譚木匠

2018 ANNUAL REPORT

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

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

*For identification purpose only

CONTENTS

譚木匠 Carpenter Tan Holdings Limited

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Tan Chuan Hua *(Chairman)*
Mr. Tan Di Fu
Mr. Tan Lizi

NON-EXECUTIVE DIRECTORS

Madam Tan Yinan
Madam Huang Zuoan

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chau Kam Wing, Donald
Mr. Yang Yang
Madam Liu Liting

MEMBERS OF THE AUDIT COMMITTEE

Mr. Chau Kam Wing, Donald *(Chairman)*
Mr. Yang Yang
Madam Liu Liting

MEMBERS OF THE REMUNERATION COMMITTEE

Mr. Chau Kam Wing, Donald *(Chairman)*
Mr. Yang Yang
Madam Liu Liting

MEMBERS OF THE NOMINATION COMMITTEE

Mr. Chau Kam Wing, Donald *(Chairman)*
Mr. Yang Yang
Madam Liu Liting

COMPANY SECRETARY

Mr. Chan Hon Wan *CA*

AUTHORISED REPRESENTATIVES

Mr. Chan Hon Wan *CA*
Mr. Tan Lizi

REGISTERED OFFICE

Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEADQUARTERS

Building 10
Shang Island
No. 7, Dongchangzhong Road
Jurong City
Jiangsu Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 708, 7th Floor
Witty Commercial Building
1A-1L Tung Choi Street
Mong Kok
Kowloon
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
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

China Construction Bank
86 Hau Yei Tang Road
Wanzhou, Chongqing
The PRC

Agricultural Bank of China
Wanzhou Fen Hang Ying Ye Bu
222 Tai Bai Road
Wanzhou, Chongqing
The PRC

AUDITOR

Crowe (HK) CPA Limited
9th Floor
Leighton Centre
77 Leighton Road
Causeway Bay
Hong Kong

LEGAL ADVISORS TO THE COMPANY

Hastings & Co
5th Floor
Gloucester Tower
11 Pedder Street
Central
Hong Kong

STOCK CODE

837

COMPANY WEBSITE

www.ctans.com

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		Changes
	2018	2017	Increase/
	RMB'000	RMB'000	(decrease)
Financial Highlights			
Revenue	**312,274**	301,616	3.5%
Cost of sales	**(123,598)**	(105,025)	17.7%
Gross profit	**188,676**	196,591	(4.0)%
Profit before taxation	**144,612**	157,211	(8.0)%
Profit attributable to owners of the Company	**114,510**	120,216	(4.7)%
Basic earnings per share (RMB cents)	**46.04**	48.23	(4.5)%
Proposed final dividend per share (HK cents)	**25.86**	30.72	(15.8)%
Proposed special dividend per share (HK cents)	**25.86**	30.72	(15.8)%

	As at 31 December		Changes Increase/
	2018	2017	(decrease)
Liquidity and Gearing			
Current ratio(1)	**7.96**	7.16	11.2%
Quick ratio(2)	**5.97**	5.47	9.1%
Asset-liability ratio(3)	**N/A(4)**	N/A(4)	N/A

Notes:

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

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

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

(4) As at 31 December 2018 and 2017, the Group did not have any bank borrowings. The calculation of asset-liability ratio is not meaningful.

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Carpenter Tan Holdings Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2018 (the "Year Under Review") to the shareholders for your review.

YEAR UNDER REVIEW

In 2018, we held a large-scale brand event of "An ingenious heart of Carpenter Tan, a warm tour to Nanjing University of the Arts", organized the second wood art exhibition of "Original Colors" together with Nanjing University of the Arts, developed and launched various new products in cooperation with certain IPs including Disney and NetEase Cloud Music, and convened the annual conference of franchisees with "Confidence" as the main theme, all of which had not only expanded the brand influence of Carpenter Tan, but also filled the heart of every member of Carpenter Tan.

FUTURE OUTLOOK

During the Year Under Review, under the downward pressure of the national economy, we managed to deliver a modest performance which align with the principle of prudence to which Carpenter Tan has been constantly adhering. However, there are still a number of challenges and problems to be tackled. Firstly, in terms of the overseas market, the online and offline sales channels that we have put into operation in Singapore, Kuala Lumpur, South Korea, United States, Canada and other countries are still at the initial stage, and need further hard works and expansion in the next step. Secondly, we also need to complete the integration of domestic online and offline sales channels. We made not much progress in the omni-channel OTO project in 2018, and we are rethinking the way to integrate consumers, brands and sales channels, with a view to continue mastering omni-channel development and new retail operation mode. Thus, understanding the market situation and serving our consumer well. Thirdly, it has been our strategy for years to cater for our younger customers, and has Carpenter Tan been putting such strategy into practice successfully? The voice of our customers is the most real reflection. To accomplish such a goal, we still have a long way to go and a lot to do, and along with the changing era and market, growing consumers and emerging of the new generation, Carpenter Tan must keep ourselves abreast of market changes to develop into a brand of a century's standing.

In 2019, Carpenter Tan will keep its own pace, make every comb with diligent efforts and craftsmanship, and spare every effort to cope with the challenges emerging from the market and solve every problem.

ACKNOWLEDGEMENT

I wish to thank all my fellow Directors at the Board, the management and all staff sincerely for their devotion. I also wish to express my heartfelt gratitude to the long-term support of our shareholders and our customers. The Group will continue to uphold the practical and innovative principles in its business development and make every endeavour to become better and achieve better prodcuts, better brand image and better results, thus bringing more desired returns for shareholders and investors in the future.

Mr. Tan Chuan Hua
Chairman of the Board

Hong Kong, 28 March 2019

MANAGEMENT REVIEW

"Honesty, Work, Happiness" is the core corporate philosophy of Carpenter Tan, and has been tested by and unremittingly adhered to by Carpenter Tan throughout the tempestuous changes in global macro economy and market environment. The challenges in business types and channels and the relocation of the Group's headquarters from western China to eastern China, as well as the structural reform, talent turnover and concept transformation, which has enabled Carpenter Tan, such a small brand, to grow with health, confidence and dignity. This allows us to carry out smooth communication in respect of internal management, social relationship and investor relationship at the most cost effectiveness way. As such, Carpenter Tan will continue to uphold the corporate philosophy of "Honesty, Work, Happiness", and though we may not develop into an enterprise of enormous size and grow to our satisfaction, we will continue to persist in changing consistently, working enthusiastically and upholding our original goals firmly.

The year 2018 witnessed the greatest blessings of Carpenter Tan in the past nine years after listing. Despite the arduous reorganization, the setbacks in channel transformation, the delay in the application of new marketing mode and the decline in performance, Carpenter Tan has kept its chin up and never panicked or attempted to seek short-term success. Instead, Carpenter Tan has been developing firmly and steadily towards its predetermined goals step by step. Heartfelt appreciation is hereby given to the Directors of the Company for their bold decisions, to all the craftsmen of Carpenter Tan for their joint efforts, and to the investors for their tolerance, understanding and selfless help. Therefore, Carpenter Tan was blessed this year, and we believe it is a starting line for greater blessings.

1. **Offline Business**

The offline sales and marketing team of Carpenter Tan has always been the most powerful team of Carpenter Tan. For the year ended 31 December 2018, the revenue of offline business amounted to approximately RMB207,765,000, representing a decrease of 0.7% against last year. During the Year Under Review, the Group focused on enhancing brand image, exploring effective channels, and closing the stores with poor image and weak profitability. We also exerted efforts on exploring the sales channels in high-end shopping malls and transportation hubs with a view to improving the quality of service and experience. In the meanwhile, we vigorously explored the domestic market with the help of various media and by taking advantage of the widespread enthusiasm for China-made products. As of 31 December 2018, we had opened 547 stores in shopping malls across the country, of which new image stores accounted for 68%.

The Company has always been encouraging franchisees to open good quality and premium stores, and provide representative stores that have met certain standards with relevant subsidies and support. The store opened in January 2018 in Hongqiao, Shanghai was located at an eye-catching location on the departure floor of Hongqiao Railway Station next to various international brands. Hongqiao Railway Station served over 100 million passengers in 2017, and could thus generate great spillover effect for brand promotion. The store opened in December in Guangzhou was located at the bottom floor of Canton Tower, which is the only exit for the visitors. Canton Tower receives over 2 million visitors every year, and thus constitute a guarantee for the advertising traffic. In the meanwhile, we formulated special marketing plans and relevant materials targeting festivals and festive occasions to help franchisees capture the opportunities for marketing and promotion. We established a PK challenge mechanism among stores to stimulate the franchisees to encourage each other and improve together, and further enhance the store-entering rate, sales hit rate and associated purchase rate. The Company attached importance to experience-based marketing, and introduced various activities, including offline wood workshop, bracelet DIY, comb painting and combing experience, which designed to attract more consumers to participate in and experience our service. The Group organized 44 training sessions during the Year Under Review, with store attendance rate reaching 100%.

Movement in Carpenter Tan's franchised stores in the PRC for the past three years:

	As at 31 December		
	2018	2017	2016
Total number of stores	1,216	1,243	1,281
Newly-opened stores	141	177	151
Old stores closed	168	183	246
Statistics adjustment	–	(32)	–
Percentage of stores in provincial cities and municipalities	41%	38%	37%
Percentage of new image stores of the third generation	68%	44%	23%
Percentage of stores in shopping malls	45%	30%	22%
Percentage of stores in high-speed railway stations and airports	2%	1%	1%

Generally speaking, the number of offline franchised stores has been decreasing over the past few years. In order to open quality stores, improve brand image and establish presence in better locations, it is necessary for us to close the stores with poor image and weak profitability. Certain stores still have various problems in terms of external appearances and internal operation, and fail to deliver same-store results to our satisfaction. Our online and offline O2O operation is still not mature, our service quality for end customers in the market still needs to be improved, the implementation and engagement rate of our marketing activities still needs to be enhanced, and our marketing activities still need to be integrated with our brand culture in greater depth. Going forward, Carpenter Tan will exert great efforts on group purchase business, vigorously explore diverse channels and learn to think from customers' perspective to improve the service awareness of thinking for customers. We will cultivate membership awareness, and develop a membership system to communicate with and maintain our existing customer group.

Through years of exploration and accumulation of experience in the overseas market, Carpenter Tan has determined the strategy that marketing efforts shall be focused on specific targets, and has attracted customers mainly by participating in exhibitions. In 2018, Carpenter Tan participated in various exhibitions including the Frankfurt International Gift Exhibition, Taipei International Franchise and Entrepreneurship Exhibition and Tokyo International Gift Exhibition. In August, the H001 store, i.e. Carpenter Tan's first real flagship store overseas, was opened in Suntect City Mall in Singapore, and our stores in Malaysia and Canada will also planned to be open in 2019. As for the Hong Kong market where we operate stores directly, we will continue to make corresponding adjustments and open our stores mainly in shopping malls. In January 2019, our store in Hong Kong Telford Plaza was opened and has currently overmatched the stores in MTR stations.

During the Year Under Review, although we saw a sign of pick-up in our operation, our team still kept prudent and hardworking at all times. However, with the intensified competition for store locations, we recorded an insignificant growth in the sales per square meter, which, together with the increasing new brands for life style goods and gifts that carve up limited store locations and resources for consumer goods, has caused us to make no breakthrough of real significance so far.

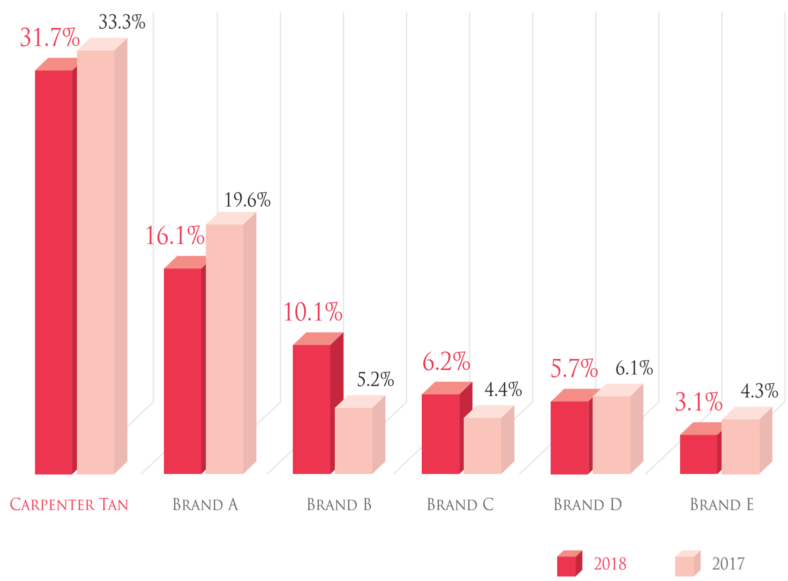
2. **Online Business**

The online team of Carpenter Tan has always been our young force. For the year ended 31 December 2018, the revenue of online business amounted to approximately RMB98,869,000, representing an increase of 14.3% against last year. During the Year Under Review, online marketing was mainly organized around the festival points of online activities by virtue of promotion campaigns via we.taobao.com (微淘), official we-media (官方自媒體), www.toutiao.com (今日頭條) and other channels. Currently, the wooden combs of Carpenter Tan enjoy prominent rankings on online platforms, and the team actively carters to the market by exploring new transmission channels and promotion methods, including expansion of channels at internal website, utilization of external platforms like Xiaohongshu (小紅書) and Weibo (微博) and cooperation with KOLs fitting our brand image. With focus on content marketing, the team works unremittingly to promote the image of Carpenter Tan in the on-line market and attract potential customers.

