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

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

Annual Report
2013

* For identification purpose only

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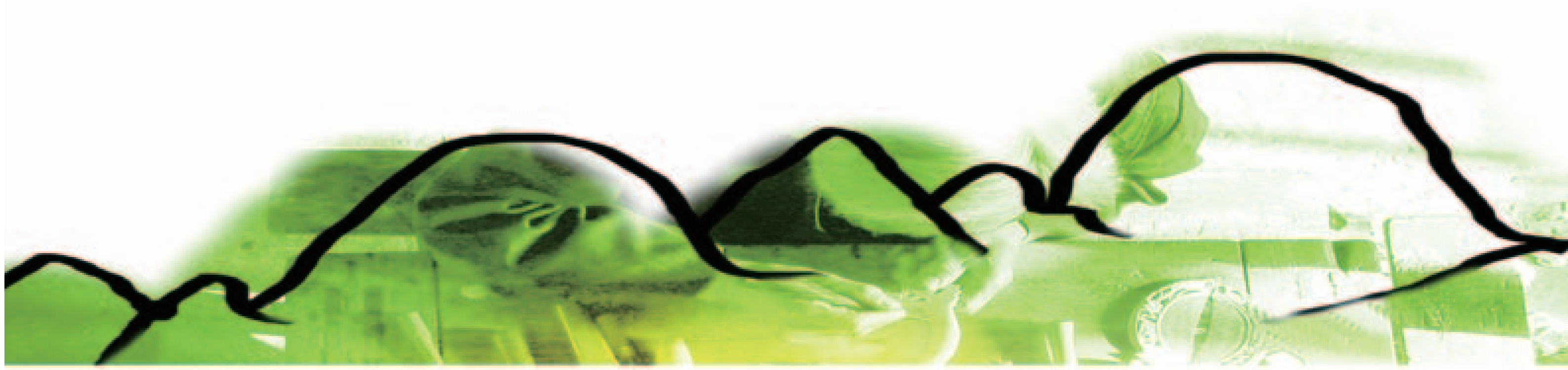

CORPORATE INFORMATION

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 *CA*

AUTHORISED REPRESENTATIVES

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

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HEADQUARTERS

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The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609, Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
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PRINCIPAL BANKERS

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The PRC

Agricultural Bank of China
Wanzhou Fen Hang Ying Ye Bu
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The PRC

AUDITOR

Crowe Horwath (HK) CPA Limited
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LEGAL ADVISORS TO THE COMPANY

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Hong Kong

STOCK CODE

837

COMPANY WEBSITE

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FINANCIAL HIGHLIGHTS

	For the year ended 31 December		% of
	2013	2012	Increase/
	RMB'000	RMB'000	(decrease)
Financial Highlights			
Turnover	**280,913**	271,966	3.3%
Cost of sales	**(92,596)**	(89,950)	2.9%
Gross profit	**188,317**	182,016	3.5%
Profit before taxation	**157,139**	142,291	10.4%
Profit attributable to owners	**125,856**	126,162	(0.2)%
Basic earnings per share (RMB cents)	**50.34**	50.46	(0.2)%
Proposed final dividend per share (HK cents)	**32.02**	31.26	2.4%
Liquidity and Gearing			
Current ratio(1)	**4.51**	10.93	(58.7)%
Quick ratio(2)	**3.98**	9.30	(57.2)%
Gearing ratio(3)	**10.4%**	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 total assets multiplied by 100%.

CHAIRMAN'S STATEMENT

Dear Shareholders,

I, on behalf of the board of directors (the "Board"), am pleased to present the annual report of Carpenter Tan Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2013 (the "Year Under Review") to the shareholders for your review.

Although the recovery in global economy remained slow in the year of 2013, central banks around the world took easing monetary policies to stimulate the growth of domestic economy. The growth of economy in China also slowed down due to the restructuring of the economy. However, it was still a year of steady growth for the Group, with opportunities arising from changes.

The total retail sales of consumer goods reached RMB2.4 billion in 2013, representing an increase of more than 13% as compared to the previous year. There had been steady growth in the retail industry across the country as a whole. Whilst traditional retail business continued to suffer from the impact of e-commerce, offline e-commerce models are emerging.

Leveraging such steady growth of China's market sales, the Group captured market opportunities by operating in a prudent manner to pursue growth while maintaining stability brought by the advent of major transformation in marketing and the emergence of e-commerce era. Apart from controlling the number of new stores, more investments were placed at e-commerce. By focusing on developing second and third-tier cities that are economically more developed, the Group was enabled to record continuously steady growth in business development and financial results.

SUSTAINABLE GROWTH IN RESULTS OF OPERATION WHILE MAINTAINING STABILITY

During the Year Under Review, with its sound business development strategies and effective implementation, the Group recorded a turnover of approximately RMB280,913,000 for the year ended 31 December 2013, representing an increase of 3.3% as compared to the previous year. Of which, turnover of combs was approximately RMB75,589,000, accounting for 26.9% of total turnover of the Group, turnover of box sets was approximately RMB190,275,000, accounting for 67.7% of total turnover of the Group, while turnover of mirrors was approximately RMB2,569,000, accounting for 0.9% of total turnover of the Group. Profit attributable to shareholders was approximately RMB125,856,000, representing a slight decrease of 0.2% as compared to the previous year. The overall gross profit margin increased to 67.0%. Earnings per share was RMB50.34 cents, representing a slight decrease of 0.2% as compared to the previous year. The Board believes that the outstanding performance was attributable to the long-term support from our shareholders. In order to express its gratitude for the support of our shareholders, the Board has recommended the payment of a final dividend of HK$32.02 cents per share for the financial year ended 31 December 2013, representing a total payout ratio of 50% of the profit for the year or 55% of the distributable profit of the Company (after deducting the non-distributable statutory reserve of RMB11,334,000 for the year ended 31 December 2013). The Board believes that the strong financial position and cash flow of the Group will continue to support the long-term development needs of the Company.

CHAIRMAN'S STATEMENT

OPTIMAL DISTRIBUTION OF SALES OUTLETS

During the Year of 2013 Under Review, due to the slowing global economy growth as well as the instability in the economy, the growth of China's economy and domestic demand had been sluggish. Faced with the operating environment of slowdown in the traditional retailing industry and the rapid rise of e-commerce channels, the Group optimized its distribution on the number of new stores and the features of different regions. Assessment on the franchisee was enhanced and strict selection were conducted on new franchisees. Franchisees and franchise stores falling behind the targets were restricted and proactively removed. More emphasis were also placed on strengthening the coverage of small and medium cities that are more economically developed. After a round of orderly adjustment and expansion, as at 31 December 2013, the Group has 1,427 franchise shops in China, of which 15 were new modern shops (flagship shops), covering every first tier and rapidly growing cities in China.

As our business grew, the Group continued to devote its efforts in developing businesses at the overseas market, mainly by adopting the strategy of combining agents, distributors, franchise shops and authorized online sales and focusing on supporting the operation of general distribution and existing franchise shops. These initiatives assisted overseas customers in improving their operation and performance, which enhanced the success rate from operating at overseas market and thus ensuring the continuous and sound development in overseas market. As at 31 December 2013, the Group had a total of 6 overseas franchise shops and 7 directly-operated outlets. Carpenter Tan products have been sold to a number of overseas countries or regions including Germany, Unite Kingdom, France, Spain, Australia, US, Canada, Japan and Taiwan.

ACTIVELY DEVELOPING E-COMMERCE BUSINESS

During the Year Under Review,the e-commerce business of the Group developed in a rapidly manner. On the basis of the existing Lynx Mall, Jingdong Mall, Amazon and Dangdang mall, three new network platforms, namely, Mall Shop No. 1, Suning Tesco, CCB good financial business mall, were added during 2013 and have been operating in good condition. Meanwhile, the Group launched a new brand specifically for online sales, with an aim to expand the groups of young consumers and e-commerce market.

ENHANCE THE MANAGEMENT LEVEL

The Group continued to strengthen its management over the franchise stores in 2013. By leveraging on comprehensive information management, the sales and inventory conditions in terms of franchise stores, cities and regions at different periods were being monitored and an efficient operation was attained. In addition, we also arranged relevant staff to inspect the franchise stores on a regular basis, to experience and make evaluations, through which the unified image and service levels of the franchise stores were assured. The Group conducts training for new franchisees that last for a week regularly for each quarter. Through training, the franchisee team as well as the brand and service awareness was improved.

With high quality being achieved in the standard of management, the Group received the title of "2013 China's most valuable brand" jointly awarded by RREEF Global Ranking and Beijing Famous-Brand Evaluation Co., Ltd. and "Best Small and Medium Listed Company Award" of China Securities Golden Bauhinia Awards awarded by Ta Kung Pao in Hong Kong. These awards demonstrated our operational excellence in brand strategy and market performance.

CHAIRMAN'S STATEMENT

FUTURE PROSPECTS

In the coming year, although the retail industry in China is still facing a number of uncertainties, such as the slowdown in the growth of the economy, decline in demographic bonus, rise in basic cost factor, being a renowned brand in the small wooden products industry, the Group is still occupying a leading position in the wooden combs market and is having a comprehensive coverage of online and offline sales network. These endeavours will provide huge space in the market for its brand development.

The Group will adhere to the brand characteristics of traditional Chinese culture. With responsive market sense and a wealth of industry experience, the Group will proactively explore into terminal sales network. Through zealous combination with e-commerce marketing means, the Group will consolidate and enhance its leading position in the retail and high-end wooden products industry in China.

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

Mr. Tan Chuan Hua
Chairman of the Board

Hong Kong, 28 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In 2013, global economy environment was lack of growth engine. The central banks of Europe, United States and Japan implemented loose monetary policies to support the internal economic growth. The structural adjustments of economy in China resulted in a stabilizing-to-slowdown growth trend in the gross domestic product. The annual total retail sales of consumer goods in China amounted to RMB2.4 billion, representing an increase of 13% over the previous year. The growth rate was approximately 1% lower than that of last year. As the adverse impact of the e-commerce has slowed down the growth of traditional retail sector, online and offline retail enterprises have gradually changed their strategies from confrontation to cooperation, and the trend of cooperation is increasingly obvious. In the meantime, as the rent of retail property in the first and second tier cities was increasing, mainstream retail brands rapidly expanded their business to the third and fourth tier cities. Despite the challenging market environment, people's living standard and their concern about life essentials are increasing, hence, there are still great market potentials for the wooden crafts which become popular as daily necessities with artistic appreciation value.

Amid the advent of major marketing transformation and the era of e-commerce, the Group adjusted its operations in a steady and prudent manner. The Group dedicated significant resources to brand marketing, controlled the number of new shops, increased its investment in e-commerce and recorded notable results. During the Reporting Period, the Group kept abreast of the market, strengthened its core commercial areas in the first and second tier cities and focused on development in more economically developed second and third tier cities. Currently, all the franchised shops of the Group have implemented systematic management, in order to fully enhance the retail network of the Group and to achieve business growth.

BUSINESS REVIEW

1. Retail outlets

The Group has developed a well-established distribution and retail network in the PRC and abroad by operating the franchise programme and directly-operated outlets. During the Year Under Review, in response to changes in macroeconomic environment, the Group adjusted retail outlets promptly by closing 154 under performing outlets and opened 165 outlets. The increase of the new outlets will help the Group to enhance profitability. As at 31 December 2013, the Group had 1,427 franchised shops in the PRC, 6 franchised shops in other countries and regions and 7 directly-operated outlets in Hong Kong. The following table sets out the number of the Group's franchised outlets and directly-operated outlets:

MANAGEMENT DISCUSSION AND ANALYSIS

Number of shops

	For the year ended 31 December			
	2013		2012	
	Franchise shops	**Directly-operated outlets**	Franchise shops	Directly-operated outlets
Hong Kong	0	7	0	6
PRC	1,427	0	1,416	0
Other countries and regions	6	0	7	0
Total	1,433	7	1,423	6

MANAGEMENT DISCUSSION AND ANALYSIS

2. **Sales network**

The PRC market

Under the operating circumstances of slow development in traditional retail sector and the rapid emerging of e-commerce channel, the Group strictly controlled its number of new shops to optimize resources allocation, refined the assessment of the franchisees, adopted strict sourcing procedures for new franchisees, restricted and eliminated underperformed franchisees and franchise shops, as well as, focused on strengthening the coverage of more economically developed medium- and small-sized cities. As at 31 December 2013, the number of franchise shops of the Group in the PRC amounted to 1,427. Fifteen new modern shops (model shops) were established in Beijing, Tianjin, Chongqing, Shanghai, Shenzhen, Shenyang, Chengdu, Kunming and Guiyang.

