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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 837)

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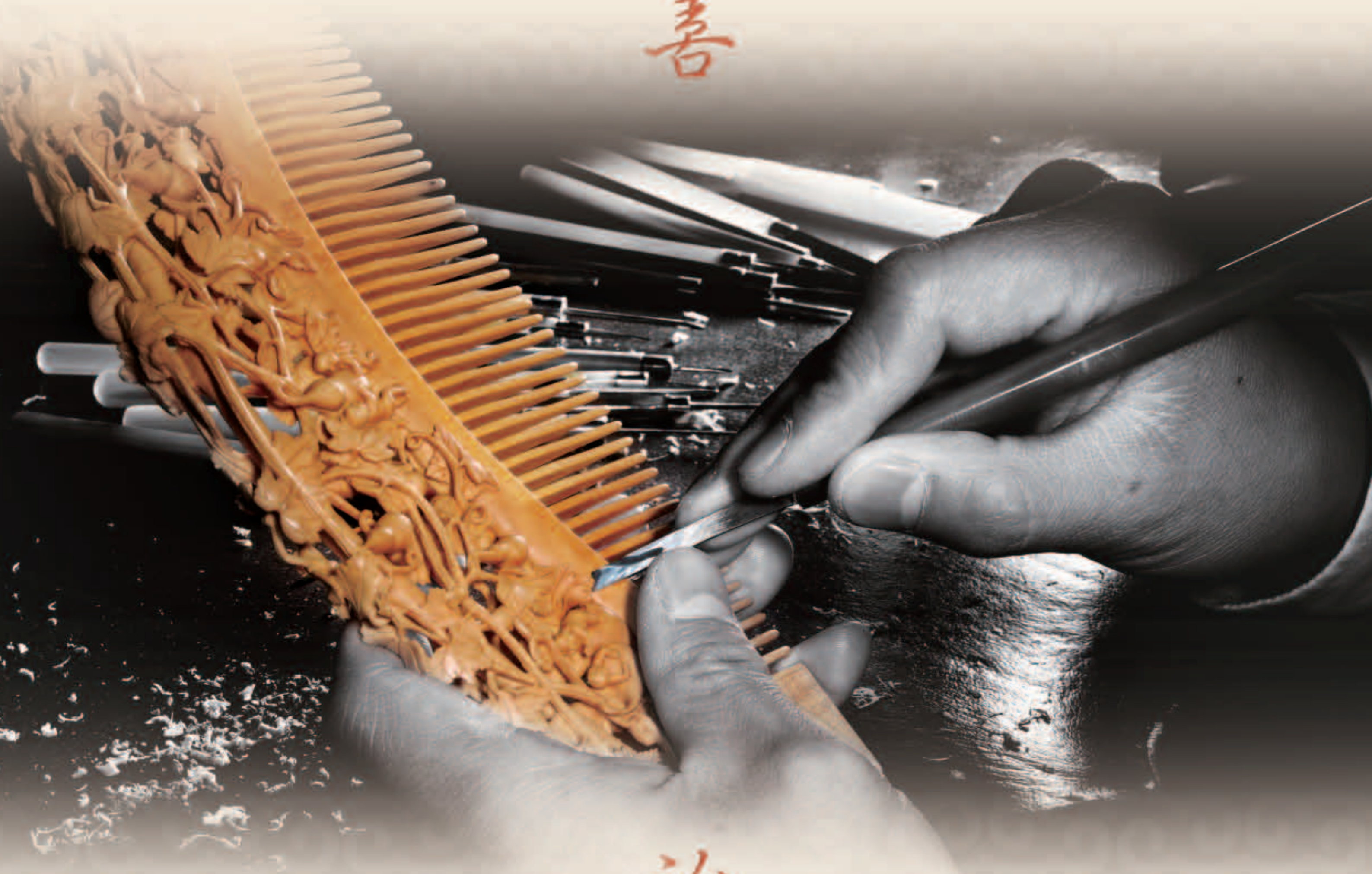

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2011
ANNUAL REPORT

* For identification purpose only

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CORPORATE INFORMATION

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

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

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

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

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

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

COMPANY SECRETARY
Mr. Chan Hon Wan CPA

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

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AUDITOR
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STOCK CODE
837

COMPANY WEBSITE
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	For the year ended 31 December		% of
	2011	2010	Increase/
	RMB'000	RMB'000	(decrease)
Financial Highlights			
Turnover	**244,001**	189,418	28.8%
Cost of sales	**(77,091)**	(69,240)	11.3%
Gross profit	**166,910**	120,178	38.9%
Profit before taxation	**131,358**	85,592	53.5%
Profit attributable to owners	**93,570**	66,124	41.5%
Basic earnings per share (RMB cents)	**37**	26	42.3%
Proposed final dividend per share (HK cents)	**22.97**	15.71	46.2%
Liquidity and Gearing			
Current ratio(1)	**8.12**	9.39	(13.5)%
Quick ratio(2)	**6.58**	7.35	(10.5)%
Gearing ratio(3)	**N/A**	N/A	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) Gearing ratio is calculated as interest-bearing bank borrowings divided by shareholders' fund.

Dear Shareholders,

I, on behalf of the board of directors (the "Board"), am pleased to present this annual report of Carpenter Tan Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2011 (the "Year") to the shareholders for their review.

In 2011, the Group recorded steady and encouraging results. In spite of the combined effects of global financial crisis and macro-economic control in the PRC, the GDP for the Year increased by 9.2% as compared to the corresponding period of the previous year. A stable and rational growth has maintained. In 2011, the total retail sales of consumer goods reached RMB18,122.6 billion, representing an increase of 17.1% as compared to the corresponding period of the previous year. This reflected that the domestic demand for consumer goods had remained strong, forming a favourable circumstance for the business growth of the Group. The Group seized the market opportunities brought from the strong domestic demand by developing different types of shops and electronic sales, improving the management of its information systems, enhancing its operational efficiency and optimizing its brand establishment. As such, the Group recorded a historical growth in its business development and financial results.

HISTORICAL GROWTH IN OPERATING RESULTS

During the year under review, due to its sound business development strategies and effective implementation, the Group recorded turnover of approximately RMB244.0 million for the year ended 31 December 2011, representing an increase of 28.8% as compared to the corresponding period of the previous year. Of which, turnover of combs was approximately RMB68.5 million, accounting for 28.1% of total turnover of the Group, turnover of box sets was approximately RMB159.7 million, accounting for 65.4% of total turnover of the Group, while turnover of mirrors was approximately RMB2.1 million, accounting for 0.9% of total turnover of the Group. Profit attributable to shareholders was approximately RMB93.6 million, representing an increase of 41.6% as compared to the corresponding period of the previous year. The overall gross profit margin increased to 68.4%. Basic earnings per share was RMB37 cents, representing an increase of 42.3% as compared to the corresponding period of the previous year. the Board believes that the outstanding results were 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 HK$22.97 cents per share for the financial year ended 31 December 2011, representing a total payout ratio of 50% of the profit for the year or 62% of the distributable profit of the Company (after deducting the non-distributable statutory reserve of RMB18.3 million for the year ended 31 December 2011). The Board believes that the strong financial position and cash flow of the Group are sufficient to support the long term development of the Company.

RAPID GROWTH OF SALES NETWORK

In 2011, the acceleration of urbanization and the continuous increase of per capita income in the PRC laid a solid foundation for the Group to rapidly expand its markets and increase its market shares. The Group implemented a diversified development strategy of sales network. Localized development strategies were adopted in different cities according to the local situation. In the municipalities directly under the Central Government and provincial capitals, the Group adopted a development strategy of diversifying marketing channel and expanding the sales network in store-in-stores such as shops in shopping malls, to extend the distribution network of its franchise shops and to enhance its brand recognition in first tier cities. In prefecture-level cities and county-level cities, the Group proactively encouraged its existing franchise shop owners to establish new franchise shops so as to enhance the Group's brand recognition in second and third tier cities. Under its efficient management, the number of franchise shops of the Group increased to 1,315 as at 31 December 2011, of which 315 were new shops. Our franchise shops have spanned various affluence cities with strong growth.

The Group has also strived to expand international market and promote the Chinese traditional handicraft overseas. As at 31 December 2011, the international markets of the Group included Singapore, South Korea, Japan, Malaysia, United States, Germany, United Kingdom, Australia and Canada. The number of self-operated retail shops in Hong Kong increased to seven.

EXPANSION OF SALES NETWORK

In respect of the sales network, the Group devoted to develop the store-in-stores market and successfully and systemically opened store-in-stores in shopping malls, large supermarkets and department stores during the Year. In order to encourage the owners of existing franchise shops to set up new store-in-stores, the Group has implemented a supporting policy which also attracted many quality new entrants.

In respect of the development of modern shops, the Group strategically set up modern shops in economic developed municipalities directly under the Central Government and core business zones in provincial capitals, such as Beijing, Shanghai, Guangzhou, Shenzhen, Tianjin, Nanjing, Suzhou, Wuhan and Shenyang, in 2011, so as to increase the popularity of the "Carpenter Tan" brandname and facilitate its band establishment.

IMPROVEMENT OF MANAGEMENT

During the Year, the Group devoted to accelerate the construction of information systems. By optimizing sales systems and service systems of franchise shops, installing information technology equipment, streamlining ISO management and staff performance assessment system, the Group has enhanced the management of its franchise shops.

In addition, in order catch up the rapid growth of the e-business market in the PRC, the Group made a breakthrough in the management of online sales in 2011. The Group set up an e-business team to explore the huge potential of e-business market. With its effective assistance in various aspects including product improvement, logistics, services, promotion and marketing, the Group recorded a historical growth in its online sales. During the Year, the Group was selected as "the model enterprise in international e-commerce in Chongqing" by Chongqing Foreign Trade and Economic Relations Commission, demonstrating that the "Carpenter Tan" brand has successfully entered into such new channel of sales.

OUTLOOK

With the increasing urban per capita income in the PRC, the potential customers of the Group have expanded. As a well known brand in small wooden products, Carpenter Tan will devote to develop more market initiatives. In the coming year, the Group will continue to focus on the market expansion and streamlined management of franchise shops, and will further increase its domestic market share and its coverage in overseas markets. Since Carpenter Tan is based on the traditional culture of China, the Group will follow its objective of promoting Chinese culture and commit to develop "Carpenter Tan" as an international well known brand.

The achievements of the Group in 2011 were attributable to the dedications of its staff. I would like to take this opportunity to express my sincere gratitude to all members of the Board, senior management and all staff. Besides, I would also like to express my gratitude to the continuous support of all of the shareholders and customers. Under the guidance of our experienced management, "Carpenter Tan" will become the world's top brand of wooden combs. We believe that the Group will maintain its outstanding results and strive for better returns for all shareholders and investors.

Tan Chuan Hua
Chairman and Chief Executive Officer

Hong Kong, 28 March 2012

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MARKET REVIEW

The global economy was in turmoil in 2011. The global financial crisis triggered by the Greek debt crisis resulted in a drop of the sovereign ratings for many European countries and the continuous depreciation of US Dollar. The global economy was unstable and experienced a slow growth. As the economic growth of China slowed down in the second half of 2011, aiming to maintain the sustainable and sound economic growth, the Chinese government carried out various austerity measures regarding the reserve requirement and consumption tax as well as the control of overheating property prices and rising costs in 2011 to tackle external challenges and stimulate domestic demand and thus domestic consumption. Under the guidance of the Chinese government, Chinese economy maintained its steady growth and the GDP of China in 2011 increased rapidly by 9.2% over the corresponding period of the previous year, which highest among the major economies of the world.

Attributable to the rapid growth of retailing and the increasing demand for consumptions, the Group recorded a rapid growth in the year. The potential opportunities brought by the huge demand in domestic market enhanced the competitive advantages of the Group in the industry and major markets in 2011. In the year, the Group established a comprehensive information system to expand its distribution network and refined the sales process system, sales service system and management process of its franchised outlets. In the face of ever-changing business environment, the Group adhered to its prudent and positive attitude. Thanks to the efforts of the experienced and efficient senior management, we achieved remarkable results.