All along, we had adhered to the principles of same price nationwide and zero discount year-around. But this year, under the pressure given by online platforms, we participated in the most basic platform activities. To clarify the situation, Ms. Liu Kejia, our Online Sales Controller, made special explanation to the franchisees at the franchisees annual meeting for the year, and obtained the understanding and support from them. During the Double 11 Day shopping spree of the year, we recorded a surge in our total online sales as compared with last year, which allowed more consumers not hearing about Carpenter Tan to have initial understanding of us. To serve the shopping spree, all members of the online team worked hard around the clock in shifts, and each department of the Company also assigned relevant personnel for assistance. From senior executives to ordinary employees, all people of the Company strived together in the highest passion and vigour, manifesting the corporate culture of "Honesty, Work, Happiness" with one's own actions.

There were, however, apparent deficiencies in our online business, such as relative weakness in continual production of content, failure to implant our Group's brand culture and products into young consumers' hearts, as well as inaccurate and ineffective expression of feelings, requiring us to make more efforts and improvements.

Rankings of market share for sales of comb category in 2018 and 2017:



3. Innovative Research and Development

The design team of Carpenter Tan has gradually become mature after years of integration. This year, our research and development team mainly focused on the Chinese traditional culture when designing Carpenter Tan's products, added poetry elements on the products and adopted toothing as the main manufacturing process to diversify the Toothed Comb series.

During the Year Under Review, the Group's Innovative Design Centre submitted a total of 158 designs, among which 143 designs were prototyped, 93 designs were assessed for market launch, 54 designs were put into market after passing assessment, and 21 designs were admitted into the regular product range. By combining the oriental wooden comb with classic western images, the "Disney IP" series co-developed by us and Disney is full of childhood and joy. At present, the "Disney IP" series, though still in pre-sales stage, has already been widely hailed by our consumers.

For the year ended 31 December 2018, the Group innovatively developed sharp-tooth comb products series on the basis of toothed combs, enriching the product range for our customers. We also developed the "Picturesque Landscape" series that integrates wood, resin and silver. Such new mix of materials embodied the traditional architectural culture of China and opened up new way of thinking. We also made breakthroughs in the out-look design of our Spring Bracelet series, which coupled with stronger emotional expression, led to good sales in its category. Out of the new products developed during the Year Under Review, 17 designs were abandoned.

Carpenter Tan, standing ready to broaden our horizon, is good at pooling design resources and is engaged in external cooperation with open mind, which contributed much to the iteration and upgrade of our product designs. In particular, we have established long-term cooperation relationship with Nanjing University of the Arts, Biaugust in Taiwan, JOSE design team in Germany and LKKER. The absence of suitable packages for good design products had always been a headache for us. So, this year we made great efforts to improve packaging design, and as a result, the "Disney IP" product series now is able to use the innovative embedded packaging structures designed by us. Besides, we cooperated with Qiutian Culture (秋田文化), a leading design team in China. Together, we explored product categorization and package upgrade, trying to figure out packages truly fitting Carpenter Tan by digging into the true meaning of Carpenter Tan's culture. We are looking forward to a break through development in this area.

There were still many shortcomings in our research and development, such as imprecise market positioning, overpricing of Tan Xiaowang series, significant derail of the fitness series from the brand direction, and the substandard quality of metallic mirrors. As such, there is still a big room for our improvement.

4. Production and Logistics

Any hot brand will be a flash in the pan if it has no great products. "Making the best combs" has always been the pursuit of Carpenter Tan. In our factory, we have a municipal-level technical center in Chongqing with 90% skilled workers and 360 special employees who are disabled and yet firm in spirit, as well as a beautiful environment like a park. We believe that elegant products shall be born in an elegant environment. Carpenter Tan does not pursue magnificence and does not like industrial style for the decoration of its factory, and never allows its working environment to be disorganized. Every great comb is born in a neat, civilized, honest and friendly environment.

During the Year Under Review, our factory completed the integration of workshops to reasonably allocate the positions of the workers on production lines, and rationalized the control process to effectively control the cost. Carpenter Tan advocates innovation and optimization, and has commenced the construction of process standardization to standardize the naming of processes and incorporate the optimization process into the innovation project, and encourages all employees to participate in the improvement work. During the Year Under Review, our production center accomplished a total of 9 technological innovations and granted technical awards of RMB39,700. We also submitted 4 applications for utility model patents, of which two have been authorized. For the year ended 31 December 2018, Carpenter Tan had a total of 135 patents, including 18 invention patents.

Our factory is like a land of idyllic beauty for the employees where we implement strict management, share warmth like a family, and adhere to the 6S management model to create a clean, neat and orderly production environment for the employees, so that employees can create and deliver beauty in a beautiful environment.

5. Brand Culture

This year's brand event started with a romantic date. In April, 350 disabled employees from Carpenter Tan's factory were invited by the Nanjing University of the Arts to travel 1,500 kilometers from Wanzhou, Chongqing to Nanjing, Jiangsu. In the 100-year-old Nanjing University of the Arts appeared a group of special and lovely craftsmen wearing blue rompers and plaid hats as uniforms. The students kindly called them Super Mario. For the first time, many of them left Chongqing Wanzhou, took a high-speed train and walked into a university classroom. Over the five days trip, they had cultural exchange, conducted performances, participated in sports activities and made combs together with the teachers and students of Nanjing University of the Arts, which was the most memorable "spring travel" in life for the craftsmen of Carpenter Tan. In addition to letting the public see the pride and happiness of the disabled, the trip to Nanjing University of the Arts also shows the high quality of Tan Carpenter's craftsmen and the valuable friendship and the mutual help and support among the employees.

The "Original Colors" wooden art exhibition opened in October represented Carpenter Tan's pursuit of wood art and its sincere hope that more people can appreciate the arts and listen to the lectures of international wood masters. We believe that art shall not be far away from the masses and reality, but be integrated into the life of ordinary people.

With high importance attached to innovation, our Group tried a new communication platform – Tik Tok, through which the Company can actively publish and update corporate activities and product information. The "Teacher Tony around Me" activity launched in August recorded more than 10 million views. The "If Combs Can Play Music" design competition carried out with NetEase Cloud Music and LKKER attracted many creative young people, who submitted a total of 519 entries. The design competition was also rebroadcast by various professional media in succession, including "IdeaTom", "ccdol", "Billwang", "shejipi", "shejibon" and "adquan", which attracted the attention of many young designers. In addition to the above, our brand culture center also promoted the upgrade of Carpenter Tan's domestic and international official websites and the setting-up of the Carpenter Tan's membership system on WeChat this year to better display our brand image and products as well as the latest developments of Carpenter Tan to establish a closer bond between consumers and our brand.

Perhaps in others' eyes, the brand communication we have been carrying out is ineffective promotion with no actual immediate benefits, and requires a lot of manpower, financial resources and materials, but this is also the very core of our brand communication efforts, i.e. to convey emotions and warmth without over commercialization and exaggeration, and to do little things from an altruistic perspective to keep others and the society warm and happy.

Carpenter Tan has always attached great importance to the brand culture, but our brand communication is still not powerful enough, and our user research is not deep enough either, just like what our founder Tan Chuanhua used to say, "as if we are winking in the dark". Meanwhile, members of the Brand Department are still focusing on their own businesses and are not cooperating to support the marketing efforts.

6. **Comprehensive Management**

During the Year Under Review, based on the last year 2017 practical issues arising from the cooperation in marketing business platforms, IP channels and procurement business, etc., the Company formulated and put in place the Administrative Measures for Risk Control over Economic Business Contracts (經濟業務合同風險控制管理辦法) to prevent abnormal risks through measures such as equity of rights and obligations, guarantee for contract performance, risk disclosure and level-by-level review and approval. The Company fought against the infringement of the online store "Tanjujiangxin" (譚具匠心) according to law to safeguard the legitimate rights and interests of our Group and franchisees. The Group also maintained the wastage and the cost of raw materials at a reasonable level to effectively control the cost of packaging materials. Meanwhile, according to the requirements of the country and Chongqing City on environment protection, we strictly carried out technical modification for four painting workshops, lampblack discharge in canteens, and sewage purification and discharge at Wanzhou factory to clear the working environment. As for personnel allocation, we strive to make full use of our human resources by encouraging employees in a single position to assume multiple tasks, encouraging employees to study and improve themselves, and encouraging labor innovation to create a clean, pure and beautiful working environment.

7. **Social Responsibilities**

Carpenter Tan's history began with the entrepreneurship of Chairman Tan Chuanhua, who is disabled in his right hand, together with more than 10 disabled employees. As a result, there have been a great number of disabled employees at Carpenter Tan since then. All colleagues have a common sense of mission, which is to strive to operate Carpenter Tan well with an aim to enable our brothers and sisters who had led a hard life to have a chance to work for subsistence and with dignity.

During the Year Under Review, the Company invested over RMB910,000 for the disabled employees to install prosthetic limbs, acquire sports area dedicated for the disabled and reconstruct the staff's dormitory. A total accumulated investment of over RMB1.36 million has been made to provide disability-based and working efficiency-based subsidies for the disabled employees.

In April, we led 350 disabled employees to embark on a long journey from Wanzhou, Chongqing to Nanjing University of the Arts to attend a cultural exchange activity, during which we endeavored to overcome all difficulties and get well prepared in all aspects with joint efforts, demonstrating to the public the high quality of the disabled employees of Carpenter Tan, and proving to the society the value and pride of the disabled. In addition to cultivating the self-independence and self-improvement of the staff, Wanzhou factory organized training classes specially to improve the cultural lives of its staff and enrich their spare time. In early November, calligraphy training class was officially opened, at which Zhang Wanli, director of the new process workshop, gave lessons to the staff who wrote stroke by stroke after the teacher like a pupil at class and discussed with each other about their learning outcomes after class. At Carpenter Tan, we can help with not only working skills, but also virtue and knowledge, thus enabling every staff to become a better person to help more people.

HONORS

During the Year Under Review, the Group received the following honors and achievements:

- The title of Charitable and Caring Enterprise of Chongqing City;
- The first session of Top Ten Featured Products in Cultural Tourism in Chongqing;
- The Company was recommended by the local government as the “National Model Enterprise with Harmonious Labor Relations”, which has been publicly announced; and
- The Most Socially Responsible Listed Company in 2018 in the “Golden Hong Kong Equities Awards” co-organized by Zhitongcaijing and Royal Flush Finance for the third time consecutively.

FINANCIAL REVIEW

1. Revenue

The Group recorded a revenue of approximately RMB312,274,000 for the year ended 31 December 2018, representing an increase of approximately RMB10,658,000 or 3.5% as compared to that of approximately RMB301,616,000 for the year ended 31 December 2017. The revenue of offline business amounted to approximately RMB207,765,000, representing a decrease of 0.7% against last year. The revenue of online business amounted to approximately RMB98,869,000, representing an increase of 14.3% against last year. The revenue of directly-operated outlets amounted to approximately RMB5,069,000, representing a decrease of 6.5% against last year. During the Year Under Review, the Group's enhanced the team structure, store image and channel distribution for offline business, as well as the proactive marketing for online business. As at 31 December 2018, the Group had 1,212 franchised stores and 4 directly-operated outlets respectively while as at 31 December 2017, the Group had 1,239 franchised stores and 4 directly-operated outlets respectively. The franchise fee income was approximately RMB571,000 which represents an increase of 15.4% when compared to that of approximately RMB495,000 of last year.

	For the year ended 31 December			
	2018		2017	
	RMB'000	%	RMB'000	%
Revenue				
– Combs	**67,079**	**21.4**	66,114	21.9
– Mirrors	**781**	**0.3**	766	0.2
– Box sets	**242,612**	**77.7**	233,320	77.4
– Other accessories*	**1,231**	**0.4**	921	0.3
Franchise fee income	**571**	**0.2**	495	0.2
Total	**312,274**	**100.0**	301,616	100.0

* Other accessories include hair decoration, bracelet and small home accessories

2. Cost of sales

The cost of sales of the Group was approximately RMB123,598,000 for the year ended 31 December 2018, representing an increase of approximately RMB18,573,000 or 17.7% as compared to that of approximately RMB105,025,000 for the year ended 31 December 2017. The increase in cost of sales was in line with the increase in revenue and the change in sales mix for the Year Under Review.

3. Gross profit and gross profit margin

For the year ended 31 December 2018, the gross profit of the Group was approximately RMB188,676,000, representing a decrease of approximately RMB7,915,000 or 4.0% as compared to that of approximately RMB196,591,000 for the year ended 31 December 2017. The gross profit margin decreased from 65.2% in 2017 to 60.4% in 2018. The decrease in gross profit margin was mainly due to the change in sales mix of our Group for the Year Under Review.

