lead Charm under Part XV of the SFO.

REPORT OF THE DIRECTORS

(II) **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%

(b) Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

As at 31 December 2016, so far as was known to the Directors, the interests or short positions of the following persons (other than the Directors) in the shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or the interests or short positions recorded in the register kept by the Company under section 336 of the SFO were as follows:

Long position in the Shares

Name	Capacity/ Nature of interest	Number of shares	Position	Approximate percentage of shareholding
Tan Chuan Hua (Note 1)	Interest in a controlled Corporation	169,700,000	Long	67.88%
Fan Cheng Qin (Note 2)	Interest in a controlled Corporation	169,700,000	Long	67.88%
Lead Charm (Note 3)	Beneficial owner	169,700,000	Long	67.88%

Notes:

1. Tan Chuan Hua 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. Mr. Tan is a controlling shareholder within the meaning of the Listing Rules.

2. 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. Ms. Fan is a controlling shareholder within the meaning of the Listing Rules.

3. Lead Charm is a controlling shareholder within the meaning or otherwise by virtue of the Listing Rules.

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 Under Review 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.

REPORT OF THE DIRECTORS

RELATED PARTY TRANSACTIONS

Details of the Group's related party transactions for the year ended 31 December 2016 are set out in note 34 to the financial statements.

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 Under Review, 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 Under Review.

PLEDGE OF ASSETS

As at 31 December 2016, the Group did not have any assets pledged to the bank (as at 31 December 2015: approximately RMB233,053,000).

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various short term bank borrowings when required. As at 31 December 2016, the Group did not have any bank borrowings. Taking into account the cash flow generated from operation and the bank borrowing facilities available to the Group, the directors of the Company are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least twelve months from the date of this report.

As at 31 December 2016, the Group had cash and bank balances of approximately RMB463,222,000 (as at 31 December 2015: RMB194,114,000) mainly generated from operations of the Group and funds raised by the Company in 2009.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales to the five largest customers of the Group accounted for approximately 2.8% of the Group's total revenue and sales to the largest customer accounted for approximately 0.9% of the Group's total revenue for the year ended 31 December 2016. The aggregate purchases from the five largest suppliers of the Group accounted for approximately 46.1% of the Group's total purchases and purchases from the largest supplier accounted for approximately 17.3% of the Group's total purchases for the year ended 31 December 2016.

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.

REPORT OF THE DIRECTORS

TAX RELIEF AND EXEMPTION

The Company is not aware that any holders of securities of the Company are entitled to any tax relief or exemption by reason of their holding of such securities.

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2016 are set out in note 2(m) to the financial statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

FINANCIAL SUMMARY

A summary of the results, the assets and liabilities of the Group for the last five financial years is set out on page 126.

EVENTS AFTER THE REPORTING PERIOD

As disclosed in the announcement of the Company dated 28 February 2017, Mr. Liu Chang (劉暢) has resigned as a non-executive Director of the Company with effect from 28 February 2017. Madam Huang Zuoan (黃佐安) has been re-designated from an independent non-executive Director to a non-executive Director of the Company with effect from 28 February 2017.

AUDITOR

The consolidated financial statements for the year ended 31 December 2016 have been audited by Crowe Horwath (HK) CPA Limited, who shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Crowe Horwath (HK) CPA Limited as auditor of the Company is to be proposed at the forthcoming annual general meeting.

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

Hong Kong, 30 March 2017

INDEPENDENT AUDITOR'S REPORT

國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

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

OPINION

We have audited the consolidated financial statements of Carpenter Tan Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 62 to 125, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

THE KEY AUDIT MATTERS	HOW THE MATTER WAS ADDRESS IN OUR AUDIT
Inventories	
Refer to notes 4 and 20 to the consolidated financial statements. Assessing net realisable value is an area of significant judgement, with specific consideration in relation to the estimate of write-down of slow-moving and obsolete inventory. Considered that the characteristic of the raw materials, they are ready for use after storing for a period of time which is around 2 to 3 years. However, the demand and ability of the Group to sell these inventories in the future may be adversely affected by many factors, such as changes in customers and consumer preferences, competitor activities including pricing and the introduction of new products.	We have performed review of the ageing analysis of the inventory reports to identify any issues in respect of slow-moving items of the inventories. We have assessed the demand for the Group's inventories by reference to the sales patterns and trends of the Group's products before and after the year end, reviewed the confirmed sales orders from the customers. We have reviewed the calculation of net realisable value of inventories, on a sample basis, with reference to the selling prices achieved on sales near and after the year-end, and checked that the inventories are stated at the lower of their costs and net realisable value.

INDEPENDENT AUDITOR'S REPORT

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

INDEPENDENT AUDITOR'S REPORT

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

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

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

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

The engagement director on the audit resulting in this independent auditor's report is Alvin Yeung Sik Hung.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong
30 March 2017

Alvin Yeung Sik Hung
Practising Certificate Number P05206

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
Revenue	5	**263,783**	276,062
Cost of sales		**(90,772)**	(97,956)
Gross profit		**173,011**	178,106
Other income	6	**44,087**	40,909
Administrative expenses		**(22,226)**	(24,055)
Selling and distribution expenses		**(42,835)**	(36,551)
Other operating expenses		**(8,250)**	(6,891)
Profit from operations		**143,787**	151,518
Finance costs	7	**—**	(3,150)
Profit before taxation	8	**143,787**	148,368
Income tax	9	**(29,784)**	(28,462)
Profit for the year		**114,003**	119,906
Attributable to			
Owners of the Company		**114,003**	119,906
Earnings per share	14		
Basic and diluted		**RMB45.60 cents**	RMB47.96 cents

The notes on pages 69 to 125 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 RMB'000	2015 RMB'000
Profit for the year	**114,003**	119,906
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of functional currency to presentation currency	**(2,554)**	(10,786)
Total comprehensive income for the year	**111,449**	109,120
Attributable to		
Owners of the Company	**111,449**	109,120

The notes on pages 69 to 125 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment	15	**59,812**	57,509
Prepaid lease payments	16(a)	**16,654**	12,922
Investment properties	17	**92,450**	89,550
Intangible assets	18	**—**	—
		168,916	159,981
Current assets			
Prepaid lease payments	16(a)	**737**	362
Inventories	20	**104,363**	87,442
Trade receivables	22	**2,933**	2,377
Other receivables, deposits and prepayments	23	**9,507**	29,368
Pledged bank deposits	24	**—**	233,053
Cash and bank balances	26	**463,222**	194,114
		580,762	546,716
Current liabilities			
Trade payables	27	**4,797**	3,943
Other payables and accruals	28	**26,135**	26,316
Derivative financial instruments	21	**—**	5,516
Income tax payable	25(a)	**27,313**	25,161
		(58,245)	(60,936)
Net current assets		**522,517**	485,780
Total assets less current liabilities		**691,433**	645,761

The notes on pages 69 to 125 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current liabilities			
Deferred tax liabilities	25(b)	**19,029**	21,548
Deferred income	29	**740**	776
		(19,769)	(22,324)
NET ASSETS		**671,664**	623,437
CAPITAL AND RESERVES			
Share capital	30	**2,200**	2,200
Reserves	31	**669,464**	621,237
TOTAL EQUITY		**671,664**	623,437

Approved and authorised for issue by the board of directors on 30 March 2017.