BUSINESS REVIEW

1. Retail outlets

The Group has developed an extensive retail and distribution network mainly by operating the franchise programme in the PRC and abroad. In addition, the Group has also established directly-operated retail shops in Hong Kong. As at 31 December 2011, the Group had 1,332 retail outlets, representing a net increase of 239 shops during the year under review. The following table sets out the number of the Group's franchised outlets and directly-operated retail outlets:

No. of shops

	For the year ended 31 December			
	2011		2010	
	Franchise shops	**Directly-operated outlets**	Franchise shops	Directly-operated outlets
Hong Kong	**0**	**7**	0	4
PRC	1,315	0	1,082	0
Other countries and regions	10	0	7	0
Total	1,325	7	1,089	4

2. Sales network

The PRC Market

The number of the Group's franchise shops in 2011 increased steadily. As at 31 December 2011, the Group had 1,315 franchise shops in PRC, representing an increase of 315 new shops, after deducting the closure of 82 old shops, there was a net increase of 233 shops as compared with the previous year. The franchise shops have a wide geographical coverage spanning 30 provinces.

The Group put efforts in establishing modern shops in first tier cities and coastal cities. The Group has established a total of 71 shops in the year (2010: 33 shops) with a total area of approximately 1,500 square meters in the core urban commercial areas of major cities, including Beijing, Tianjin, Shanghai, Shenzhen, Kunming, Guangzhou, Wuhan, Changsha and Chongqing.


譚木匠

As part of its strategies for sales network expansion, the Group adopted specific development strategies in different cities in China according to the local development situation. In the municipalities directly under the Central Government and provincial capitals, the Group expanded the sales network in store-in-stores such as shops in shopping malls, to further expand its distribution network and enhance its brand recognition. In prefecture-level cities and county-level cities, the Group proactively encouraged its existing franchise shop owners to establish new franchise shops so as to enhance the Group's brand recognition in the second and third tier cities.

Through implementing diversified development strategies, the Group introduced and launched innovative sales model. In response to the rapid development of e-commerce market in China, the Group established e-commerce team in the year to strengthen the brand building of Carpenter Tan, logistics services, advertisement and products promotion. The Group achieved a breakthrough in the growth of network sales. The establishment of e-commerce team represented the innovation of a new sales model and removed the geographical sales barriers, and the franchise shops developed in line with the network sales.

Overseas market

As the business scale kept growing, the Group established more overseas sales outlets in the year. As at 31 December 2011, the Group established 17 sales outlets in overseas markets, including 7 directly-operated outlets in Hong Kong, 10 franchise shops including 3 in Singapore, 1 in Malaysia, 1 in Korea, 4 in the United States and 1 in Japan. In addition, the Group expanded its businesses by conducting sales through authorized and general distribution agency. The products under the brand name "Carpenter Tan" were sold in various overseas countries, including Germany, Britain, Australia, the United States, Canada and Taiwan.

3. Sales management

The Group has placed emphasis on the update and management of its marketing systems to enhance the management of franchise shops. In the year, the Group refined its Point of Sale ("POS") system and conducted random checks of the POS data uploaded and inventory of franchise shops from time to time. Furthermore, market researchers of the Group supervised the upload process of franchise shops to ensure a smooth upload. The adoption of information technology in management enhanced the transparency of franchise shops, facilitating the management to keep informed of and promptly respond to the market information. It also improved the communication between the Group and its franchise shops, and the efficiency of employees and management effectiveness were enhanced.

In order to further refine the operating mechanism of its franchise shops, provincial managers and market supervisors arranged site inspection for the operations of franchise shops monthly in strict compliance with the ISO Management Manual and rectified problems timely to ensure the smooth operation of sales system. In addition, the Group organized online test for employees every month to understand the operation of franchise shops and mobility of employees timely.

4. Products design and development

The Group has established a strong design and development team comprising staff with extensive experience and expertise in colouring, inlaying, packaging, product design and graphic design for diversifying product development. The Group also invited external outstanding designers participating in product design to improve the products development capacity.

As at 31 December 2011, the Group has launched 621 products, comprising 246 box sets, 228 lockets, 28 mirrors, 85 accessories and 34 limited editions. In 2011, the Group launched 124 new products, comprising 71 box sets, 17 lockets, 15 accessories and 21 limited editions.

The Group has established a technology centre in Wanzhou, which is responsible to study on the stabilisation and maintenance technology of wood. The Group's technology centre was granted the status of "Municipal Technology Centre" designated by Chongqing Municipal Government in 2005. The achievements, honour and research progress of the Centre were as follows:

- Quality of 5 types of woods was standardized and the product quality was further improved. Number of goods returned due to poor product quality decreased and cost efficiency improved. Currently, the Group is undergoing environmental experiment and market experiment for this project with satisfactory progress. All technical requirement has been fulfilled.

- Functions of the fast growing materials were improved, aiming to replace the materials used by the Group currently by sustainable materials in order to protect the environment and fulfill the Group's social responsibility while expanding business.

- The Group carried out research on and conducted experiments for mildew proof and insect proof technologies in order to safeguard the inventory and values of its materials. The Group has passed the small batch tests and will proceed to batch inspections and trial application.

The Group has placed emphasis on the research and development of new products. In the year, the Group carried out research and development in the following 6 aspects:

- Overall development: Aiming at launching 150 new products and developing two new materials in 2012 for the promotion of new product design, the Group would formulate plans and make adjustments for the long-term development of products and packages.

- Theme design: Targeting on developing 5 theme products in 2012, the Group would design new themes for the future product series.

- Product series refinement: The Group would refine its products and replace products with unsatisfactory sales according to the analysis of product series.

- Annual design: The Group would design its products with annual or festival features.

- Personalized design: The Group would launch conventional products and innovative products developed by the designer.

- Market-oriented design: The Group would design products according to market demand and the development of new technologies in addition to the production plan.

5. Production capacity

The production plant of the Group located in Wanzhou, which mainly produces combs and mirrors, is expected to be able to support the sales of combs and mirrors in the foreseeable future.

Actual Production (Pieces)

	For the year ended 31 December	
	2011	2010
Combs	**4,058,200**	4,024,900
Mirrors	**783,700**	664,800
Total	**4,841,900**	4,689,700

6. Marketing and promotion

The Group adopted proactive marketing and promotion strategies to maintain and enhance its brand recognition. In the year, the promotion and advertisement activities organized by the Group were mainly held in festivals and through media.

In the year, the Group placed soft advertisements in "Healthy Lifestyle"(健康生活), a lifestyle channel broadcasted in Beijing, to spread the message of healthy combing among consumers. Such advertisements were welcomed by franchise shops. In addition, the Group also educated consumers that combing hair is a healthy life-style through publishing articles in the internet, key word search of search engines, popular presses, online media and blogs.

Furthermore, the Group promoted its products through organizing promotion activities in conventional festivals. In the year, the Group organized "the history of Carpenter Tan"（譚木匠品牌之路）, a 3-day training camp, in the head office. The training camp attracted 20 trainees from 10 enterprises in China. The objectives of the training camp were to promote the corporate culture and concept of the Group through visiting, studying, training and exchanging activities.

By publishing internal magazine "Carpenter Tan"（譚木匠）, leaflet "Wood to Integrity"（以木立信）and comic about maintaining a healthy life by combing hair and scraping, the brand image was further enhanced.

7. Awards and accreditation

In the year, the Group ranked 30th among "the Top 100 Innovative Enterprises in China" organized by "Innovative Enterprises Summit Forum in 2011"（2011 年中國微創新高峰論壇中國企業微創新 100 榜）and was granted the Certificate of Environmental Management System and the Certificate of Occupational Health and Safety Management System. In addition, the Group also became the "International E-commerce Demonstration Enterprise of Chongqing"（重慶市國際電子商務示範企業）and was named as "Chongqing Famous Brand" again.

FINANCIAL REVIEW

1. Turnover

The Group recorded turnover of approximately RMB244.0 million for the year ended 31 December 2011, representing a growth of RMB54.6 million or 28.8% as compared to that of approximately RMB189.4 million of last year. The growth was attributable to the enhanced competitiveness by grasping opportunities in the recovery of the China economy, which resulted in an increase in the number of franchise shops and purchase of products. As at 31 December 2011, the Group had 1,325 franchise shops and 7 directly-operated outlets respectively while as at 31 December 2010, the Group had 1,089 franchise shops and 4 directly-operated outlets respectively. The franchise fee income was approximately RMB1.7 million which was close to that of approximately RMB1.5 million of last year.

	For the year ended 31 December			
	2011		2010	
	(RMB '000)	**%**	(RMB '000)	%
Sales				
– Combs	**68,518**	**28.1**	57,207	30.2
– Mirrors	**2,062**	**0.9**	1,930	1.0
– Box sets	**159,670**	**65.4**	117,660	62.1
– Other accessories*	**12,006**	**4.9**	11,135	5.9
Franchise fee income	**1,745**	**0.7**	1,486	0.8
Total	**244,001**	**100.0**	189,418	100.0

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

2. Cost of Sales

The cost of sales of the Group was approximately RMB77.1 million for the year ended 31 December 2011, representing an increase of RMB7.9 million or 11.4% as compared to that of approximately RMB69.2 million of last year, which was basically consistent with the growth of our turnover.

3. Gross Profit and Gross Profit Margin

As at 31 December 2011, gross profit of the Group was approximately RMB166.9 million, representing an increase of RMB46.7 million or 38.9% as compared to that of approximately RMB120.2 million of last year. The gross profit margin rose from 63.4% in 2010 to 68.4% in 2011. The increase in gross profit margin was mainly due to the adjustment of sales mix of the Group and growing market demands for some products with a higher profit margin. Besides, the Group has committed to develop innovative products with high added values and increased its investments in promotion and marketing to strengthen its long term competitive edges.

4. Other Revenue and Other Net Income

Other revenue was approximately RMB20.4 million for the year ended 31 December 2011, representing a decrease of RMB3.3 milion or 13.9% as compared to that of approximately RMB23.7 million of last year. Other revenue is mainly comprised of PRC VAT refunds of approximately RMB12.6 million, rental income of approximately RMB2.6 million, interest income of approximately RMB2.3 million and fair value change of Investment property of RMB1.0 million respectively (2010 : PRC VAT refunds of approximately RMB12.0 million, rental income of approximately RMB1.9 million, interest income of approximately RMB0.6 million and fair value change of investment property of RMB7.2 million respectively).

5. Selling and Distribution Expenses

The selling and distribution expenses amounted to approximately RMB23.9 million for the year ended 31 December 2011, which was close to that of approximately RMB24.0 million in 2010. The selling and distribution expenses mainly including advertising and market expansion expenses of RMB2.5 million, delivery charges of RMB3.2 million, rental expenses of RMB5.3 million, salaries and benefits of RMB6.3 million and travelling expenses of RMB2.0 million respectively (2010 : advertising and market expansion expenses of RMB2.8 million, delivery charges of RMB2.5 million, rental expenses of RMB6.9 million salaries and benefits of RMB5.6 million and travelling expenses of RMB1.8 million respectively).

6. Administrative Expenses

The administrative expenses of the Group was approximately RMB24.7 million for the year ended 31 December 2011, representing a slight increase of RMB0.5 million or 2.1% as compared to that of approximately RMB24.2 million of last year. The administrative expenses is mainly comprised of salaries and benefits of RMB11.3 million, legal and professional fee of RMB1.8 million, consultancy fee of RMB1.4 million, depreciation charges of RMB0.9 million and audit fee of RMB1.1 million respectively (2010 : salaries and benefits of RMB8.1 million, legal and professional fee of RMB2.1 million, consultancy fee of RMB2.4 million, depreciation charges of RMB0.8 million and audit fee of RMB0.9 million respectively).

7. Other Operating Expenses

Other operating expenses of the Group was approximately RMB7.3 million for the year ended 31 December 2011, representing a decrease of RMB0.3 million or 3.9% as compared to that of approximately RMB7.6 million for the year ended 31 December 2010. The decrease was primarily attributable to a decrease in loss on disposal of fixed assets of RMB1.9 million which was partly off-set by the increase in sales and other tax as a result of the increase in our Group's turnover and operation.

8. Finance Costs

For the year ended 31 December 2011, finance costs amounted to approximately RMB0.1 million, decreased by approximately RMB2.3 million or 95.8% when compared to approximately RMB2.4 million for the year ended 31 December 2010. The decrease was mainly due to the decrease in interest on bank borrowing as a result of the decrease in the average bank borrowings. The average bank borrowings decreased from RMB25 million as at 31 December 2010 to nil as at 31 December 2011.

9. Income Tax

For the year ended 31 December 2011, income tax expenses for the Group amounted to approximately RMB37.8 million, increased by approximately RMB18.3 million or 93.8% when compared to approximately RMB19.5 million for the year ended 31 December 2010. This increase was mainly due to an increase in profit before taxation and a rise in the actual tax rate.