4. Other income

Other income was approximately RMB50,555,000 for the year ended 31 December 2018, representing an increase of approximately RMB6,534,000 or 14.8% as compared to that of approximately RMB44,021,000 for the year ended 31 December 2017. Other income was mainly comprised of PRC VAT refunds of approximately RMB25,242,000, rental income of approximately RMB7,018,000, change in fair value of financial assets at fair value through profit or loss of approximately RMB4,562,000 and fair value change of investment properties of RMB2,220,000 respectively (2017: PRC VAT refunds of approximately RMB20,472,000, rental income of approximately RMB7,591,000, interest income of approximately RMB8,025,000 and fair value change of investment properties of RMB5,450,000 respectively).

5. Selling and distribution expenses

The selling and distribution expenses of the Group amounted to approximately RMB54,079,000 for the year ended 31 December 2018, representing an increase of approximately RMB9,010,000 or 20.0% as compared to that of approximately RMB45,069,000 for the year ended 31 December 2017. The selling and distribution expenses mainly included advertising and promotion expenses of approximately RMB15,353,000, delivery charges of approximately RMB7,556,000, rental expenses of approximately RMB4,268,000, salaries and allowances of approximately RMB10,233,000 and travelling expenses of approximately RMB2,508,000, respectively (2017: advertising and promotion expenses of approximately RMB10,768,000, delivery charges of approximately RMB7,097,000, rental expenses of approximately RMB3,516,000, salaries and allowances of approximately RMB9,089,000 and travelling expenses of approximately RMB1,950,000, respectively).

6. Administrative expenses

The administrative expenses of the Group was approximately RMB35,131,000 for the year ended 31 December 2018, representing an increase of approximately RMB4,800,000 or 15.8% as compared to that of approximately RMB30,331,000 for the year ended 31 December 2017. The administrative expenses were mainly comprised of salaries and allowances of approximately RMB13,789,000, legal and professional fee of approximately RMB2,325,000, design and sample expenses of approximately RMB2,291,000, consultancy fee of approximately RMB516,000 and audit and review fee of approximately RMB1,132,000, respectively (2017: salaries and allowances of approximately RMB11,457,000, legal and professional fee of approximately RMB2,161,000, design and sample expenses of approximately RMB3,251,000, consultancy fee of approximately RMB358,000 and audit and review fee of approximately RMB1,121,000, respectively).

7. Other operating expenses

Other operating expenses of the Group was approximately RMB5,859,000 for the year ended 31 December 2018, representing a decrease of RMB2,142,000 or 26.8% as compared to that of approximately RMB8,001,000 for the year ended 31 December 2017. The decrease was mainly due to the decrease in losses in disposal of raw materials of RMB2,622,000 during the Year Under Review.

8. Finance costs

There was no finance costs for both the years ended 31 December 2018 and 2017 as the Group did not have any bank borrowings.

9. Income tax

For the year ended 31 December 2018, the income tax expenses of the Group amounted to approximately RMB29,652,000, representing a decrease of approximately RMB7,343,000 or 19.8% when compared to approximately RMB36,995,000 for the year ended 31 December 2017. The decrease was mainly due to the decrease in profit before taxation of approximately RMB13,049,000 during the Year Under Review. The details is set out in Note 8 to the consolidated financial statements.

The effective tax rate for the Year Under Review was 20.6% when compared to 23.5% for the year ended 31 December 2017.

10. Profit for the year

The profit for the year ended 31 December 2018 was approximately RMB114,510,000, representing decrease of approximately RMB5,706,000 or 4.7% as compared to that of approximately RMB120,216,000 for the year ended 31 December 2017. The decrease was mainly due to the decrease in gross profit of approximately RMB7,915,000, the increase in selling and distribution expenses of approximately RMB9,010,000, administrative expenses of approximately RMB4,800,000 , which was partially off-set by the increase in other income of approximately RMB6,534,000, decrease in other operating expenses of approximately RMB2,142,000 and decrease in income tax of approximately RMB7,343,000 for the Year Under Review.

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 2018, the book value of property, plant and equipment amounted to approximately RMB60,883,000, representing an increase of approximately RMB1,689,000 or 2.9% as compared with the previous year of approximately RMB59,194,000. The increase was mainly attributable to the additions of leasehold improvements of approximately RMB2,763,000 for the year ended 31 December 2018.

2. Inventories

The Group's inventories as at 31 December 2018 increased by approximately RMB20,514,000 or 16.4% from approximately RMB125,112,000 as at 31 December 2017 to approximately RMB145,626,000 as at 31 December 2018, primarily due to the increase in raw materials level. Raw materials increased by approximately RMB19,436,000 or 24.1% from RMB80,733,000 in last year to approximately RMB100,169,000 in this year.

3. Trade receivables

Generally, franchisees are required to settle the payments for the products prior to delivery. The Group's trade receivables consist of credit sales of products to be paid by some of the Group's franchisees who had better sales performance. As at 31 December 2018, the Group's trade receivables amounted to approximately RMB2,351,000 which is close to that of approximately RMB2,286,000 as at 31 December 2017.

4. Other receivables, deposits and prepayments

The Group's other receivables, deposits and prepayments increased by approximately RMB3,715,000 or 31.4% from approximately RMB11,845,000 as at 31 December 2017 to approximately RMB15,560,000 as at 31 December 2018. The increase in other receivables, deposits and prepayments was mainly due to an increase in trade and other deposits of approximately RMB5,123,000 when compared to last year.

5. Trade payables

As at 31 December 2018, the Group's trade payables was approximately RMB3,617,000, which is close to that of approximately RMB4,975,000 as at 31 December 2017.

6. Other payables and accruals

The balance of other payables and accruals consists of dividend payables, other payables, accruals, trade deposits received, provision for sales return, VAT and other non-income tax payables. The Group's payables and accruals increased by approximately RMB1,696,000 from approximately RMB40,470,000 as at 31 December 2017 to approximately RMB42,166,000 as at 31 December 2018. The increase was primarily due to an increase in other payable and accruals of approximately RMB1,426,000 during the Year Under Review.

CASH FLOW

The Group's cash is primarily used to meet its working capital requirement, repay the principal and interest of its indebtedness falling due (if any) and finance the 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 2018, the Group's net cash inflow generated from operating activities amounted to approximately RMB79,700,000, representing a decrease of net cash inflow generated from operating activities of approximately RMB46,860,000 from approximately RMB126,560,000 for the year ended 31 December 2017. The decrease was primarily due to the decrease in profit before taxation of approximately RMB13,049,000 and the drop in the increase of other payables and accruals of approximately RMB11,801,000 during the Year Under Review.

2. Net cash used in investing activities

For the year ended 31 December 2018, the Group's net cash outflow used in investing activities amounted to approximately RMB263,913,000, representing an increase of approximately RMB87,467,000 as compared with the cash outflow used in investing activities of approximately RMB176,446,000 for the year ended 31 December 2017. The increase is mainly due to the net increase in payment for purchase of financial assets of approximately RMB84,718,000 during the Year Under Review.

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

For the year ended 31 December 2018, the Group's net cash inflow generated from financing activities amounted to approximately RMB13,064,000, while there was a net cash outflow used in financing activities of approximately RMB158,617,000 for the year ended 31 December 2017. The difference was primarily due to the decrease in non-pledged bank deposit of approximately RMB141,000,000 and dividend paid of approximately RMB127,740,000 during the year ended 31 December 2018.

CAPITAL STRUCTURE

1. Indebtedness

As at 31 December 2018, the Group did not have any bank borrowings (2017: RMB nil).

2. Gearing ratio

As at 31 December 2018 and 2017, the Group did not have any bank borrowings. The calculation of gearing ratio is not meaningful.

3. Pledge of assets

As at 31 December 2018, the Group did not have any pledged assets to the bank (2017: RMB 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 RMB6,163,000 and approximately RMB3,352,000 for the year ended 31 December 2018 and the year ended 31 December 2017 respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings. For the year ended 31 December 2018, the Group did not have any bank borrowings. The disclosure of effective interest rates for variable rate loans is not applicable.

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

As at 31 December 2018, the Group had cash and bank balances of approximately RMB46,203,000 (2017: approximately RMB214,750,000), which was mainly generated from operations of the Group and funds raised by the Company in 2009.

CAPITAL COMMITMENT

As at 31 December 2018, the Group had capital commitment amounted to approximately RMB1,535,000 (2017: approximately RMB439,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2018, the Group had not made any material acquisition and disposal.

OUTLOOK

Opportunity always favors those who prepare well and work hard for their goals. We believe that Carpenter Tan will embrace great opportunities to make a hit in 2019. Our marketing efforts will focus on user experience, and we will try the fourth generation of new image stores and large-scale experiential stores, as well as building and put into operation our membership system. We will open independent stores in Kuala Lumpur and Toronto in March and April, and will continue to adjust the stores with poor image in China. It will be easier for us to acquire good channels and locations as compared to previous years, and we will try to accomplish the synergetic operation of online and offline channels. As for the development of new products, we will keep brand genes, pay closer attention to users' needs, explore traditional culture, focus on handcraft and nature, and plan to carry out large-scale "Comb Garden" pop-up shop itinerant exhibitions in the major cities nationwide. We will establish presence in premium shopping malls, continue to focus on the control over raw material costs for production logistics, and strive to make new breakthroughs in the production process and technical update.

Carpenter Tan will continue to be a workshop full of happiness, where we follow our own heart and earnestly experience every wonderful moment during work. On the path to future and forward, we move forward step by step prudently with no slack nor anxiety for short-term success to live up to the expectation of those who lay trust upon us.

This year, Carpenter Tan's performance was getting better and better, and we are looking forward to climbing up higher in the future while taking every step with a pure and humble heart.

DIVIDENDS

Final dividend

To extend the Company's gratitude for the support of our shareholders, the Board has recommended the distribution of a final dividend of HK25.86 cents per share for the year ended 31 December 2018 to the shareholders whose names appear on the register of members of the Company on Friday, 31 May 2019, amounting to approximately HK$64,317,000 subject to the approval of the Company's annual general meeting to be held on Wednesday, 22 May 2019. The dividend payout ratio is 49.2% of the profit for the year or 39.1% of the profit before taxation of the Company.

Special dividend

In addition, in order to address Shareholders' expectations while retaining funds for future development, the Board has recommended a special dividend of HK25.86 cents per share. The special dividend will be payable to Shareholders whose names appear on the register of members of the Company on Friday, 31 May 2019, amounting to approximately HK$64,317,000 subject to the approval of the Company's annual general meeting to be held on Wednesday, 22 May 2019.

The above-mentioned final dividend and special dividend are expected to be paid on or before Tuesday, 25 June 2019.

DIRECTORS

Executive Directors

Mr. Tan Chuan Hua (譚傳華), aged 61, is an Executive Director, the co-founder of the Group and the chairman of the Company. He is responsible for the overall strategic planning, formulation of the corporate policies, the corporate development and also the day-to-day management of the Group. Mr. Tan has over 20 years of experience in the industry of manufacturing small size wooden handicrafts. Mr. Tan has been appointed as the Chairman of Chong Qing Art and Handicraft Association (重慶工藝美術行業協會) since 2004. He has been a member of the Third Political Consultative Conference Chong Qing Committee (重慶市第三屆政協委員) since January 2008 and was a member of the Second Political Consultative Conference Chong Qing Committee (重慶市第二屆政協委員) from January 2003 to December 2007. Mr. Tan was awarded by the Ministry of Personnel (人事部) of the PRC and China Disabled Persons' Federation (中國殘疾人聯合會) as a Country Self-motivated Model (全國自強模範) in 2003. He was also awarded as 2005 China Outstanding Franchise Executive (2005年中國特許企業優秀管理者) by China Chain Store and Franchise Association (中國連鎖經營協會). He is the director of Lead Charm Investments Limited ("Lead Charm"), the Company's controlling shareholder and Global Craft Collection Association (國際手工藝術集藏協會). He is the spouse of Madam Fan Cheng Qin, father of Mr. Tan Di Fu and Mr. Tan Lizi and the uncle of Madam Tan Yinan. Mr. Tan was appointed as the Director of the Company on 20 June 2006.

Mr. Tan Di Fu (譚棣夫), aged 33, 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, the Chairman and chief executive officer of the Company, and Madam Fan Cheng Qin, the elder brother of Mr. Tan Lizi and the cousin of Madam Tan Yinan. Mr. Tan was appointed as the Executive Director of the Company on 18 August 2010.

Mr. Tan Lizi (譚力子), aged 29, at present is the chief executive officer of the Company. Mr. Tan is responsible for managing the day-to-day operation of the Group, including marketing management, logistics and finance. Mr. Tan is also the general manager of Jiangsu Mujianggu Tourism, Development Company Limited (江蘇木匠谷旅游發展有限公司), an indirect wholly-owned subsidiary of the Company. Mr. Tan is the son of Mr. Tan Chuan Hua, the Chairman and chief executive officer of the Company, and Madam Fan Cheng Qin, the younger brother of Mr. Tan Di Fu and the cousin of Madam Tan Yinan. He joined the Group in September 2012. Mr. Tan was appointed as the Executive Director of the Company on 15 September 2017.