As for the strategic layout in first-tier cities, the Group focused on developing core commercial areas and new integrated shopping malls to secure the image display function of the shops in core commercial areas, expanding to the surrounding commercial areas, and gradually realized full coverage of new integrated shopping malls. In second-tier cities, the Group also focused on developing the centre of the core business district to secure more than two franchised shops in the core commercial areas of second-tier cities. In third-tier cities, the Group will select cities with better economic fundamentals for trial launches, in order to secure the shops' image and profitability and then expand its business to the surrounding areas.

Overseas market

The Group continued its business expansion in overseas market. As at 31 December 2013, the Group established a total of 13 franchised shops in overseas market, including seven in Hong Kong, three in Singapore and three in Canada. The Group expanded its businesses by conducting sales through agents and general distributors. The products under the brand name "Carpenter Tan" has been sold in various overseas countries and regions, including Germany, United Kingdom, France, Spain, Australia, United States, Canada, Japan and Taiwan.

E-commerce

During the Year Under Review, the business of the Group's e-commerce unit developed rapidly. In 2013, the Group established three online networks (namely 1mall, Suning Tesco and CCB good financial business mall) on the basis of the original platform of T-mall, Jingdong mall, Amazon and Dangdang mall, and recorded satisfactory operating conditions. At the same time, the Group launched new brands for online sales only, for the purpose of expanding young consumer group and e-commerce market.

3. Sales management

The Group continued to enhance the management of franchised shops, in order to achieve efficient operation. All franchised shops adopted the Point of sale ("POS") system for orders, returns, enquires and sales, and uploaded the sales data on time and conducted monthly stocktaking. The comprehensive information management allowed the Group to monitor the sales and inventory of franchised shops, cities, and regions at any time, and access to the information. Moreover, the Group assigned relevant staff to the franchised shops to provide on-site training, inspection, supervision and assessment, to ensure a uniform image and service level of the franchised shops.

4. Products

As at 31 December 2013, Carpenter Tan has launched a total of 600 products, comprising of 159 lockets, 297 box sets, 33 mirrors, 84 accessories and 27 limited and regional editions. During the Reporting Period, the Group launched a total of 59 new products, comprising of 45 box sets, 4 lockets and 10 accessories.

In May 2013, the Group launched online sale of a brand on the platform of T-mall under Alibaba Group. The core positioning, target customers of which are young consumer group born in 1980s and 1990s, is the integration of innovation and playfulness, with a view to satisfy demands from different consumer groups via products with characteristics of advocating personalization. The brand proactively interacted with the end-customer market. Since the development of the products, 156 designs have been assessed and over 100 new products have been launched successfully.

5. Development and design

The Group has been placing great emphasis on new product development and design. The Group has established a technology centre in Wanzhou, Chongqing municipality, which is responsible to study on the maintenance technology and stabilization of wood. The Group's technology centre has been granted the status of "Municipal Technology Centre" (省級技術中心) by Chongqing Municipal Government since 2005. The Centre's R&D achievements with regard to the improvement of craftsmanship and the development of technology in 2013 were as follows:

(i) To retain moisture for the processed logs by sealing wax on its surface and ends, and to cover plastic films on the profiles of processed logs before drying, so as to reduce deforming and cracking caused by water loss and enhance the utilization of the materials.

(ii) To improve the craftsmanship in drying materials, so as to reduce deforming, cracking and decay during the process of dying, decrease internal stress of the materials and effectively improve the processing quality.

(iii) To adopt technology for maintaining consistency of weather resistance of wood, and develop two technologies which effectively prevent the products from deforming and cracking.

(iv) Undergoing the study of maintenance and control of inherent hydraulic balance after drying the materials, with the objective to reduce the sensitivity of materials to the changing ambient temperature and humidity, and minimize the possibility of deforming and cracking caused by environmental climate changes.

6. Production

As at 31 December 2013, the Wanzhou Factory of the Group had a total of 739 full-time production staff and the main products were combs and mirrors. Actual output and comparison with the corresponding period last year are set out as below:

Actual Production (Pieces)

	For the year ended 31 December	
	2013	2012
Combs	**3,878,000**	3,986,000
Mirrors	**847,000**	851,000
Total	**4,725,000**	4,837,000

7. Marketing and promotion

The Group attaches great importance to marketing and promotion. During the Year Under Review, the Group organized a series of promotion, advertising and brand building campaigns which effectively enhanced the awareness and brand image of the Group in the community. The Group published approximately 400,000 comic books of the brand via different channels and circulated to over 1.6 million person-time. As for the online activities, the Group launched various activities on Weibo, such as “Seeking for Good-looking Hairstyles in China” (尋找中國好髮型), “A Christmas Gift from Carpenter Tan” (譚木匠的聖誕禮物) and “You are My Main Character” (你是我的主角), with a total browsing rate of 6.6 million people. Also, the effective online and offline interaction as a result of a large-scale social welfare campaign, “To Comb Mum’s hair” (給媽媽梳頭), received enthusiastic response and a total of 200,000 people participated in the campaign.

MANAGEMENT DISCUSSION AND ANALYSIS

8. Awards and accreditation

During the Year Under Review, the Group received several important awards, including the membership certification of "China Chain Store & Franchise Association" issued by China Chain Store & Franchise Association, the title of "National Welfare Enterprises Demonstration Unit" awarded by China Association of Social Welfare, as well as "Chongqing Labor Medal" granted by China Chongqing General Union to Mr. Tan Chuan Hua in recognition of our advanced business management as well as the contribution to social welfare. In addition, the Group was elected as "2013 China's Most Valuable Brands" by RREEF Global Rankings and Beijing Famous-brand Evaluation Co., Ltd. and was honored with "The China Securities Golden Bauhinia Awards: The Best Public Company" by Hong Kong Ta Kung Pao, which demonstrated our remarkable brand building strategies and market performance. On the product front, the Group also received three product awards from the Organizing Committee of the Sixth China (Chongqing) Crafts, Gifts and Home Decorations Expo. The winning entries are namely "Three Gorges Soul" (三峽魂), which is a carving comb made by Cao Jing You; "Feast" (金玉滿堂) which is a crafted carving comb made by Cui Xiong Wen, and "Fishermen Homecoming" (漁者歸來), which is a crafted carving comb made by Yu Da Hong. These products fully demonstrated the Group s leading position in design capabilities within the industry as well as its superb craftsmanship.

FINANCIAL REVIEW

1. Turnover

The Group recorded turnover of approximately RMB280,913,000 for the year ended 31 December 2013, representing a growth of RMB8,947,000 or 3.3% as compared to that of approximately RMB271,966,000 for the year ended 31 December 2012. 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 2013, the Group had 1,433 franchise shops and 7 directly-operated outlets respectively while as at 31 December 2012, the Group had 1,423 franchise shops and 6 directly-operated outlets respectively. The franchise fee income was approximately RMB1,075,000 which was close to that of approximately RMB1,337,000 of last year.

	For the year ended 31 December			
	2013		2012	
	RMB'000	**%**	RMB'000	%
Sales				
– Combs	**75,589**	**26.9**	75,400	27.7
– Mirrors	**2,569**	**0.9**	2,361	0.9
– Box sets	**190,275**	**67.7**	181,659	66.8
– Other accessories	**11,405**	**4.1**	11,209	4.1
Franchise fee income	**1,075**	**0.4**	1,337	0.5
Total	**280,913**	**100.0**	271,966	100.0

2. Cost of sales

The cost of sales of the Group was approximately RMB92,596,000 for the year ended 31 December 2013, representing an increase of RMB2,646,000 or 2.9% as compared to that of approximately RMB89,950,000 for the year ended 31 December 2012, which was slightly lower than the growth of turnover.

3. Gross profit and gross profit margin

As at 31 December 2013, gross profit of the Group was approximately RMB188,317,000 representing an increase of RMB6,301,000 or 3.5% as compared to that of approximately RMB182,016,000 for the year ended 31 December 2012. The gross profit margin slightly increased from 66.9% in 2012 to 67.0% in 2013. The slight increase in gross profit margin was mainly due to the adjustment of sales mix of the Group. During the Year Under Review, the business of the Group's e-commerce sales which has a higher gross profit margin developed rapidly.

4. Other revenue and other net income

Other revenue and other net income was approximately RMB38,385,000 for the year ended 31 December 2013, representing an increase of RMB13,420,000 or 53.8% as compared to that of approximately RMB24,965,000 for the year ended 31 December 2012. Other revenue and other net income is mainly comprised of PRC VAT refunds of approximately RMB11,016,000, rental income of approximately RMB4,424,000, interest income of approximately RMB13,582,000 and fair value change of investment properties of RMB8,450,000 respectively (2012 : PRC VAT refunds of approximately RMB11,480,000, rental income of approximately RMB3,334,000, interest income of approximately RMB4,519,000 and fair value change of investment properties of RMB4,530,000 respectively).

5. Selling and distribution expenses

The selling and distribution expenses amounted to approximately RMB30,410,000 for the year ended 31 December 2013, representing an increase of RMB620,000 or 2.1% as compared to that of approximately RMB29,790,000 for the year ended 31 December 2012. The selling and distribution expenses mainly including advertising and market expansion expenses of RMB2,630,000, delivery charges of RMB5,087,000, rental expenses of RMB5,525,000, salaries and benefits of RMB9,331,000 and travelling expenses of RMB1,697,000 respectively (2012 : advertising and market expansion expenses of RMB3,115,000, delivery charges of RMB3,410,000, rental expenses of RMB4,731,000 salaries and benefits of RMB8,553,000 and travelling expenses of RMB2,119,000 respectively).

6. Administrative expenses

The administrative expenses of the Group was approximately RMB31,090,000 for the year ended 31 December 2013, representing an increase of RMB3,870,000 or 14.2% as compared to that of approximately RMB27,220,000 for the year ended 31 December 2012. The administrative expenses is mainly comprised of salaries and benefits of RMB12,978,000, legal and professional fee of RMB1,615,000, consultancy fee of RMB5,450,000, depreciation charges of RMB491,000 and audit fee of RMB1,129,000 respectively (2012: salaries and benefits of RMB13,578,000, legal and professional fee of RMB2,092,000, consultancy fee of RMB562,000, depreciation charges of RMB503,000 and audit fee of RMB1,115,000 respectively).

MANAGEMENT DISCUSSION AND ANALYSIS

7. **Other operating expenses**

Other operating expenses of the Group was approximately RMB7,506,000 for the year ended 31 December 2013, representing a slight decrease of RMB174,000 or 2.3% as compared to that of approximately RMB7,680,000 for the year ended 31 December 2012.

8. **Finance costs**

Finance costs of the Group was approximately RMB557,000 for the year ended 31 December 2013, representing an increase of RMB557,000 as compared to nil for the year ended 31 December 2012. The increase was mainly due to the new bank borrowings arranged for the Year Under Review.

9. **Income tax**

For the year ended 31 December 2013, income tax expenses for the Group amounted to approximately RMB31,283,000, increased significantly by approximately RMB15,154,000 or 93.9% when compared to approximately RMB16,129,000 for the year ended 31 December 2012, mainly due to the fact that no reversal of income tax was made during the Year Under Review. Preferential tax policies granted to companies located in western part of China has been approved, in 2012 the Group's subsidiaries wrote back the over provision for income tax made in 2011 of RMB13,278,000 which was calculated on the statutory income tax rate of 25%.