The effective tax rate for the year ended 31 December 2011 was 28.7% when compared to 22.7% for the year ended 31 December 2010.

10. Profit for the Year

The Profit for the year ended 31 December 2011 was approximately RMB93.6 million, representing an increase of RMB27.5 million or 41.6% as compared to that of approximately RMB66.1 million in 2010. The increase was mainly due to the growth of our turnover as well as profit margin for the year under review.

ANALYSIS OF MAJOR BALANCE SHEET 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 2011, the net book value of property, plant and equipment amounted to approximately RMB32.5 million, representing a slight decrease of RMB0.6 million or 1.8%, as compared with the previous year of approximately RMB33.1 million. The decrease was mainly attributable to the depreciation charges of approximately RMB2.8 million for the year ended 31 December 2011.

2. Inventories

The Group's inventories as at 31 December 2011 increased by approximately RMB7.5 million or 14.1% from approximately RMB53.2 million as at 31 December 2010 to approximately RMB60.7 million as at 31 December 2011, primarily due to the stocking of raw materials for coming year's production as the Group anticipated that there would be an increase in sales demand in 2012.

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. The Group's trade receivables increased slightly by RMB0.1 million from RMB1.2 million as at 31December 2010 to RMB1.3 million as at 31 December 2011, increase in trade receivables was mainly due to the increase in credit sales to some of the Group's franchisees with whom the Group have long- term relationship.

4. Other Receivables, Deposits and Prepayments

The Group's other receivables, deposits and prepayments decreased by approximately RMB0.8 million from approximately RMB8.4 million as at 31 December 2010 to approximately RMB7.6 million as at 31 December 2011. Decrease in other receivables, deposits and prepayments was mainly due to a decrease in other receivables of approximately RMB0.7 million when compared to last year.

5. Trade Payables

As at 31 December 2011, the Group's trade payables was approximately RMB2.0 million, representing a decrease of approximately RMB1.0 million as compared with approximately RMB3.0 million as at 31 December 2010.

6. Other Payables and Accruals

The balance consists of other payables, accruals, trade deposits received, provision for sales return, VAT and other non-income tax payables. The Group's payables and accruals as at 31 December 2011 increased by approximately RMB1.2 million or 6.6% from approximately RMB18.1 million as at 31 December 2010 to approximately RMB19.3 million as at 31 December 2011, primarily due to an increase in other tax payable of approximately RMB1.6 million as a result of the growth in our business for the year under review.

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 2011, the Group's net cash generated from operating activities amounted to approximately RMB107.5 million, representing an increase of net cash generated from operating activities of approximately RMB42.2 million from approximately RMB65.3 million for the year ended 31 December 2010. The increase was primarily due to the continued growth of the Group's turnover and operations.

2. Net cash used in investing activities

For the year ended 31 December 2011, the Group's net cash outflow used in investing activities amounted to approximately RMB2.2 million, representing a decrease of approximately RMB0.7 million as compared with the cash outflow of approximately RMB2.9 million for the year ended 31 December 2010. The decrease is mainly due to the reduction in payment for purchasing fixed assets during the year under review.

3. Net cash used in financing activities

For the year ended 31 December 2011, the Group's net cash used in financing activities amounted to approximately RMB35.1 million, representing a decrease of approximately RMB39.9 million as compared with approximately RMB75.0 million for the year ended 31December 2010. The decrease was primarily due to a one-off repayment of bank borrowings of RMB50 million in last year which was not occurred during the year under review.

CAPITAL STRUCTURE

1. Indebtedness

As at 31 December 2011 and during the year under review, the Group did not have any bank borrowings.

2. Gearing ratio

As at 31 December 2011 and 2010, the Group did not have any bank borrowings. The calculation of gearing ratio was not meaningful.

3. Pledge of assets

As at 31 December 2011, the Group did not have any assets pledged to the banks (31 December 2010 : nil).

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 RMB2.3 million and approximately RMB3.2 million for the year ended 31 December 2011 and 2010 respectively.

5. Foreign exchange risk

The major business of the Group has used RMB and HK$ as the functional and operational currencies. The Group expects that RMB will maintain a stable development. The Group has no major risks in changes in other currency exchange.

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. For the year ended 31 December 2011, 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 2011, the Group had cash and cash equivalents of approximately RMB250.8 million mainly generated from operations of the Group and funds raised by the Company in 2009.

FUTURE OUTLOOK

According to the Twelfth Five-Year Plan, the Chinese government stressed to expand the domestic demand and promote cultural development. Benefitting from the policies of the Chinese government, the GDP of China maintained steady growth. The continuous increase in per capita income has boosted domestic consumption, driving the demand for the Chinese traditional crafts to grow. In 2011, as the domestic demand for small wooden decoration kept increasing, the sales networks of the Group further penetrated to the second and third tier cities as well as overseas markets and the Group achieved satisfactory results in 2011. The Group will continuously put efforts in building its brand and strengthen research and development in order to improve the quality of its products and the production efficiency. Grasping the opportunities in the market and leveraging on its advantages in the industry, the Group aims to achieve better results in the future.

Looking forward, the Group will expand its sales network prudently and actively in 2012 and plans to establish 200 new franchise shops. As the domestic purchasing power in China will continue to grow, the Group plans to open 30 modern shops (demo shops) and store-in-stores in key markets and well-known chain shopping malls in municipalities directly under the Central Government and provincial capitals, including Beijing, Shanghai, Guangzhou, Shenzhen, Tianjin, Hangzhou, Nanjing, Suzhou, Wuhan, Shenyuang, Chengdu and Dalian, in 2012 to consolidate the sales network of the Group.

For the development in overseas markets, the Group will focus on developing the general distribution and existing franchise shops in Singapore, the United States and Australia to improve their profitability. The Group will expand its customer bases in Europe and other new markets through participating overseas exhibitions and the online platform. The Group intends to establish 7 new franchise shops through regional distributors in overseas markets in 2012 in order to further increase the share of its products in international market.

In addition to the market expansion, the Group will also improve its information management and POS system to strengthen the communication between the Group and franchise shops and the supervision of the franchise shops. Through upgrading and refining the functions of POS system, the Group will enhance the supervision and management of the operating data and improve the working efficiency of franchise shops, laying a solid foundation for the delicacy management of the shops.

Besides, according to the development needs of all departments, the Group will organize different training programmes for its employees, including video training, online test, seminar, exhibition and outdoor training, to strengthen the training for employees and encourage employees to achieve self-improvement and upgrade their technology level and professional knowledge.

For e-commerce, the Group will continue to strengthen its e-commerce team in terms of products modification, logistics services, products promotion and advertisement so as to further develop the e-commerce market.

Looking ahead, the Group will further expand its domestic and oversea market share and strengthen and consolidate its leading position in the industry with a sound financial system and practical marketing strategies. While developing the business of the Group, the Group will endeavor to fulfill its corporate social responsibilities and improve staff welfare to promote the corporate value of "Honesty, Work and Happiness" and the long-lasting brand image of Carpenter Tan in China and overseas. The Group will strive to achieve better results in order to bring great returns to investors.

Corporate Social Responsibilities

The Company insists on shouldering its social responsibilities and caring its staff and investors as the core values apart from expanding its businesses. The Group encourages the recruitment of the disabled and provides them with more job opportunities. During the year, the Group employed 355 disabled staff in total and provided them with suitable training. They have made significant contribution to the Group. The Group has been recognized as a social welfare enterprise in China.

The Group also expressed its care to the society through taking part in other charity activities. One of the events was a year-round activity at which 9 caring groups formed by our staff. Care and assistance work visited homes for the elderly, the Hope Schools, rehabilitation centers and the underprivileged every month.

Moreover, the Group launched various green activities to promote environmental protection.

HUMAN RESOURCES AND TRAINING

As at 31 December 2011, the Group had a total of 985 employees in Mainland China, Hong Kong and overseas. Its total staff cost was approximately RMB39.1 million for the year ended 31 December 2011 (2010: RMB31.2 million).

In addition to providing job opportunities to the disabled, the Group has attached high emphasis on the self-upgrade of its staff. By holding various themed exhibitions, workshops, seminars and staff training, the working skills of the staff as well as their sense of belonging to the Group were further enhanced. In 2011, the Group held a skill contest and a singing contest in order to develop positive, optimistic and harmonic cultures of the staff. The Group also provided various on-job training to the staff such as classes, examinations, data sharing and CD playing for the development have team spirits, courtesy, production management and accounting practice in order to consolidate and spread the corporate culture of Carpenter Tan.

DIRECTORS

Executive Directors

Mr. Tan Chuan Hua (譚傳華), aged 54, is an Executive Director, the co-founder of the Group, the chairman and the chief executive officer of the Company. He is responsible for the overall strategic planning, formulation of the corporate policies, the corporate development and also the day-to-day management of the Group. Mr. Tan has over 15 years of experience in the industry of manufacturing small size wooden handicrafts. Mr. Tan has been appointed as the Chairman of Chong Qing Art and Handicraft Association (重慶工藝美術行業協會) since 2004. He has been a member of the Third Political Consultative Conference Chong Qing Committee (重慶市第三屆政協委員) since January 2008 and was a member of the Second Political Consultative Conference Chong Qing Committee (重慶市第二屆政協委員) from January2003 to December 2007. Mr. Tan was awarded by the Ministry of Personnel (人事部) of the PRC and China Disabled Persons' Federation (中國殘疾人聯合會) as a Country Self-motivated Model (全國自強模範) in 2003. He was also awarded as 2005 China Outstanding Franchise Executive (2005中國特許企業優秀管理者) by China Chain Store and Franchise Association (中國連鎖經營協會). He is the director of Lead Charm Investments Limited ("Lead Charm"), the Company's controlling shareholder and Global Craft Collection Association (國際手工藝術集藏協會). He is the spouse of Madam Fan Cheng Qin and father of Mr. Tan Di Fu, the elder brother of both Madam Tan Yao and Mr. Tan Cao, and the uncle of Mr. Tan Xiao Chuan. Mr. Tan was appointed as the Director on 20 June 2006.

Mr. Geng Chang Sheng (耿長生), aged 63, is an Executive Director and deputy general manager of the Group and he is responsible for the Group's financial function including reviewing the Group's financial position and responsible for the strategic investment planning and corporate finance activities of the Group. Mr. Geng has 9 years of management experience in the transportation industry during the period from 1987 to 1996 when he was a deputy general manager of a motor company in Chongqing and over 3 years of management experience in the property development industry during the period from 1999 to 2002 when he was a deputy general manager of a property company in the PRC. He studied Mechanics and graduated from Sichuan Broadcasting TV University (四川廣播電視大學). 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 26, 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 nephew of Mr. Tan Cao and Madam Tan Yao.

Non-executive Directors

Mr. Tan Cao (譚操), aged 48, 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 20 years of management experience in the government and property management industry. He holds a bachelor's degree in Law from the Southwest University of Political Science and Law (西南政法大學). He is the younger brother of Mr. Tan Chuan Hua, the younger brother-in-law of Madam Fan Cheng Qin, the elder brother of Madam Tan Yao, and the uncle of Mr. Tan Xiao Chuan and Mr. Tan Di Fu. He joined the Group in August 2003 and was appointed as the Director on 30 August 2006.

Mr. Liu Chang (劉暢), aged 38, is a Non-executive Director responsible for the corporate financial activity and management of the Group. He worked for Beijing Anxintaifu Trading Company Limited (北京安信泰富商貿有限公司) of which the then principal business was trading of furniture in the PRC and was responsible for the overall strategic planning, corporate development and day-to-day management of this company. He has over 7 years of experience in investment banking. He holds a bachelor's degree in Law from the China Youth University for Political Sciences (中國青年政治學院). Mr. Liu joined the Group in September 2004 and was appointed as the Director on 30 August 2006.

Independent non-executive Directors

Madam Du Xin Li (杜新麗), aged 55, is an Independent Non-executive Director. Madam Du obtained a doctorate degree in China University of Political Science and Law in 2004. She is currently the professor of law in China University of Political Science and Law. She is also an arbitrator of China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會) and an attorney at law in Beacon Law Firm, the PRC. She has extensive experience in international trade law, international investment law and international commerce law. She was appointed as the Independent Non-executive Director on 4 September 2007.

Mr. Yu Ming Yang (余明陽), aged 47, 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 theIndependent Non-executive Director on 4 September 2007.