Non-executive Directors

Madam Tan Yinan (譚佚男), aged 36, has worked for Hong Kong Sanxia Gas Investment Limited as a director and Chongqing Three Gorges Gas (Corp.) Ltd. as a general manager since May 2012 and July 2004 respectively. She has over 12 years experiences in management position. Madam Tan graduated from Japanese Culture and Foreign Language Specialise School (日本文化外國語專門學校) in June 2004. She is the niece of Mr. Tan Chuan Hua, the Chairman and chief executive officer of the Company, the cousin of Mr. Tan Di Fu and Mr. Tan Lizi. Madam Tan was appointed as the Non-executive Director of the Company on 1 January 2016.

Madam Huang Zuoan (黃佐安), aged 59, worked for the Ministry of Public Security of the PRC as team head of the economic crime investigation unit at Chongqing City Wanzhou branch from May 2007 to August 2012 and zhengchuji investigator of Wanzhou district police school from August 2012 to December 2013. Madam Huang has over 31 years experiences in public security governmental authorities. She was appointed as the Independent Non-executive Director on 22 May 2014. Madam Huang was re-designated from an Independent Non-executive Director on 28 February 2017.

Independent non-executive Directors

Mr. Chau Kam Wing, Donald (周錦榮), aged 56, has over 24 years of experience in auditing, taxation and financial management and had been appointed as financial controller of a number of companies listed in Hong Kong. Mr. Chau obtained a master degree in business administration from the University of San Francisco, US in 2000. He is also a fellow member of The Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. Mr. Chau is currently the finance director of Winox Holdings Limited (Stock Code: 6838) and he is also an independent non-executive director of China Water Affairs Group Limited (Stock Code: 0855) and Ching Lee Holdings Limited (Stock Code: 3728), which are listed on the Main Board of the Hong Kong Stock Exchange ("HKEx"). He is also an independent non-executive director of Eco-Tek Holdings Limited (Stock Code: 8169) and Zhejiang Chang'an Renheng Techndogy Co., Ltd. (Stock Code: 8139) which are listed on the Growth Enterprise Market of the HKEx. Mr. Chau was also an independent non-executive director of Zhejiang Shibao Company Limited (Hong Kong Stock Code: 1057 and Shenzhen Stock Code: 2703) which is listed on both the Main Board of HKEx and the SME Board of Shenzhen Stock Exchange from November 2009 to June 2015. Mr. Chau has been appointed as an Independent Non-executive Director of the Company since 17 November 2009.

Mr. Yang Yang (楊揚), aged 40, has over 18 years experiences in the capital market and securities industry. During the period from April 2002 to April 2015, he worked as an investment manager, a senior investment manager and an equity managing director at Taikang Asset Management Co., Ltd. with main responsibility for assets investment and equity portfolio management. He was an officer of Bank of China Beijing Branch from July to December 1999. Mr. Yang received his bachelor's degree in economics from Beihang University in 1999 and his master's degree in financial investment from the University of Nottingham in December 2001. Mr. Yang was appointed as the Independent Non-executive Director of the Company on 1 January 2016.

Madam Liu Liting (劉麗婷), aged 37, has over 14 years of experience in business administration. In 2007, she joined Beijing Puna PR Consulting Co., Ltd. (北京普納公關顧問有限公司), which is a public relations company in the People's Republic of China, and has been the general manager since 2013. Madam Liu obtained her bachelor's degree in economics from the Harbin Institute of Technology (哈爾濱工業大學) in May 2004 and her master's degree in arts from the University of Sunderland in England in November 2006. Madam Liu was appointed as an Independent Non-executive Director of the Company on 31 May 2017.

SENIOR MANAGEMENT

Madam Fan Cheng Qin (范成琴) aged 54, is the co-founder and quality controller of the Group. She is responsible for the quality control of the Group including supervision of the quality control team of the logistic centre. She has over 17 years' experience in the industry of manufacturing small wooden handicrafts. Madam Fan is the spouse of Mr. Tan Chuan Hua, the mother of Mr. Tan Di Fu and Mr. Tan Lizi, the elder sister-in-law of both Mr. Tan Cao and the aunt of Madam Tan Yinan.

Ms. Liu Kejia (劉珂佳), aged 34, is the sales controller of the Group (online sales). Ms. Liu joined the Group in October 2009, and is responsible for the exploration of channels on the network sales platform, business management, risk control, overseas market development. Ms. Liu held a bachelor degree in business administration awarded by Chongqing Postal and Telecommunication University (重慶郵電大學) and was engaged in the project management of Singapore Certis CISCO (策安科技) before joining the Group.

Mr. Zhang Chuanjin (張傳金), aged 37, is the sales controller of the Group (offline sales). Mr. Zhang joined the Group in April 2011, and is responsible for the sales development of offline market for franchised shops, brand promotion and product planning. He graduated from Qingdao Binhai Collage in Shangdong (山東青島濱海學院) with major in marketing. Before joining the Group, he was the sales controller of water heater products for Chongqing Trading Company of the Haier Group (海爾集團重慶工貿公司).

Mr. Luo Hongping (羅洪平), aged 53, is the administration controller of the Group. Mr. Luo joined the Group in July 2003, and is responsible for human resource and administration, finance and accounting, product design, brand culture, production, processing and logistic. He has been the factory manager of Wanzhou factory and the head of the technical center of the Group. Mr. Luo held a bachelor degree in engineering management. Before joining the Group, he had been the deputy factory manager of Sichuan Huaxi Silk Factory (四川華西絲綢總廠) for over 10 years where he gained experience in production management, and the deputy general manager of Chongqing Longbao Radio and Television Co., Ltd. (重慶龍寶廣電有限公司) for 4 years where he gained experience in sales of electrical appliances.

Mr. Chan Hon Wan (陳漢雲), aged 58, 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 32 years of extensive experience in accounting and finance fields, gaining from one of the "Big-4" international accounting firms and various listed corporations. He is responsible for overseeing the Group's accounting and finance matters.

The 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 overall business operations.

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.

BOARD OF DIRECTORS

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

As at 31 December 2018, 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. Tan Di Fu and Mr. Tan Lizi served as executive Directors; Madam Tan Yinan and Madam Huang Zuoan served as Non-executive Directors and Mr. Yang Yang, Madam Liu Liting and Mr. Chau Kam Wing, Donald served as Independent Non-executive Directors. These Non-executive Directors and Independent Non-executive Directors, who have different business and professional backgrounds, have brought valuable experience and expertise for the best interests of the Group and its Shareholders. Biographical details of and the relationship between the Directors are set out in the paragraph headed "Biography of Directors and Senior Management" of this report.

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

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

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

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

Pursuant to the Articles of Association of the Company, one-third of the Directors shall retire from office by rotation at each annual general meeting. Accordingly, Mr. Tan Chuan Hua, Mr. Tan Di Fu 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 DIVERSITY POLICY

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

BOARD COMMITTEES

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

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

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

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

AUDIT COMMITTEE

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

The duties and responsibilities of the Audit Committee include:

- provide an independent review of the effectiveness of the financial reporting process and the internal control and risk management systems;
- review and monitor the external auditors' independence and objectivity, and the effectiveness of the audit process;
- monitor the integrity of the Company's financial statements, annual report and accounts;
- review the Group's financial and accounting policies and practices; and
- discuss the risk management and internal control systems with management the ensure that management has performed its duty to have effective systems.

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 2017, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2018 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.

Pursuant to the meeting of the Audit Committee held on 28 March 2019 attended by all the members of the Audit Committee, the Audit Committed has, together with the management of the Company and external independent auditor, reviewed the consolidated financial statements for the year ended 31 December 2018, the results announcement, this 2018 annual report and accounting principles and practices adopted by the Group for the Year Under Review, and agreed with the accounting treatments adopted by the Group.

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 Liu Liting, Mr. Yang Yang and Mr. Chau Kam Wing, Donald, all of whom are Independent Non-executive Directors. Mr. Chau Kam Wing, Donald is the chairman of the Remuneration Committee.

The duties and responsibilities of the Remuneration Committee include:

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

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

NOMINATION COMMITTEE

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

The duties and responsibilities of the Nomination Committee includes:

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

The Nomination Committee shall assess whether any vacancy on the Board has been created or is expected on a regular basis or as required. In the selection and nomination for new Directors, the Nomination Committee identifies the key attributes that an incoming Director should have, based on attributes of the existing Board and the requirements of the Group. The Nomination Committee utilizes various methods for identifying potential candidates, including recommendations from the members of the Board, management, and professional search firms. All potential candidates are evaluated by the Nomination Committee based on their qualifications. The potential candidates will go through a shortlisting process. Interviews are then set up with the shortlisted candidates for the Nomination Committee to assess them before a decision is made. New Directors are appointed by way of a board resolution, after the Nomination Committee has approved their nominations.

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.

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 2018 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. Tan Di Fu	4/4	—	—	—	1/1
Mr. Tan Lizi	4/4	—	—	—	1/1
Non-executive Directors					
Madam Tan Yinan	4/4	—	—	—	1/1
Madam Huang Zuoan	4/4	—	—	—	1/1
Independent Non-Executive Directors					
Mr. Chau Kam Wing, Donald	4/4	2/2	2/2	2/2	1/1
Mr. Yang Yang	4/4	2/2	2/2	2/2	1/1
Madam Liu Liting	4/4	2/2	2/2	2/2	1/1

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. Tan Di Fu	— Reading materials/attending external and in house seminars and programmes
Mr. Tan Lizi	— Reading materials/attending external and in house seminars and programmes
Madam Tan Yinan	— Reading materials/attending external and in house seminars and programmes
Madam Huang Zuoan	— Reading materials/attending external and in house seminars and programmes
Madam Liu Liting	— 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
Mr. Yang Yang	— 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 (HK) CPA Limited, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the "Independent Auditor's Report" of this report.

REMUNERATION OF EXTERNAL AUDITORS

For the year ended 31 December 2018, the total remuneration paid to the external auditors in Hong Kong and the PRC for audit services amounted to approximately RMB805,000 (equivalent to approximately HK$940,000).

For the year ended 31 December 2018, the total remuneration for the permissible non-audit services provided by the external auditors amounted to approximately RMB327,000 (equivalent to approximately HK$382,000), mainly represents remuneration for interim review services.

FINANCIAL REPORTING, INTERNAL CONTROL AND RISK MANAGEMENT

Financial reporting

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

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

Internal control and risk management

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

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

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

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

COMPANY SECRETARY

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

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

DIRECTORS' SERVICE CONTRACTS

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

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

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

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

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

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

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

COMMUNICATION WITH SHAREHOLDERS

Shareholders' communication policy

On 28 March 2012, the Board adopted a shareholders' communication policy reflecting mostly the current practices of the Company for communication with its Shareholders. Such policy aims at providing the Shareholders and potential investors with ready and timely access to balanced and understandable information of the Company. However, it will be reviewed regularly by the Group 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 708, 7th Floor, Witty Commercial Building, 1A-1L Tung Choi Street, Mong Kok, Kowloon, Hong Kong for the attention of the Company's company secretary, signed by the shareholder who should be qualified to attend and vote at the general meeting;

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

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

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

Procedures for directing Shareholders' enquiries to the Board

Shareholders may at any time send their enquires and concerns to the Board in writing through the company secretary whose contact address is Room 708, 7th Floor, Witty Commercial Building, 1A-1L Tung Choi Street, Mong Kok, 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 2019

The Directors have pleasure in presenting the annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018 (the "Financial Statements").

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 2018 and the state of affairs of the Company and the Group at that date are set out in the consolidated Financial Statements on pages 58 to 135.

Final dividend

To extend the Company's gratitude for the support of our shareholders, the Board has recommended the distribution of a final dividend of HK25.86 cents per share for the financial year ended 31 December 2018 to the shareholders whose names appear on the register of members of the Company on Friday, 31 May 2019, amounting to approximately HK$64,317,000 subject to the approval of the Company's annual general meeting to be held on Wednesday, 22 May 2019. The dividend payout ratio is 49.2% of the profit for the year or 39.1% of the profit before taxation of the Company.

Special dividend

In addition, in order to address Shareholders' expectations while retaining funds for future development, the Board has recommended a special dividend of HK25.86 cents per share. The special dividend will be payable to Shareholders whose names appear on the register of members of the Company on Friday, 31 May 2019, amounting to approximately HK$64,317,000 subject to the approval of the Company's annual general meeting to be held on Wednesday, 22 May 2019.

The above-mentioned final dividend and special dividend are expected to be paid on or before Tuesday, 25 June 2019.

POLICY ON PAYMENT OF DIVIDENDS

The Company has adopted a policy on payment of dividends (the "Dividend Policy"), which establishes an appropriate procedure on declaring and recommending the dividend payment of the Company.

The Company will declare and/or recommend the payment of dividends to the Shareholders after considering the Company's ability to pay dividends, which will depend upon, among other things, its actual and expected financial results, cash flow, general business conditions and strategies, current and future operations, statutory, contractual and regulatory restrictions. The Board has complete discretion on whether to pay a dividend, subject to the Shareholders' approval, where applicable. Even if the Board decides to recommend and pay dividends, the form, frequency and amount will depend upon the operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors affecting the Group. The Board may also consider declaring special dividends from time to time, in addition to the interim and/or final dividends.