Tan Chuan Hua **Geng Chang Sheng**

The notes on pages 69 to 125 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

	Attributable to owners of the Company								
	Share capital RMB'000 (Note 30)	Share premium RMB'000 (Note 31(a))	Capital reserve RMB'000 (Note 31(b))	Statutory reserves RMB'000 (Note 31(c))	Other reserves RMB'000 (Note 31(d))	Property revaluation reserve RMB'000 (Note 31(e))	Currency translation reserve RMB'000 (Note 31(f))	Retained profits RMB'000	Total RMB'000
At 1 January 2015	2,200	114,674	2,767	136,119	17,738	12,245	(2,196)	295,195	578,742
Profit for the year	—	—	—	—	—	—	—	119,906	119,906
Exchange differences arising on translation of functional currency to presentation currency	—	—	—	—	—	—	(10,786)	—	(10,786)
Total comprehensive income for the year	—	—	—	—	—	—	(10,786)	119,906	109,120
Dividends	—	—	—	—	—	—	—	(64,425)	(64,425)
Transfer to reserve	—	—	—	4,781	—	—	—	(4,781)	—
At 31 December 2015	2,200	114,674	2,767	140,900	17,738	12,245	(12,982)	345,895	623,437
At 1 January 2016	**2,200**	**114,674**	**2,767**	**140,900**	**17,738**	**12,245**	**(12,982)**	**345,895**	**623,437**
Profit for the year	—	—	—	—	—	—	—	**114,003**	**114,003**
Exchange differences arising on translation of function currency to presentation currency	—	—	—	—	—	—	**(2,554)**	—	**(2,554)**
Share repurchase	—	—	—	—	**(3,261)**	—	—	—	**(3,261)**
Transaction cost attributable to share repurchase	—	—	—	—	**(11)**	—	—	—	**(11)**
Total comprehensive income for the year	—	—	—	—	**(3,272)**	—	**(2,554)**	**114,003**	**108,177**
Dividends	—	—	—	—	—	—	—	**(59,950)**	**(59,950)**
Transfer to reserve	—	—	—	**1,433**	—	—	—	**(1,433)**	—
At 31 December 2016	**2,200**	**114,674**	**2,767**	**142,333**	**14,466**	**12,245**	**(15,536)**	**398,515**	**671,664**

The notes on pages 69 to 125 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 RMB'000	2015 RMB'000
Operating activities			
Profit before taxation		**143,787**	148,368
Adjustments for:			
Interest expenses	7	**—**	3,150
Interest income	6	**(14,056)**	(14,654)
Change in fair value of investment properties	6	**(2,900)**	(3,630)
Net loss on disposal of property, plant and equipment	8(b)	**121**	96
Depreciation	8(b)	**2,280**	2,576
Amortisation of prepaid lease payments	8(b)	**393**	362
Fair value change on derivative financial instruments		**—**	7,202
Allowance on trade receivables	8(b)	**130**	69
Write down of inventories	8(b)	**3,667**	1,837
Net foreign exchange gain	8(b)	**(2,037)**	(12,707)
Government grants released from deferred income	6	**(36)**	(36)
Reversal of impairment loss on other receivables	8(b)	**(42)**	—
Reversal of write-down of inventories	8(b)	**(46)**	—
Operating profit before working capital changes		**131,261**	132,633
Increase in inventories		**(20,542)**	(11,496)
Increase in prepaid lease payment		**(4,500)**	—
Increase in trade receivables		**(686)**	(419)
Decrease/(increase) in other receivables, deposits and prepayments		**19,903**	(5,288)
Increase/(decrease) in trade payables		**854**	(183)
Decrease in other payables and accruals		**(5,697)**	(3,618)
Cash generated from operations		**120,593**	111,629
Interest received		**18,593**	13,905
Interest paid		**—**	(3,150)
Income tax paid, net		**(21,135)**	(20,243)
Withholding tax paid		**(9,016)**	(11,187)
Net cash generated from operating activities		**109,035**	90,954
Investing activities			
Purchase of property, plant and equipment		**(2,370)**	(2,935)
Proceeds from disposal of property, plant and equipment		**40**	60
Decrease in fixed deposit held at bank		**—**	127,756
Prepayment of acquisition of properties		**(2,437)**	—
Net cash (used in)/generated from investing activities		**(4,767)**	124,881

The notes on pages 69 to 125 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 RMB'000	2015 RMB'000
Financing activities			
Dividend paid		**(59,950)**	(64,425)
Net repayment of bank loans		—	(134,114)
Decrease/(increase) in pledged deposit		**233,053**	(83,954)
Increase in non-pledged deposits with original maturity over three months and within one year		**(40,000)**	—
Payment for repurchase of shares		**(3,272)**	—
Net cash generated from/(used in) financing activities		**129,831**	(282,493)
Net increase/(decrease) in cash and cash equivalents		**234,099**	(66,658)
Cash and cash equivalents at beginning of year		**194,114**	258,825
Effect of foreign exchange rate changes, net		**(4,991)**	1,947
Cash and cash equivalents at end of year	26	**423,222**	194,114

The notes on pages 69 to 125 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION

Carpenter Tan Holdings Limited (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 Room 101-102, Yuhufengjing Building 53, No. 11 Dongchang Zhong Road, Jurong City, Jiangsu Province, the People's Republic of China (the "PRC") respectively.

The functional currency of the Company and its subsidiaries in Hong Kong, and its subsidiaries in the PRC are Hong Kong dollars ("HK$") and Renminbi ("RMB") respectively. For the purposes of presenting the consolidated financial statements, the Group adopted RMB as its presentation currency for easy reference for international investors.

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; and (iii) the operation of retail shops for direct sale of the Group's products in Hong Kong.

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 are disclosed 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 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 of the primary economic environment in which the entity operates (the "functional currency"). These financial statements are presented in RMB, rounded to the nearest thousand except for per share data.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the investment properties and derivative financial instruments are stated at their fair value as explained in the accounting policies set out below.

The preparation of consolidated 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 believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying amounts of assets and liabilities 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 consolidated financial statements and major sources of estimation uncertainty are discussed in note 4.

c) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

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 cash flows 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 stated at cost less impairment losses (see note 2(h)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less any accumulated depreciation and any accumulated impairment losses (see note 2(h)).

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 profit or loss during the period in which they are incurred.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	Over the shorter of the estimated useful life or the unexpired lease terms, being no more than 50 years after the date of completion
Leasehold improvements	Over the unexpired lease terms but not exceeding 5 years
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, leasehold improvements or plant and equipment 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.

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 other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained earnings.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) 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 that are held by the 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(f)); 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.

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 recognised as property, plant and equipment 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 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(d). 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 profit or loss 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. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) Leased assets *(Continued)*

iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss 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 profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in 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 (see note 2(f)).

f) Investment properties

Investment properties are land and/ or buildings which are owned or held under a leasehold interest (see note 2(e)) to earn rental income and/ or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are carried 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 profit or loss. Rental income from investment properties is accounted for as described in note 2(p)(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 was held under a finance lease (see note 2(e)), 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(e).

g) Intangible assets

Intangible assets with finite useful lives that are acquired by the Group are stated 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 recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful life that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from the derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss in the period when the asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Impairment of assets

i) Impairment of receivables

Current and non-current receivables that are stated 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; and

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

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 (that is, the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets 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 profit or loss. 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Impairment of assets *(Continued)*

i) Impairment of receivables (Continued)

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 profit or loss.

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 for land classified as being held under operating lease;

— intangible assets; and

— investment in a subsidiary in the Company's statement of financial position.

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 fair value less costs of disposal 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).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Impairment of assets *(Continued)*

ii) Impairment of other assets (Continued)

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if 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 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 of disposal, if measurable, or value-in-use, if determinable.

— Reversals of impairment losses

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 profit or loss in the year in which the reversals are recognised.

iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(h)(i) and 2(h)(ii)).

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 recognised as an expense in the period in which the reversal occurs.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, 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) Trade and other payables

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

l) 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 cash flow statement.

m) 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

m) Employee benefits *(Continued)*

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

The employees of the Group in the PRC are members of a state-managed retirement benefit plan operated by the municipal government of the PRC where a group entity operates. The Group are required to contribute a specified percentage of payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 (HK$25,000 prior to June 2014). Contributions to the plan vest immediately.