Mr. Chau Kam Wing, Donald (周錦榮), aged 49, has over 20 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 the finance director of Winox Holdings Limited, he is also an independent non-executive director of China Water Affairs Group Limited and Zhejiang Shibao Company Limited, which are all listed on the Main Board of the Stock Exchange. Mr. Chau is also an independent non-executive director of Eco-Tek Holdings Limited which is listed on the Growth Enterprise Market of the Stock Exchange. Mr. Chau has been appointed as an independent non-executive director of the Company since 17 November 2009.

SENIOR MANAGEMENT

Madam Fan Cheng Qin (范成琴) aged 47, 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 14 years' experience in the industry of manufacturing small wooden handicrafts. Madam Fan is the spouse of Mr. Tan Chuan Hua, the mother of Mr. Tan Di Fu, the elder sister-in-law of both Mr. Tan Cao and Madam Tan Yao.

Madam Tan Yao (譚堯) aged 42, is the deputy general manager of the Group . Madam Tan is responsible for research and product development, and technology teams. She joined the Group in January 2005. Prior to joining the Group, she has over 14 years of experience working for the Office for Moral, Ideological, and Political Education (精神文明辦公室) of the government of Chongqing as an officer for the period from August 1988 to March 2002 and was a deputy general manager of Chongging Three Gorges Gas (Group) Company Limited (重慶三峽燃氣(集團)有限公司) during May 2002 to January 2005. Madam Tan is the younger sister of Mr. Tan Chuan Hua and Mr. Tan Cao, the younger sister-in-law of Madam Fan Cheng Qin, and the aunt of Mr. Tan Di Fu.

Madam Wang Ping (王萍), aged 47, is the managing director of Chongqing Meiyu Accessories Company Limited (重慶美裕飾品有限公司) ("CQMY"). Madam Wang is responsible for the overall corporate development, production, sales and administration functions of CQMY. Madam Wang has 17 years of experience in management of training programmes and 7 years of experience in property development, in which Madam Wang was the general manager of a construction development company. She studied Politics and graduated from No. 2 Party School of Communist Party of China (CPC) Sichuan Municipal Committee (中共四川省委第二黨校). She joined the Group in March 2005.

Mr. Luo Hong Ping (羅洪平), aged 43, is the general manager of Ziqiang Muye and is responsible for the operation in the Wan Zhou Factory. Mr. Luo graduated from Hefei Industrial University (合肥工業大學) in 1989. Mr. Luo has over 14 years in industrial management. Mr. Luo joined the Group in July 2003 and has been responsible for the production function of the Group since July 2003. Prior to joining the Group, Mr. Luo was the deputy factory manager of a silk factory and was the assistant of general manager of a electrical company.

Mr. Chan Hon Wan (陳漢雲), aged 51, 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 25 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.

Mr. Liu Nian (劉念), aged 38, is a senior accountant and the head of the Group's accounting and finance department in the PRC and responsible for PRC related accounting and finance matters. Mr. Liu graduated from Chongqing Jianzhu University (重慶建築大學) in 1995 with professional qualifications in construction finance and accounting. Mr. Liu joined the Group in 2003 and had worked as the head of the Group's date and information centre, deputy finance manager and was subsequently promoted as finance manager. Mr. Liu has accumulated more than 15 years of experience in financial management. Prior to joining the Group in 2003, Mr. Liu worked as a finance officer for an industrial equipment installation company and a finance manager for a real estate and property development company.

Mr. Huang Chao (黃超), aged 35, is the deputy finance manager of the Group's accounting and finance department in the PRC and responsible for PRC related accounting and finance matters. Mr. Huang graduated from Sichuan Broadcasting TV University (四川廣播電視大學) in 1996 with professional qualification in finance, accounts and computer application. Mr. Huang joined the Group in March 1997 and has accumulated more than 11 years experience in financial management.

COMPANY SECRETARY

Mr. Chan Hon Wan (陳漢雲) is the company secretary of the Company. He is also the financial controller of the Company. His biographical details are set out under the paragraph with the heading "Senior Management" above.

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

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

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers 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 for the year ended 31 December 2011. 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 price sensitive information, has been requested to comply with the written guidelines. No incidence of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company for the year ended 31 December 2011.

BOARD OF DIRECTORS

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

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

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

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

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. According, Mr. Geng Chang Sheng (being an Executive Director), Mr. Liu Chang (being a Non-executive Director), Mr. Chau Kam Wing, Donald (being an Independent Non-executive Directors) shall retire at the forthcoming annual general meeting of the Company. The retiring Directors, all being eligible, shall offer themselves for re-election. None of the Directors for re-election at the forthcoming annual general meeting has a service contract with any member of the Group which is not determinable by the relevant employer within one year without payment of compensation other than statutory compensation.

BOARD COMMITTEES

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

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.

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

AUDIT COMMITTEE

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

Duties and responsibilities Include:

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

The Audit Committee had reviewed the internal control and annual results of the Group for the year ended 31 December 2011 and the accounting principles and practices adopted by the Group. Our Financial Controller, external auditor and senior management attended the meetings to answer questions raised by the Audit Committee.

REMUNERATION COMMITTEE

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

Duties and responsibilities include:

- recommend to the Board on the Company's policy and structure for all remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- review and approve performance - based remuneration by reference to corporate goals and objectives;
- review and approve compensation arrangements relating to dismissal or remova 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.

The Remuneration Committee had reviewed the policy and structure of the remuneration for Directors and senior management of the Group for the year ended 31 December 2011.

NOMINATION COMMITTEE

The Company established nomination committee (the "Nomination Committee") on 28 March 2012. There are 3 members for the Nomination Committee which includes Madam Du Xin Li, Mr. Yu Ming 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. Its terms of reference were adopted by the Company from 28 March 2012 in order to comply with the amended Appendix 14 (Corporate Governance Code) of the Listing Rules.

The role and function 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.

BOARD MEETINGS AND INDIVIDUAL ATTENDANCES

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

Details of the Directors' attendance at the Board meetings and the Board committee meetings held in the financial year ended 31 December 2011 are set forth in the following table:

Number of meetings held during the year	Board	Audit Committee	Remuneration Committee
Executive Directors			
Mr. Tan Chuan Hua (Chairman)	4/4	—	—
Mr. Geng Chang Sheng	4/4	—	—
Mr. Tan Di Fu	4/4	—	—
Non-executive Directors			
Mr. Tan Cao	4/4	—	—
Mr. Liu Chang	4/4	—	—
Independent Non-Executive Directors			
Madam Du Xin Li	4/4	2/2	1/1
Mr. Yu Ming Yang	4/4	2/2	1/1
Mr. Chau Kam Wing, Donald	4/4	2/2	1/1

Note:

As the Nomination Committee was established on 28 March 2012, no meeting was held during the year ended 31 December 2011.

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

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

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

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

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND EXTERNAL AUDITORS

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

INTERNAL CONTROL AND INTERNAL COMPLIANCE GUIDELINES

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

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

For the year ended 31 December 2011, the Board had, through the Audit Committee's reviews, reviewed the findings of the external consultant, reviewed the Group's internal control procedures and compliance with the internal compliance guidelines and considered them having been effectively implemented and properly complied with.

EXTERNAL AUDITOR'S REMUNERATION

For the year ended 31 December 2011, the total remuneration for the audit services provided by the external auditor amounted to RMB991,000 (equivalent to approximately HK$1,193,000).

For the year ended 31 December 2011, the total remuneration for the permissible non-audit services (namely, review of the Group's internal control system) provided by the external auditors amounted to RMB100,000 (equivalent to approximately HK$120,000).

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

INVESTOR RELATIONS

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

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

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

Hong Kong, 28 March 2012

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 2011.

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 2011 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 41 to 45.

To extend the Company's gratitude for the support of our shareholders, the Board has recommended the distribution of a final dividend of HK22.97 cents per share for the financial year ended 31 December 2011 to the shareholders whose names appear on the register of members of the Company on Monday, 28 May 2012, amounting to approximately HK$57,425,000 subject to the approval of the Company's annual general meeting to be held on Friday, 18 May 2012. The dividend payout ratio is 50% of the profit for the year or 62% of the distributable profit of the Company (after deducting the non-distributable statutory reserves of RMB18.3 million for the year ended 31 December 2011). The above-mentioned final dividend is expected to be paid on or before Friday, 15 June 2012.

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 Wednesday, 16 May 2012 to Friday, 18 May 2012 (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 Investors Services Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Tuesday, 15 May 2012.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Thursday, 24 May 2012 to Monday, 28 May 2012 (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 Investors Services Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Wednesday, 23 May 2012.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2011, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2011, the Group has not made any material acquisition and disposal.

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$132.9 million (equivalent to approximately RMB116.8 million). As at 31 December 2011, the Group had used net proceeds of approximately RMB35.1 million, of which approximately RMB10.5 million had been applied for enhancement of the Group's design and product development and enhancement for operational efficiency, approximately RMB12.4 million for enhancement for sales network and sales support services, construction of production base and approximately RMB12.2 million as working capital. The remaining net proceeds have been deposited into banks which are intended to be applied in accordance with the proposed application set forth in the Company's prospectus dated 15 December 2009 except for the proposed application of approximately RMB19.5 million (HK$24.0 million) for setting up high-end home accessories shops in the PRC and the application of approximately RMB4.9 million (HK$6.0 million) for setting up lifestyle handicraft stores. As disclosed in the Company's 2010 annual report, due to the change in market environment and the Group's business strategy, the Group has decided to hold-up the business plan in developing the high-end home accessories shops and lifestyle handicraft stores. The Board is studying other alternative business development opportunities, which would generate better investment return to the Group's shareholders.

CAPITAL COMMITMENT

As at 31 December 2011, the Group had capital commitment amounted to approximately RMB0.2 million (31 December 2010: approximately RMB1.5 million).

SHARE OPTION SCHEME

The Company operates a share option scheme ("Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants, including Directors, eligible employees, consultants, suppliers, customers, any shareholder of each member of the Group or associated company or any of their respective associates, who contribute to the success of the Group. The Share Option Scheme was conditionally approved by a written resolution of the shareholders of the Company dated 17 November 2009. Details of the Share Option Scheme are set out in the prospectus of the Company dated 15 December 2009.

As at 31 December 2011, no share option was granted based on the Share Option Scheme.

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 2011 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 2011, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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 46 and note 32 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2011, 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 RMB85,444,000, of which approximately RMB46,800,000 (equivalent to approximately HK$57,425,000) has been proposed as a final dividend for the year. Under the Companies Law, a company may make distribution to its shareholders out of the share premium account under certain circumstances.

CHARITABLE DONATIONS

Charitable donations made by the Group for the year ended 31 December 2011 was approximately RMB25,000 (2010: approximately RMB16,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for the year ended 31 December 2011 are set forth in note 16 to the financial statements.

INVESTMENT PROPERTIES

The Group's investment properties were revalued at the year end date. The fair value increase on investment properties arising on revaluation amounting to approximately RMB1.0 million has been credited to the consolidated income statement. Details of movements in the investment properties of the Group are set out in note 18 to the consolidated financial statements of the Company for the year ended 31 December 2011.

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 2011 are set out in note 20 to the financial statements.

DIRECTORS

The Directors of the Company during the financial year ended 31 December 2011 and up to the date of this annual report have been:

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

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

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

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical information of the Directors and senior management of the Company are set out in the "Biography of Directors and Senior Management" section on pages 20 to 24.

CHANGES IN DIRECTORS' INFORMATION

The Company's independent non-executive director, Mr. Chau Kam Wing Donald was appointed on 11 March 2011 as finance director of Winox Holdings Limited (stock code: 6838) which is a company listed on the main board of The Stock Exchange of Hong Kong Limited on 20 July 2011. In addition Mr. Chau had been retired from the office of independent non-executive director of China Nonferrous Metals Company Limited (stock code: 8306) on 5 May 2011.

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

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

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2011, none of the Directors was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2011, the interests and short positions of the Directors in the share, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ('SFO")) as recorded in the register maintained by the Company under section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers ("Model Code") were as below:

Interests in shares of the Company:

Name of Director	Capacity/Nature of interest	Number of securities	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%
Tan Cao	Beneficial owner	3,450,584	1.38%

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.