The Company shall review and reassess the Dividend Policy and its effectiveness on a regular basis or as required.

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 Friday, 17 May 2019 to Wednesday, 22 May 2019 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Thursday, 16 May 2019.

To qualify for the proposed final dividend and special dividend

The register of members of the Company will be closed from Wednesday, 29 May 2019 to Friday, 31 May 2019 (both days inclusive) during which period no transfer of Shares will be registered. To be qualified for receiving the proposed final dividend and special dividend, all share transfer documents must be lodged with the Company's share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 28 May 2019.

BUSINESS REVIEW

A review of the business of the Group for the Year Under Review and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" on pages 6 to 23. An analysis of the Group's performance during the Year Under Review using financial key performance indicators is provided in the "Financial Highlights" on page 4. No important event affecting the Group has occurred since the end of the Year Under Review.

ENVIRONMENTAL POLICY

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

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

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

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

RELATIONSHIPS WITH STAKEHOLDERS

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

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

KEY RISKS AND UNCERTAINTIES

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

Market Risk

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

Foreign exchange risk

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

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

Liquidity Risk

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

Operational Risk

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

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

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2018, 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 2018, the Group had used net proceeds of approximately RMB54,200,000, of which approximately RMB25,500,000 had been applied for enhancement of the Group's design and product development and enhancement for operational efficiency, approximately RMB16,500,000 for enhancement for sales network and sales support services, construction of production base and approximately RMB12,200,000 as working capital. The remaining net proceeds have been deposited with banks.

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

SHARE OPTION SCHEME

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

The principal terms of the Share Option Scheme are summarised as follows:

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

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

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

   The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Group shall not exceed 30% of the Shares in issue from time to time. As at 26 March 2018 and 30 August 2018, being the dates of the 2017 annual report of the Company and 2018 interim report respectively, the total number of Shares available for issue in respect thereof were 24,871,400 Shares and 24,871,400 Shares, representing approximately 10% and 10% of the then issued shares of the Company respectively.

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

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

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

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

8. The subscription price shall be determined by the Board but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day ("Offer Date"); (ii) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of a Share.

9. Subject to early termination by an ordinary resolution in general meeting of Shareholders, the Share Option Scheme shall be valid and effective for a period of ten years commencing on 29 December 2009. Upon the expiry or termination of the Share Option Scheme, no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other aspects with respect to options granted thereunder.

As at 31 December 2018, the Company had granted to certain eligible participants (the "Grantees"), a total of 900,000 share options to subscribe for a total of 900,000 ordinary shares of HK$0.01 each in the capital of the Company under the Share Option Scheme which were accepted by such Grantees. A summary of share options granted under the Share Option Scheme of the Company during the year ended 31 December 2018 is as follows:

					Number of Share Options					
Grantees	Position held with the Group	Date of grant	Option period (Note 1)	Exercise price per share (Note 2)	Outstanding as at 1 January 2018	Granted during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2018	Approximate percentage of the Company's total issued share capital
Mr. Tan Lizi	Executive Director	31 August 2018	31 August 2018 to 30 August 2023	4.896	–	300,000	–	–	300,000	0.12%
Mr. Zhang Chuanjin	Sales Controller (offline sales)	31 August 2018	31 August 2018 to 30 August 2023	4.896	–	200,000	–	–	200,000	0.08%
Ms. Liu Kejia	Sales Controller (online sales)	31 August 2018	31 August 2018 to 30 August 2023	4.896	–	200,000	–	–	200,000	0.08%
Mr. Luo Hongping	Administration Controller	31 August 2018	31 August 2018 to 30 August 2023	4.896	–	200,000	–	–	200,000	0.08%
					–	900,000	–	–	900,000	0.36%

Note 1: The vesting and exercise of certain Share Option are subject to the terms of the Share Option Scheme and the performance target(s) and terms set out in the respective letters of grant.

Note 2: The closing price of the Share on the date of grant of Share Options on 31 August 2018 was HK$4.83.

BORROWINGS

The Group did not have any borrowings for the year ended 31 December 2018.

EQUITY-LINKED AGREEMENTS

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

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

PERMITTED INDEMNITY PROVISION

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

GOING CONCERN

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

PUBLIC FLOAT

According to information disclosed publicly and as far as the Directors are aware, for the year ended 31 December 2018 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 2018, the Company repurchased a total of 50,000 ordinary shares of HK$0.01 each in the share capital of the Company at an aggregate price of approximately HK$224,000. The highest price paid and the lowest price paid was HK$4.49 and HK$4.48 respectively. Those repurchased shares had not been cancelled as at 31 December 2018 and the date of this report.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 28 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 62 and Note 30 to the Financial Statements.

DISTRIBUTABLE RESERVES

As at 31 December 2018, 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 (the "Companies Law"), amounted to approximately RMB181,885,000, of which approximately RMB56,359,000 (equivalent to approximately HK$64,317,000) has been proposed as a final dividend for the year. Besides, approximately RMB56,359,000 (equivalent to approximately HK$64,317,000) has been proposed as a special dividend. Under the Companies Law, a company may make distribution to its shareholders out of the share premium account under certain circumstances.

CHARITABLE DONATIONS

The Group had charitable donations of approximately RMB700,000 for the year ended 31 December 2018 (2017: approximately RMB100,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for the year ended 31 December 2018 are set forth in Note 14 to the Financial Statements.

INVESTMENT PROPERTIES

The Group's investment properties were revalued at the year end date. The fair value increase on investment properties arising on revaluation amounting to approximately RMB2,220,000 has been credited to the consolidated statement of profit or loss. Details of movements in the investment properties of the Group are set out in Note 16 to the consolidated Financial Statements of the Group for the year ended 31 December 2018.

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 2018 are set out in Note 18 to the Financial Statements.

DIRECTORS

The Directors of the Company during the financial year ended 31 December 2018 and up to the date of this report have been:

Executive Directors
Mr. Tan Chuan Hua *(Chairman)*
Mr. Tan Di Fu
Mr. Tan Lizi

Non-executive Directors
Madam Tan Yinan
Madam Huang Zuoan

Independent Non-Executive Directors
Mr. Chau Kam Wing, Donald
Mr. Yang Yang
Madam Liu Liting

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical information of the Directors and senior management of the Company are set out in the section headed "Biography of Directors and Senior Management" on pages 24 to 26.

CONFIRMATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

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

The Board determines the remuneration of the Directors on the basis of the Company's performance, together with the relevant Directors' qualifications, responsibilities, experience, contributions to and positions held with the Company. Details of the remuneration of the Directors are set out in note 9 to the Financial Statements.

The five highest paid individuals of the Group in the Year Under Review include 2 Directors (2017: 2 Director). Details of the five highest paid individuals are set out in note 10 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 is for a term of two years. Either party may terminate the appointment by giving to the other party no less than three months' prior written notice. Each of the Non-executive Directors is entitled to their respective remuneration which has been agreed with the Company.

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

For the Year Under Review, the emoluments payable to each of the Directors is as follows:

	RMB'000
Executive Directors	
Mr. Tan Chuan Hua *(Chairman)*	927
Mr. Tan Di Fu	88
Mr. Tan Lizi	545
Non-executive Directors	
Madam Tan Yinan	88
Madam Huang Zuoan	212
Independent Non-Executive Directors	
Mr. Chau Kam Wing, Donald	132
Mr. Yang Yang	88
Madam Liu Liting	88

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 2018, 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 2018, 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	167,700,000	67.43%
Tan Lizi (Note 2)	Beneficial owner	300,000	0.12%

Note:

1. Tan Chuan Hua is deemed to be interested in 167,700,000 Shares held by Lead Charm Investments Limited ("Lead Charm") by virtue of his 51% interest in Lead Charm under Part XV of the SFO.

2. Interest in options granted pursuant to the Share Option Scheme.

(II) **Interests in the shares of associated corporations:**

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

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

As at 31 December 2018, 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	167,700,000	Long	67.43%
Fan Cheng Qin (Note 2)	Interest in a controlled Corporation	167,700,000	Long	67.43%
Lead Charm (Note 3)	Beneficial owner	167,700,000	Long	67.43%

Notes:

1. Tan Chuan Hua is deemed to be interested in 167,700,000 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 167,700,000 Shares held by Lead Charm by virtue of her 49% Interest in Lead Charm under Part XV of the SFO. Madam 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 2018 are set out in Note 33 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 2018, the Group did not have any assets pledged to the bank (2017: RMB 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. As at 31 December 2018, the Group did not have any bank borrowings. Taking into account the cash flow generated from operation and the bank borrowing facilities available to the Group, the directors of the Company are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least twelve months from the date of this report.

As at 31 December 2018, the Group had cash and bank balances of approximately RMB46,203,000 (2017: approximately RMB214,750,000) 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 3.5% of the Group's total revenue and sales to the largest customer accounted for approximately 0.9% of the Group's total revenue for the year ended 31 December 2018. The aggregate purchases from the five largest suppliers of the Group accounted for approximately 55.5% of the Group's total purchases and purchases from the largest supplier accounted for approximately 28.5% of the Group's total purchases for the year ended 31 December 2018.

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.

EMPLOYEE BENEFITS

Details of the employee benefits of the Group for the year ended 31 December 2018 are set out in Note 2(m) to the Financial Statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

FINANCIAL SUMMARY

A summary of the results, the assets and liabilities of the Group for the last five financial years is set out on page 136 of this report.

EVENTS AFTER THE REPORTING PERIOD

There is no material events after the reporting period as at the date of this report.

AUDITOR

Crowe Horwath (HK) CPA Limited has changed its name to Crowe (HK) CPA Limited. Accordingly, the independent auditor's report is now signed under the new name.

Crowe (HK) CPA Limited acted as auditor of the Company and audited the Group's consolidated financial statements for the financial year ended 31 December 2018.

Crowe (HK) CPA Limited retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Crowe (HK) CPA Limited as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

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

Hong Kong, 28 March 2019

國富浩華(香港)會計師事務所有限公司
Crowe (HK) CPA Limited
香港 銅鑼灣 禮頓道77號 禮頓中心9樓
9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

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

OPINION

We have audited the consolidated financial statements of Carpenter Tan Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 58 to 135, which comprise the consolidated statement of financial position as at 31 December 2018, 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 cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

THE KEY AUDIT MATTERS	HOW THE MATTER WAS ADDRESS IN OUR AUDIT
Inventories	
Refer to notes 4 and 19 to the consolidated financial statements. Assessing net realisable value is an area of significant judgement, with specific consideration in relation to the estimate of write-down of slow-moving and obsolete inventory. Considered that the characteristic of the raw materials, they are ready for use after storing for a period of time which is around 2 to 3 years. However, the demand and ability of the Group to sell these inventories in the future may be adversely affected by many factors, such as changes in customers and consumer preferences, competitor activities including pricing and the introduction of new products.	We have performed review of the ageing analysis of the inventory reports to identify any issues in respect of slow-moving items of the inventories. We have assessed the demand for the Group's inventories by reference to the sales patterns and trends of the Group's products before and after the year end, reviewed the confirmed sales orders from the customers. We have reviewed the calculation of net realisable value of inventories, on a sample basis, with reference to the selling prices achieved on sales near and after the year-end, and checked that the inventories are stated at the lower of their costs and net realisable value.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

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

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

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

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

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

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

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong
28 March 2019

Alvin Yeung Sik Hung
Practising Certificate Number P05206

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	5	**312,274**	301,616
Cost of sales		**(123,598)**	(105,025)
Gross profit		**188,676**	196,591
Other income	6	**50,555**	44,021
Administrative expenses		**(35,131)**	(30,331)
Selling and distribution expenses		**(54,079)**	(45,069)
Other operating expenses		**(5,859)**	(8,001)
Profit before taxation	7	**144,162**	157,211
Income tax	8	**(29,652)**	(36,995)
Profit for the year		**114,510**	120,216
Attributable to			
Owners of the Company		**114,510**	120,216
Earnings per share			
Basic and diluted	13	**RMB46.04 cents**	RMB48.23 cents

The notes on pages 65 to 135 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 RMB'000	2017 RMB'000
Profit for the year	**114,510**	120,216
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of functional currency to presentation currency	**(5,532)**	1,906
Total comprehensive income for the year	**108,978**	122,122
Attributable to		
Owners of the Company	**108,978**	122,122

The notes on pages 65 to 135 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Property, plant and equipment	14	**60,883**	59,194
Prepaid lease payments	15(a)	**15,180**	15,917
Investment properties	16	**100,120**	97,900
Intangible assets	17	—	—
Financial assets at fair value through profit or loss	22	**65,000**	—
Non-pledged fixed bank deposits	24	—	141,000
		241,183	314,011
Current assets			
Prepaid lease payments	15(a)	**737**	737
Inventories	19	**145,626**	125,112
Trade receivables	20	**2,351**	2,286
Other receivables, deposits and prepayments	21	**15,560**	11,845
Available-for-sale financial assets	22	—	173,100
Financial assets at fair value through profit or loss	22	**370,480**	—
Cash and bank balances	24	**46,203**	214,750
		580,957	527,830
Current liabilities			
Trade payables	25	**3,617**	4,975
Other payables and accruals	26	**42,166**	40,470
Income tax payable	23(a)	**27,164**	28,226
		(72,947)	(73,671)
Net current assets		**508,010**	454,159
Total assets less current liabilities		**749,193**	768,170

The notes on pages 65 to 135 form part of these financial statements.