(ii) Termination benefits

Termination benefits are recognised at the earlier date when the Group can no longer withdraw the offer of those benefits or when it recognises restructuring costs involving the payment of termination benefits.

n) 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 profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

n) Income tax *(Continued)*

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 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.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 17, the amount of deferred tax recognised is measured using the tax rates that would apply on the sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

n) Income tax *(Continued)*

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 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 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.

o) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when 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.

p) 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 discounts, provision for sales returns, value-added tax and sales tax.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) Revenue recognition *(Continued)*

(i) Revenue from sale of goods is recognised when the products are delivered to the customer, the customer has accepted the goods and 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 as it accrues using the effective interest method.

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

(v) Value-Added Tax ("VAT") refund is recognised as income when the Group's rights to receive the VAT refund has been established.

q) 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 profit or loss.

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 that are stated at fair value are translated using the foreign exchange rates ruling at the date the fair value was measured.

The results of operations in foreign currencies outside the PRC are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items in the statement of financial position are translated into RMB at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in the currency translation reserve.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

r) Borrowing costs

Borrowing costs that are 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 are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

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.

s) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the group will comply with the conditions attaching to them.

Government grants that compensate the group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Government grants that compensate the group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

t) Derivative financial instruments

Derivative financial instruments are recognized initially at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

u) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 board of directors, which is the Group's chief operating decision maker ("CODM"), for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material 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. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

None of these developments have had a material effect on how the Group's results and financial position for the current or prior years have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

a) Critical accounting judgement in applying the accounting policies

In the process of applying the Group's accounting policies, the management has made the following accounting judgement:

(i) Prepaid lease payments

As disclosed in note 16, the PRC government issued a notice to the Group for the resumption of certain land use right in PRC and the Group will be compensated through an exchange with another piece of land. The management expects that the fair value of the land exchanged as compensation will not be lower than the carrying amount of the land resumed. Such resumption inherently involves uncertainties and depends on the decision of the relevant authorities. Actual result could be different significantly and hence the carrying amounts of prepaid lease payments could be affected.

(ii) Withholding taxes, arising from the distributions of dividends

The Group's determination as to whether to accrue for withholding taxes from the distribution of dividends in the PRC according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividend, where the Group considers that if it is probable that the profits in the PRC will not be distributed in the foreseeable future, no withholding taxes are provided.

b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(i) Depreciation and amortisation

The Group reviews the estimated useful lives and residual values of the assets regularly in order to determine the amount of depreciation and amortisation expenses charged for the year. The useful lives of assets are based on the Group's historical experience with similar assets and taking into account anticipated technological changes and product obsolescence. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

b) Key sources of estimation uncertainty *(Continued)*

(ii) 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 or fair value less costs of disposal calculations. These calculations require the use of judgements and estimates.

(iii) Valuation of investment properties

Investment properties are included in the consolidated statement of financial position at their open market value, which is assessed by independent qualified valuers, determined by making reference to comparable sales evidence as available in the relevant market or capitalised rents derived from the existing tenancies with taking into account reversionary income 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, market yield and market rents.

(iv) 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.

(v) Impairment on trade and other receivables

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

In considering the allowance that may be required for current receivables, future cash flows need to be determined. One of the key assumptions that have 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 uncertainties exist and actual uncollectible amounts may be higher than the amount estimated.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

b) Key sources of estimation uncertainty *(Continued)*

(vi) Provision for sales returns

The franchisees of the Group are allowed (after deducting certain administrative charges, if applicable): (i) to exchange or claim a refund for defective products; (ii) to return products previously purchased upon the termination of the franchise agreement; and (iii) to exchange or claim a refund for slow-moving products purchased more than six months but less than one year. The amount of the products exchanged or refunded by a particular franchisee for a year should not exceed 3% of its total purchase for that year (except those returns resulted from the termination of the franchise agreements).

The Group makes provision for sales returns based on the Group's past return experience. As the Group is continually upgrading its product designs and launching new models, it is possible that the past return experience is not indicative of future returns. Any increase or decrease in the provision would affect profit or loss.

(vii) Income tax

The Group is subject to income taxes in several jurisdictions. Judgement is required in determining the provision for income taxes. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax provisions in the period in which such determination is made. Deferred income tax liabilities on temporary differences relating to undistributed profits of the Group's subsidiaries in Mainland China are recognised to the extent that profits are excepted to be distributed as the Company controls and pre-determines the dividend policy of these subsidiaries and management expects it is probable that profits will be partly retained and not distributed from these subsidiaries to their foreign holding companies in the foreseeable future. Management reassesses its expectation at each balance sheet date.

(viii) Fair value of derivative financial instruments

The fair value of derivative financial instruments which are not traded in an active market is determined by using valuation techniques. The Group engages third party qualified valuer to perform the valuation. The Group works closely with the valuer to establish the appropriate valuation techniques and inputs to the model. The valuation models require the input of subjective assumptions, including forward foreign exchange rates, and risk free rate etc. Changes in subjective input assumptions can materially affect the fair value estimate.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

5. REVENUE

Revenue represents the net invoiced value of goods sold to customers, less VAT and sales tax, returns and allowances, and franchise fee income. An analysis of the Group's revenue for the year is as follows:

	2016 RMB'000	2015 RMB'000
Sales of goods	**263,402**	275,792
Franchise fee income	**381**	270
	263,783	276,062

6. OTHER INCOME

	2016 RMB'000	2015 RMB'000
Government grants	**877**	15
Government grants released from deferred income	**36**	36
Interest income from financial assets not at fair value through profit or loss – bank interest income	**14,056**	14,654
PRC VAT refunds (note 9(a)(i))	**16,568**	7,860
Rental income from investment properties	**7,199**	6,913
Net foreign exchange gain	**2,037**	12,707
Fair value change on derivative financial instruments	—	(5,415)
Change in fair value of investment properties	**2,900**	3,630
Reversal on impairment of other receivables	**42**	—
Others	**372**	509
	44,087	40,909

In 2016, the group successfully applied for funding support from the International Marketing Developing Funds of Small-and-Medium-Sized Enterprises and Industrial Development Funds (the "Funds"), set up by Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China and Chongqing Provincial Human Resources And Social Security Department respectively. The purpose of the Funds are to encourage the involvement in overseas marketing by granting financial assistance to commercial entities who have involved in certain marketing activities outside the PRC; and to promote a stable employment environment and prevent unemployment risks by granting financial assistance to commercial entities whose structure, lay off rate, contributions to unemployment insurance meet certain criteria.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

7. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on bank loans	—	3,150
Total interest expense on financial liabilities not at fair value through profit or loss	—	3,150

8. PROFIT BEFORE TAXATION

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

	2016 RMB'000	2015 RMB'000
a) Staff costs (including directors' emoluments)		
Salaries and other benefits	**44,790**	44,392
Contributions to retirement scheme	**1,828**	1,964
Total staff costs	**46,618**	46,356
b) Other items		
Auditor's remuneration		
- audit services	**780**	750
- non-audit services	**324**	293
Amortisation of prepaid lease payments	**393**	362
Cost of inventories	**90,772**	97,956
Depreciation	**2,280**	2,576
Allowance on trade receivables	**130**	69
Reversal of impairment loss on other receivables	**(42)**	—
Net loss on disposal of property, plant and equipment	**121**	96
Net foreign exchange gain	**(2,037)**	(12,707)
Operating lease rentals in respect of land and buildings	**4,158**	3,797
Provision for sales returns	**2,947**	2,621
Write down of inventories	**3,667**	1,837
Reversal of write-down of inventories	**(46)**	—
Gross rental income from investment properties	**(7,199)**	(6,913)
Less: Direct outgoings incurred for investment properties that generated rental income during the year	**514**	456
Direct outgoings incurred for investment properties that did not generate rental income during the year	**259**	27
Net rental income	**(6,426)**	(6,430)

Note:

(i) Cost of inventories includes approximately RMB30,230,000 (2015: RMB27,895,000) relating to staff costs and depreciation, which are included in the respective total amounts disclosed separately above.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

9. INCOME TAX

a) Taxation in the consolidated statement of profit or loss represents:

	2016 RMB'000	2015 RMB'000
Current tax		
PRC Enterprise Income Tax (notes 9(a) (ii) and (iii))	**23,603**	22,129
Hong Kong profits tax (note 9(a) (v))	—	—
Withholding tax on dividends (note 9(a) (vi))		
- Provision for the year (note 25(b))	**8,700**	17,393
	32,303	39,522
Over provision in prior years, net		
PRC Enterprise Income Tax	—	(2,002)
Deferred tax		
Transfer to current tax upon distribution of dividends (note 25(b))	**(8,700)**	(17,393)
Provision for the year (note 9(a) (vi) and note 25(b))	**6,181**	8,335
Total	**29,784**	28,462

Notes:

(i) Chongqing Wanzhou District Zi Qiang Wood Works Co., Ltd ("Zi Qiang Wood Works"), a wholly-owned subsidiary of the Company, is a registered social welfare enterprise since 29 April 2004. Pursuant to the notice on preferential tax policies to social welfare enterprise issued by the State Administration of Taxation of the PRC (the "SAT"), Ministry of Finance of the PRC that, with effect from 1 October 2006, Zi Qiang Wood Works is entitled to income tax concessions on a double deduction of salaries paid to its employees with disabilities, and VAT refund which is equivalent to the number of employees with disabilities multiplied by a specified annual cap amount as determined by the SAT.

The Group recognised the VAT refund in the Group's consolidated statement of profit or loss on an accrual basis. The amounts of the VAT refunded to the Group during the year are detailed in note 6.

9. INCOME TAX *(Continued)*

a) Taxation in the consolidated statement of profit or loss represents: *(Continued)*

Notes: *(Continued)*

(ii) On 6 April 2012, the SAT issued notice No. 12 which specified that enterprises fall under the categories of several other published lists of encouraged business activities prior to the announcement of the list of national encouraged business activities in the western region can apply for the concessionary Enterprise Income Tax rate of 15% from 2011 in accordance with Caishui (2011) No. 58. Such concession will be revoked if the enterprises subsequently do not meet the requirement.

On 29 May 2012, both Zi Qiang Wood Works and Chongqing Carpenter Tan Handicrafts Co., Ltd ("Carpenter Tan"), wholly-owned subsidiaries, obtained the approval from Wanzhou Bureau of the State Administration of Taxation under notice No. 12 to enjoy concessionary Enterprise Income Tax rate of 15% from 1 January 2011 to 31 December 2020.

(iii) The provision for PRC income tax is calculated on the assessable profits of the Group's subsidiaries incorporated in the PRC at a statutory income tax rate of 25% (2015: 25%) except for Zi Qiang Wood Works and Carpenter Tan which are eligible for the income tax concessions according to the preferential tax policies as stated in note 9(a) (ii) above.

(iv) 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.

(v) No provision for Hong Kong profits tax has been made for the years ended 31 December 2016 and 2015 as the subsidiaries did not have assessable profits subject to Hong Kong profits tax for these years.

(vi) Under the Enterprise Income Tax Law of the PRC, with effect from 1 January 2008 onwards, nonresident 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 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 investee 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.

The Group enjoyed the reduced 5% tax rate prior to 31 December 2013. In 2014, the Group applied again for the reduced rate and was requested to meet certain additional review procedures that were not required in previous years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

9. INCOME TAX *(Continued)*

a) Taxation in the consolidated statement of profit or loss represents: *(Continued)*

Notes: *(Continued)*

(vi) *(Continued)*

As at the date of the financial statements, the relevant formalities for the reduced tax rate have not yet been completed. However, the management assessed that the risk of surcharge is minimal since the Group had already paid for the withholding tax liabilities on dividend in 2013 and 2014 at 5%. In 2016, a provision of RMB8,700,000 (2015: RMB17,393,000) for current tax and RMB5,456,000 (2015: 7,191,000) for deferred tax has been made.

As at 31 December 2016, the deferred tax liabilities relating to withholding tax accrued on undistributed profits of the Group's PRC subsidiaries amounted to RMB2,594,000 (2015: RMB5,838,000) which are expected to be distributed in the foreseeable future.

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

	2016	2015
	RMB'000	RMB'000
Profit before taxation	**143,787**	148,368
Notional tax on profit before tax, calculated at the rates applicable to profits in the relevant tax jurisdiction	**35,175**	35,082
Tax effect of non-deductible expenses	**2,417**	1,444
Tax effect of non-taxable incomes	**(74)**	(416)
Effect of tax concessions granted to a subsidiary (note 9(a) (i))	**(4,142)**	(2,617)
Effect of concessionary tax rate enjoyed by subsidiaries (note 9(a) (ii))	**(10,204)**	(12,146)
Unrecognised temporary differences	**316**	138
Unrecognised tax losses	**806**	1,788
Withholding tax on dividends (note 9(a) (vi))	**5,456**	7,191
Over provision in prior years	**34**	(2,002)
Actual tax expenses	**29,784**	28,462

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

10. DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

For the year ended 31 December 2016

Name of director	Directors' fees RMB'000	Salaries, allowance and benefits -in-kind RMB'000	Discretionary bonus RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Tan Chuan Hua (note 10(b))	—	211	440	36	687
Geng Chang Sheng	88	—	—	—	88
Tan Di Fu	88	—	—	—	88
Independent non-executive directors					
Yang Yang (Appointed on 1 January 2016)	88	—	—	—	88
Chau Kam Wing, Donald	132	—	—	—	132
Non-executive directors					
Tan Yinan (Appointed on 1 January 2016)	88	—	—	—	88
Liu Chang (Resigned on 28 February 2017)	88	—	—	—	88
Huang Zuoan (note 10(c))	88	—	—	—	88
	660	211	440	36	1,347

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

10. DIRECTORS' EMOLUMENTS *(Continued)*

For the year ended 31 December 2015

Name of director	Directors' fees RMB'000	Salaries, allowance and benefits -in-kind RMB'000	Discretionary bonus RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Tan Chuan Hua (note 10(b))	—	235	433	34	702
Geng Chang Sheng	88	—	—	—	88
Tan Di Fu	—	170	271	34	475
Independent non-executive directors					
Yu Ming Yang (Resigned on 1 January 2016)	88	—	—	—	88
Chau Kam Wing, Donald	132	—	—	—	132
Huang Zuoan	88	—	—	—	88
Non-executive directors					
Tan Cao (Resigned on 1 January 2016)	88	—	—	—	88
Liu Chang	88	—	—	—	88
	572	405	704	68	1,749

Notes:

a) For the years ended 31 December 2016 and 2015, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived or agreed to waive any emoluments for the years ended 31 December 2016 and 2015.

b) Being the Executive Director, Chairman and Chief Executive Officer of the Group.

c) Huang Zuoan was redesignated from independent non-executive director to non-executive director on 28 February 2017.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group during the year included one director (2015: two) of the Company whose emoluments are disclosed in note 10 above. Details of the emoluments paid by the Group to the remaining four (2015: three) non-director individuals during the year are as follows:

	2016	2015
	RMB'000	RMB'000
Salaries and other emoluments	**588**	480
Bonus	**829**	741
Retirement scheme contributions	**108**	68
	1,525	1,289

The emoluments fell within the following band:

	2016	2015
	Number of individuals	Number of individuals
Nil up to HK$1,000,000 (equivalent to RMB866,200)	**4**	3

For the years ended 31 December 2016 and 2015, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

12. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports which provide information about the components of the Group. This information is reported to and reviewed by the board of directors, which is the CODM of the Group, for the purpose of resources allocation and performance assessment.

Management considers the business from a product perspective and assesses its performance based on revenues derived from a broad range of sales of wooden handicrafts and accessories. Over 90% of the Group's revenue, results and assets are derived from a single segment which is manufacture and sales of wooden handicrafts and accessories. No segment information is presented accordingly.