The effective tax rate for the Year Under Review was 19.9% when compared to 20.7% (excluding the reversal of over provision for income tax) for the year ended 31 December 2012.

10. **Profit for the year**

The Profit for the year ended 31 December 2013 was approximately RMB125,856,000, representing a slight decrease of RMB306,000 or 0.2% as compared to that of approximately RMB126,162,000 for the year ended 31 December 2012. The decrease was mainly due to the increase in income tax which was partly net-off by the growth in profit from operations for the Year Under Review.

MANAGEMENT DISCUSSION AND ANALYSIS

ANALYSIS OF MAJOR CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

1. Property, plant and equipment

The Group's property, plant and equipment consists of building, leasehold improvements, plant and machinery, furniture and equipment, motor vehicles and construction in progress. As at 31 December 2013, the net book value of property, plant and equipment amounted to approximately RMB31,825,000, representing a slight increase of RMB50,000 or 0.2%, as compared with the previous year of approximately RMB31,775,000. The slight increase was mainly attributable to the purchase of fixed assets of approximately RMB3,155,000 which was partly net-off by the depreciation charges of approximately RMB3,050,000 for the year ended 31 December 2013.

2. Inventories

The Group's inventories as at 31 December 2013 decreased by approximately RMB1,367,000 or 2.3% from approximately RMB59,689,000 as at 31 December 2012 to approximately RMB58,322,000 as at 31 December 2013, primarily due to the decrease in raw materials level as a result of the increase in sales and production.

3. Trade receivables

Generally, franchisees are required to settle the payments for the products prior to delivery. The Group's trade receivables consist of credit sales of products to be paid by some of the Group's franchisees who had better sales performance. As at 31 December 2013, the Group's trade receivables amounted to RMB1,722,000 which is close to that of RMB942,000 as at 31 December 2012.

4. Other receivables, deposits and prepayments

The Group's other receivables, deposits and prepayments increased by approximately RMB6,993,000 from approximately RMB8,036,000 as at 31 December 2012 to approximately RMB15,029,000 as at 31 December 2013. Increase in other receivables, deposits and prepayments was mainly due to an increase in interest receivable of approximately RMB6,858,000 when compared to last year.

5. Trade payables

As at 31 December 2013, the Group's trade payables was approximately RMB3,027,000, which is close to that of approximately RMB1,997,000 as at 31 December 2012.

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 2013 increased by approximately RMB3,831,000 or 12.9% from approximately RMB29,693,000 as at 31 December 2012 to approximately RMB33,524,000 as at 31 December 2013. The increase was primarily due to an increase in receipts in advance of approximately RMB1,060,000 and provision for severance payment of approximately RMB2,375,000.

MANAGEMENT DISCUSSION AND ANALYSIS

CASH FLOW

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

1. Net cash generated from operating activities

The Group's cash inflow from operations primarily derives from payments for the sale of the Group's products. For the year ended 31 December 2013, the Group's net cash inflow generated from operating activities amounted to approximately RMB128,089,000, representing a decrease of net cash inflow generated from operating activities of approximately RMB450,000 from approximately RMB128,539,000 for the year ended 31 December 2012. The decrease was primarily due to an increase in other receivables, deposits and prepayments.

2. Net cash used in investing activities

For the year ended 31 December 2013, the Group's net cash outflow used in investing activities amounted to approximately RMB108,352,000, representing an increase of approximately RMB106,290,000 as compared with the cash outflow used in investing activities of approximately RMB2,062,000 for the year ended 31 December 2012. The increase is mainly due to the increase in prepayment of acquisition of properties of RMB33,556,000 and pledged bank deposits of RMB71,700,000 during the Year Under Review.

3. Net cash generated from/used in financing activities

For the year ended 31 December 2013, the Group's net cash inflow generated from financing activities amounted to approximately RMB3,754,000, representing an increase of approximately RMB50,554,000 as compared with the net cash outflow used in financing activities of approximately RMB46,800,000 for the year ended 31December 2012. The increase was primarily due to the new bank loan of approximately RMB66,829,000 raised during the Year Under Review.

CAPITAL STRUCTURE

1. Indebtedness

All the borrowings of the Group as at 31 December 2013 was approximately RMB66,829,000, which will be due within one year. During the Year Under Review, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

2. Gearing ratio

As at 31 December 2013, the Group's gearing ratio was 10.4 % (31 December 2012: 0%), calculated as the total bank borrowings divided by total assets multiplied by 100%. The increase was mainly due to the increase in bank borrowings.

3. **Pledge of assets**

As at 31 December 2013, the Group had pledged bank deposits to the bank in the total carrying amount of approximately RMB71,700,000 (31 December 2012 : 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 RMB3,155,000 and approximately RMB2,172,000 for the year ended 31 December 2013 and 2012 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 long and short-term bank borrowings. For the year ended 31 December 2013, the effective interest rates for variable rate loans was 1.55% to 2.39%.

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

As at 31 December 2013, the Group had cash and cash equivalents of approximately RMB355,245,000 (31 December 2012 : approximately RMB330,147,000) mainly generated from operations of the Group and funds raised by the Company in 2009.

CAPITAL COMMITMENT

As at 31 December 2013, the Group had capital commitment amounted to approximately RMB21,000 (31 December 2012: approximately RMB533,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2013, the Group has not made any material acquisition and disposal.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE OUTLOOK

In 2014, although the retail industry in China is still facing economic slowdown, decrease of population bonus and increase of major costs, coupling with the significant impacts of increasing costs of rent and salaries of staff on the domestic market, the Group's leading position in the wooden comb market and full online and offline coverage have offered enormous growth in retail space, which will be positive to the development of our brand.

In 2014, the Group will continue to consolidate the core business districts in the first and second tier cities; focus on developing the wealthy cities in Northern, Eastern and Southern China; steadily expand the coverage of franchised shops, high quality shops, core shops and flagship stores; and optimize and enhance the quality of franchised shops system. On one hand, the Group will provide policy support to model shops to encourage the expansion of flagship store and core shops in provincial capitals, municipalities directly under the Central Government and some major cities, in order to ensure a stable deployment of core business districts. On the other hand, the Group will select core business districts in the second and third tier cities with better ranking for trial expansion as planned, with a view to play a significant role as a model.

In respect of the development in overseas markets, the Group will focus on strengthening the expansion of franchised shops in Taiwan and Southeast Asia, and establish model shops in the core business districts in the core cities, so as to steadily extend its business outwards. The Group plans to open four franchised shops in Hong Kong, Taiwan and Philippines, and one franchised shop in Russia.

Also, the Group will put more efforts into promoting our brands on the network platform, and explore other prime marketing platforms, such as sales platform of WeChat and the Group's official website. The Group will promote our brands via different channels, such as WeChat, Weibo and our official website, re-design and decorate online shops, as well as, enhance the conversion rate of the orders.

In the course of expanding the sales network, the Group also places attention to operate and enhance our management system. In the area of staff training, the Group regulates the visiting standard and procedure of our marketing staff via regular internal trainings, drills and assessments; enhances the service level of franchised shops by assisting and instructing key areas to provide collective training and sharing to franchised shops; enhances the management efficiency of franchised shops via sustainable upgrade of appraisal system and introduction of advanced experiences of other leading brands; and increases the single-store sales by improving the experience of franchised shops and introducing innovative value-added services. In the area of brand marketing, the Group will devote more efforts to brand marketing in key cities, and emphasize users' experience; unify and standardize our image promotion in the community and foster the awareness of customers on wooden combs, and promote its brand influence. Meanwhile, the Group will implement marketing activities in key school campuses on a trial basis to cultivate the consumer group of new generation.

Looking ahead, the Group will continue to uphold its pragmatic, pioneering and innovative visions, and further expand the online platform on the basis of developing the sales network in Mainland China and overseas markets with a view to increase our market share. We will co-ordinate regular annual marketing programmes, with the objective to develop flagship products so as to seek for breakthroughs. These measures will preserve and lift the Group's leading position in the retail and luxury wood products industry of China, and bring remarkable long-term returns to our investors.

MANAGEMENT DISCUSSION AND ANALYSIS

SOCIAL RESPONSIBILITIES

Apart from actively expanding our businesses, the Group strives to contribute to the community. We are enthusiastic to create employment opportunities for disabled people. As at 31 December 2013, Carpenter Tan had provided a total of 316 employment opportunities for the disabled. We also strictly comply with the welfare conditions so that they can earn a living on their own.

During the Year under review, the Group has been actively organized internal social welfare activities. We have visited and assisted Hope Primary School, organizations for mentally handicapped people and current and retired employees of the Group. Through these caring activities, Carpenter Tan demonstrated sincerity, love, caring and patience to contribute to the community and won the acclaim of being a welfare enterprise.

HUMAN RESOURCES AND TRAINING

As at 31 December 2013, the Group had a total of 996 employees in Mainland China, Hong Kong and overseas, with a total staff cost of approximately RMB47,987,000(2012: approximately RMB51,762,000).

In addition to providing job opportunities to the disabled, the Group has attached high emphasis to the self-upgrade of its staff. By holding various themed exhibitions, workshops, seminars and staff training, the working skills and marketing strategies, techniques and methods of the staff as well as their sense of belonging to the Group were further enhanced. During the Year Under Review, in order to develop team spirits, courtesy, production management and accounting practice of the staff, the Group provided the staff various on-job training in various forms such as face to face teaching and examination to consolidate and spread the corporate culture of Carpenter Tan.

DIVIDENDS

To extend the Company's gratitude for the support of our shareholders, the Board has recommended the distribution of a final dividend of HK32.02 cents per share for the financial year ended 31 December 2013 to the shareholders whose names appear on the register of members of the Company on Friday, 30 May 2014, amounting to approximately HK$80,050,000 subject to the approval of the Company's annual general meeting to be held on Thursday, 22 May 2014. The dividend payout ratio is 50% of the profit for the year or 55% of the distributable profit of the Company (after deducting the non-distributable statutory reserves of RMB11,334,000 for the year ended 31 December 2013). The above-mentioned final dividend is expected to be paid on or before Friday, 27 June 2014.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Tan Chuan Hua (譚傳華), aged 56, 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 17 years of experience in the industry of manufacturing small size wooden handicrafts. Mr. Tan has been appointed as the Chairman of Chong Qing Art and Handicraft Association (重慶工藝美術行業協會) since 2004. He has been a member of the Third Political Consultative Conference Chong Qing Committee (重慶市第三屆政協委員) since January 2008 and was a member of the Second Political Consultative Conference Chong Qing Committee (重慶市第二屆政協委員) from January 2003 to December 2007. Mr. Tan was awarded by the Ministry of Personnel (人事部) of the PRC and China Disabled Persons' Federation (中國殘疾人聯合會) as a Country Self-motivated Model (全國自強模範) in 2003. He was also awarded as 2005 China Outstanding Franchise Executive (2005年中國特許企業優秀管理者) by China Chain Store and Franchise Association (中國連鎖經營協會). He is the director of Lead Charm Investments Limited ("Lead Charm"), the Company's controlling shareholder and Global Craft Collection Association (國際手工藝術集藏協會). He is the spouse of Madam Fan Cheng Qin, father of Mr. Tan Di Fu and Mr. Tan Lizi, the elder brother of Mr. Tan Cao. Mr. Tan was appointed as the Director of the Company on 20 June 2006.