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%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2011, the interests and long positions of every persons in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital, as recorded in the register maintained and kept by the Company under section 336 of the SFO were as below:

Interests in the Shares of the Company:

Name	Capacity/ Nature of interest	Number of shares	Position	Approximate percentage of shareholding
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 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company (including their spouses or children under 18 years of age) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

RELATED PARTY TRANSACTIONS

Details of the Group's related party transactions for the year ended 31 December 2011 are set out in note 35 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales to the five largest customers of the Group accounted for approximately 2.5% of the Group's total revenue and sales to the largest customer accounted for approximately 0.5% of the Group's total revenue for the year ended 31 December 2011. The aggregate purchases from the five largest suppliers of the Group accounted for approximately 39.2% of the Group's total purchases and purchases from the largest supplier accounted for approximately 10.7% of the Group's total purchases for the year ended 31 December 2011.

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.

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2011 are set out in Note 2(n) 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.

STATEMENT OF NO CHANGE OF AUDITOR

The Board confirmed that there has been no change of auditor of the Company since its listing on the Stock Exchange on 29 December 2009.

AUDITOR

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

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

Hong Kong, 28 March 2012

CCIF

CCIF CPA LIMITED

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

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

We have audited the consolidated financial statements of Carpenter Tan Holdings Limited ("the Company") and its subsidiaries (together the "Group") set out on pages 41 to 103, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, 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.

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 28 March 2012

Betty P.C. Tse
Practising Certificate Number P03024

	Note	2011 RMB'000	2010 RMB'000
Turnover	5	**244,001**	189,418
Cost of sales		**(77,091)**	(69,240)
Gross profit		**166,910**	120,178
Other revenue and other net income	6	**20,366**	23,725
Administrative expenses		**(24,659)**	(24,192)
Selling and distribution expenses		**(23,868)**	(24,038)
Other operating expenses		**(7,247)**	(7,635)
Profit from operations		**131,502**	88,038
Finance costs	7	**(144)**	(2,446)
Profit before taxation	8	**131,358**	85,592
Income tax	9	**(37,788)**	(19,468)
Profit for the year		**93,570**	66,124
Attributable to			
Owners of the Company	14	**93,570**	66,124
Earnings per share	15		
Basic and diluted		**RMB37 cents**	RMB26 cents

The notes on pages 48 to 103 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 RMB'000	2010 RMB'000
Profit for the year	**93,570**	66,124
Other comprehensive income for the year (after tax)		
Exchange differences on translation of financial statements of foreign operations	**(754)**	(923)
Income tax related to components of other comprehensive income	**—**	—
Other comprehensive income for the year	**(754)**	(923)
Total comprehensive income for the year	**92,816**	65,201
Attributable to		
Owners of the Company	**92,816**	65,201

The notes on pages 48 to 103 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	16	**32,449**	33,110
Prepaid lease payments	17	**19,363**	19,881
Investment properties	18	**42,800**	41,800
Intangible assets	19	**—**	—
		94,612	94,791
Current assets			
Prepaid lease payments	17	**518**	518
Inventories	21	**60,697**	53,213
Trade receivables	22	**1,262**	1,171
Other receivables, deposits and prepayments	23	**7,576**	8,406
Cash and cash equivalents	25	**250,790**	181,298
		320,843	244,606
Current liabilities			
Trade payables	27	**2,005**	3,009
Other payables and accruals	28	**19,309**	18,089
Income tax payable	24(a)	**18,197**	4,939
		(39,511)	(26,037)
Net current assets		**281,332**	218,569
Total assets less current liabilities		**375,944**	313,360
Non-current liabilities			
Deferred tax liabilities	24(b)	**13,964**	11,099
Long-term payable	29	**—**	—
Deferred income	30	**917**	952
		(14,881)	(12,051)
NET ASSETS		**361,063**	301,309

The notes on pages 48 to 103 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2011

	Notes	2011 RMB'000	2010 RMB'000
CAPITAL AND RESERVES			
Share capital	31	**2,200**	2,200
Share premium and reserves	32	**358,863**	299,109
TOTAL EQUITY		**361,063**	301,309

Approved and authorised for issue by the board of directors on 28 March 2012.

Tan Chuan Hua

Geng Chang Sheng

The notes on pages 48 to 103 form part of these financial statements.

	Notes	2011 RMB'000	2010 RMB'000
Non-current assets			
Investment in a subsidiary	20	**47**	47
Current assets			
Other receivables, deposits and prepayments	23	**—**	1,493
Amounts due from subsidiaries	20	**84,269**	80,587
Cash and cash equivalents	25	**6,747**	14,990
		91,016	97,070
Current liabilities			
Amounts due to subsidiaries	26	**8,065**	8,465
Other payables and accruals	28	**1,172**	922
		(9,237)	(9,387)
Net current assets		**81,779**	87,683
NET ASSETS		**81,826**	87,730
CAPITAL AND RESERVES			
Share capital	31	**2,200**	2,200
Share premium and reserves	32	**79,626**	85,530
TOTAL EQUITY		**81,826**	87,730

Approved and authorised for issue by the board of directors on 28 March 2012.

Tan Chuan Hua

Geng Chang Sheng

The notes on pages 48 to 103 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

	Attributable to owners of the Company								
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Other reserves RMB'000	Property revaluation reserve RMB'000	Currency translation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2010	2,200	114,674	2,767	65,454	17,738	1,723	304	54,198	259,058
Profit for the year	—	—	—	—	—	—	—	66,124	66,124
Exchange differences on translation of financial statements of foreign operations	—	—	—	—	—	—	(923)	—	(923)
Total comprehensive income for the year	—	—	—	—	—	—	(923)	66,124	65,201
Dividends	—	—	—	—	—	—	—	(22,950)	(22,950)
Transfer to reserve	—	—	—	13,652	—	—	—	(13,652)	—
At 31 December 2010	2,200	114,674	2,767	79,106	17,738	1,723	(619)	83,720	301,309
At 1 January 2011	**2,200**	**114,674**	**2,767**	**79,106**	**17,738**	**1,723**	**(619)**	**83,720**	**301,309**
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**93,570**	**93,570**
Exchange differences on translation of financial statements of foreign operations	**—**	**—**	**—**	**—**	**—**	**—**	**(754)**	**—**	**(754)**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**—**	**(754)**	**93,570**	**92,816**
Dividends	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(33,062)**	**(33,062)**
Transfer to reserve	**—**	**—**	**—**	**18,279**	**—**	**—**	**—**	**(18,279)**	**—**
At 31 December 2011	**2,200**	**114,674**	**2,767**	**97,385**	**17,738**	**1,723**	**(1,373)**	**125,949**	**361,063**

The notes on pages 48 to 103 form part of these financial statements.

	Note	2011 RMB'000	2010 RMB'000
Operating activities			
Profit before taxation		**131,358**	85,592
Adjustments for:			
Interest expenses		**144**	2,446
Interest income		**(2,346)**	(616)
Change in fair value of investment properties		**(1,000)**	(7,150)
(Gain)/loss on disposal of property, plant and equipment		**(41)**	1,913
Depreciation		**2,862**	3,681
Amortisation of prepaid lease payments		**518**	518
Amortisation of intangible assets		**—**	125
Provision for sales returns		**595**	3,687
Impairment on trade receivables		**1**	4
Impairment on intangible assets		**—**	375
Reversal of impairment loss on other receivables		**—**	(520)
Write-down on inventories		**1,807**	2,275
Reversal of accrued payables		**—**	(614)
Government grant released from deferred income		**(35)**	(27)
Operating profit before working capital changes		**133,863**	91,689
Increase in inventories		**(9,291)**	(13,447)
Decrease in amounts due from directors		**—**	14
Increase in trade receivables		**(92)**	(748)
Decrease in other receivables, deposits and prepayments		**830**	6,074
Decrease in trade payables		**(1,004)**	(236)
Increase/(decrease) in other payables and accruals		**2,476**	(4,601)
Cash generated from operations		**126,782**	78,745
Interest received		**2,346**	616
Interest paid		**(1)**	(2,169)
Income tax paid, net		**(19,942)**	(11,901)
Withholding tax paid		**(1,723)**	—
Net cash generated from operating activities		**107,462**	65,291
Investing activities			
Purchase of property, plant and equipment		**(2,265)**	(3,176)
Proceeds from disposal of property, plant and equipment		**82**	244
Land deposits refunded		**—**	8
Net cash used in investing activities		**(2,183)**	(2,924)

The notes on pages 48 to 103 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 RMB'000	2010 RMB'000
Financing activities			
Dividend paid		**(33,062)**	(22,950)
Repayment of bank loans		**—**	(50,000)
Repayment of long-term payable		**(1,994)**	(2,000)
Net cash used in financing activities		**(35,056)**	(74,950)
Net increase/(decrease) in cash and cash equivalents		**70,223**	(12,583)
Cash and cash equivalents at beginning of year		**181,298**	194,797
Effect of foreign exchange rate changes, net		**(731)**	(916)
Cash and cash equivalents at end of year	25	**250,790**	181,298
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**250,790**	181,298

The notes on pages 48 to 103 form part of these financial statements.

1. GENERAL INFORMATION

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

The functional currencies 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 is set out below.

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

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group").

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

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

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors 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 financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

c) Subsidiaries

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(h)).

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and 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 or valuation 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 unexpired lease terms
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 or 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 property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to profit or loss.

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.

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 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 included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(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 property

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(q)(iv).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(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 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 charged to profit or loss on a straight-line basis over the assets' estimated useful life. Both the period and method of amortisation are reviewed annually.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

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;

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

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

— For trade and other receivables, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

h) Impairment of assets – *continued*

ii) Impairment of other assets

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

— property, plant and equipment;

— pre-paid interests in leasehold land classified as being held under operating lease;

— intangible assets; and

— investments in subsidiaries.

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

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

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

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

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

i) Inventories

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

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

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter 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) Interest-bearing borrowings

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

l) Trade and other payables

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

m) Cash and cash equivalents

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

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

n) Employee benefits

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

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

(ii) Termination benefits

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

o) Income tax

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

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

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

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided 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.

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

o) Income tax – *continued*

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.

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

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

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

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

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

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

— the same taxable entity; or

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

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

p) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company 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.

q) Revenue recognition

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES – *continued*

r) Translation of foreign currencies

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

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Items in the statement of financial position are translated into Renminbi 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.

s) Borrowing costs

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

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

t) Government grants

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

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).

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.

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 operative 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. CHANGES IN ACCOUNTING POLICIES

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

- HKAS 24 (revised 2009), Related party disclosures
- Improvements to HKFRSs (2010)
- HK(IFRIC) Int 19, Extinguishing financial liabilities with equity instruments
- Amendments to HK(IFRIC) Int 14, HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement

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

The amendment to HK(IFRIC) Int 14 have had no material impact on the Group's financial statements as they were consistent with policies already adopted by the Group. HK(IFRIC) Int 19 has not yet had a material impact on the Group's financial statements as these changes will first be effective as and when the Group enters a relevant transaction (for example, a debt for equity swap).

The impacts of other developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous periods. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because no entity within the Group is a government-related entity.
- Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, Financial instruments: Disclosures. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

a) 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 charge 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. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

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

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

c) 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, after taking into consideration the net income allowing for reversionary potential.

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

d) Write-downs of inventories

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS – *continued*

e) Impairment on trade and other receivables

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

In considering the impairment losses that may be required for current receivables, future cash flows need to be determined. One of the key assumptions that 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 uncertainty exists and actual uncollectible amounts may be higher than the amount estimated.

f) Provision for sales returns

The franchisees of the Group are allowed (after deducting certain administrative charges, if applicable): (i) to exchange or refund for defective products; (ii) to return products previously purchased upon the termination of the franchise agreement; and (iii) to exchange or 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.

g) Income tax

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

5. TURNOVER

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

	2011	2010
	RMB'000	RMB'000
Sales of goods	**242,256**	187,932
Franchise fee income	**1,745**	1,486
	244,001	189,418

6. OTHER REVENUE AND OTHER NET INCOME

	2011	2010
	RMB'000	RMB'000
Other revenue		
Government grant	**34**	86
Government grant released from deferred income (note 30)	**35**	27
Interest income on financial assets not at fair value through profit or loss - bank interest income	**2,346**	616
PRC VAT refunds (note 9(a)(i))	**12,562**	12,046
Subcontracting income	**—**	22
Rental income from operating leases	**2,613**	1,908
Reversal of impairment loss on other receivables (note 23(a))	**—**	520
Reversal of accrued expenses*	**—**	614
Others	**1,735**	736
	19,325	16,575
Other net income		
Gain on disposal of property, plant and equipment	**41**	—
Change in fair value of investment properties (note 18)	**1,000**	7,150
	20,366	23,725

* The amount represented certain administrative expenses accrued in previous years which were no longer payable and were written back and recognised as other revenue.