The Group's revenue and results from operations mainly derived from activities in the PRC. Activities outside the PRC are insignificant. The principal assets of the Group are located in the PRC. Accordingly, no geographical information is provided.

Major customers

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

13. DIVIDENDS

i) Dividends payable to equity shareholders of the Company attributable to the year

	2016 RMB'000	2015 RMB'000
Final dividend of HK$25.49 cents, equivalent to RMB22.80 cents per ordinary share (2015: HK$29.22 cents, equivalent to RMB23.98 cents) proposed after the end of the reporting period	57,000	59,950

The directors recommend the payment of a final dividend of HK$25.49 cents, equivalent to RMB22.80 cents per ordinary share, totaling RMB57,000,000. Such dividend is to be approved by the shareholders of the Company at the Annual General Meeting scheduled to be held on 31 May 2017. These financial statements do not reflect this recommended dividend.

ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2016 RMB'000	2015 RMB'000
Final dividend of HK$29.22 cents, equivalent to RMB23.98 cents per ordinary share (2015: HK$32.28 cents, equivalent to RMB25.77 cents) in respect of the previous financial year, approved and paid during the year	59,950	64,425

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

14. BASIC AND DILUTED EARNINGS PER SHARE

a) Basic earnings per share

The calculation of basic earnings per share is based on the following profit attributable to owners of the Company and weighted average number of ordinary shares outstanding:

(i) Profit attributable to owners of the Company

	2016 RMB'000	2015 RMB'000
Earnings used in calculating basic and diluted earnings per share	**114,003**	119,906

(ii) Weighted average number of ordinary shares

	Number of shares	
	2016 '000	2015 '000
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**250,000**	250,000

b) Diluted earnings per share

There were no dilutive potential ordinary 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 2016 and 2015.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	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 2015	9,338	9,388	15,878	5,552	2,870	2,126	45,152
Additions	—	775	378	325	—	1,457	2,935
Disposals	—	—	(974)	(101)	(164)	—	(1,239)
Transfer from prepayment of acquisition of properties	33,556	—	—	—	—	—	33,556
Transfer	—	—	1,727	25	—	(1,752)	—
Exchange adjustments	—	(52)	—	(2)	—	—	(54)
At 31 December 2015	42,894	10,111	17,009	5,799	2,706	1,831	80,350
At 1 January 2016	42,894	10,111	17,009	5,799	2,706	1,831	80,350
Additions	—	964	764	503	139	2,437	4,807
Disposals	—	(1,106)	(93)	(149)	—	—	(1,348)
Transfer	—	—	522	—	—	(522)	—
Exchange adjustments	—	(333)	—	13	—	—	(320)
At 31 December 2016	42,894	9,636	18,202	6,166	2,845	3,746	83,489

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Buildings RMB'000	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 2015	2,240	2,887	10,163	4,229	1,857	—	21,376
Charge for the year	189	593	1,052	434	308	—	2,576
Eliminated on disposals of assets	—	—	(875)	(91)	(117)	—	(1,083)
Exchange adjustments	—	(22)	—	(6)	—	—	(28)
At 31 December 2015	2,429	3,458	10,340	4,566	2,048	—	22,841
At 1 January 2016	2,429	3,458	10,340	4,566	2,048	—	22,841
Charge for the year	189	757	888	228	218	—	2,280
Eliminated on disposals of assets	—	(968)	(75)	(144)	—	—	(1,187)
Exchange adjustments	—	(282)	—	25	—	—	(257)
At 31 December 2016	2,618	2,965	11,153	4,675	2,266	—	23,677
Carrying amount							
At 31 December 2016	40,276	6,671	7,049	1,491	579	3,746	59,812
At 31 December 2015	40,465	6,653	6,669	1,233	658	1,831	57,509

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

16. PREPAID LEASE PAYMENTS

	Land use rights RMB'000 (Note (16b))
Cost	
At 1 January 2015, 31 December 2015 and 1 January 2016	16,999
Additions	4,500
At 31 December 2016	21,499
Accumulated amortisation	
At 1 January 2015	3,353
Amortisation for the year	362
At 31 December 2015	3,715
At 1 January 2016	3,715
Amortisation for the year	393
At 31 December 2016	4,108
Carrying amount	
At 31 December 2016	17,391
At 31 December 2015	13,284

Notes:

a) Analysed for reporting purposes as follows:

	2016 RMB'000	2015 RMB'000
Current portion	737	362
Non-current portion	16,654	12,922
	17,391	13,284

b) All the Group's land use rights are in the PRC.

c) On 11 May, 2011 萬州經濟技術開發區土地儲備中心 issued a notice to Carpenter Tan for the resumption of the land use rights of a piece of land in Chongqing City Wanzhou District (the "Land") having a carrying amount of RMB6,645,000 (2015: RMB6,806,000) as at 31 December 2016. The Group originally intended to erect a production complex on the Land but no construction activity has commenced up to the date of issue of the consolidated financial statements.

On 8 February 2012, Carpenter Tan received another notice from 萬州經濟技術開發區管理委員會, informing the Group that the Land will be resumed by the municipal government due to town planning and the Group will be compensated through an exchange with another piece of land. The Group is still negotiating with the relevant local authorities for the terms of resumption and agreement has not been reached up to the date of issue of the consolidated financial statements. The management expects that the fair value of the land exchanged as compensation will not be lower than the carrying amount of the land. Since the Group has not commenced the development on the Land, there is no material adverse effect on the business operation and financial position of the Group.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

17. INVESTMENT PROPERTIES

	RMB'000
Fair value	
At 1 January 2015	85,920
Change in fair value	3,630
At 31 December 2015	89,550
At 1 January 2016	89,550
Change in fair value	2,900
At 31 December 2016	92,450

a) Fair value measurement of properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, that is, unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, that is, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

17. INVESTMENT PROPERTIES *(Continued)*

a) Fair value measurement of properties *(Continued)*

(i) Fair value hierarchy (Continued)

	Fair value at 31 December 2016	**Fair value measurements as at 31 December 2016 categorised into**		
		Level 1	**Level 2**	**Level 3**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Recurring fair value measurement				
Investment properties:				
– Residential – PRC	3,450	—	—	3,450
– Commercial – PRC	89,000	—	—	89,000

	Fair value at 31 December 2015	Fair value measurements as at 31 December 2015 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement				
Investment properties:				
– Residential – PRC	3,450	—	—	3,450
– Commercial – PRC	86,100	—	—	86,100

During the year ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of the fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties were revalued as at 31 December 2016. The valuation was 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 employee 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 fair values were determined by using Income Capitalisation Approach, by capitalising the rent derived from the existing tenancies with taking into account reversionary income potential. The financial controller has discussion with the valuers on the valuation assumptions and valuation results as at 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

17. INVESTMENT PROPERTIES *(Continued)*

a) Fair value measurement of properties *(Continued)*

(ii) Information about Level 3 fair value measurements

Investment properties	Valuation techniques	Unobservable input	Range
Residential – PRC	Direct Comparison Approach	Price per square meter, using market direct comparables and taking into account of factors such as location condition, size of property and layout/design	RMB4,845 - RMB4,881 (2015: RMB4,871 – RMB6,184)
Commercial – PRC	Income Capitalisation Approach	Market yield, taking into account of the capitalisation of rental income potential, nature of the property and prevailing market condition	7.5% (2015: 7.5%)
		Monthly market rent per square meter, taking into account of factors such as location condition, size of property and layout/design	RMB73 - RMB189 (2015: RMB105 – RMB181)

The fair value of investment properties located in the PRC is determined by using Direct Comparison Approach by making reference to comparable sales evidence as available in the relevant market or, if applicable, Income Capitalisation Approach, by capitalising the rent derived from the existing tenancies with taking into account reversionary income potential. The fair value measurement is positively correlated to the price per square meter and monthly market rents and negatively correlated to the market yield.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

17. INVESTMENT PROPERTIES *(Continued)*

a) Fair value measurement of properties *(Continued)*

(ii) Information about Level 3 fair value measurements (Continued)

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	Investment properties		
	Residential – PRC RMB'000	Commercial – PRC RMB'000	Total RMB$'000
At 1 January 2015	3,420	82,500	85,920
Net gain from a fair value adjustment recognised in valuation gains on investment properties in profit or loss	30	3,600	3,630
At 31 December 2015 and 1 January 2016	3,450	86,100	89,550
Net gain from a fair value adjustment recognised in valuation gains on investment properties in profit or loss	—	2,900	2,900
At 31 December 2016	3,450	89,000	92,450

All the gains recognised in profit or loss for the year arise from the investment properties held at the end of the reporting period.