Mr. Geng Chang Sheng (耿長生), aged 65, 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 10 years of management experience in the transportation industry during the period from 1987 to 1996 when he was a deputy general manager of a motor company in Chongqing and over 3 years of management experience in the property development industry during the period from 1999 to 2002 when he was a deputy general manager of a property company in the PRC. He studied Mechanics and graduated from Sichuan Broadcasting TV University (四川廣播電視大學). Mr. Geng joined the Group in August 2002 as the assistant general manager of Chongqong Carpenter Tan Handicrafts Company Limited (重慶譚木匠工藝品有限公司) and has been responsible for the general administration and human resources function since August 2002. Mr. Geng was appointed as a director of Chongqong Carpenter Tan Handicrafts Company Limited (重慶譚木匠工藝品有限公司) in August 2003 and the Executive Director of the Company on 30 August 2006.

Mr. Tan Di Fu (譚棣夫), aged 28, is responsible for assisting the formulation of the business development strategy of the Group. He enrolled in Sichuan International Studies University (四川外語學院) in professional English language and literature (英語語言文化專業). He joined the Group in 2005 and has worked for various functional departments of the Group to obtain basic management training including production and human resources. He was subsequently promoted to the head of Wan Zhou Factory in 2007 and is responsible for its day-to-day operational management. Currently he is the General Manager of Chongqing Carpenter Tan Handicrafts Company Limited and is responsible for the day-to-day management of the Company. Mr. Tan Di Fu is the son of Mr. Tan Chuan Hua and Madam Fan Cheng Qin, the elder brother of Mr. Tan Lizi, the nephew of Mr. Tan Cao. Mr. Tan was appointed as the Executive Director of the Company on 18 August 2010.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Non-executive Directors

Mr. Tan Cao (譚操), aged 50, 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 22 years of management experience in the government and property management industry. He holds a bachelor's degree in Law from the Southwest University of Political Science and Law (西南政法大學). He is the younger brother of Mr. Tan Chuan Hua, the younger brother-in-law of Madam Fan Cheng Qin, the uncle of Mr. Tan Di Fu and Mr. Tan Lizi. He joined the Group in August 2003 and was appointed as the Non-executive Director on 30 August 2006.

Mr. Liu Chang (劉暢), aged 40, 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 9 years of experience in investment banking. He holds a bachelor's degree in Law from the China Youth University for Political Sciences (中國青年政治學院). Mr. Liu joined the Group in September 2004 and was appointed as the Non-executive Director on 30 August 2006.

Independent non-executive Directors

Madam Du Xin Li (杜新麗), aged 57, 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 49, is an Independent Non-executive Director. Mr. Yu graduated from Fudan University (復旦大學) with a doctorate degree in management. He is currently the professor of Shanghai Jiao Tong University (上海交通大學). He is also an independent director of Shandong Haodanjia Ocean Development Company Limited (山東好當家海洋發展有限公司), the shares of which are listed on the Shanghai Stock Exchange. He is also an independent non-executive director of Noble Jewelery Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange. He has extensive experience in branding strategy and management. He was appointed as the Independent Non-executive Director on 4 September 2007.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chau Kam Wing, Donald (周錦榮), aged 51, 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 currently the finance director of Winox Holdings Limited and he is an independent non-executive director of China Water Affairs Group Limited, which are both listed on the Main Board of the Hong Kong Stock Exchange ("HKEx"). Mr. Chau is also an independent non-executive director of Zhejiang Shibao Company Limited which is listed on both the Main Board of HKEx and the SME Board of Shenzhen Stock Exchange. He is also an independent non-executive director of Eco-Tek Holdings Limited which is listed on the Growth Enterprise Market of the HKEx. From June 2008 to May 2011, he was an independent non-executive director of China Nonferrous Metals Company Limited, which is listed on the Growth Enterprise Market of the HKEx. 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 49, 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 16 years' experience in the industry of manufacturing small wooden handicrafts. Madam Fan is the spouse of Mr. Tan Chuan Hua, the mother of Mr. Tan Di Fu and Mr. Tan Lizi, the elder sister-in-law of both Mr. Tan Cao.

Madam Wang Ping (王萍), aged 53, is the deputy general manager of the Group. She joined the Group in March 2005. Madam Wang is responsible for research and product development, production, purchasing, risk management, human resource and administration of the Group. Madam Wang has 19 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).

Mr. Tan Lizi (譚力子), aged 25, is the assistant to general manager of the Group. Mr. Tan is responsible for assisting general manager to manage day-to-day operation of the Group, including sales management, logistic and finance. He graduated with a Bachelor Degree in Business Administration from University of Stirling in UK. Mr. Tan is the son of Mr. Tan Chuan Hua and Madam Fan Cheng Qin, the younger brother of Mr. Tan Di Fu, the nephew of Mr. Tan Cao. He joined the Group in September 2012.

Mr. Luo Hong Ping (羅洪平), aged 47, 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 16 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.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chan Hon Wan (陳漢雲), aged 53, 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 27 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 40, 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 17 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 39, 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 13 years experience in financial management.

CORPORATE GOVERNANCE REPORT

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

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

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Tan Chuan Hua holds both the positions of the Chairman of the Board and the Chief Executive Officer. The Board believes that vesting the role of both positions in Mr. Tan provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies. The Board also considers that this arrangement will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a strong and independent non-executive element in the Board. The Board believes that the arrangement outlined above is beneficial to the Company and its business.

Under code provision A.2.7, the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. Taking into account Mr. Tan Chuan Hua, the Chairman and Chief Executive Office, is also an Executive Director, no meeting shall therefore be held between the Chairman and Non-executive Directors without the Executive Directors present.

MODEL CODE FOR SECURITIES TRANSCATIONS

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

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

The Board comprises a total of eight Directors, being three executive Directors, two non-executive Directors (the"Non-executive Directors") and three independent non-executive Directors (the "Independent Non-executive Directors"). Mr. Tan Chuan Hua, Mr. Geng Chang Sheng and Mr. Tan Di Fu served as executive Directors; Mr. Tan Cao and Mr. Liu Chang served as Non-executive Directors and Madam Du Xin Li , Mr. Yu Ming Yang and Mr. Chau Kam Wing, Donald served as Independent Non-executive Directors. These Non-executive Directors and Independent Non-executive Directors, who have different business and professional backgrounds, have brought valuable experience and expertise for the best interests of the Group and its Shareholders. Biographical details of and the relationship between the Directors are set out in the paragraph headed "Directors' And Senior Management's Biographies" of this report.

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

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

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

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

CORPORATE GOVERNANCE REPORT

Pursuant to the Articles of Association of the Company, one third of the Directors shall retire from office by rotation at each annual general meeting. Accordingly, Mr. Tan Di Fu , Madam Du Xin Li and Mr. Chau Kam Wing, Donald shall retire at the forthcoming annual general meeting of the Company. The retiring Directors, all being eligible, offer themselves for re-election.

BOARD COMMITTEES

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

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

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

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

AUDIT COMMITTEE

The Company established the Audit Committee on 17 November 2009 with written terms of reference in compliance with the CG Code. The Audit Committee has three members comprising all the Independent Non-executive Directors. Members of the Audit Committee include Madam 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.

The duties and responsibilities of the Audit Committee include:

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

During the Year Under Review, the Audit Committee had held two meetings. The attendance record of the committee members at these meetings are set out in the section headed "Board Meetings and Individual Attendance" of this report. The work performed by the Audit Committee during the Year Under Review included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2012, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2013 and the effectiveness of the internal control practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly.

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

REMUNERATION COMMITTEE

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

The duties and responsibilities of the Remuneration Committee include:

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

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

CORPORATE GOVERNANCE REPORT

NOMINATION COMMITTEE

The Company established the Nomination Committee on 28 March 2012 with written terms of reference, which was amended and adopted by the Board on 29 August 2013 and the contents of which are in compliance with the provisions of the CG Code. There are 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.

The duties and responsibilities of the Nomination Committee includes:

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

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

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

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

The Nomination Committee did not select or recommend candidates for directorship during the Year Under Review, as the Nomination Committee did not consider it necessary to do so.

BOARD MEETINGS AND INDIVIDUAL ATTENDANCE

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

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

Details of the attendance records of Directors on Board meetings and board committee meetings for the year ended 31 December 2013 are as follows:

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

CORPORATE GOVERNANCE REPORT

TRAINING AND SUPPORT OF DIRECTORS

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

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

Name of Directors	Training received
Mr. Tan Chuan Hua	— Reading materials/attending external and in house seminars and programmes
Mr. Geng Chang Sheng	— Reading materials/attending external and in house seminars and programmes
Mr. Tan Di Fu	— Reading materials/attending external and in house seminars and programmes
Mr. Tan Cao	— Reading materials/attending external and in house seminars and programmes
Mr. Liu Chang	— Reading materials/attending external and in house seminars and programmes
Madam Du Xin Li	— Reading materials/attending external and in house seminars and programmes
Mr. Yu Ming Yang	— Reading materials/attending external and in house seminars and programmes
Mr. Chau Kam Wing, Donald	— Reading materials/attending external and in house seminars and programmes

RESPONSIBILITIES OF THE DIRECTORS AND EXTERNAL AUDITORS

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

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

REMUNERATION OF EXTERNAL AUDITORS

For the year ended 31 December 2013, the remuneration paid to the external auditors in Hong Kong and the PRC, for audit services totaled approximately RMB675,000 (equivalent to approximately HK$845,000).

For the year ended 31 December 2013, the total remuneration for the permissible non-audit services provided by the external auditors amounted to approximately RMB292,000 (equivalent to approximately HK$367,000), mainly represents remuneration for interim review services.

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 2013, 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.

COMPANY SECRETARY

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

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

CORPORATE GOVERNANCE REPORT

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

(b) Each service agreement in respect of Non-executive Directors 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).

COMMUNICATION WITH SHAREHOLDERS

Shareholders' communication policy

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

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

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

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

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

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

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

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to convene an extraordinary general meeting

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

Procedures for proposing a person for election as a director

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

Procedures for directing Shareholders' enquiries to the Board

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

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

INVESTOR RELATIONS

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

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

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

Hong Kong, 28 March 2014

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting the annual report together with the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2013.

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 2013 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 49 to 53.

To extend the Company's gratitude for the support of our shareholders, the Board has recommended the distribution of a final dividend of HK32.02 cents per share for the financial year ended 31 December 2013 to the shareholders whose names appear on the register of members of the Company on Friday, 30 May 2014, amounting to approximately HK$80,050,000 subject to the approval of the Company's annual general meeting to be held on Thursday, 22 May 2014. The dividend payout ratio is 50% of the profit for the year or 55% of the distributable profit of the Company (after deducting the non-distributable statutory reserves of RMB11,334,000 for the year ended 31 December 2013). The above-mentioned final dividend is expected to be paid on or before Friday, 27 June 2014.

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 Tuesday, 20 May 2014 to Thursday, 22 May 2014 (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 Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Monday, 19 May 2014.

REPORT OF THE DIRECTORS

To qualify for the proposed final dividends

The register of members of the Company will be closed from Wednesday, 28 May 2014 to Friday, 30 May 2014 (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 Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Tuesday, 27 May 2014.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2013, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

USE OF PROCEEDS FROM THE LISTING OF THE COMPANY

The proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited on 29 December 2009, after deducting the related issuance expenses, amounted to approximately HK$132,900,000 (equivalent to approximately RMB116,800,000). As at 31 December 2013, the Group had used net proceeds of approximately RMB42,000,000, of which approximately RMB14,800,000 had been applied for enhancement of the Group's design and product development and enhancement for operational efficiency, approximately RMB15,000,000 for enhancement for sales network and sales support services, construction of production base and approximately RMB12,200,000 as working capital. The remaining net proceeds have been deposited 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 RMB19,500,000 (HK$24,000,000) for setting up high-end home accessories shops in the PRC and the application of approximately RMB4,900,000 (HK$6,000,000) for setting up lifestyle handicraft stores.

As disclosed in the Company's 2011 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 Company's shareholders.

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 2013, 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 2013 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 2013, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 32 to the financial statements.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in Consolidated Statement of Changes in Equity on page 54 and note 33 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2013, 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 RMB80,356,000, of which approximately RMB62,925,000 (equivalent to approximately HK$80,050,000) 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 2013 was nil (2012: approximately RMB35,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for the year ended 31 December 2013 are set forth in note 16 to the financial statements.