7. FINANCE COSTS

	2011 RMB'000	2010 RMB'000
Interest on bank and other borrowings wholly repayable within five years	—	2,169
Imputed interest expense on long-term payable	144	277
Total interest expense on financial liabilities not at fair value through profit or loss	144	2,446

8. PROFIT BEFORE TAXATION

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

	2011 RMB'000	2010 RMB'000
a) Staff costs (including directors' emoluments)		
Salaries and other benefits	37,747	30,189
Contributions to retirement scheme	1,321	961
Total staff costs	39,068	31,150
b) Other items		
Auditor's remuneration	991	960
Amortisation of prepaid lease payments (note 17)	518	518
Amortisation of intangible assets (note 19)	—	125
Cost of inventories (notes 8(b)(i) and 21)	77,091	69,240
Depreciation (note 16)	2,862	3,681
Impairment for intangible assets (note 19)	—	375
Impairment for trade receivables (note 22)	1	4
(Gain)/loss on disposal of property, plant and equipment	(41)	1,913
Operating lease rentals in respect of land and buildings	5,553	7,286
Provision for sales returns (note 28(a))	595	3,687
Write-down of inventories (note 21)	1,807	2,275
Reversal of write-down of inventories (note 21)	(695)	—
Gross rental income from investment properties	(2,613)	(1,908)
Less: Direct outgoings	176	186
Net rental income	(2,437)	(1,722)

Notes:

(i) Cost of inventories includes approximately RMB23,088,000 (2010: RMB19,096,000) relating to staff costs, depreciation and operating lease rentals, which are included in the respective total amounts disclosed separately above.

9. INCOME TAX

a) Taxation in the consolidated income statements represents:

	2011 RMB'000	2010 RMB'000
Current tax		
PRC enterprise income tax (notes 9(a)(i), (ii), (iii) and (iv))	**33,195**	13,519
Hong Kong profits tax (note 9(a)(vi))	**—**	—
Withholding tax on dividends (note 9(a)(vii))	**1,723**	—
	34,918	13,519
Underprovision in prior years, net		
PRC enterprise income tax	**5**	992
Deferred tax		
Distribution of dividends (note 24(b))	**(1,723)**	—
Current year (note 24(b))	**4,588**	4,957
Total	**37,788**	19,468

Notes:

(i) Chongqing City Wan Zhou Qu Ziqiang Muye Company Limited ("Ziqiang Muye"), 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 (the "SAT"), Ministry of Finance of the PRC that with effect from 1 October 2006, Ziqiang Muye 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 income statement on an accrual basis. The amounts of the VAT refunded to the Group during the year are detailed in note 6.

In addition, on 2 November 2006, Ziqiang Muye obtained the SAT's approval for a concessionary income tax rate reduction from 33% to 15% for the five years from 1 January 2006 to 31 December 2010 according to the preferential tax policies granted to companies located in western part of the PRC and involved in national encouraged business activities.

(ii) On 19 May 2010, Chongqing Carpenter Tan Handicrafts Company Limited ("Carpenter Tan"), a wholly-owned subsidiary of the Company, obtained the SAT's approval for a concessionary income tax rate reduction from 25% to 15% for two years for 1 January 2009 to 31 December 2010 according to the preferential tax policies granted to companies located in western part of the PRC and involved in national encouraged business activities.

9. INCOME TAX – *continued*

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

Notes:– *continued*

(iii) Due to the expiry of preferential tax policies from 1 January 2011, the provision for PRC income tax for Ziqiang Muye and Carpenter Tan is calculated on the statutory income tax rate of 25% on their assessable profits.

The Group is uncertain that Ziqiang Muye and Carpenter Tan will be eligible for income tax rate of 15% under the new preferential tax policies granted to companies located in western part of the PRC in accordance with Caisui (2011) No. 58, as the list of national encouraged business activities eligible for Caisui (2011) No. 58 is not yet announced as at the date of this report.

(iv) The provision for PRC income tax is calculated on the assessable profit of the Group's subsidiaries incorporated in the PRC at a statutory income tax rate of 25% (2010: 25%) except that for the year ended 31 December 2010, Ziqiang Muye and Carpenter Tan. Ziqiang Muye and Carpenter Tan were eligible for the income tax concessions according to the tax preferential policies as stated in notes 9(a)(i) and 9(a)(ii).

(v) 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.

(vi) No provision for Hong Kong profits tax has been made for the years ended 31 December 2011 and 2010 as the Group did not have assessable profits subject to Hong Kong profits tax for these years.

(vii) Under the Corporate Income Tax Law of the PRC that with effect from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or 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 from 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 Caisui (2008) No. 1, pursuant to which dividend distributions out of retained earnings of foreign investment enterprises prior to 31 December 2007 will be exempted from withholding income tax. Deferred tax liabilities of RMB4,338,000 (2010: RMB3,170,000) in respect of the withholding income tax on dividends has been recognised by the Group for the year ended 31 December 2011.

Withholding tax on dividends represents tax charged by the PRC tax authority on dividends distributed by the Group's subsidiaries in Mainland China during the year.

9. INCOME TAX – *continued*

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

	2011 RMB'000	2010 RMB'000
Profits before taxation	**131,358**	85,592
Notional tax on profit before tax, calculated at the rates applicable to profits in the relevant tax jurisdiction	**35,224**	22,773
Tax effect of non-deductible expenses	**1,134**	780
Tax effect of non-taxable incomes	**(135)**	(48)
Effect of tax concessions enjoyed by a subsidiary (note 9(a)(i))	**(2,175)**	(1,726)
Effect of concessionary tax rate enjoyed by subsidiaries (note 9(a)(i) and (ii))	**—**	(8,899)
Unrecognised temporary differences	**(602)**	588
Unrecognised tax losses	**711**	1,838
Utilisation of tax losses previously not recognised	**(325)**	—
Utilisation of tax losses	**(387)**	—
Withholding tax on dividends (note 9(a)(vii))	**4,338**	3,170
Underprovision in prior years	**5**	992
Actual tax expenses	**37,788**	19,468

10. DIRECTORS' EMOLUMENTS

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

For the year ended 31 December 2011

Name of director	Directors' fees RMB'000	Salaries, allowance and benefits -in-kind RMB'000	Bonus RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Tan Chuan Hua	—	236	329	55	620
Geng Chang Sheng	80	—	—	—	80
Tan Di Fu	—	207	232	55	494
Independent non-executive directors					
Du Xin Li	80	—	—	—	80
Yu Ming Yang	80	—	—	—	80
Chau Kam Wing, Donald	120	—	—	—	120
Non-executive directors					
Tan Cao	80	—	—	—	80
Liu Chang	80	—	—	—	80
	520	443	561	110	1,634

10. DIRECTORS' EMOLUMENTS – *continued*

For the year ended 31 December 2010

Name of director	Directors' fees RMB'000	Salaries, allowance and benefits -in-kind RMB'000	Bonus RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Tan Chuan Hua	—	331	83	13	427
Geng Chang Sheng	—	87	77	—	164
Tan Di Fu (appointed on 18 August 2010)	—	239	72	13	324
Independent non-executive directors					
Du Xin Li	80	—	—	—	80
Yu Ming Yang	80	—	—	—	80
Chau Kam Wing, Donald	120	—	—	—	120
Non-executive directors					
Tan Cao	80	—	—	—	80
Liu Chang	80	—	—	—	80
	440	657	232	26	1,355

For the years ended 31 December 2011 and 2010, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Company or as compensation for loss of office. None of the directors waived or agreed to waive any remuneration for the years ended 31 December 2011 and 2010.

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group during the year included two directors (2010: two) of the Company whose emoluments are disclosed in note 10 above. Details of the emoluments paid by the Group to the remaining three (2010: three) non-director individuals during the year are as follows:

	2011	2010
	RMB'000	RMB'000
Salaries and other allowances	**510**	652
Bonus	**345**	102
Retirement scheme contributions	**131**	40
	986	794

The emoluments fell within the following band:

	2011	2010
	Number of individuals	Number of individuals
Nil up to HK$1,000,000	**3**	3

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 CODM of the Group, for the purpose of resources allocation and performance assessment.

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

The Group's turnover and results from operations 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 analysis by geographical segment is provided.

Major customers

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

13. DIVIDENDS

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

	2011	2010
	RMB'000	RMB'000
Interim dividends of RMBNil per ordinary share (2010: RMBNil) declared and paid	**—**	—
Final dividend of RMB18.72 cents per ordinary share (2010: RMB13.22 cents) proposed after the end of the reporting period	**46,800**	33,062
	46,800	33,062

The directors recommend the payment of a final dividend of RMB18.72 cents per ordinary share, totaling RMB46,800,000. Such dividend is to be approved by the shareholders of the Company at the Annual General Meeting scheduled to be held on 18 May 2012. These financial statements do not reflect this recommended dividend.

14. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company includes a profit of approximately RMB30,827,000 (2010: loss of RMB2,950,000) which has been dealt with in the financial statements of the Company.

15. BASIC AND DILUTED EARNINGS PER SHARE

a) Basic earnings per share

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

(i) Profit attributable to owners of the Company

	2011	2010
	RMB'000	RMB'000
Earnings used in calculating basic and diluted earnings per share (profit attributable to owners of the Company)	**93,570**	66,124

(ii) Weighted average number of ordinary shares

	Number of shares	
	2011	2010
	'000	'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 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 2011 and 2010.

16. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000 (note 16a)	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2010	17,399	10,562	13,345	4,100	3,514	1,420	50,340
Additions	—	663	557	653	503	800	3,176
Disposals	—	(3,395)	(29)	(589)	(628)	—	(4,641)
Transfer	—	—	155	243	—	(398)	—
Exchange adjustments	—	(21)	—	(2)	—	—	(23)
At 31 December 2010	17,399	7,809	14,028	4,405	3,389	1,822	48,852
At 1 January 2011	17,399	7,809	14,028	4,405	3,389	1,822	48,852
Additions	—	806	210	421	436	392	2,265
Disposals	—	—	(256)	(138)	(140)	—	(534)
Transfer	—	—	216	—	—	(216)	—
Exchange adjustments	—	(54)	—	(4)	—	—	(58)
At 31 December 2011	17,399	8,561	14,198	4,684	3,685	1,998	50,525
Accumulated depreciation							
At 1 January 2010	1,696	2,175	5,844	2,756	2,090	—	14,561
Charge for the year	390	1,438	1,049	479	325	—	3,681
Written back on disposals	—	(1,709)	(29)	(348)	(398)	—	(2,484)
Exchange adjustments	—	(15)	—	(1)	—	—	(16)
At 31 December 2010	2,086	1,889	6,864	2,886	2,017	—	15,742
At 1 January 2011	2,086	1,889	6,864	2,886	2,017	—	15,742
Charge for the year	389	443	1,117	542	371	—	2,862
Written back on disposals	—	—	(256)	(109)	(128)	—	(493)
Exchange adjustments	—	(33)	—	(2)	—	—	(35)
At 31 December 2011	2,475	2,299	7,725	3,317	2,260	—	18,076
Carrying amount							
At 31 December 2011	14,924	6,262	6,473	1,367	1,425	1,998	32,449
At 31 December 2010	15,313	5,920	7,164	1,519	1,372	1,822	33,110

Notes:

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

17. PREPAID LEASE PAYMENTS

The Group

	Land use rights	Land deposits	Total
	RMB'000	RMB'000	RMB'000
	(Note 17b)	(Note 17c)	
Cost			
At 1 January 2010	22,031	750	22,781
Transfer (note 17c)	742	(742)	—
Amount refunded (note 17c)	—	(8)	(8)
At 31 December 2010, 1 January 2011 and 31 December 2011	22,773	—	22,773
Accumulated amoritsation			
At 1 January 2010	1,856	—	1,856
Amortisation for the year	518	—	518
At 31 December 2010	2,374	—	2,374
At 1 January 2011	2,374	—	2,374
Amortisation for the year	518	—	518
At 31 December 2011	2,892	—	2,892
Carrying amount			
At 31 December 2011	19,881	—	19,881
At 31 December 2010	20,399	—	20,399

17. PREPAID LEASE PAYMENTS – *continued*

Notes:

a) Analysed for reporting purposes as follows:

	2011 RMB'000	2010 RMB'000
Current portion	**518**	518
Non-current portion	**19,363**	19,881
	19,881	20,399

b) All the Group's land use rights in the PRC are held under medium-term leases.

c) The land deposits balance of approximately RMB750,000 were for the acquisition of the land use rights in the PRC. The Group obtained the land use right titles in January 2010 at a cost of RMB742,000 and the balance of RMB8,000 was returned from the vendor.

d) On 11 May, 2011, 萬州經濟技術開發區土地儲備中心 issued a resumption notice to Chongqing Carpenter Tan Handicrafts Company Limited ("Carpenter Tan"), a wholly-owned subsidiary of the Company, for the resumption of the land use right of a piece of land in Chongqing City Wanzhou District (the "Land") having a carrying amount of RMB7,450,000 as at 31 December 2011. The Group originally intended to erect a production complex on the Land but no construction activity has commenced up to the date of this report.