	Notes	2018 RMB'000	2017 RMB'000
Non-current liabilities			
Deferred tax liabilities	23(b)	**31,267**	31,297
Deferred income	27	**668**	704
		(31,935)	(32,001)
NET ASSETS		**717,258**	736,169
CAPITAL AND RESERVES			
Share capital	28	**2,189**	2,189
Reserves	30	**715,069**	733,980
TOTAL EQUITY		**717,258**	736,169

Approved and authorised for issue by the board of directors on 28 March 2019.

Tan Chuan Hua **Tan Lizi**

The notes on pages 65 to 135 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to owners of the Company									
	Share capital RMB'000 (Note 28)	Share premium RMB'000 (Note 30(a))	Capital reserve RMB'000 (Note 30(b))	Statutory reserves RMB'000 (Note 30(c))	Other reserves RMB'000 (Note 30(d))	Property revaluation reserve RMB'000 (Note 30(e))	Currency translation reserve RMB'000 (Note 30(f))	Equity settled share-based payment reserve RMB'000 (Note 30(g))	Retained profits RMB'000	Total RMB'000
At 1 January 2017	2,200	114,674	2,767	142,333	14,466	12,245	(15,536)	—	398,515	671,664
Profit for the year	—	—	—	—	—	—	—	—	120,216	120,216
Exchange differences arising on translation of functional currency to presentation currency	—	—	—	—	—	—	1,906	—	—	1,906
Total comprehensive income for the year	—	—	—	—	—	—	1,906	—	120,216	122,122
Dividends	—	—	—	—	—	—	—	—	(56,707)	(56,707)
Share repurchased and cancelled	(11)	(4,171)	—	—	4,182	—	—	—	—	—
Share repurchase	—	—	—	—	(905)	—	—	—	—	(905)
Transaction cost attributable to share repurchase	—	—	—	—	(5)	—	—	—	—	(5)
Transfer to reserve	—	—	—	1,835	—	—	—	—	(1,835)	—
At 31 December 2017	2,189	110,503	2,767	144,168	17,738	12,245	(13,630)	—	460,189	736,169
At 1 January 2018	**2,189**	**110,503**	**2,767**	**144,168**	**17,738**	**12,245**	**(13,630)**	**—**	**460,189**	**736,169**
Profit for the year	—	—	—	—	—	—	—	—	**114,510**	**114,510**
Exchange differences arising on translation of function currency to presentation currency	—	—	—	—	—	—	**(5,532)**	—	—	**(5,532)**
Total comprehensive income for the year	—	—	—	—	—	—	(5,532)	—	114,510	108,978
Dividends	—	—	—	—	—	—	—	—	(127,740)	(127,740)
Share repurchase	—	—	—	—	(196)	—	—	—	—	(196)
Equity settled share-based transactions	—	—	—	—	—	—	—	47	—	47
Transfer to reserve	—	—	—	1,872	—	—	—	—	(1,872)	—
At 31 December 2018	**2,189**	**110,503**	**2,767**	**146,040**	**17,542**	**12,245**	**(19,162)**	**47**	**445,087**	**717,258**

The notes on pages 65 to 135 form part of these financial statements.

	Notes	2018 RMB'000	2017 RMB'000
Operating activities			
Profit before taxation		**144,162**	157,211
Adjustments for:			
Interest income	6	**(2,644)**	(8,025)
Change in fair value of investment properties	6	**(2,220)**	(5,450)
Change in fair value of financial assets at fair value through profit or loss	6	**(4,562)**	—
Net loss on disposal of property, plant and equipment	7(b)	**77**	245
Depreciation	7(b)	**4,351**	3,647
Amortisation of prepaid lease payments	7(b)	**737**	737
Loss allowance on trade receivables	7(b)	**—**	22
Equity settled share-based payment expenses	7(a)	**47**	—
Write down of inventories	7(b)	**5,008**	2,902
Net foreign exchange (gain)/loss	7(b)	**(7,192)**	796
Government grants released from deferred income	6	**(36)**	(36)
Loss allowance on other receivables, net	7(b)	**208**	14
Provision of sales returns	7(b)	**—**	364
Reversal of provision of sales returns	7(b)	**(704)**	—
Reversal of loss allowance on trade receivables	7(b)	**(56)**	—
Reversal of loss allowance on other receivables	7(b)	**(80)**	—
Reversal of write-down of inventories	7(b)	**(67)**	(48)
Operating profit before working capital changes		**137,029**	152,379
Increase in inventories		**(25,455)**	(23,967)
(Increase)/decrease in trade receivables		**(9)**	625
Increase in other receivables, deposits and prepayments		**(3,843)**	(2,352)
(Decrease)/increase in trade payables		**(1,358)**	178
Increase in other payables and accruals		**2,534**	14,335
Cash generated from operations		**108,898**	141,198
Interest received		**2,644**	8,025
Income tax paid, net		**(25,007)**	(19,787)
Withholding tax paid		**(6,835)**	(2,876)
Net cash generated from operating activities		**79,700**	126,560
Investing activities			
Purchase of property, plant and equipment		**(5,145)**	(3,144)
Proceeds from disposal of property, plant and equipment		**68**	6
Prepayment of acquisition of properties		**(1,018)**	(208)
Payment for purchase of financial assets		**(510,925)**	(231,100)
Proceeds from sale of financial assets		**253,107**	58,000
Net cash used in investing activities		**(263,913)**	(176,446)

The notes on pages 65 to 135 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 RMB'000	2017 RMB'000
Financing activities			
Dividend paid		**(127,740)**	(56,707)
Decrease in non-pledged deposits with original maturity over three months and within one year		—	40,000
Decrease/(increase) in non-pledged bank deposit with original maturity over one year		**141,000**	(141,000)
Payment for repurchase of shares		**(196)**	(910)
Net cash generated from/(used in) financing activities		**13,064**	(158,617)
Net decrease in cash and cash equivalents		**(171,149)**	(208,503)
Cash and cash equivalents at beginning of year		**214,750**	423,222
Effect of foreign exchange rate changes, net		**2,602**	31
Cash and cash equivalents at end of year	24	**46,203**	214,750

The notes on pages 65 to 135 form part of these financial statements.

1. GENERAL INFORMATION

Carpenter Tan Holdings Limited (the "Company") was incorporated in the Cayman Islands on 20 June 2006 as an exempted company with limited liability under the Companies Law (Chapter 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the Company's registered office and the principal place of business are Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and Building 10, Shang Island, No. 7 Dongchangzhong Road, Jurong City, Jiangsu Province, the People's Republic of China (the "PRC") respectively.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These consolidated 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 consolidated 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. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs which 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 consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2018 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 consolidated 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 consolidated financial statements is the historical cost basis except for the investment properties and financial assets at fair value through profit or loss ("FVPL")/ available-for-sale financial assets ("AFS") are stated at their fair value as explained in the accounting policies set out below.

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

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

Judgements made by management in the application of HKFRSs that have a significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 4.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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, 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)(ii)).

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)(ii)).

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 lives and the unexpired lease terms, being no more than 50 years after the date of completion
Leasehold improvements	Over the unexpired lease terms
Plant and machinery	5 to 10 years
Furniture and equipment	5 to 6 years
Motor vehicles	5 to 6 years

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) Leased assets

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

i) Classification of assets leased to the Group

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

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

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

ii) Assets acquired under finance leases

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

e) Leased assets *(Continued)*

iii) Operating lease charges

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

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

f) Investment properties

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

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

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

g) Intangible assets

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Credit losses and impairment of assets

(i) Credit losses from financial instruments

(a) Policy applicable from 1 January 2018

The Group recognises a loss allowance for expected credit losses (ECLs) on the following items:

— financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables);

Financial assets measured at fair value, including financial assets measured at FVPL are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;

— variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments (Continued)

(a) Policy applicable from 1 January 2018 *(Continued)*

Measurement of ECLs *(Continued)*

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments (Continued)

(a) Policy applicable from 1 January 2018 *(Continued)*

Significant increase in credit risk *(Continued)*

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with note 2(p) (iii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

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

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

— the disappearance of an active market for a security because of financial difficulties of the issuer.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments (Continued)

(a) Policy applicable from 1 January 2018 *(Continued)*

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(b) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables and available-for-sale investments). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

— significant financial difficulties of the debtor;

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Credit losses and impairment of assets *(Continued)*

(i) Credit losses from financial instruments (Continued)

(b) Policy applicable prior to 1 January 2018 *(Continued)*

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

— For trade and other receivables and other financial assets carried at amortised cost, impairment loss was 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, where the effect of discounting was material. This assessment was made collectively where these financial assets share similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were 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 decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

— For available-for-sale investments, the cumulative loss that had been recognised in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Credit losses and impairment of assets *(Continued)*

(ii) Impairment of non-financial assets

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

— property, plant and equipment;

— prepaid lease payments;

— intangible assets; and

— investments in subsidiaries 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 whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying amount 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, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

h) Credit losses and 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.

i) Inventories

Inventories are stated 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

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2(h)(i)).

k) Trade and other payables

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for expected credit loss (ECL) in accordance with the policy set out in note 2(h)(i).

m) Employee benefits

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

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

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

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

(ii) Share-based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in employee share-based compensation reserve within equity. The fair value is measured at grant date using the Binomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

m) Employee benefits *(Continued)*

(ii) Share-based payments (Continued)

During the vesting period, the number of share options expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based compensation reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the employee share-based compensation reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained earnings).

(iii) Termination benefits

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

n) Income tax

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

n) Income tax *(Continued)*

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

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

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

n) Income tax *(Continued)*

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

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

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

  — the same taxable entity; or

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

o) Provisions and contingent liabilities

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

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

p) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customers, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

p) Revenue and other income *(Continued)*

Further details of the Group's revenue and other income recognition polices are as follows:

(i) Sale of goods

Revenue is recognised when the customer accepts and takes the control of the products. Revenue represented the sales value of goods sold less returns, discounts, rebates and value added tax ("VAT").

In the comparative period, revenue from sales of goods was recognised when the customer had accepted the related risks and rewards of ownership.

(ii) Franchise joining fee income

Franchise joining fee income is recognised when the franchise agreements are entered into with franchise shops.

(iii) Interest income

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

(iv) Rental income from operating leases

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

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

(vi) Government grants

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

q) Translation of foreign currencies

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

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

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

r) Financial assets at fair value through profit or loss/Available-for-sale financial assets

(i) Policy applicable from 1 January 2018

Other financial assets represented unlisted wealth management product investments which are classified as FVPL. These investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire. The investments are initially stated at fair value, which is their transaction price including directly attributable transaction costs, unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. At the end of each reporting period the fair value is remeasured. Changes in the fair value of the investments (including interest) are recognised in profit or loss from 1 January 2018.

(ii) Policy applicable prior to 1 January 2018

Unlisted wealth management product investments are classified as available-for-sale securities, which are initially stated at fair value. When the investments are derecognised or impaired, the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

s) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

t) Segment reporting

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

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

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

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

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers
HK(IFRIC) 22	Foreign currency transactions and advance consideration

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

The other standards did not have material impact on the Group's accounting policies and did not require any adjustments.

The below explains the impact of adoption of HKFRS 9 Financial Instruments ("HKFRS 9") and HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") on the Group's consolidated financial statements.

The adoption of HKFRS 15 did not have any material impact on the Group's consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 9 Financial instruments

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

a. Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017	Reclassification	HKFRS 9 carrying amount at 1 January 2018
	RMB'000	RMB'000	RMB$'000
Available-for-sale financial assets			
– Principal Guaranteed Wealth Management Products	173,100	(173,100)	—
Financial assets at fair value through profit or loss			
– Principal Guaranteed Wealth Management Products	—	173,100	173,100

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit of loss and the Group does not have any such liabilities.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 9 Financial instruments *(Continued)*

b. Credit loss

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group has two types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- trade receivables
- other financial assets carried at amortised cost

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets.

While restricted cash, short-term bank deposits and cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

(a) Trade receivables

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected losses for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. Future cash flows for each group receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions as well as forward looking information.

Management has closely monitored the credit qualities and the collectability of the trade receivables. Trade receivables in dispute are assessed individually for impairment allowance and determined whether specific provisions are required. The adoption of the simplified expected credit loss approach under HKFRS 9 has not resulted in any additional impairment loss for trade receivables as at 1 January 2018.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 9 Financial instruments *(Continued)*

b. Credit loss (Continued)

(b) Other financial assets carried at amortised cost

For other financial assets carried at amortised cost, including other financial assets at amortised cost in the consolidated statement of financial position, the expected credit loss is based on the 12-month expected credit loss. It is the portion of lifetime expected credit loss that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss. Management has closely monitored the credit qualities and the collectability of the other financial assets at amortised cost and considers that the expected credit loss is immaterial.

c. Transition

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

– The assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group) for the determination of the business model within which a financial asset is held.