REPORT OF THE DIRECTORS

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 RMB8,450,000 has been credited to the consolidated income statement. Details of movements in the investment properties of the Group are set out in note 18 to the consolidated financial statements of the Company for the year ended 31 December 2013.

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 2013 are set out in note 20 to the financial statements.

DIRECTORS

The Directors of the Company during the financial year ended 31 December 2013 and up to the date of this report have been:

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

Non-executive Directors
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 22 to 25.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

REPORT OF THE DIRECTORS

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

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

The five highest paid individuals of the Group in the Year Under Review include 2 Directors (2012: 2 Directors). Details of the five highest paid individuals are set out in note 11 to the financial statements.

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

(b) Each service agreement in respect of Non-executive Directors 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.

REPORT OF THE DIRECTORS

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

	RMB
Executive Directors	
Mr. Tan Chuan Hua	857,000
Mr. Geng Chang Sheng	88,000
Mr. Tan Di Fu	669,000
Non-executive Directors	
Mr. Tan Cao	88,000
Mr. Liu Chang	88,000
Independent Non-Executive Directors	
Madam Du Xin Li	88,000
Mr. Yu Ming Yang	88,000
Mr. Chau Kam Wing, Donald	132,000

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

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2013, none of the Directors was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

DIRECTORS' INTERESTS IN SECURITIES

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

As at 31 December 2013, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows:

(I) Interest in the shares in the Company:

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

(II) Interests in the shares of associated corporations:

Name of Directors	Name of associated corporations	Capacity/ Nature of interest	Approximate percentage of shareholding in associated corporations
Tan Chuan Hua	Lead Charm	Beneficial owner	51%

REPORT OF THE DIRECTORS

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

As at 31 December 2013, so far as was known to the Directors, the interests or short positions of the following persons (other than the Directors) in the shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or the interests or short positions recorded in the register kept by the Company under section 336 of the SFO were as follows:

Long position in the Shares

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

Notes:

1. Tan Chuan Hua is deemed to be interested in 169,700,000 Shares held by Lead Charm by virtue of his 51% interest in Lead Charm under Part XV of the SFO. Mr. Tan is a controlling shareholder within the meaning of the Listing Rules.

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

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

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

RELATED PARTY TRANSACTIONS

Details of the Group's related party transactions for the year ended 31 December 2013 are set out in note 34 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

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

MANAGEMENT CONTRACTS

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

PLEDGE OF ASSETS

As at 31 December 2013, the Group had pledged bank deposits to the bank in the total carrying amount of approximately RMB71,700,000 (31 December 2012 : nil).

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 2013, the Group has bank borrowings of RMB66,829,000. 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 2013, the Group had cash and cash equivalents of approximately RMB355,245,000 (31 December 2012: RMB330,147,000) mainly generated from operations of the Group and funds raised by the Company in 2009.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales to the five largest customers of the Group accounted for approximately 2.5% of the Group's total revenue and sales to the largest customer accounted for approximately 0.6% of the Group's total revenue for the year ended 31 December 2013. The aggregate purchases from the five largest suppliers of the Group accounted for approximately 41.2% of the Group's total purchases and purchases from the largest supplier accounted for approximately 12.5% of the Group's total purchases for the year ended 31 December 2013.

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.

TAX RELIEF AND EXEMPTION

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

REPORT OF THE DIRECTORS

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2013 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.

CHANGE OF AUDITOR

Auditor of the Company was changed from CCIF CPA Limited to Crowe Horwath (HK) CPA Limited on 23 May 2013. Details of the change are set out in the Company's announcement dated 11 April 2013.

AUDITOR

The financial statements for the year ended 31 December 2013 have been audited by Crowe Horwath (HK) CPA Limited.

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

Hong Kong, 28 March 2014

INDEPENDENT AUDITOR'S REPORT

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

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

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

We have audited the consolidated financial statements of Carpenter Tan Holdings Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 49 to 115, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and 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.

INDEPENDENT AUDITOR'S REPORT

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 2013, 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.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 28 March 2014

Betty P.C. Tse
Practising Certificate Number P03024

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 RMB'000	2012 RMB'000
Turnover	5	280,913	271,966
Cost of sales		(92,596)	(89,950)
Gross profit		188,317	182,016
Other revenue and other net income	6	38,385	24,965
Administrative expenses		(31,090)	(27,220)
Selling and distribution expenses		(30,410)	(29,790)
Other operating expenses		(7,506)	(7,680)
Profit from operations		157,696	142,291
Finance costs	7	(557)	—
Profit before taxation	8	157,139	142,291
Income tax	9	(31,283)	(16,129)
Profit for the year		125,856	126,162
Attributable to			
Owners of the Company	14	125,856	126,162
Earnings per share	15		
Basic and diluted		RMB50.34 cents	RMB50.46 cents

The notes on pages 57 to 115 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 RMB'000	2012 RMB'000
Profit for the year	**125,856**	126,162
Other comprehensive income for the year (after tax)		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of functional currency to presentation currency	**1,580**	(320)
Total comprehensive income for the year	**127,436**	125,842
Attributable to		
Owners of the Company	**127,436**	125,842

The notes on pages 57 to 115 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2013

	Notes	2013 RMB'000	2012 RMB'000
Non-current assets			
Property, plant and equipment	16	**31,825**	31,775
Prepaid lease payments	17	**18,327**	18,845
Investment properties	18	**55,780**	47,330
Intangible assets	19	**—**	—
Prepayment of acquisition of properties		**33,556**	—
		139,488	97,950
Current assets			
Prepaid lease payments	17	**518**	518
Inventories	21	**58,322**	59,689
Trade receivables	22	**1,722**	942
Other receivables, deposits and prepayments	23	**15,029**	8,036
Pledged bank deposits	24	**71,700**	—
Cash and cash equivalents	26	**355,245**	330,147
		502,536	399,332
Current liabilities			
Bank loans, secured	28	**66,829**	—
Trade payables	29	**3,027**	1,997
Other payables and accruals	30	**33,524**	29,693
Income tax payable	25(a)	**8,149**	4,841
		(111,529)	(36,531)
Net current assets		**391,007**	362,801
Total assets less current liabilities		**530,495**	460,751
Non-current liabilities			
Deferred tax liabilities	25(b)	**25,182**	19,764
Deferred income	31	**847**	882
		(26,029)	(20,646)
NET ASSETS		**504,466**	440,105

The notes on pages 57 to 115 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2013

	Notes	2013 RMB'000	2012 RMB'000
CAPITAL AND RESERVES			
Share capital	32	**2,200**	2,200
Share premium and reserves	33	**502,266**	437,905
TOTAL EQUITY		**504,466**	440,105

Approved and authorised for issue by the board of directors on 28 March 2014.

Tan Chuan Hua **Geng Chang Sheng**

The notes on pages 57 to 115 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2013

	Notes	2013 RMB'000	2012 RMB'000
Non-current assets			
Investment in a subsidiary	20	**47**	47
Current assets			
Amounts due from subsidiaries	20	**84,858**	87,131
Cash and cash equivalents	26	**297**	2,451
		85,155	89,582
Current liabilities			
Amounts due to subsidiaries	27	**7,821**	8,067
Other payables and accruals	30	**1,178**	1,187
		(8,999)	(9,254)
Net current assets		**76,156**	80,328
NET ASSETS		**76,203**	80,375
CAPITAL AND RESERVES			
Share capital	32	**2,200**	2,200
Share premium and reserves	33	**74,003**	78,175
TOTAL EQUITY		**76,203**	80,375

Approved and authorised for issue by the board of directors on 28 March 2014.

Tan Chuan Hua **Geng Chang Sheng**

The notes on pages 57 to 115 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2013

	Attributable to owners of the Company								
	Share capital RMB'000 (Note 32)	Share premium RMB'000 (Note 33(a))	Capital reserve RMB'000 (Note 33(b))	Statutory reserves RMB'000 (Note 33(c))	Other reserves RMB'000 (Note 33(d))	Property revaluation reserve RMB'000 (Note 33(e))	Currency translation reserve RMB'000 (Note 33(f))	Retained profits RMB'000	Total RMB'000
At 1 January 2012	2,200	114,674	2,767	97,385	17,738	1,723	(1,373)	125,949	361,063
Profit for the year	—	—	—	—	—	—	—	126,162	126,162
Exchange differences arising on translation of function currency to presentation currency	—	—	—	—	—	—	(320)	—	(320)
Total comprehensive income for the year	—	—	—	—	—	—	(320)	126,162	125,842
Dividends	—	—	—	—	—	—	—	(46,800)	(46,800)
Transfer to reserve	—	—	—	20,127	—	—	—	(20,127)	—
At 31 December 2012	2,200	114,674	2,767	117,512	17,738	1,723	(1,693)	185,184	440,105
At 1 January 2013	2,200	114,674	2,767	117,512	17,738	1,723	(1,693)	185,184	440,105
Profit for the year	—	—	—	—	—	—	—	125,856	125,856
Exchange differences arising on translation of functional currency to presentation currency	—	—	—	—	—	—	1,580	—	1,580
Total comprehensive income for the year	—	—	—	—	—	—	1,580	125,856	127,436
Dividends	—	—	—	—	—	—	—	(63,075)	(63,075)
Transfer to reserve	—	—	—	11,334	—	—	—	(11,334)	—
At 31 December 2013	2,200	114,674	2,767	128,846	17,738	1,723	(113)	236,631	504,466

The notes on pages 57 to 115 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 RMB'000	2012 RMB'000
Operating activities		
Profit before taxation	157,139	142,291
Adjustments for:		
Interest expenses	557	—
Interest income	(13,582)	(4,519)
Change in fair value of investment properties	(8,450)	(4,530)
Gain on disposal of property, plant and equipment	(31)	(41)
Depreciation	3,050	2,777
Amortisation of prepaid lease payments	518	518
Provision for sales returns	—	1,393
Provision for severance payments	2,375	—
Impairment on trade receivables	3	—
Write-down on inventories	2,590	2,478
Reversal of write-down on inventories	(3)	(14)
Government grant released from deferred income	(35)	(35)
Operating profit before working capital changes	144,131	140,318
Increase in inventories	(1,220)	(1,456)
(Increase)/decrease in trade receivables	(783)	320
Increase in other receivables, deposits and prepayments	(135)	(460)
Increase/(decrease) in trade payables	1,030	(8)
Increase in other payables and accruals	1,456	8,991
Cash generated from operations	144,479	147,705
Interest received	6,724	4,519
Interest paid	(557)	—
Income tax paid, net	(22,557)	(21,245)
Withholding tax paid	—	(2,440)
Net cash generated from operating activities	128,089	128,539
Investing activities		
Purchase of property, plant and equipment	(3,155)	(2,172)
Proceeds from disposal of property, plant and equipment	59	110
Prepayment of acquisition of properties	(33,556)	—
Increase in pledged bank deposits	(71,700)	—
Net cash used in investing activities	(108,352)	(2,062)

The notes on pages 57 to 115 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 RMB'000	2012 RMB'000
Financing activities			
Dividend paid		(63,075)	(46,800)
New bank loan raised		66,829	—
Net cash generated from/(used in) financing activities		3,754	(46,800)
Net increase in cash and cash equivalents		23,491	79,677
Cash and cash equivalents at beginning of year		330,147	250,790
Effect of foreign exchange rate changes, net		1,607	(320)
Cash and cash equivalents at end of year	26	355,245	330,147

The notes on pages 57 to 115 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

1. GENERAL INFORMATION

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

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

The Company is an investment holding company. The subsidiaries of the Company are principally engaged in (i) design, manufacture and distribution of small size wooden handicrafts and accessories, including wooden combs, wooden mirrors, wooden box set and other wooden accessories and adornments, under the brand name of "Carpenter Tan"; (ii) the operation of a franchise and distribution network primarily in the PRC (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 (the "Listing Rules"). 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group").