18. INTANGIBLE ASSETS

	Trademark RMB'000
Cost	
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	1,037
Accumulated amortisation and accumulated impairment	
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	1,037
Carrying amount	
At 31 December 2016	—
At 31 December 2015	—

The trademark represents the trademark previously acquired by the Group and registered in the PRC. Subsequent expenditure on internally generated trademarks is recognised as an expense in the period in which it is incurred.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

19. SUBSIDIARIES

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

Name of subsidiary	Place of incorporation/ operation	Attributable equity interest held by the Company		Issued/registered and fully paid-up capital	Principal activities	Legal form of corporate existence
		Directly	Indirectly			
Carpenter Tan (BVI) Holdings Group Co., Ltd ("CTBVI")	British Virgin Islands/ Hong Kong	100%	—	USD50,000	Investment holding	Private limited liability company
Hong Kong Carpenter Tan Company Limited ("CTHK")	Hong Kong	—	100%	HK$1	Investment holding	Private limited liability company
Carpenter Tan Development Company Limited ("CT Development")	Hong Kong	—	100%	HK$10,000	Retailing sale of small size wooden handicrafts and accessories	Private limited liability company
Chongqing Carpenter Tan Handicrafts Co., Ltd ("Carpenter Tan")	The PRC	—	100%	RMB100,000,000	Design, manufacture and distribution of small size wooden handicrafts and accessories and the operation of a franchise network	Wholly foreign-owned enterprise
Chongqing Wanzhou District Zi Qiang Wood Works Co., Ltd ("Zi Qiang Wood Works")	The PRC	—	100%	RMB2,000,000	Manufacture of small size wooden handicrafts and accessories	Domestic enterprise
Beijing Carpenter Tan Handicrafts Company Limited ("Beijing Carpenter Tan")	The PRC	—	100%	RMB10,000,000	Property investment	Domestic enterprise
Jiangsu Carpenter Tan Tourism Development Company Limited ("Jiangsu Carpenter Tan")	The PRC	—	100%	RMB10,000,000	Distribution of small size wooden handicrafts and accessories through internet	Domestic enterprise
Jiangsu Mujianggu Tourism Development Company Limited ("Jiangsu Mujianggu")*	The PRC	—	100%	USD10,000,000	Inactive	Domestic enterprise
Carpenter Tan Lifestyle, Handicrafts Store Company Limited ("Lifestyle Carpenter Tan")#	The PRC	—	100%	RMB5,000,000	Inactive	Domestic enterprise

* The subsidiary was incorporated in April 2016.

\# The subsidiary was deregistered in January 2016.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

20. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	71,386	55,814
Work-in-progress	20,561	11,422
Finished goods	12,416	20,206
	104,363	87,442

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2016 RMB'000	2015 RMB'000
Carrying amount of inventories sold	87,151	96,119
Write down of inventories	3,667	1,837
Reversal of write-down of inventories	(46)	—
	90,772	97,956

The reversal of write-down of inventories made in prior years arose due to the slow-moving inventories were sold during the year.

21. DERIVATIVE FINANCIAL INSTRUMENTS

	2016		2015	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Current:				
Currency swaps (note (a))	—	—	—	5,402
Forward foreign exchange contracts	—	—	—	114
	—	—	—	5,516

a) Currency swaps

The Group entered into a number of currency swap contracts in which the Group is obligated to exchange certain amount in RMB for the same in US$ at a specified rate (market rate), and use US$ to exchange back the same amount in RMB on a specified date at a specified rate. As at 31 December 2016, the Group did not have any outstanding currency swap contract (2015: outstanding currency swap contracts to sell US$ for RMB with notional amount of US$20,878,503, US$3,216,417, US$7,014,188, US$4,807,078 and US$5,426,207 that will be matured at 5 January, 20 January, 2 March, 16 March and 11 April 2016 respectively).

22. TRADE RECEIVABLES

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

	2016 RMB'000	2015 RMB'000
Trade receivables (note 22(a))	3,005	2,447
Less: Allowance for doubtful debts (note 22(b))	(72)	(70)
	2,933	2,377

a) Ageing analysis of trade receivables based on invoice date, which approximates the respective revenue recognition date, is as follows:

	2016 RMB'000	2015 RMB'000
0 to 30 days	2,305	2,240
31 to 60 days	585	11
61 to 90 days	24	4
91 to 180 days	6	24
181 to 365 days	8	25
Over 1 year	77	143
	3,005	2,447

b) Movements in the allowance account for doubtful debts

Allowance for doubtful debts in respect of trade receivables 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 written off against trade receivables directly.

The movements in the allowance account for doubtful debts are as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	70	1
Allowance for doubtful debts	2	69
At 31 December	72	70

Allowance for doubtful debts on trade receivables are considered individually by reference to their ageing and their recoverability. The Group does not hold any collateral over these balances.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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:

	2016 RMB'000	2015 RMB'000
Past due but not impaired		
1 to 30 days past due	585	11
31 to 60 days past due	24	4
61 to 150 days past due	6	24
151 to 365 days past due	8	25
More than 1 year past due	5	73
	628	137
Neither past due nor impaired	2,305	2,240
	2,933	2,377

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 track record with the Group. Based on past experience, the management of the Group believes 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

	2016 RMB'000	2015 RMB'000
Other receivables	3,970	3,541
Interest receivables on deposits at banks	473	15,497
Trade and other deposits	2,963	5,220
Prepayments	1,916	1,263
VAT and other non-income tax recoverable	185	3,847
	9,507	29,368

24. PLEDGED BANK DEPOSITS

The pledged bank deposits represent deposits pledged to a bank to secure banking facilities granted to the Group by a bank. Deposits amounting to approximately RMBNil (2015: RMB233,053,000) have been pledged to secure short-term banking facilities.

For 2015, the interest rates on the deposits are ranged from 1.8% to 2.12% per annum.

25. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2016 RMB'000	2015 RMB'000
Provision for the year	**23,603**	22,129
Over provision in prior years, net	**—**	(2,002)
Withholding tax on dividend	**8,700**	17,393
	32,303	37,520
Tax paid	**(30,151)**	(31,430)
	2,152	6,090
Balance of provision for income tax related to prior years	**25,161**	19,071
Net income tax payable	**27,313**	25,161

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 RMB'000	Fair value changes in investment properties RMB'000	Withholding tax on dividends RMB'000	Total RMB'000
At 1 January 2015	4,446	10,120	16,040	30,606
Release upon distribution of dividends (note 9(a))	—	—	(17,393)	(17,393)
Charge to consolidated statement of profit or loss for the year (note 9(a))	—	1,144	7,191	8,335
At 31 December 2015	4,446	11,264	5,838	21,548

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

25. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

b) Deferred tax liabilities recognised: *(Continued)*

	Revaluation surplus of land and buildings RMB'000	Fair value changes in investment properties RMB'000	Withholding tax on dividends RMB'000	Total RMB'000
At 1 January 2016	4,446	11,264	5,838	21,548
Release upon distribution of dividends (note 9(a))	—	—	(8,700)	(8,700)
Charge to consolidated statement of profit or loss for the year (note 9(a))	—	725	5,456	6,181
At 31 December 2016	4,446	11,989	2,594	19,029

c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of approximately RMB24,543,000 (2015: RMB20,782,000) 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 one to five years, except for an amount of approximately RMB24,407,000 (2015: RMB19,524,000) which do not expire under current tax legislation.