– If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

a) Critical accounting judgement in applying the accounting policies

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

(i) Prepaid lease payments

As disclosed in note 15, the PRC government issued a notice to the Group for the resumption of certain land use right in the PRC and the Group will be compensated through an exchange with another piece of land. The management expects that the fair value of the land exchanged as compensation will not be lower than the carrying amount of the land resumed. Such resumption inherently involves uncertainties and depends on the decision of the relevant authorities. Actual result could be different significantly and hence the carrying amounts of prepaid lease payments could be affected.

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

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

b) Key sources of estimation uncertainty

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

(i) Depreciation and amortisation

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

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

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

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

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

(iii) Valuation of investment properties

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

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

(iv) Write-downs of inventories

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

(v) Impairment on trade and other receivables

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

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

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

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

(vi) Provision for sales returns

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

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

(vii) Income tax

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

(viii) Fair value of financial assets at fair value through profit or loss/available-for-sale financial assets

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

5. REVENUE

The principal activities of the Group are design, manufacture and distribution of small wooden handicrafts and accessories under the brand name of "Carpenter Tan"; the operation of a franchise and distribution network primarily in the PRC; and the operation of retail shops for direct sale of the Group products in Hong Kong and the PRC. Revenue represents the sales value of goods supplied to customers (net of value-added tax, other sales tax and discounts) and franchise joining fee income within the scope of HKFRS 15.

Disaggregation of revenue by sales channels is as follows:

	2018 RMB'000	2017 RMB'000
Online business		
– Sales of goods	98,869	86,508
Offline business		
– Sales of goods	207,765	209,195
– Franchise joining fee income	571	495
	208,336	209,690
Directly-operated outlets		
– Sales of goods	5,069	5,418
	312,274	301,616

The Group's customer base is diversified. No individual customer (2017: nil) had transactions which exceeded 10% of the Group's aggregate revenue for the year ended 31 December 2018.

The timing of revenue recognition of all revenue from contracts with customers is at a point in time.

In general, the Group has experienced seasonal fluctuations in sales. It records higher sales in March to April and September to December, while lower sales are recorded in July. The directors consider that such seasonality effect is the result of the increased purchases made by the franchisees prior to festivals/holidays so as to prepare for the peak seasons of their retail business during festivals/holidays in May (Labour Day), October (National Day), December (Christmas and New Year) and January/February (Lunar New Year).

6. OTHER INCOME

	2018 RMB'000	2017 RMB'000
Government grants (note (i))	1,003	944
Government grants released from deferred income	36	36
Interest income from financial assets		
– bank interest income	2,644	8,025
PRC VAT refunds (note 8(a)(i) and (vii))	25,242	20,472
Rental income from investment properties	7,018	7,591
Net foreign exchange gain	7,192	—
Change in fair value of investment properties	2,220	5,450
Change in fair value of financial assets at fair value through profit or loss	4,562	—
Reversal of loss allowance on trade receivables	56	—
Reversal of loss allowance on other receivables	80	—
Others	502	1,503
	50,555	44,021

Note:

(i) In 2017 and 2018, the group successfully applied for funding support from the International Marketing Developing Funds of Small-and-Medium-Sized Enterprises and Industrial Development Funds (the "Funds"), set up by Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China and Chongqing Provincial Human Resources and Social Security Department respectively. The purposes of the Funds are to encourage the involvement in overseas marketing by granting financial assistance to commercial entities who have involved in certain marketing activities outside the PRC; and to promote a stable employment environment and prevent unemployment risks by granting financial assistance to commercial entities whose structure, lay off rate, contributions to unemployment insurance meet certain criteria.

7. PROFIT BEFORE TAXATION

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

	2018 RMB'000	2017 RMB'000
a) Staff costs (including directors' emoluments)		
Salaries and other benefits	64,624	58,520
Contributions to defined contribution retirement scheme	9,345	1,805
Equity-settled share-based payment expenses (note 29)	47	—
Total staff costs	74,016	60,325
b) Other items		
Auditor's remuneration		
- audit services	805	805
- non-audit services	327	316
Amortisation of prepaid lease payments	737	737
Cost of inventories	118,657	102,171
Depreciation	4,351	3,647
Loss allowance on trade receivables	—	22
Loss allowance on other receivables, net	208	14
Reversal of loss allowance on trade receivables	(56)	—
Reversal of loss allowance on other receivables	(80)	—
Net loss on disposal of property, plant and equipment	77	245
Net foreign exchange (gain)/loss	(7,192)	796
Operating lease rentals in respect of land and buildings	5,121	4,787
Provision for sales returns	2,607	3,311
Write down of inventories	5,008	2,902
Reversal of write-down of inventories	(67)	(48)
Gross rental income from investment properties	(7,018)	(7,591)
Less: Direct outgoings incurred for investment properties that generated rental income during the year	859	830
Direct outgoings incurred for investment properties that did not generate rental income during the year	—	8
Net rental income	(6,159)	(6,753)

Note:

(i) Cost of inventories includes approximately RMB46,023,000 (2017: RMB38,933,000) relating to staff costs and depreciation, which are included in the respective total amounts disclosed separately above.

8. INCOME TAX

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

	2018 RMB'000	2017 RMB'000
Current tax		
PRC Enterprise Income Tax (notes 8(a)(ii) and (iii))	22,692	21,807
Hong Kong profits tax (note 8(a)(v))	—	—
Withholding tax on dividends (note 8(a)(vi))		
- Provision for the year (note 23(b))	6,835	2,876
	29,527	24,683
Under provision in prior years, net		
PRC Enterprise Income Tax	155	44
Deferred tax		
Transfer to current tax upon distribution of dividends (note 23(b))	(6,835)	(2,876)
Provision for the year (note 8(a)(vi) and note 23(b))	6,805	15,144
Total	29,652	36,995

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. At the beginning of this year, Zi Qiang Wood Works was dormant and had transferred its staff to a fellow subsidiary, Chongqing Carpenter Tan Handicrafts Co., Ltd ("Carpenter Tan"), which also registered as social welfare enterprise since 24 November 2016 (note vii). Since no salary were paid by Zi Qiang Wood Works to its employees with disabilities, thus Zi Qiang Wood Works was no longer entitled to all the income tax concessions mentioned above.

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.

8. INCOME TAX *(Continued)*

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

Notes: *(Continued)*

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

On 29 May 2012, both Zi Qiang Wood Works and Carpenter Tan, wholly-owned subsidiaries, obtained the approval from Wanzhou Bureau of the State Administration of Taxation under notice No. 12 to enjoy concessionary Enterprise Income Tax rate of 15% from 1 January 2011 to 31 December 2020. Since Zi Qiang Wood Works was dormant during the year, Zi Qiang Wood Works is not entitled to enjoy concessionary Enterprise Turnover Tax rate of 15% for the year.

(iii) The provision for PRC income tax is calculated on the assessable profits of the Group's subsidiaries incorporated in the PRC at a statutory income tax rate of 25% (2017: 25%) except for Carpenter Tan (2017: Zi Qiang Wood Works and Carpenter Tan) which is eligible for the income tax concessions according to the preferential tax policies as stated in note 8(a)(ii) above.

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

(v) No provision for Hong Kong profits tax has been made for the years ended 31 December 2018 and 2017 as the subsidiaries did not have assessable profits subject to Hong Kong profits tax for these years.

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

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

As at the date of the financial statements, the relevant formalities for the reduced tax rate have not yet been completed. However, the management consulted with PRC lawyers and assessed that the risk of surcharge is minimal since the Group had already paid for the withholding tax liabilities on dividend in previous years at 5%. In 2018, a provision of approximately RMB6,835,000 (2017: RMB2,876,000) for current tax and approximately RMB4,607,000 (2017: RMB13,782,000) for deferred tax has been made.

As at 31 December 2018, the deferred tax liabilities relating to withholding tax accrued on undistributed profits of the Group's PRC subsidiaries amounted to approximately RMB11,272,000 (2017: RMB13,500,000) which are expected to be distributed in the foreseeable future.

8. INCOME TAX *(Continued)*

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

Notes: *(Continued)*

(vii) Carpenter Tan, a wholly-owned subsidiary of the Company, is a registered social welfare enterprise since 24 November 2016. Pursuant to the notice on preferential tax policies to social welfare enterprise issued by the SAT, Ministry of Finance of the PRC that, with effect from 1 October 2006, Carpenter Tan 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.

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

	2018 RMB'000	2017 RMB'000
Profit before taxation	**144,162**	157,211
Notional tax on profit before tax, calculated at the rates applicable to profits in the relevant tax jurisdiction	**35,902**	39,909
Tax effect of non-deductible expenses	**2,896**	486
Tax effect of non-taxable incomes	**(1,265)**	(4,834)
Effect of tax concessions granted to subsidiaries (notes 8(a)(i) and (vii))	**(4,125)**	(3,921)
Effect of concessionary tax rate enjoyed by subsidiaries (note 8(a)(ii))	**(10,959)**	(10,044)
Unrecognised temporary differences	**1,447**	440
Unrecognised tax losses	**994**	1,133
Withholding tax on dividends (note 8(a)(vi))	**4,607**	13,782
Under provision in prior years	**155**	44
Actual tax expenses	**29,652**	36,995

9. DIRECTORS' EMOLUMENTS

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

For the year ended 31 December 2018

Name of director	Directors' fees RMB'000	Salaries, allowance and benefits -in-kind RMB'000	Discretionary bonus RMB'000	Retirement scheme contributions RMB'000	Share-based payments (note 9c) RMB'000	Total RMB'000
Executive directors						
Mr. Tan Chuan Hua (note 9(b))	88	192	647	—	—	927
Mr. Tan Di Fu	88	—	—	—	—	88
Mr. Tan Lizi	88	128	273	41	15	545
Independent non-executive directors						
Mr. Yang Yang	88	—	—	—	—	88
Mr. Chau Kam Wing, Donald	132	—	—	—	—	132
Madam Liu Liting	88	—	—	—	—	88
Non-executive directors						
Madam Tan Yinan	88	—	—	—	—	88
Madam Huang Zuoan	88	124	—	—	—	212
	748	444	920	41	15	2,168

9. DIRECTORS' EMOLUMENTS *(Continued)*

For the year ended 31 December 2017

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					
Mr. Tan Chuan Hua (note 9(b))	88	186	366	29	669
Mr. Geng Chang Sheng (Resigned on 15 September 2017)	62	—	—	—	62
Mr. Tan Di Fu	88	—	—	—	88
Mr. Tan Lizi (Appointed on 15 September 2017)	26	186	155	38	405
Independent non-executive directors					
Mr. Yang Yang	88	—	—	—	88
Mr. Chau Kam Wing, Donald	132	—	—	—	132
Madam Liu Liting (Appointed on 31 May 2017)	51	—	—	—	51
Non-executive directors					
Madam Tan Yinan	88	—	—	—	88
Mr. Liu Chang (Resigned on 28 February 2017)	—	—	—	—	—
Madam Huang Zuoan	88	92	—	—	180
	711	464	521	67	1,763

Notes:

a) For the years ended 31 December 2018 and 2017, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived or agreed to waive any emoluments for the years ended 31 December 2018 and 2017.

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

c) These represent the estimated value of share options granted to the directors under the Group's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(m)(ii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed in note 29.

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid individuals of the Group during the year included two directors (2017: two) of the Company whose emoluments are disclosed in note 9 above. Details of the emoluments paid by the Group to the remaining three (2017: three) non-director individuals during the year are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other emoluments	423	440
Bonus	1,160	742
Retirement scheme contributions	84	77
Share-based payments	21	—
	1,688	1,259

The emoluments fell within the following band:

	2018 Number of individuals	2017 Number of individuals
Nil up to HK$1,000,000 (equivalent to RMB856,000)	3	3

For the years ended 31 December 2018 and 2017, 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.

11. SEGMENT REPORTING

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

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

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

Major customers

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

12. DIVIDENDS

i) Dividends payable to owners of the Company attributable to the year

	2018 RMB'000	2017 RMB'000
Final dividend of HK25.86 cents, equivalent to RMB22.66 cents per ordinary share (2017: HK30.72 cents, equivalent to RMB25.68 cents) proposed after the end of the reporting period	**56,359**	63,870

	2018 RMB'000	2017 RMB'000
Special dividend of HK25.86 cents, equivalent to RMB22.66 cents per ordinary share (2017: HK30.72 cents, equivalent to RMB25.68 cents) proposed after the end of the reporting period	**56,359**	63,870

The Directors recommend the payment of a final dividend of HK25.86 cents, equivalent to RMB22.66 cents per ordinary share, totaling RMB56,358,592. In addition, the Directors recommend a special dividend of HK25.86 cents, equivalent to RMB22.66 cents per ordinary share totaling RMB56,358,592. These dividends are to be approved by the shareholders of the Company at the Annual General Meeting scheduled to be held on 22 May 2019. These financial statements do not reflect this recommended dividends.