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These financial statements are presented in RMB, rounded to the nearest thousand except for per share data.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the investment properties 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 major sources of estimation uncertainty are discussed in note 4.

c) Subsidiaries

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

d) Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in profit or loss during the period in which they are incurred.

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

Buildings	Over the shorter of the estimated useful life or the unexpired lease terms, being no more than 50 years after the date of completion
Leasehold improvements	Over the unexpired lease terms but not exceeding 5 years
Plant and machinery	5 to 10 years
Furniture and equipment	5 to 6 years
Motor vehicles	5 to 6 years

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

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 non-current 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 of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(d). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(h). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) Leased assets *(Continued)*

iii) Operating lease charges

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 2(f)).

f) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(e)) to earn rental income and/or for capital appreciation. These include land held for a currently undertermined 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 that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses (see note 2(h)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Both the period and method of amortisation are reviewed annually.

Gains or losses arising from the derecognition of an intangible asset are measured as 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

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 (that is, the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

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

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;

— prepaid lease payments for land classified as being held under operating lease;

— intangible assets; and

— investments in subsidiaries in the Company's statement of financial position.

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

— Calculation of recoverable amount

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

— Recognition of impairment losses

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

— Reversals of impairment losses

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Impairment of assets *(Continued)*

iii) Interim financial reporting and impairment

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

i) Inventories

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

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

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

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

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

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$25,000 (HK$20,000 prior to June 2012). Contributions to the plan vest immediately.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

n) Employee benefits *(Continued)*

(ii) Termination benefits

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

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 in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

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

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.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(f), the amount of deferred tax recognised is measured using the tax rates that would apply on the sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) Provisions and contingent liabilities

Provisions are recognised for 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 discounts provision for sales returns, value-added tax and sales tax.

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

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

(iii) Interest income is recognised as it accrues using the effective interest method.

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

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

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 measured.

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

s) Borrowing costs

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

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

t) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related cost for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets as a reduction in the depreciation charge of the assets. Grants related to expense items are recognised in the same period as those expenses are charged to the profit or loss and are reported separately as other revenue and other net income in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

v) Segment reporting

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

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

3. CHANGES IN ACCOUNTING POLICIES

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

Except as described below, the application of other new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in these financial statements has been modified accordingly. In addition, the Group has chosen to use the new titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

HKFRS 13 Fair Value Measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 18. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

a) Critical accounting judgement in applying the accounting policies

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

(i) Prepaid lease payments

As disclosed in note 17(c), the PRC government issued a notice to the Group for the resumption of certain land use right in PRC and the Group will be compensated through an exchange with another piece of land. The management expects that the fair value of the land exchanged as compensation will not be lower than the carrying amount of the land resumed. Such resumption inherently involves uncertainties and depends on the decision of the relevant authorities. Actual result could be different significantly and hence the carrying amounts of prepaid lease payments could be affected.

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

b) Key sources of estimation uncertainty

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

(i) Depreciation and amortisation

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

(ii) Impairment on property, plant and equipment and prepaid lease payments

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

(iii) Valuation of investment properties

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

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

(iv) Write-downs of inventories

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

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

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

(v) 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 uncertainties exist and actual uncollectible amounts may be higher than the amount estimated.

(vi) Provision for sales returns

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

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

(vii) Income tax

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.

5. TURNOVER

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

	2013 RMB'000	2012 RMB'000
Sales of goods	**279,838**	270,629
Franchise fee income	**1,075**	1,337
	280,913	271,966

6. OTHER REVENUE AND OTHER NET INCOME

	2013 RMB'000	2012 RMB'000
Other revenue		
Government grants	**139**	21
Government grants released from deferred income	**35**	35
Interest income from financial assets not at fair value through profit or loss – bank interest income	**13,582**	4,519
PRC VAT refunds	**11,016**	11,480
Rental income from investment properties	**4,424**	3,334
Others	**708**	1,005
	29,904	20,394
Other income		
Gain on disposal of property, plant and equipment	**31**	41
Change in fair value of investment properties	**8,450**	4,530
	38,385	24,965

7. FINANCE COSTS

	2013 RMB'000	2012 RMB'000
Interest on bank loans	**557**	—
Total interest expense on financial liabilities not at fair value through profit or loss	**557**	—

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

8. PROFIT BEFORE TAXATION

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

	2013 RMB'000	2012 RMB'000
a) Staff costs (including directors' emoluments)		
Salaries and other benefits	45,963	49,695
Contributions to retirement scheme	2,024	2,067
Total staff costs	47,987	51,762
b) Other items		
Auditor's remuneration	967	1,004
Amortisation of prepaid lease payments	518	518
Cost of inventories	92,596	89,950
Depreciation	3,050	2,777
Impairment on trade receivables	3	—
Gain on disposal of property, plant and equipment	(31)	(41)
Operating lease rentals in respect of land and buildings	5,703	5,016
Provision for sales returns	5,675	5,675
Utilisation of provision for sales returns	(5,675)	(4,282)
Write-down of inventories	2,590	2,478
Reversal of write-down of inventories	(3)	(14)
Gross rental income from investment properties	(4,424)	(3,334)
Less: Direct outgoings incurred for investment properties that generated rental income during the year	232	211
Direct outgoings incurred for investment properties that did not generate rental income during the year	5	10
Net rental income	(4,187)	(3,113)

Notes:

(i) Cost of inventories includes approximately RMB25,581,000 (2012: RMB28,607,000) 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 statement of profit or loss represents:

	2013 RMB'000	2012 RMB'000
Current tax		
PRC Enterprise Income Tax (notes 9(a)(i), (ii), (iii) and (iv))	22,554	21,177
Hong Kong profits tax (note 9(a)(vi))	—	—
Withholding tax on dividends (note 9(a)(vii))	3,312	2,440
	25,866	23,617
Over provision in prior years, net		
PRC Enterprise Income Tax	(1)	(13,288)
Deferred tax		
Distribution of dividends (note 25(b))	(3,312)	(2,440)
Current year (note 25(b))	8,730	8,240
Total	31,283	16,129

Notes:

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

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

(ii) Zi Qiang Wood Works and Chongqing Carpenter Tan Handicrafts Co., Ltd ("Carpenter Tan"), wholly-owned subsidiaries, obtained approval from the Wanzhou Bureau of the State Administration of Taxation ("WBSAT") for a concessionary Enterprise Income Tax rate of 15% for five years from 1 January 2006 to 31 December 2010 and for two years from 1 January 2009 to 31 December 2010 respectively according to the preferential tax policies granted to companies located in western part of the PRC and involved in national encouraged business activities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

9. INCOME TAX *(Continued)*

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

Notes: (*Continued)*

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

On 29 May 2012, both Zi Qiang Wood Works and Carpenter Tan obtained the approval from WBSAT under notice No. 12 to enjoy concessionary Enterprise Income Tax rate of 15% from 1 January 2011 to 31 December 2020.

(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% (2012: 25%) except for Zi Qiang Wood Works and Carpenter Tan which are eligible for the income tax concessions according to the preferential tax policies as stated in note 9(a)(ii) and (iii) above.

(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 2013 and 2012 as the subsidiaries did not have assessable profits subject to Hong Kong profits tax for these years.

(vii) Under the Enterprise Income Tax Law of the PRC, with effect from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or place of business in the PRC will be subject to withholding income tax at the rate of 10% on various types of passive income such as dividends derived from sources in the PRC. Pursuant to the double tax arrangement between the PRC and Hong Kong effective on 1 January 2007, the withholding income tax rate will be reduced to 5% if the investment by the Hong Kong investor in the investee entities in the PRC is not less than 25%. On 22 February 2008, the SAT approved Caishui (2008) No. 1, pursuant to which dividend distributions out of retained earnings of foreign investment enterprises prior to 31 December 2007 will be exempted from withholding income tax. Deferred tax liabilities of RMB6,327,000 (2012: RMB5,898,000) in respect of the withholding income tax on dividends has been recognised by the Group for the year ended 31 December 2013.

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

9. INCOME TAX *(Continued)*

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

	2013 RMB'000	2012 RMB'000
Profits before taxation	**157,139**	142,291
Notional tax on profit before tax, calculated at the rates applicable to profits in the relevant tax jurisdiction	**39,742**	37,963
Tax effect of non-deductible expenses	**435**	76
Tax effect of non-taxable incomes	**(1)**	(94)
Effect of tax concessions granted to a subsidiary (note 9(a)(i))	**(2,272)**	(2,378)
Effect of concessionary tax rate enjoyed by subsidiaries (note 9(a)(i), (ii) and (iii))	**(13,561)**	(13,703)
Unrecognised temporary differences	**(505)**	842
Unrecognised tax losses	**1,119**	1,139
Utilisation of tax losses previously not recognised	—	(326)
Withholding tax on dividends (note 9(a)(vii))	**6,327**	5,898
Over provision in prior years	**(1)**	(13,288)
Actual tax expenses	**31,283**	16,129

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

10. DIRECTORS' EMOLUMENTS

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

For the year ended 31 December 2013

Name of director	Directors' fees RMB'000	Salaries, allowance and benefits -in-kind RMB'000	Discretionary bonus RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Tan Chuan Hua (Note (b))	—	236	542	79	857
Geng Chang Sheng	88	—	—	—	88
Tan Di Fu	—	208	382	79	669
Independent non-executive directors					
Du Xin Li	88	—	—	—	88
Yu Ming Yang	88	—	—	—	88
Chau Kam Wing, Donald	132	—	—	—	132
Non-executive directors					
Tan Cao	88	—	—	—	88
Liu Chang	88	—	—	—	88
	572	444	924	158	2,098

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

10. DIRECTORS' EMOLUMENTS *(Continued)*

For the year ended 31 December 2012

Name of director	Directors' fees RMB'000	Salaries, allowance and benefits -in-kind RMB'000	Discretionary bonus RMB'000	Retirement scheme contributions RMB'000	Total RMB'000
Executive directors					
Tan Chuan Hua (Note (b))	—	237	371	60	668
Geng Chang Sheng	80	—	—	—	80
Tan Di Fu	—	207	262	60	529
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	444	633	120	1,717

a) For the years ended 31 December 2013 and 2012, 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 2013 and 2012.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group during the year included two directors (2012: two) of the Company whose emoluments are disclosed in note 10 above. Details of the emoluments paid by the Group to the remaining three (2012: three) non-director individuals during the year are as follows:

	2013 RMB'000	2012 RMB'000
Salaries and other allowances	466	438
Bonus	769	588
Retirement scheme contributions	211	163
	1,446	1,189

The emoluments fell within the following band:

	2013 Number of individuals	2012 Number of individuals
Nil up to HK$1,000,000	3	3

For the years ended 31 December 2013 and 2012, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

12. SEGMENT REPORTING

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

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

The Group's 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 geographical information 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 revenue.

13. DIVIDENDS

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

	2013 RMB'000	2012 RMB'000
Final dividend of HK$32.02 cents, equivalent to RMB25.17 cents per ordinary share (2012: HK$31.26 cents, equivalent to RMB25.23 cents) proposed after the end of the reporting period	62,925	63,075

The directors recommend the payment of a final dividend of HK$32.02 cents, equivalent to RMB25.17 cents per ordinary share, totaling RMB62,925,000. Such dividend is to be approved by the shareholders of the Company at the Annual General Meeting scheduled to be held on 22 May 2014. These financial statements do not reflect this recommended dividend.