26. CASH AND BANK BALANCES

	2016 RMB'000	2015 RMB'000
Cash and bank balances in the consolidated statement of financial position	463,222	194,114
Less: Non-pledged bank deposits with original maturity over three months and within one year when acquired	(40,000)	—
Cash and cash equivalents in the consolidated cash flow statement	423,222	194,114

Cash at bank earns interest at floating rates based on daily bank deposit rates.

As at 31 December 2016, the balances that were placed with banks in the PRC amounted to approximately RMB441,066,000 (2015: RMB186,696,000). Remittance of funds out of the PRC is subject to the exchange controls imposed by the PRC government.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

27. TRADE PAYABLES

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

	2016 RMB'000	2015 RMB'000
0 to 30 days	**2,670**	2,339
31 to 60 days	**1,000**	749
61 to 90 days	**176**	95
91 to 180 days	**385**	250
181 to 365 days	**181**	181
Over 1 year	**385**	329
	4,797	3,943

28. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Dividend payable	**1,790**	1,676
Other payables and accruals	**10,290**	13,064
Provision for sales returns (note 28(a))	**2,947**	2,621
VAT and other non-income tax payables	**667**	851
Trade deposits received	**9,971**	8,104
Amount due to a director (note 28(b))	**470**	—
	26,135	26,316

(a) A reconciliation of the provision for sales returns is as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**2,621**	5,675
Utilised during the year	**(2,621)**	(5,675)
Charge for the year	**2,947**	2,621
At 31 December	**2,947**	2,621

The provision for sales returns is estimated based on the expected total sales returns for the year less the actual sales returns already taken place. The franchisees of the Group are allowed to return eligible products within one year from the date of purchase from the Group.

(b) The amount due to a director represents advances from Mr. Tan Chuan Hua as at 31 December 2016. The amount is unsecured, interest free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

29. DEFERRED INCOME

Deferred income represents government grants received by the Group. The grants aimed to subsidise the Group for purchasing certain property, plant and equipment. Government grants are 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 RMB36,000 (2015: RMB36,000) was released to profit or loss.

30. SHARE CAPITAL

	Number of shares	Amount HK$'000	Amount equivalent to RMB'000
Ordinary shares of HK$0.01			
Authorised:			
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	10,000,000,000	100,000	87,926
Issued and fully paid:			
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	250,000,000	2,500	2,200

(a) Authorised share capital

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

(b) 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 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, distribution of dividends, repayment of debts as well as the raising of new debts.

The Group is not subject to any externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

31. RESERVES

The Group

The capital and reserves of the Group attributable to the owners of the Company are set out in the consolidated statement of changes in equity on page 66.

The Company

	Attributable to owners of the Company				
	Share premium RMB'000 (note a)	Currency translation reserve RMB'000 (note f)	Other reserves RMB'000 (note d)	Accumulated losses RMB'000	Total RMB'000
At 1 January 2015	114,674	(6,176)	—	(36,218)	72,280
Profit for the year	—	—	—	57,497	57,497
Exchange differences arising on translation of functional currency to presentation currency	—	406	—	—	406
Total comprehensive income for the year	—	406	—	57,497	57,903
Dividends	—	—	—	(64,425)	(64,425)
At 31 December 2015	114,674	(5,770)	—	(43,146)	65,758

	Attributable to owners of the Company				
	Share premium RMB'000 (note a)	Currency translation reserve RMB'000 (note f)	Other reserves RMB'000 (note d)	Accumulated losses RMB'000	Total RMB'000
At 1 January 2016	114,674	(5,770)	—	(43,146)	65,758
Profit for the year	—	—	—	62,209	62,209
Exchange differences arising on translation of functional currency to presentation currency	—	(1,018)	—	—	(1,018)
Share repurchase	—	—	(3,261)	—	(3,261)
Transaction cost attributable to share repurchase	—	—	(11)	—	(11)
Total comprehensive income for the year	—	(1,018)	(3,272)	62,209	57,919
Dividends	—	—	—	(59,950)	(59,950)
At 31 December 2016	114,674	(6,788)	(3,272)	(40,887)	63,727

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

31. RESERVES *(Continued)*

During the year, the Company repurchased its own shares on the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares repurchased	Price per share Highest RMB	Price per share Lowest RMB	Aggregate consideration paid RMB'000
January 2016	70,000	3.82	3.75	256
July 2016	754,000	3.34	3.11	2,348
September 2016	200,000	3.47	3.41	668
	1,024,000			3,272

During the year ended 31 December 2016, 1,024,000 ordinary shares were repurchased, none of the repurchased shares have been cancelled during the year.

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

The owners of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

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.

31. 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 association, to the statutory surplus reserve until the balance reaches 50% of their 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 existing operations or convert into additional capital of the subsidiaries. In 2010, the Company's wholly-owned subsidiary, Carpenter Tan, increased its registered capital to RMB100,000,000. Other subsidiaries, Jiangsu Carpenter Tan and Beijing Carpenter Tan had profit in the current year. RMB1,220,000 (2015: RMB958,000) and RMB213,000 (2015: RMB163,000), being 10% of their respective profit before appropriation for the year was transferred to this reserve.

As the other PRC subsidiaries of the Group either had a loss for the years ended 31 December 2015 and 2016 or their respective statutory surplus reserves have reached 50% of their respective registered capital, these subsidiaries did not make any transfer of their profit to this reserve for the year ended 31 December 2015 and 2016 accordingly.

ii) Enterprise development and staff welfare funds

Pursuant to regulations in the PRC, the Company's wholly-owned subsidiary Zi Qiang Wood Works, which is registered as a social welfare enterprise in the PRC, is required to transfer 50% and 20% of its tax concessions of value-added tax, as further detailed in note 9a(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 the enterprise development and the staff welfare only and are not available for distribution to shareholders. The Group transferred approximately RMB Nil (2015: RMB3,660,000) of its net profit to these funds for the year ended 31 December 2016.

d) Other reserves

Other reserves represent the difference between the consideration for the acquisition of the subsidiaries paid by the Group and the nominal value of the paid-up capital of the subsidiaries and share repurchased but not yet cancelled during the year ended 31 December 2016.

During the year, the Company repurchased 1,024,000 shares at prices ranging from RMB3.11 to RMB3.82 through the Stock Exchange at a total consideration of approximately RMB3,272,000.

As at 31 December 2016, the Company held a total of 1,024,000 treasury shares.

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(d) and (f).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

31. RESERVES *(Continued)*

Notes: *(Continued)*

f) **Currency translation reserve**

Currency translation reserve comprises all foreign exchange differences arising from the translation of functional currency to presentation currency of operations outside the PRC. The reserve is dealt with in accordance with the accounting policies set out in note 2(q).

g) **Distributable reserves**

Distributable reserves of the Company as at 31 December 2016 was RMB73,787,000 (2015: RMB71,528,000).

32. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	2016 RMB'000	2015 RMB'000
Financial assets		
Trade receivables	2,933	2,377
Other receivables	4,443	19,038
Pledged bank deposits	—	233,053
Cash and bank balances	463,222	194,114
Loans and receivables (including cash and cash equivalents)	470,598	448,582
Financial liabilities		
Trade payables	4,797	3,943
Other payables and accruals	12,080	14,740
Amount due to a director	470	—
Financial liabilities at amortised cost	17,347	18,683
Derivative financial instruments	—	5,516
Financial liabilities at fair value through profit or loss	—	5,516

32. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies

Details of the Group's financial instruments as stated in note 32(a) are disclosed in the respective note. 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

The Group is exposed to foreign currency risk primarily in bank and cash balances that is denominated in United States dollars and Euros. The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposures and will consider hedging significant foreign currency exposures should the need arise.

In order to mitigate the currency risk, the Group has entered into forward foreign exchange contracts to artificially hedge US$ against RMB. Details of the contracts are set out in note 21. The management regularly reviews the effectiveness of these instruments and the underlying strategies in monitoring currency risk.