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 company that the Land will be resumed by the government and Carpenter Tan will be compensated by exchanging 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 this report. The management expects that the compensation will not be lower than the carrying amount of the prepaid land lease. Since the Group has not commenced the development of the production complex on the Land, there is no adverse and material effect on the trading, business operation, production and financial aspects to the Group relating to the resumption of land.

18. INVESTMENT PROPERTIES

	The Group
	RMB'000
Fair value	
At 1 January 2010	34,650
Change in fair value	7,150
At 31 December 2010	41,800
At 1 January 2011	41,800
Change in fair value	1,000
At 31 December 2011	42,800

a) The fair value of the Group's investment properties as at 31 December 2011 was arrived at on the basis of the valuation carried out on that date by DTZ Debenham Tie Leung Limited, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited have among its employees members of the Hong Kong Institute of Surveyors who have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same location and net rental income allowing for reversionary income potential.

b) The Group's investment properties were situated in the PRC under the following lease term:

	The Group	
	2011	2010
	RMB'000	RMB'000
Medium-term leases	**40,400**	39,400
Long leases	**2,400**	2,400
	42,800	41,800

c) Investment properties leased out under operating leases

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

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

The Group's total future minimum lease receivables under non-cancellable operating leases in respect of investment properties are disclosed in note 34(b)(ii).

19. INTANGIBLE ASSETS

The Group

	Licence RMB'000 (note a)	Trademark RMB'000 (note b)	Total RMB'000
Cost			
At 1 January 2010	500	1,037	1,537
Addition	—	—	—
At 31 December 2010	500	1,037	1,537
At 1 January 2011	500	1,037	1,537
Eliminated on derecognition	(500)	—	(500)
At 31 December 2011	—	1,037	1,037
Accumulated amortisation and accumulated impairment			
At 1 January 2010	—	1,037	1,037
Amortisation	125	—	125
Impairment	375	—	375
At 31 December 2010	500	1,037	1,537
At 1 January 2011	500	1,037	1,537
Eliminated on derecognition	(500)	—	(500)
At 31 December 2011	—	1,037	1,037
Carrying amount			
At 31 December 2011	—	—	—
At 31 December 2010	—	—	—

a) The licence represented the franchise fee paid for operating a restaurant in Chongqing, the PRC. Amortisation expense for 2010 was included in administrative expenses in the consolidated income statement. Due to poor performance, the restaurant ceased operation in December 2010. The franchise fee paid is not recoverable and full impairment loss for the then remaining carrying amount was recognised in the year ended 31 December 2010. In 2011, the management decided to discontinue this business and the licence was derecognised in current year.

b) 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.

20. INTERESTS IN SUBSIDIARIES

	The Company	
	2011	2010
	RMB'000	RMB'000
Investments in unlisted shares at cost	**47**	47
Amounts due from subsidiaries	**84,269**	80,587
	84,316	80,634

Amounts due from subsidiaries are unsecured, interest-free and repayable on demand.

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 and date of incorporation	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Issued/ registered and fully paid-up capital	Principal activities	Legal form
Carpenter Tan (BVI) Holdings Group Co., Ltd ("CTBVI")	British Virgin Islands 2 July 2004	100%	—	USD50,000	Investment holding	Private limited liability company
Hong Kong Carpenter Tan Company Limited ("CTHK")	Hong Kong 10 September 2004	—	100%	HK$1	Investment holding	Private limited liability company
Carpenter Tan Development Company Limited ("CT Development")	Hong Kong 18 March 2008	—	100%	HK$10,000	Retailing sale of small size wooden handicrafts and accessories	Private limited liability company
Chongqing Carpenter Tan Handicrafts Company Limited ("Carpenter Tan")	The PRC 6 March 1997	—	100%	RMB 100,000,000	Design, manufacture and distribution of small size wooden handicrafts and accessories and the operation of a franchise network	Wholly foreign-owned enterprise

20. INTERESTS IN SUBSIDIARIES – *continued*

Name of subsidiary	Place and date of incorporation	Attributable equity interest held by the Company Directly	Attributable equity interest held by the Company Indirectly	Issued/ registered and fully paid-up capital	Principal activities	Legal form
Chongqing City Wan Zhou Qu Ziqiang Muye Company Limited ("Ziqiang Muye")	The PRC 26 February 2004	—	100%	RMB 2,000,000	Manufacture of small size wooden handicrafts and accessories	Domestic enterprise
Beijing Carpenter Tan Handicrafts Company Limited ("Beijing Carpenter Tan")	The PRC 12 November 2008	—	100%	RMB 10,000,000	Property investment	Domestic enterprise

* The Group deregistered four subsidiaries during the year ended 31 December 2011. The four deregistered subsidiaries were Chongqing Carpenter Tan Munan Lifestyle Handicrafts Company Limited, Chongqing Carpenter Tan Chennan Lifestyle Handicrafts Company Limited, Chongqing Carpenter Tan Xiangnan Lifestyle Handicrafts Company Limited and Chongqing Hao Yu Handicrafts Company Limited. All these subsidiaries were engaged in selling of high end home accessories and Chinese style furniture.

21. INVENTORIES

	The Group	
	2011	2010
	RMB'000	RMB'000
Raw materials	**37,790**	35,232
Work-in-progress	**7,637**	6,846
Finished goods	**15,270**	11,135
	60,697	53,213

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

	2011	2010
	RMB'000	RMB'000
Carrying amount of inventories sold	**75,979**	66,965
Write-down of inventories	**1,807**	2,275
Reversal of write-down of inventories	**(695)**	—
	77,091	69,240

During the year, the Group sold inventories which had been written down in prior years. The written-down of RMB695,000 made in prior year was therefore reversed in current year.

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:

	The Group	
	2011	2010
	RMB'000	RMB'000
Trade receivables	**1,270**	1,178
Less: Allowance for doubtful debts (note 22(b))	**(8)**	(7)
	1,262	1,171

22. TRADE RECEIVABLES – *continued*

a) Ageing analysis of trade receivables is as follows:

	The Group	
	2011	2010
	RMB'000	RMB'000
0 to 30 days	**1,118**	865
31 to 60 days	**19**	197
61 to 90 days	**38**	40
91 to 180 days	**23**	34
181 to 365 days	**32**	21
Over 1 year	**40**	21
	1,270	1,178

b) Movements in the allowance account for doubtful debts

Impairment losses 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:

	The Group	
	2011	2010
	RMB'000	RMB'000
At 1 January	**7**	3
Impairment loss recognised	**1**	4
At 31 December	**8**	7

Impairment of trade receivables are considered individually by reference to their ageing and their recoverability. The Group does not hold any collateral over these balances.

22. TRADE RECEIVABLES – *continued*

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

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

	The Group	
	2011	2010
	RMB'000	RMB'000
Past due but not impaired		
31 to 60 days past due	**19**	197
61 to 90 days past due	**38**	40
91 to 180 days past due	**23**	34
181 to 365 days past due	**32**	21
More than 1 year past due	**32**	14
	144	306
Neither past due nor impaired	**1,118**	865
	1,262	1,171

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

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other receivables	**2,821**	3,565	**—**	1,493
Less: Allowance for doubtful debts (note 23(a))	**—**	—	**—**	—
	2,821	3,565	**—**	1,493
Trade and other deposits	**3,428**	2,427	**—**	—
Prepayments	**306**	1,306	**—**	—
VAT and other non-income tax recoverable	**1,021**	1,108	**—**	—
	7,576	8,406	**—**	1,493

a) Movements in allowance account for doubtful debts

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

A reversal of approximately RMB520,000 was made in 2010 when the debts which were previously impaired were recovered during 2010.

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

	The Group	
	2011	2010
	RMB'000	RMB'000
At 1 January	**—**	520
Reversal of impairment loss recognised in prior year	**—**	(520)
At 31 December	**—**	—

24. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	The Group	
	2011	2010
	RMB'000	RMB'000
Provision for the year	**33,195**	13,519
Underprovision in prior years, net	**5**	992
	33,200	14,511
Tax paid	**(19,942)**	(11,901)
	13,258	2,610
Balance of provision for income tax related to prior years	**4,939**	2,329
Net income tax payable	**18,197**	4,939

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:

	The Group			
	Revaluation surplus of land and buildings	**Fair value changes in investment properties**	**Withholding tax on dividends**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	574	1,896	3,672	6,142
Charge to consolidated income statement for the year (note 9(a))	—	1,787	3,170	4,957
At 31 December 2010	574	3,683	6,842	11,099
At 1 January 2011	574	3,683	6,842	11,099
Release upon distribution of dividends (note 9(a))	—	—	(1,723)	(1,723)
Charge to consolidated income statement for the year (note 9(a))	—	250	4,338	4,588
At 31 December 2011	574	3,933	9,457	13,964

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

c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of accumulative tax losses of RMB23,547,000 (2010: RMB19,252,000) 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 RMB9,203,000 (2010: RMB6,670,000) which do not expire under current tax legislation.

25. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows	**250,790**	181,298	**6,747**	14,990

Bank balances carry interest at market rates ranging from 0.5% to 3.1% (2010: 0.1% to 1.2%).

As at 31 December 2011, the balances that were placed with banks in PRC amounted to RMB239,351,000 (2010: RMB162,605,000). Remittance of funds out of the PRC is subject to the exchange controls imposed by the PRC government.

26. AMOUNTS DUE TO SUBSIDIARIES

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

27. TRADE PAYABLES

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

	The Group	
	2011	2010
	RMB'000	RMB'000
0 to 30 days	**1,693**	2,227
31 to 60 days	**164**	251
61 to 90 days	**1**	74
91 to 180 days	**49**	9
181 to 365 days	**20**	374
Over 1 year	**78**	74
	2,005	3,009

28. OTHER PAYABLES AND ACCRUALS

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other payables and accruals	**5,642**	5,142	**1,172**	922
Current portion of long-term payable (note 29)	**—**	1,851	**—**	—
	5,642	6,993	**1,172**	922
Provision for sales returns (note 28(a))	**4,282**	3,687	**—**	—
VAT and other non-income tax payables	**3,413**	1,810	**—**	—
Trade deposits received	**5,972**	5,599	**—**	—
	19,309	18,089	**1,172**	922

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

	2011	2010
	RMB'000	RMB'000
At 1 January	**3,687**	—
Addition during the year	**595**	3,687
At 31 December	**4,282**	3,687

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 during the year.

29. LONG-TERM PAYABLE

	The Group	
	2011	2010
	RMB'000	RMB'000
Long-term payable	**—**	1,851
Current portion (note 28)	**—**	1,851
Non-current portion	**—**	—
	—	1,851

29. LONG-TERM PAYABLE– *continued*

Long-term payable is repayable as follows:

	The Group	
	2011	2010
	RMB'000	RMB'000
Within 1 year	**—**	1,851

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

Prior to 21 July 2008, the balance of the consideration was payable between 2002 to 2021 by twenty annual instalments. On 21 July 2008, Carpenter Tan and the Creditor entered into a supplementary repayment agreement pursuant to which the then outstanding balance as at 21 July 2008 of approximately RMB7,994,000 was to be repaid by three equal annual installments of RMB2,000,000 each in 2008, 2009 and 2010 and the balance of approximately RMB1,994,000 was to be fully settled in 2011.

The long-term payable was unsecured and interest-free and had been discounted to its present value at an effective interest rate of 7.74%.

30. DEFERRED INCOME

Deferred income represents government grant received by the Group. The grant aimed to subsidise the Group for purchasing certain property, plant and equipment. Government grant is recognised as income over the useful lives of the relevant assets. During the year, the entire grant was spent for its intended purpose and the deferred income of RMB35,000 (2010: RMB27,000) was released to profit or loss.