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

	2013 RMB'000	2012 RMB'000
Final dividend of HK$31.26 cents, equivalent to RMB25.23 cents per ordinary share (2012: HK$22.97 cents, equivalent to RMB18.72 cents) in respect of the previous financial year, approved and paid during the year	63,075	46,800

14. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company includes a profit of approximately RMB59,665,000 (2012: RMB45,122,000) which has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

15. BASIC AND DILUTED EARNINGS PER SHARE

a) Basic earnings per share

The calculation of basic earnings per share is based on the 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

	2013	2012
	RMB'000	RMB'000
Earnings used in calculating basic and diluted earnings per share (profit attributable to owners of the Company)	**125,856**	126,162

(ii) Weighted average number of ordinary shares

	Number of shares	
	2013	2012
	'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 ordinary shares in issue during the year. The diluted earnings per share is the same as the basic earnings per share during the years ended 31 December 2013 and 2012.

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 2012	17,399	8,561	14,198	4,684	3,685	1,998	50,525
Additions	—	—	731	338	571	532	2,172
Disposals	—	(289)	(89)	(178)	(449)	—	(1,005)
Transfer	—	—	325	155	—	(480)	—
Exchange adjustments	—	1	—	—	—	—	1
At 31 December 2012	17,399	8,273	15,165	4,999	3,807	2,050	51,693
At 1 January 2013	17,399	8,273	15,165	4,999	3,807	2,050	51,693
Additions	—	883	513	673	169	917	3,155
Disposals	—	(58)	(109)	(96)	(211)	—	(474)
Transfer	—	430	621	38	—	(1,089)	—
Exchange adjustments	—	(49)	—	(10)	—	—	(59)
At 31 December 2013	17,399	9,479	16,190	5,604	3,765	1,878	54,315
Accumulated depreciation							
At 1 January 2012	2,475	2,299	7,725	3,317	2,260	—	18,076
Charge for the year	390	413	1,143	472	359	—	2,777
Eliminated on disposals of assets	—	(289)	(89)	(154)	(404)	—	(936)
Exchange adjustments	—	1	—	—	—	—	1
At 31 December 2012	2,865	2,424	8,779	3,635	2,215	—	19,918
At 1 January 2013	2,865	2,424	8,779	3,635	2,215	—	19,918
Charge for the year	390	477	1,253	474	456	—	3,050
Eliminated on disposals of assets	—	(58)	(109)	(89)	(190)	—	(446)
Exchange adjustments	—	(29)	—	(3)	—	—	(32)
At 31 December 2013	3,255	2,814	9,923	4,017	2,481	—	22,490
Carrying amount							
At 31 December 2013	14,144	6,665	6,267	1,587	1,284	1,878	31,825
At 31 December 2012	14,534	5,849	6,386	1,364	1,592	2,050	31,775

Notes:

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

17. PREPAID LEASE PAYMENTS

	The Group Land use rights RMB'000 (Note 17b)
Cost	
At 1 January, 2012, 31 December 2012, 1 January 2013 and 31 December 2013	22,773
Accumulated amoritsation	
At 1 January 2012	2,892
Amortisation for the year	518
At 31 December 2012	3,410
At 1 January 2013	3,410
Amortisation for the year	518
At 31 December 2013	3,928
Carrying amount	
At 31 December 2013	18,845
At 31 December 2012	19,363

Notes:

a) Analysed for reporting purposes as follows:

	2013 **RMB'000**	2012 RMB'000
Current portion	**518**	518
Non-current portion	**18,327**	18,845
	18,845	19,363

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

17. PREPAID LEASE PAYMENTS *(Continued)*

Notes: *(Continued)*

c) On 11 May 2011, 萬州經濟技術開發區土地儲備中心issued a notice to Carpenter Tan for the resumption of the land use rights of a piece of land in Chongqing City Wanzhou District (the "Land") having a carrying amount of RMB7,128,000 (2012: RMB7,289,000) as at 31 December 2013. The Group originally intended to erect a production complex on the Land but no construction activity has commenced up to the date of issue of the financial statements.

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

18. INVESTMENT PROPERTIES

	The Group RMB'000
Fair value	
At 1 January 2012	42,800
Change in fair value	4,530
At 31 December 2012	47,330
At 1 January 2013	**47,330**
Change in fair value	**8,450**
At 31 December 2013	**55,780**

a) Fair value measurement of properties

(i) Fair value hierarchy

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

18. INVESTMENT PROPERTIES *(Continued)*

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

(i) Fair value hierarchy (Continued)

	Fair value at 31 December 2013	Fair value measurements as at 31 December 2013 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
The Group				
Recurring fair value measurement				
Investment properties:				
– Residential – PRC	52,500	—	—	52,500
– Commercial – PRC	3,280	—	—	3,280

During the year ended 31 December 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of the fair value hierarchy as at the end of the reporting period in which they occur.

All of the Group's investment properties were revalued as at 31 December 2013. The valuation was carried out by DTZ Debenham Tie Leung Limited, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited 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 financial controller has discussion with the valuers on the valuation assumptions and valuation result as at 31 December 2013.

18. INVESTMENT PROPERTIES *(Continued)*

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

(ii) Information about Level 3 fair value measurements

Investment properties	Valuation techniques	Unobservable input	Range
Residential – PRC	Direct Comparison Approach	Price per square meter, using market direct comparables and taking into account of factors such as location, condition, size of property and layout/design	RMB4,000 - RMB5,000
Commercial – PRC	Income Capitalisation Approach	Market yield, taking into account of the capitalisation of rental income potential, nature of the property and prevailing market condition	7.5% - 8.0%
		Monthly market rent per square meter, taking into account of factors such as location, condition, size of property and layout/design	RMB105 - RMB156

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

18. INVESTMENT PROPERTIES *(Continued)*

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

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

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

	Investment properties		
	Residential – PRC RMB'000	Commercial - PRC RMB'000	Total RMB$'000
At 1 January 2013	3,130	44,200	47,330
Net gain from fair value adjustment recognised in valuation gains on investment properties in profit or loss	150	8,300	8,450
At 31 December 2013	3,280	52,500	55,780

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

b) The Group's investment properties comprise land use rights in the PRC under the following lease term

	The Group	
	2013 RMB'000	2012 RMB'000
Medium-term leases	**55,780**	44,730
Long-term leases	**—**	2,600
	55,780	47,330

c) Investment properties leased out under operating leases

The Group leases out investment 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 payments receivable under non-cancellable operating leases in respect of investment properties are disclosed in note 35(b)(ii).

19. INTANGIBLE ASSETS

	The Group Trademark RMB'000
Cost	
At 1 January 2012, 31 December 2012, 1 January 2013 and 31 December 2013	1,037
Accumulated amortisation and accumulated impairment	
At 1 January 2012, 31 December 2012, 1 January 2013 and 31 December 2013	1,037
Carrying amount	
At 31 December 2013	—
At 31 December 2012	—

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	
	2013 RMB'000	2012 RMB'000
Investment in unlisted shares at cost	**47**	47
Amounts due from subsidiaries	**84,858**	87,131
	84,905	87,178

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

20. INTERESTS IN SUBSIDIARIES *(Continued)*

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

21. INVENTORIES

	The Group	
	2013	2012
	RMB'000	RMB'000
Raw materials	**28,442**	32,881
Work-in-progress	**9,047**	10,223
Finished goods	**20,833**	16,585
	58,322	59,689

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

	2013	2012
	RMB'000	RMB'000
Carrying amount of inventories sold	**90,009**	87,486
Write-down of inventories	**2,590**	2,478
Reversal of write-down of inventories	**(3)**	(14)
	92,596	89,950

During the year, the Group sold inventories which had been written down in prior years. The amount of RMB3,000 (2012: RMB14,000) written down in prior year was therefore reversed in current year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

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	
	2013	2012
	RMB'000	RMB'000
Trade receivables	**1,723**	943
Less: Allowance for doubtful debts (note 22(b))	**(1)**	(1)
	1,722	942

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

	The Group	
	2013	2012
	RMB'000	RMB'000
0 to 30 days	**1,453**	848
31 to 60 days	**202**	8
61 to 90 days	**37**	4
91 to 180 days	**10**	26
181 to 365 days	**16**	50
Over 1 year	**5**	7
	1,723	943

22. TRADE RECEIVABLES *(Continued)*

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	
	2013	2012
	RMB'000	RMB'000
At 1 January	**1**	8
Impairment loss recognised	**3**	—
Receivables written off during the year as uncollectible	**(3)**	(7)
At 31 December	**1**	1

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

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	
	2013	2012
	RMB'000	RMB'000
Past due but not impaired		
1 to 30 days past due	**202**	8
31 to 60 days past due	**37**	4
61 to 150 days past due	**10**	26
151 to 365 days past due	**16**	50
More than 1 year past due	**4**	6
	269	94
Neither past due nor impaired	**1,453**	848
	1,722	942

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	
	2013	2012
	RMB'000	RMB'000
Other receivables	**10,045**	2,861
Trade and other deposits	**1,404**	3,109
Prepayments	**2,658**	918
VAT and other non-income tax recoverable	**922**	1,148
	15,029	8,036

24. PLEDGED BANK DEPOSITS

The pledged bank deposits represent deposits pledged to a bank to secure standby documentary credit facilities granted to the Group by a bank. The standby documentary credit is used to support the bank loans amounting to approximately RMB66,829,000 (2012: RMB Nil) granted by another bank.

The interest rates on the deposits are 3.3% (2012: Nil) per annum.

25. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	The Group	
	2013	2012
	RMB'000	RMB'000
Provision for the year	**22,554**	21,177
Overprovision in prior years, net	**(1)**	(13,288)
Withholding tax on dividend	**3,312**	—
	25,865	7,889
Tax paid	**(22,557)**	(21,245)
	3,308	(13,356)
Balance of provision for income tax related to prior years	**4,841**	18,197
Net income tax payable	**8,149**	4,841

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

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

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 RMB'000	Fair value changes in investment properties RMB'000	Withholding tax on dividends RMB'000	Total RMB'000
At 1 January 2012	574	3,933	9,457	13,964
Release upon distribution of dividends (note 9(a))	—	—	(2,440)	(2,440)
Charge to consolidated statement of profit or loss for the year (note 9(a))	—	2,342	5,898	8,240
At 31 December 2012	574	6,275	12,915	19,764
At 1 January 2013	574	6,275	12,915	19,764
Release upon distribution of dividends (note 9(a))	—	—	(3,312)	(3,312)
Charge to consolidated statement of profit or loss for the year (note 9(a))	—	2,403	6,327	8,730
At 31 December 2013	574	8,678	15,930	25,182

c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB23,044,000 (2012: RMB23,744,000) 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 RMB12,488,000 (2012: RMB11,344,000) which do not expire under current tax legislation.

26. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2013	2012	**2013**	2012
	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	**355,245**	330,147	**297**	2,451

Bank balances carry interest at market rates ranging from 0.35% to 4.4% (2012: 0.4% to 3.05%).

As at 31 December 2013, the balances that were placed with banks in the PRC amounted to RMB350,531,000 (2012: RMB323,980,000). Remittance of funds out of the PRC is subject to the exchange controls imposed by the PRC government.

27. AMOUNTS DUE TO SUBSIDIARIES

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

28. BANK LOANS, SECURED

	The Group	
	2013	2012
	RMB'000	RMB'000
Bank loans repayment within 1 year, secured	**66,829**	—

All bank loans were denominated in HK$. The balance as at 31 December 2013 is secured by standby documentary credit facilities of the Group. The standby documentary credit is supported by bank deposits amounting to RMB71,700,000 (note 24). These bank borrowings bore interest of effective rates from 1.55% to 2.39%.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

29. TRADE PAYABLES

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

	The Group	
	2013	2012
	RMB'000	RMB'000
0 to 30 days	**2,354**	1,492
31 to 60 days	**143**	309
61 to 90 days	**207**	54
91 to 180 days	**52**	14
181 to 365 days	**153**	31
Over 1 year	**118**	97
	3,027	1,997

30. OTHER PAYABLES AND ACCRUALS

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other payables and accruals	**13,731**	13,033	**1,178**	1,187
Provision for sales returns (note 30(a))	**5,675**	5,675	**—**	—
Provision for severance payments (note 30(b))	**2,375**	—	**—**	—
VAT and other non-income tax payables	**3,719**	4,026	**—**	—
Trade deposits received	**8,024**	6,959	**—**	—
	33,524	29,693	**1,178**	1,187

30. OTHER PAYABLES AND ACCRUALS *(Continued)*

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

	2013 RMB'000	2012 RMB'000
At 1 January	**5,675**	4,282
Charge for the year	**5,675**	5,675
Utilised during the year	**(5,675)**	(4,282)
At 31 December	**5,675**	5,675

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

(b) A reconciliation of the provision for severance payments is as follows:

	2013 RMB'000	2012 RMB'000
At 1 January	—	—
Charge for the year	**2,375**	—
At 31 December	**2,375**	—

The Group intended to relocate its headquarter management centre's office from Chongqing to Juyong City in 2014. The provision for severance payments is estimated based on the expected amount of severance payments to employees upon expiry or cancellation of employment contract as stated in PRC Labour Contract Law with effective from 1 January 2008 and revised on 1 July 2013.