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

	2016 **RMB'000**	2015 RMB'000
Assets		
US$	**1,471**	268,742
Euro	**58**	54
	1,529	268,796

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

32. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies *(Continued)*

i) Currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to currency risks in respect of transactions during the year and balances maintained in United States Dollars ("US$") and Euro ("Euro").

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used which represents management's assessment of reasonably possible changes in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation for a 5% change in foreign currency rates. 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 other components of equity, and the balance below would be negative.

	Effect on profit after tax and retained profits	
	2016	2015
	RMB'000	RMB'000
US$	**65**	11,422
Euro	**3**	2
	68	11,424

ii) Interest rate risk

The Group is exposed to interest rate risk mainly from bank deposits (note 24 and 26) of the Group. 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 exposures should the need arise.

32. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies *(Continued)*

ii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to variable interest rates of bank deposits of the Group. The analysis is prepared assuming the bank balances 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 2016 and the retained earnings as at the reporting date would increase by approximately RMB4,605,000 (2015: RMB4,256,000). 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

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

The Group has no significant concentration of credit risk in respect of 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.

iv) Liquidity risk

The Group's liquidity position is monitored closely by the directors. In managing liquidity risk, the Group monitors and maintains a level of cash and cash equivalents adequate for the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group mainly relies on internally generated funds and banking facilities as the principal sources 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

32. 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 2015							
Trade payables	—	3,943	—	—	—	3,943	3,943
Other payables and accruals	—	14,740	—	—	—	14,740	14,740
		18,683	—	—	—	18,683	18,683
At 31 December 2016							
Trade payables	—	4,797	—	—	—	4,797	4,797
Other payables and accruals	—	12,080	—	—	—	12,080	12,080
Amount due to a director	—	470	—	—	—	470	470
		17,347	—	—	—	17,347	17,347

c) Fair value

Fair value hierarchy

Other than derivative financial instruments, the directors consider the carrying amounts of other financial assets and financial liabilities, recorded at amortised cost, in the consolidated financial statements approximate to their fair values.

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, that is, unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

32. FINANCIAL INSTRUMENTS *(Continued)*

c) Fair value *(Continued)*

Fair value hierarchy (Continued)

- Level 2 valuations: Fair value measured using Level 2 inputs, that is, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value at 31 December 2016	Fair value measurements as at 31 December 2016 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement				
Assets				
Derivative financial instruments:				
– Currency swaps	—	—	—	—
– Forward foreign exchange contracts	—	—	—	—

	Fair value at 31 December 2015	Fair value measurements as at 31 December 2015 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement				
Liabilities				
Derivative financial instruments:				
– Currency swaps	5,402	—	5,402	—
– Forward exchange contracts	114	—	114	—

During the year ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of the fair value hierarchy as at the end of the reporting period in which they occur.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

32. FINANCIAL INSTRUMENTS *(Continued)*

c) Fair value *(Continued)*

Fair value hierarchy (Continued)

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of currency swaps and forward exchange contracts in Level 2 is determined by discounting the contractual forward price and deducting the current spot rate. The discount rate used is derived from the relevant government yield curve as at the end of the reporting period plus an adequate constant credit spread.

33. COMMITMENTS

a) Capital commitments

At 31 December 2016, capital commitments not provided for in the financial statements were as follows:

	2016	2015
	RMB'000	RMB'000
Contracted but not provided for in respect of		
– property, plant and equipment	**883**	172

b) Operating lease commitments

As lessee

i) At 31 December 2016, the total future minimum lease payables under non-cancellable operating leases in respect of premises are as follows:

	2016	2015
	RMB'000	RMB'000
Within one year	**2,807**	3,225
After one year but within five years	**1,127**	3,519
	3,934	6,744

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 5 years.

The above lease commitments represent basic rents only and do not include contingent rental payable in respect of retail shops leased by the Group. In general, these contingent rents are calculated with reference to 15% to 20% of the retail shop's revenue using pre-determined formulae. It is not possible to estimate in advance the amount of such contingent rental payable. No contingent rent was paid during the year.

33. COMMITMENTS *(Continued)*

b) Operating lease commitments *(Continued)*

As lessor

(ii) The Group leases out investment properties under operating lease. The leases were negotiated for terms ranging from 1 to 5 years. None of the lease include contingent rental. At 31 December 2016, the total future minimum lease payments receivable under non-cancellable operating leases in respect of premises are as follows:

	2016	2015
	RMB'000	RMB'000
Within one year	**4,767**	4,847
After one year but within five years	**9,422**	3,110
	14,189	7,957

34. RELATED PARTY TRANSACTIONS

(a) Outstanding balance with related parties

The Group had the following significant balance with its related parties:

	2016	2015
	RMB'000	RMB'000
Amount due to a director		
– Mr. Tam Chuan Hua	**470**	—

The amount is unsecured, interest free and repayable on demand.

(b) Key management compensation

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

	2016	2015
	RMB'000	RMB'000
Short-term employee benefits	**2,728**	2,902
Post-employment benefits	**144**	136
	2,872	3,038

Note:

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

35. COMPANY LEVEL – STATEMENT OF FINANCIAL POSITION

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Investment in a subsidiary		47	47
Current assets			
Amounts due from subsidiaries		81,916	79,500
Cash and cash equivalents		478	307
		82,394	79,807
Current liabilities			
Amounts due to subsidiaries		12,759	8,723
Other payables and accruals		3,755	3,173
		(16,514)	(11,896)
Net current assets		65,880	67,911
NET ASSETS		65,927	67,958
CAPITAL AND RESERVES			
Share capital	30	2,200	2,200
Reserves	31	63,727	65,758
TOTAL EQUITY		65,927	67,958

Approved and authorised for issue by the board of directors on 30 March 2017.

Tan Chuan Hua

Geng Chang Sheng

36. EVENTS AFTER REPORTING PERIOD

Subsequent to the reporting date and up to the date of this report, the Company repurchased a total of 262,000 ordinary shares of HK$0.01 each in the capital of the Company at an aggregate price of approximately RMB905,000. The highest price paid and the lowest price paid were RMB3.60 and RMB3.48 respectively. Those repurchased shares were not cancelled as at the date of this report.

37. ULTIMATE HOLDING COMPANY

At 31 December 2016, the directors consider the immediate parent and ultimate holding company of the Group to be Lead Charm Investments Limited, a company incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Tan Chuan Hua. This entity does not produce financial statements available for public use.

38. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2016

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[4]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[2]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2017
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards 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 consolidated financial statements.

FINANCIAL SUMMARY

The following table sets out the financial summary of the Group for the five years ended 31 December:

	For the year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**263,783**	276,062	298,269	280,913	271,966
Profit before taxation	**143,787**	148,368	164,583	157,139	142,291
Income tax	**(29,784)**	(28,462)	(35,821)	(31,283)	(16,129)
Profit for the year	**114,003**	119,906	128,762	125,856	126,162
Attributable to					
Owners of the Company	**114,003**	119,906	128,762	125,856	126,162
Assets and liabilities					
Total assets	**749,678**	706,697	797,405	642,024	497,282
Total liabilities	**(78,014)**	(83,260)	(218,663)	(137,558)	(57,177)
Equity attributable to owners of the Company	**671,664**	623,437	578,742	504,466	440,105
Liquidity and Gearing					
Current ratio[1]	**9.97**	8.97	2.73	4.51	10.93
Quick ratio[2]	**8.18**	7.54	2.32	3.98	9.30
Asset-liability ratio[3]	**N/A[4]**	N/A[4]	16.8%	10.4%	N/A[4]

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) Asset-liability ratio is calculated as total bank borrowings divided by total assets and multiplied by 100%.

(4) As at 31 December 2016, 2015 and 2012, the Group did not have any bank borrowings. The calculation of asset-liability ratio is not meaningful.