31. SHARE CAPITAL

The Company

	Number of shares	**Amount**	**Amount equivalent to**
		HK$'000	RMB$'000
Ordinary shares of HK$0.01			
Authorised:			
At 31 December 2010, 1 January 2011 and 31 December 2011	10,000,000,000	100,000	87,926
Issued and fully paid:			
At 31 December 2010, 1 January 2011 and 31 December 2011	250,000,000	2,500	2,200

31. SHARE CAPITAL – *continued*

(a) Authorised share capital of the Company

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

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

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

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

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

	2011 **RMB'000**	2010 RMB'000
Non-current liabilities		
Long-term payable	**—**	—
Total debt	**—**	—
Add: Proposed final dividends	**46,800**	33,062
Less: Cash and cash equivalents	**(250,790)**	(181,298)
Net debt	**N/A**	N/A
Total equity	**361,063**	301,309
Less: Proposed final dividends	**(46,800)**	(33,062)
Adjusted equity	**314,263**	268,247
Net debt to equity ratio	**N/A**	N/A

32. RESERVES

The Group

	Attributable to owners of the Company							
	Share premium RMB'000 (note a)	Capital reserve RMB'000 (note b)	Statutory reserves RMB'000 (note c)	Other reserves RMB'000 (note d)	Property revaluation reserve RMB'000 (note e)	Currency translation reserve RMB'000 (note f)	Retained profits RMB'000	Total RMB'000
At 1 January 2010	114,674	2,767	65,454	17,738	1,723	304	54,198	256,858
Profit for the year	—	—	—	—	—	—	66,124	66,124
Exchange differences on translation of financial statements of foreign operations	—	—	—	—	—	(923)	—	(923)
Total comprehensive income for the year	—	—	—	—	—	(923)	66,124	65,201
Dividends	—	—	—	—	—	—	(22,950)	(22,950)
Transfer to reserve	—	—	13,652	—	—	—	(13,652)	—
At 31 December 2010	114,674	2,767	79,106	17,738	1,723	(619)	83,720	299,109
At 1 January 2011	114,674	2,767	79,106	17,738	1,723	(619)	83,720	299,109
Profit for the year	—	—	—	—	—	—	93,570	93,570
Exchange differences on translation of financial statements of foreign operations	—	—	—	—	—	(754)	—	(754)
Total comprehensive income for the year	—	—	—	—	—	(754)	93,570	92,816
Dividends	—	—	—	—	—	—	(33,062)	(33,062)
Transfer to reserve	—	—	18,279	—	—	—	(18,279)	—
At 31 December 2011	114,674	2,767	97,385	17,738	1,723	(1,373)	125,949	358,863

32. RESERVES – *continued*

The Company

	Attributable to owners of the Company			
	Share premium	Currency translation reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000
	(note a)	(note f)		
At 1 January 2010	114,674	1,050	(1,095)	114,629
Loss for the year	—	—	(2,950)	(2,950)
Exchange differences on translation of financial statements of foreign operations	—	(3,199)	—	(3,199)
Total comprehensive income for the year	—	(3,199)	(2,950)	(6,149)
Dividends	—	—	(22,950)	(22,950)
At 31 December 2010	114,674	(2,149)	(26,995)	85,530
At 1 January 2011	**114,674**	**(2,149)**	**(26,995)**	**85,530**
Profit for the year	**—**	**—**	**30,827**	**30,827**
Exchange differences on translation of financial statements of foreign operations	**—**	**(3,669)**	**—**	**(3,669)**
Total comprehensive income for the year	**—**	**(3,669)**	**30,827**	**27,158**
Dividends	**—**	**—**	**(33,062)**	**(33,062)**
At 31 December 2011	**114,674**	**(5,818)**	**(29,230)**	**79,626**

32. RESERVES – *continued*

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.

c) Statutory reserves

The statutory reserves include the following reserves in the PRC:

i) Statutory surplus reserve

The PRC subsidiaries of the Group are required to transfer 10% of the profit after tax, as determined under the PRC accounting rules and according to their articles of associations, to the statutory surplus reserve until the balance reaches 50% of their registered capital. The transfer to this reserve must be made before distributing dividends to shareholders. The reserve can be used to make up for previous years' losses, expand the existing operations or convert into additional capital of the subsidiaries. In 2010, the Company's wholly-owned subsidiary Chongqing Carpenter Tan Handicrafts Company Limited ("Carpenter Tan") increased its registered capital to RMB100,000,000. An additional amount of RMB11,684,000 (2010: RMB7,606,000), being 10% of Carpenter Tan's profit before appropriation for the year, was transferred to this reserve in accordance with the provisions set above. As the other PRC subsidiaries of the Group either had a loss for the years ended 31 December 2010 and 2011 or their respective statutory surplus reserves have reached 50% of their respective registered capital, the other PRC subsidiaries did not make any transfer of their profit to this reserve for the year ended 31 December 2010 and 2011 accordingly.

ii) Enterprise development and staff welfare funds

Pursuant to regulations in the PRC, the Company's wholly-owned subsidiary Ziqiang Muye, which is registered as a social welfare enterprise in the PRC, is required to transfer 50% and 20% of its tax concessions of value-added tax, as further detailed in note 9(a)(i), to the enterprise development fund and staff welfare fund respectively. The transfer to these funds must be made before distributing dividends to shareholders. The funds can be used for the enterprise development and the staff welfare only and are not available for distribution to shareholders. The Group transferred approximately RMB6,595,000 (2010: RMB6,046,000) of its net profit to these funds for the year ended 31 December 2011.

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.

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).

f) Currency translation reserve

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

g) Distributable reserves

Distributable reserves of the Company as at 31 December 2011 was RMB85,444,000 (2010: RMB87,679,000).

33. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	The Group	
	2011	2010
	RMB'000	RMB'000
Financial assets		
Trade receivables	**1,262**	1,171
Other receivables	**2,821**	3,565
Bank balances and cash	**250,790**	181,298
Loans and receivables (including cash and cash equivalents)	**254,873**	186,034
Financial liabilities		
Trade payables	**2,005**	3,009
Other payables	**5,642**	6,993
Financial liabilities at amortised cost	**7,647**	10,002

b) Financial risk management objectives and policies

Details of the Group's financial instruments as stated in note 33(a) are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

33. FINANCIAL INSTRUMENTS – *continued*

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

i) *Currency risk*

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

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

	2011	2010
	RMB'000	RMB'000
Assets		
HK$	**12,220**	21,291
US$	**1,638**	482
Euro	**88**	69
	13,946	21,842
Liabilities		
HK$	**1,449**	1,212
US$	**—**	—
Euro	**—**	—
	1,449	1,212

33. FINANCIAL INSTRUMENTS – *continued*

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

i) *Currency risk* – continued

Sensitivity analysis

The Group is mainly exposed to Hong Kong Dollars ("HK$"), United States Dollars ("US$") and Euro ("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 equity, and the balance below would be negative.

	2011		2010	
	Effect on profit after tax and retained profits RMB'000	**Effect on other components of equity RMB'000**	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
HK$	**92**	**447**	115	888
US$	**65**	**16**	7	18
Euro	**1**	**3**	1	—
	158	**466**	123	906

33. FINANCIAL INSTRUMENTS – *continued*

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

ii) Interest rate risk

The Group is exposed to interest rate risk mainly from bank deposits (see note 25) of the Group. Bank deposits expose the Group to cash flow interest rate risk. 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.

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 after tax and retained profits for the year ended 31 December 2011 would increase by approximately RMB2,506,000 (2010: RMB1,811,000). An equal and opposite impact on the Group's profit for the respective years would result if the interest rates had been 100 basis points lower.

iii) Credit risk

As at 31 December 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arising from the carrying amounts of the respective recognised financial assets as stated in note 33(a).

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 of the Company review the recoverable amount of each individual debt regularly to ensure that adequate impairment losses are recognised for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk of the Group's 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.

33. FINANCIAL INSTRUMENTS – *continued*

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

iv) *Liquidity risk*

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

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

	Weighted average effective interest rate	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 2010							
Trade payables	—	3,009	—	—	—	3,009	3,009
Other payables (excluding current portion on long-term payable)	—	5,142	—	—	—	5,142	5,142
Long-term payable (including current portion on long-term payable)	7.74%	1,994	—	—	—	1,994	1,851
		10,145	—	—	—	10,145	10,002

33. FINANCIAL INSTRUMENTS – *continued*

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

iv) Liquidity risk – continued

	Weighted average effective interest rate	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 2011							
Trade payables	—	2,005	—	—	—	2,005	2,005
Other payables	—	5,642	—	—	—	5,642	5,642
		7,647	—	—	—	7,647	7,647

c) Fair value

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

34. COMMITMENTS

a) Capital commitments

At 31 December 2011, capital commitments not provided for in the financial statements were as follows:

	2011 **RMB'000**	2010 RMB'000
Contracted but not provided for in respect of		
– property, plant and equipment	**140**	1,496

34. COMMITMENTS – *continued*

b) Operating lease commitments

i) At 31 December 2011, the total future minimum lease payables under non-cancellable operating leases in respect of premises are as follows:

	2011	2010
	RMB'000	RMB'000
Within one year	**5,459**	3,408
After one year but within five years	**7,226**	162
	12,685	3,570

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

The above lease commitments represent basic rents only and do not include contingent rental payable in respect of a retail shop leased by the Group. In general, these contingent rents are calculated with reference to 15% to 20% of the retail shop's turnover 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.

(ii) The Group leases out investment properties under operating lease. The leases were negotiated for terms ranging from 1 to 3 years. None of the lease include contingent rental. At 31 December 2011, the total future minimum lease receivables under non-cancellable operating leases in respect of premises are as follows:

	2011	2010
	RMB'000	RMB'000
Within one year	**2,326**	1,808
After one year but within five years	**1,871**	963
	4,197	2,771

35. RELATED PARTY TRANSACTIONS

a) Except for those disclosed elsewhere in these financial statements, the Group had balances due from related parties as at 31 December 2011 as follows:

	2011					2010				
	Trade RMB'000	Non-trade RMB'000	Total RMB'000	Balance at beginning of year RMB'000	Balance at end of year RMB'000	Trade RMB'000	Non-trade RMB'000	Total RMB'000	Balance at beginning of year RMB'000	Balance at end of year RMB'000
Directors and key management members										
Geng Chang Sheng	–	–	–	–	–	–	–	–	14	–
Su Jian Ping	–	–	–	–	–	–	–	–	131	–
Total due from related parties	–	–	–	–	–	–	–	–	145	–

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

	2011 RMB'000	2010 RMB'000
Directors and key management members		
Geng Chang Sheng	—	14
Su Jian Ping	—	131

c) Key management compensation

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

	2011 RMB'000	2010 RMB'000
Short-term employee benefits	**2,379**	2,083
Retirement scheme contributions	**241**	66
	2,620	2,149

Notes:

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

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

36. ULTIMATE HOLDING COMPANY

At 31 December 2011, the directors consider the ultimate holding company of the Company to be Lead Charm Investments Limited, a company incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

37. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the HKICPA has issued the following Amendments, new Standards and Interpretations which are not yet effective for the year ended 31 December 2011.

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

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK (IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2013.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 January 2012.
[5] Effective for annual periods beginning on or after 1 July 2012.
[6] Effective for annual periods beginning on or after 1 January 2014.

37. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011 – *continued*

HKFRS 9 Financial Instruments issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of the new Standard will have a signficant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group's disclosures regarding transfers of trade receivables previously effected. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

The amendments to HKAS 12 titled *Deferred Tax: Recovery of Underlying Assets* mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property.* Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances.

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

FINANCIAL SUMMARY

	Year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Turnover	**244,001**	189,418	139,791	108,656	123,169
Profit before taxation	**131,358**	85,592	57,758	32,185	48,332
Income tax	**(37,788)**	(19,468)	(11,836)	(6,311)	(6,866)
Profit for the year	**93,570**	66,124	45,922	25,874	41,466
Attributable to					
Owners of the Company	**93,570**	66,124	45,922	25,874	41,515
Minority interests	**—**	—	—	—	(49)
Assets and liabilities					
Total assets	**415,455**	339,397	343,093	203,167	159,973
Total liabilities	**(54,392)**	(38,088)	(84,035)	(92,541)	(46,650)
Minority interests	**—**	—	—	—	—
Equity attributable to owners of the Company	**361,063**	301,309	259,058	110,626	113,323

Note:

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