31. DEFERRED INCOME

Deferred income represents government grants received by the Group. The grants aimed to subsidise the Group for purchasing certain property, plant and equipment. Government grants are recognised as income over the useful lives of the relevant assets. During the year, the entire grant was spent for its intended purpose and the deferred income of RMB35,000 (2012: RMB35,000) was released to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

32. SHARE CAPITAL

The Company

	Number of shares	Amount HK$'000	Amount equivalent to RMB$'000
Ordinary shares of HK$0.01			
Authorised:			
At 1 January 2012, 31 December 2012, 1 January 2013 and 31 December 2013	10,000,000,000	100,000	87,926
Issued and fully paid:			
At 1 January 2012, 31 December 2012, 1 January 2013 and 31 December 2013	250,000,000	2,500	2,200

(a) Authorised share capital of the Company

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) net 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, distribution of dividends, 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

32. SHARE CAPITAL *(Continued)*

(b) Capital management *(Continued)*

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

	2013 RMB'000	2012 RMB'000
Current liabilities		
Bank loans, secured	**66,829**	—
Total debt	**66,829**	—
Add: Proposed final dividends	**62,925**	63,075
Less: Cash and cash equivalents	**(355,245)**	(330,147)
Net debt	**N/A**	N/A
Total equity	**504,466**	440,105
Less: Proposed final dividends	**(62,925)**	(63,075)
Adjusted equity	**441,541**	377,030
Net debt to equity ratio	**N/A**	N/A

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

33. RESERVES

The Group

The capital and reserves of the Group attributable to the owners of the Company are set out in the consolidated statement of changes in equity on page 54.

The Company

	Attributable to owners of the Company			
	Share premium RMB'000 (note a)	Currency translation reserve RMB'000 (note f)	Accumulated losses RMB'000	Total RMB'000
At 1 January 2012	114,674	(5,818)	(29,230)	79,626
Profit for the year	—	—	45,122	45,122
Exchange differences arising on translation of functional currency to presentation currency	—	227	—	227
Total comprehensive income for the year	—	227	45,122	45,349
Dividends	—	—	(46,800)	(46,800)
At 31 December 2012	114,674	(5,591)	(30,908)	78,175
At 1 January 2013	114,674	(5,591)	(30,908)	78,175
Profit for the year	—	—	59,665	59,665
Exchange differences arising on translation of functional currency to presentation currency	—	(762)	—	(762)
Total comprehensive income for the year	—	(762)	59,665	58,903
Dividends	—	—	(63,075)	(63,075)
At 31 December 2013	114,674	(6,353)	(34,318)	74,003

33. RESERVES *(Continued)*

The Company *(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 association, to the statutory surplus reserve until the balance reaches 50% of their registered capital. The transfer to this reserve must be made before distributing dividends to shareholders. The reserve can be used to make up previous years' losses, expand existing operations or convert into additional capital of the subsidiaries. In 2010, the Company's wholly-owned subsidiary, Carpenter Tan, increased its registered capital to RMB100,000,000. An additional amount of RMB4,153,000 (2012: RMB12,405,000) was transferred to this reserve in accordance with the provisions set above. Other subsidiaries, Jiangsu Carpenter Tan and Beijing Carpenter Tan had profit in the current year. RMB421,000 (2012: RMB12,000) and RMB205,000 (2012: RMBNil), being 10% of their respective profit before appropriation for the year was transferred to this reserve. As the other PRC subsidiaries of the Group either had a loss for the years ended 31 December 2012 and 2013 or their respective statutory surplus reserves have reached 50% of their respective registered capital, these subsidiaries did not make any transfer of their profit to this reserve for the year ended 31 December 2012 and 2013 accordingly.

ii) Enterprise development and staff welfare funds

Pursuant to regulations in the PRC, the Company's wholly-owned subsidiary Zi Qiang Wood Works, which is registered as a social welfare enterprise in the PRC, is required to transfer 50% and 20% of its tax concessions of value-added tax, as further detailed in note 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 RMB6,555,000 (2012: RMB7,710,000) of its net profit to these funds for the year ended 31 December 2013.

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).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

33. RESERVES *(Continued)*

The Company *(Continued)*

Notes: *(Continued)*

f) **Currency translation reserve**

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

g) **Distributable reserves**

Distributable reserves of the Company as at 31 December 2013 was RMB80,356,000 (2012: RMB83,766,000).

34. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Trade receivables	**1,722**	942	—	—
Other receivables	**10,045**	2,861	—	—
Amounts due from subsidiaries	—	—	**84,858**	87,131
Pledged bank deposits	**71,700**	—	—	—
Cash and cash equivalents	**355,245**	330,147	**297**	2,451
Loans and receivables (including cash and cash equivalents)	**438,712**	333,950	**85,155**	89,582
Financial liabilities				
Trade payables	**3,027**	1,997	—	—
Other payables	**13,731**	13,033	**1,178**	1,187
Amounts due to subsidiaries	—	—	**7,821**	8,067
Bank loans, secured	**66,829**	—	—	—
Financial liabilities at amortised cost	**83,587**	15,030	**8,999**	9,254

34. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies

Details of the Group's financial instruments as stated in note 34(a) are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

i) Currency risk

Certain subsidiaries of the Group have foreign currency bank balances and cash, trade and other receivables and payables, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange 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. The Company's assets and liabilities are mainly denominated in HK$ and the Company conducts its business transactions principally in HK$. Therefore, the directors consider that the company does not have significant currency risk.

The Group

	2013	2012
	RMB'000	RMB'000
Assets		
HK$	**1,767**	1,047
US$	**990**	1,432
Euro	**117**	188
	2,874	2,667
Liabilities		
HK$	—	—
US$	—	—
Euro	—	—
	—	—

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

34. FINANCIAL INSTRUMENTS *(Continued)*

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

i) Currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to currency risks in respect of transactions during the year and balances maintained in 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 components of equity, and the balance below would be negative.

The Group

	Effect on profit after tax and retained profits	
	2013	2012
	RMB'000	RMB'000
HK$	**88**	52
US$	**50**	72
Euro	**6**	9
	144	133

34. 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 24 and 26) and bank loans (see note 28) of the Group. Bank deposits and bank loans at fixed rates and variable rates expose the Group to fair value interest rate risk and cash flow interest rate risk respectively. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management of the Group will consider hedging significant interest rate 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 and bank loans of the Group and the Company. 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 and the Company's profit for the year ended 31 December 2013 and the retained earnings as at the reporting date would increase by approximately RMB2,867,000 and RMB3,000 respectively (2012: RMB3,286,000 and RMB25,000). An equal and opposite impact on the Group's and the Company's profit for the respective years would result if the interest rates had been 100 basis points lower.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

34. FINANCIAL INSTRUMENTS *(Continued)*

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

iii) Credit risk

The Group

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 in respect of its trade and other receivables, with exposure spread over a large number of counterparties and customers. The credit risk in liquid funds is limited because the counterparties are banks with high credit ratings.

The Company

The directors consider that there is no significant credit risk on receivables from certain subsidiaries given their strong financial background and good credibility.

iv) Liquidity risk

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

The following table details the Group's and the Company'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 and the Company can be required to pay. The table includes both interest and principal cash flows.

34. FINANCIAL INSTRUMENTS *(Continued)*

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

iv) *Liquidity risk (Continued)*

The Group

	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 2012							
Trade payables	—	1,997	—	—	—	1,997	1,997
Other payables	—	13,033	—	—	—	13,033	13,033
		15,030	—	—	—	15,030	15,030
At 31 December 2013							
Bank loans, secured	1.55% - 2.39%	66,829	—	—	—	66,829	66,829
Trade payables	—	3,027	—	—	—	3,027	3,027
Other payables	—	13,731	—	—	—	13,731	13,731
		83,587	—	—	—	83,587	83,587

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

34. FINANCIAL INSTRUMENTS *(Continued)*

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

iv) Liquidity risk (Continued)

The Company

	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 2012							
Amounts due to subsidiaries	—	8,067	—	—	—	8,067	8,067
Other payables	—	1,187	—	—	—	1,187	1,187
		9,254	—	—	—	9,254	9,254
At 31 December 2013							
Amounts due to subsidiaries	—	7,821	—	—	—	7,821	7,821
Other payables	—	1,178	—	—	—	1,178	1,178
		8,999	—	—	—	8,999	8,999

c) Fair value

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

35. COMMITMENTS

a) Capital commitments

At 31 December 2013, capital commitments not provided for in the financial statements were as follows:

	The Group	
	2013	2012
	RMB'000	RMB'000
Contracted but not provided for in respect of		
- property, plant and equipment	**21**	533

b) Operating lease commitments

i) At 31 December 2013, the total future minimum lease payables under non-cancellable operating leases in respect of premises are as follows:

	2013	2012
	RMB'000	RMB'000
Within one year	**4,373**	5,091
After one year but within five years	**2,650**	2,645
	7,023	7,736

Operating lease payments represent rentals payable by the Group for certain of its office and retail shops. Leases are negotiated for terms ranging from 1 to 5 years.

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

35. COMMITMENTS *(Continued)*

b) Operating lease commitments *(Continued)*

(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 2013, the total future minimum lease payments receivable under non-cancellable operating leases in respect of premises are as follows:

	2013 RMB'000	2012 RMB'000
Within one year	3,176	4,406
After one year but within five years	1,659	8,063
	4,835	12,469

36. RELATED PARTY TRANSACTIONS

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:

	2013 RMB'000	2012 RMB'000
Short-term employee benefits	3,175	2,623
Post-employment benefits	369	283
	3,544	2,906

Notes:

The remuneration 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.

37. ULTIMATE HOLDING COMPANY

At 31 December 2013, the directors consider the immediate parent and ultimate holding company of the Company to be Lead Charm Investments Limited, a company incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Tan Chuan Hua. This entity does not produce financial statements available for public use.

38. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2013

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 2013 and which have not been adopted in these financial statements.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[3]
HKFRS 9	Financial Instruments[4]
HKFRS 14	Regulatory Deferral Accounts[5]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[3]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK (IFRIC) - Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014.

2 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

3 Effective for annual periods beginning on or after 1 July 2014.

4 Available for application - the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

5 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

The Group is in the process of making an assessment of what the impact of these new and revised HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

FINANCIAL SUMMARY

	Year ended 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Turnover	**280,913**	271,966	244,001	189,418	139,791
Profit before taxation	**157,139**	142,291	131,358	85,592	57,758
Income tax	**(31,283)**	(16,129)	(37,788)	(19,468)	(11,836)
Profit for the year	**125,856**	126,162	93,570	66,124	45,922
Attributable to					
Owners of the Company	**125,856**	126,162	93,570	66,124	45,922
Assets and liabilities					
Total assets	**642,024**	497,282	415,455	339,397	343,093
Total liabilities	**(137,558)**	(57,177)	(54,392)	(38,088)	(84,035)
Equity attributable to owners of the Company	**504,466**	440,105	361,063	301,309	259,058