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

	2018 RMB'000	2017 RMB'000
Final dividend of HK30.72 cents, equivalent to RMB25.68 cents per ordinary share (2017: HK25.49 cents, equivalent to RMB22.80 cents) in respect of the previous financial year, approved and paid during the year	**63,870**	56,706
Special dividend of HK30.72 cents, equivalent to RMB25.68 cents per ordinary share (2017: Nil) in respect of the previous financial year, approved and paid during the year	**63,870**	–

13. BASIC AND DILUTED EARNINGS PER SHARE

a) Basic earnings per share

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

(i) Profit attributable to owners of the Company

	2018 RMB'000	2017 RMB'000
Earnings used in calculating basic and diluted earnings per share	**114,510**	120,216

(ii) Weighted average number of ordinary shares

	Number of shares	
	2018 '000	2017 '000
Weighted average number of ordinary shares for the purpose of calculating basic earning per share	**248,714**	249,264
Effect of deemed issue of share under the company's share option scheme for nil consideration	—	—
Weighted average number of ordinary shares for the purpose of diluted earning per share (note)	**248,714**	249,264

Note: The potential ordinary shares arising from the assumed conversion of the share options are anti-dilutive for the year ended 31 December 2018 and so, have been treated as anti-dilutive for the purpose of calculating diluted earning per share. There ware no potential ordinary shares in issue for the year ended 31 December 2018.

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 2018 and 2017.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost							
At 1 January 2017	42,894	9,636	18,202	6,166	2,845	3,746	83,489
Additions	—	883	1,416	641	204	208	3,352
Disposals	—	—	(622)	(159)	(224)	—	(1,005)
Transfer	—	2,076	52	—	—	(2,128)	—
Exchange adjustments	—	(113)	—	(58)	—	—	(171)
At 31 December 2017	42,894	12,482	19,048	6,590	2,825	1,826	85,665
At 1 January 2018	42,894	12,482	19,048	6,590	2,825	1,826	85,665
Additions	—	2,763	666	1,469	247	1,018	6,163
Disposals	—	—	(79)	(410)	(864)	—	(1,353)
Transfer	—	—	36	59	—	(95)	—
Exchange adjustments	—	78	—	1	—	—	79
At 31 December 2018	42,894	15,323	19,671	7,709	2,208	2,749	90,554

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

	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Accumulated depreciation							
At 1 January 2017	2,618	2,965	11,153	4,675	2,266	—	23,677
Charge for the year	1,271	743	1,016	409	208	—	3,647
Eliminated on disposals of assets	—	—	(408)	(144)	(202)	—	(754)
Exchange adjustments	—	(64)	—	(35)	—	—	(99)
At 31 December 2017	3,889	3,644	11,761	4,905	2,272	—	26,471
At 1 January 2018	3,889	3,644	11,761	4,905	2,272	—	26,471
Charge for the year	1,488	903	1,206	659	95	—	4,351
Eliminated on disposals of assets	—	—	(54)	(371)	(783)	—	(1,208)
Exchange adjustments	—	66	—	(9)	—	—	57
At 31 December 2018	5,377	4,613	12,913	5,184	1,584	—	29,671
Carrying amount							
At 31 December 2018	37,517	10,710	6,758	2,525	624	2,749	60,883
At 31 December 2017	39,005	8,838	7,287	1,685	553	1,826	59,194

15. PREPAID LEASE PAYMENTS

	Land use rights RMB'000 (Note 15(b))
Cost	
At 1 January 2017, 31 December 2017 and 1 January 2018	21,499
Additions	—
At 31 December 2018	21,499
Accumulated amortisation	
At 1 January 2017	4,108
Amortisation for the year	737
At 31 December 2017	4,845
At 1 January 2018	4,845
Amortisation for the year	737
At 31 December 2018	5,582
Carrying amount	
At 31 December 2018	15,917
At 31 December 2017	16,654

Notes:

a) Analysed for reporting purposes as follows:

	2018 RMB'000	2017 RMB'000
Current portion	**737**	737
Non-current portion	**15,180**	15,917
	15,917	16,654

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

c) On 11 May, 2011 萬州經濟技術開發區土地儲備中心 issued a notice to Carpenter Tan for the resumption of the land use rights of a piece of land in Chongqing City Wanzhou District (the "Land") having a carrying amount approximately RMB6,324,000 (2017: RMB6,485,000) as at 31 December 2018. The Group originally intended to erect a production complex on the Land but no construction activity has commenced up to the date of issue of the consolidated financial statements.

On 8 February 2012, Carpenter Tan received another notice from 萬州經濟技術開發區管理委員會, informing the Group that the Land will be resumed by the municipal government due to town planning and the Group will be compensated through an exchange with another piece of land. On 24 August 2017, the government officially announced that the Company could start to use the land as industrial purpose. The management has started to plan for a production complex on the land since 1 September 2017. 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.

16. INVESTMENT PROPERTIES

	RMB'000
Fair value	
At 1 January 2017	92,450
Change in fair value	5,450
At 31 December 2017	97,900
At 1 January 2018	97,900
Change in fair value	2,220
At 31 December 2018	100,120

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.

16. INVESTMENT PROPERTIES *(Continued)*

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

(i) Fair value hierarchy (Continued)

	Fair value at 31 December 2018 RMB'000	Fair value measurements as at 31 December 2018 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Investment properties:				
– Residential – PRC	**5,120**	—	—	**5,120**
– Commercial – PRC	**95,000**	—	—	**95,000**

	Fair value at 31 December 2017 RMB'000	Fair value measurements as at 31 December 2017 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Investment properties:				
– Residential – PRC	4,900	—	—	4,900
– Commercial – PRC	93,000	—	—	93,000

During the years ended 31 December 2018 and 2017, 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 2018. The valuation was carried out by DTZ Debenham Tie Leung Limited, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited has among its employee members of the Hong Kong Institute of Surveyors who have appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The fair values were determined by using Income Capitalisation Approach, by capitalising the rent derived from the existing tenancies with taking into account reversionary income potential. The financial controller has discussion with the valuers on the valuation assumptions and valuation results as at 31 December 2018.

16. 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	RMB6,525 - RMB8,909 (2017: RMB7,100 – RMB9,000)
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% (2017: 7.5%)
		Monthly market rent per square meter, taking into account of factors such as location condition, size of property and layout/design	RMB89 - RMB244 (2017: RMB89 – RMB235)

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

16. 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 2017	3,450	89,000	92,450
Net gain from a fair value adjustment recognised in valuation gains on investment properties in profit or loss	1,450	4,000	5,450
At 31 December 2017 and 1 January 2018	4,900	93,000	97,900
Net gain from a fair value adjustment recognised in valuation gains on investment properties in profit or loss	220	2,000	2,220
At 31 December 2018	5,120	95,000	100,120

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

17. INTANGIBLE ASSETS

	Trademark RMB'000
Cost	
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	1,037
Accumulated amortisation and accumulated impairment	
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	1,037
Carrying amount	
At 31 December 2018	—
At 31 December 2017	—

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.

18. SUBSIDIARIES

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

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

19. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	**100,169**	80,733
Work-in-progress	**17,476**	18,078
Finished goods	**27,981**	26,301
	145,626	125,112

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

	2018 RMB'000	2017 RMB'000
Carrying amount of inventories sold	**118,657**	102,171
Write down of inventories	**5,008**	2,902
Reversal of write-down of inventories	**(67)**	(48)
	123,598	105,025

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

20. 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:

	2018 RMB'000	2017 RMB'000
Trade receivables	2,389	2,380
Less: Loss allowance (note 20(b))	(38)	(94)
	2,351	2,286

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

	2018 RMB'000	2017 RMB'000
0 to 30 days	2,217	2,224
31 to 60 days	43	7
61 to 90 days	4	5
91 to 180 days	2	7
181 to 365 days	7	35
Over 1 year	78	8
	2,351	2,286

b) Movements in the loss allowance for trade receivables

Loss allowance 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 (see note 2(h)(i)).

The movements in the loss allowance for trade receivables are as follows:

	2018 RMB'000	2017 RMB'000
At 31 December under HKAS 39	94	72
At 1 January 2018 under HKFRS 9	94	72
Increase in loss allowance recognised in profit or loss during the year	—	22
Reversal of loss allowance on trade receivables	(56)	—
At 31 December	38	94

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

20. 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:

	2018 RMB'000	2017 RMB'000
Past due but not impaired		
1 to 30 days past due	43	7
31 to 60 days past due	4	5
61 to 150 days past due	2	7
151 to 365 days past due	7	35
More than 1 year past due	78	8
	134	62
Neither past due nor impaired	2,217	2,224
	2,351	2,286

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.

21. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2018 RMB'000	2017 RMB'000
Other receivables	2,525	2,161
Interest receivables on deposits at banks	—	1,660
Trade and other deposits	10,136	5,013
Prepayments	2,487	2,870
VAT and other non-income tax recoverable	412	141
	15,560	11,845

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVPL")/AVAILABLE-FOR-SALE FINANCIAL ASSETS ("AFS")

	2018	2017
	RMB'000	RMB'000
Principal Guaranteed Wealth Management Product, at fair value		
– Non-current	65,000	—
– Current	370,480	173,100
	435,480	173,100

As at 31 December 2018, the Group's financial asset at FVPL represents investment in principal guaranteed wealth management product with following details:

	RMB'000
Balance as at 31 December 2017 under HKAS 39	—
Change in accounting policy (Note 3)	173,100
Balance as at 1 January 2018 under HKFRS 9	173,100
Additions	510,925
Change in fair value	4,562
Repayment	(253,107)
Balance as at 31 December 2018 under HKFRS 9	435,480

The amount represents investment in principal guaranteed wealth management products issued by bank in the PRC with expected return ranging from 2.1% to 4.8% per annum (31 December 2017: 4.0% to 4.5% per annum). The amount of RMB65,000,000 (31 December 2017: RMB Nil) is with maturity of more than one year. The carrying amount approximated the fair value.

The financial assets were re-classified from AFS to FVPL following the adoption of HKFRS 9 on 1 January 2018.

23. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2018 RMB'000	2017 RMB'000
Provision for the year	22,692	21,807
Under provision in prior years, net	155	44
Withholding tax on dividend	6,835	2,876
	29,682	24,727
Tax paid	(31,842)	(22,663)
	(2,160)	2,064
Balance of provision for income tax related to prior years	29,324	26,162
Net income tax payable	27,164	28,226

b) Deferred tax liabilities recognised:

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

	Revaluation surplus of land and buildings RMB'000	Fair value changes in investment properties RMB'000	Withholding tax on dividends RMB'000	Total RMB'000
At 1 January 2017	4,446	11,989	2,594	19,029
Release upon distribution of dividends (note 8(a))	—	—	(2,876)	(2,876)
Charge to consolidated statement of profit or loss for the year (note 8(a))	—	1,362	13,782	15,144
At 31 December 2017	4,446	13,351	13,500	31,297

	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 2018	4,446	13,351	13,500	31,297
Release upon distribution of dividends (note 8(a))	—	—	(6,835)	(6,835)
Charge to consolidated statement of profit or loss for the year (note 8(a))	—	2,198	4,607	6,805
At 31 December 2018	4,446	15,549	11,272	31,267

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

c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of approximately RMB36,418,000 (2017: RMB31,412,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses will expire in the coming one to five years, except for an amount of approximately RMB34,307,000 (2017: RMB31,276,000) which do not expire under current tax legislation.

24. CASH AND BANK BALANCES

	2018 RMB'000	2017 RMB'000
Cash and bank balances in the consolidated statement of financial position	**46,203**	214,750
Cash and cash equivalents in the consolidated cash flow statement	**46,203**	214,750
Non-pledged fixed bank deposits with original maturity over one year	**—**	141,000

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

As at 31 December 2018, the balances that were placed with banks in the PRC including non-pledged fixed bank deposits amounted to approximately RMB39,468,000 (2017: RMB345,250,000). Remittance of funds out of the PRC is subject to the exchange controls imposed by the PRC government.

25. TRADE PAYABLES

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

	2018 RMB'000	2017 RMB'000
0 to 30 days	**2,318**	3,688
31 to 60 days	**752**	456
61 to 90 days	**80**	313
91 to 180 days	**110**	225
181 to 365 days	**73**	18
Over 1 year	**284**	275
	3,617	4,975

26. OTHER PAYABLES AND ACCRUALS

	2018 RMB'000	2017 RMB'000
Dividend payable	**1,753**	1,673
Other payables and accruals	**14,958**	13,532
Provision for sales returns (note 26(a))	**2,607**	3,311
VAT and other non-income tax payables	**3,039**	2,234
Trade deposits received	**13,229**	19,720
Contract liabilities (note 26(b))	**6,580**	—
	42,166	40,470

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

	2018 RMB'000	2017 RMB'000
At 1 January	**3,311**	2,947
Utilised during the year	**(3,311)**	(2,947)
Charge for the year	**2,607**	3,311
At 31 December	**2,607**	3,311

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) Under HKFRS 15, "receipt in advance" amounting RMB6,046,000 which was previously included in trade deposit received are now included under contract liabilities at 1 January 2018.

27. DEFERRED INCOME

Deferred income represents government grants received by the Group. The grants aimed to subsidise the Group for purchasing certain property, plant and equipment. Government grants are recognised as income over the useful lives of the relevant assets. During the year, the entire grant was spent for its intended purpose and the deferred income of RMB36,000 (2017: RMB36,000) was released to profit or loss.

28. SHARE CAPITAL

	Number of shares	Amount HK$	Amount equivalent to RMB
Ordinary shares of HK$0.01			
Authorised:			
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	10,000,000,000	100,000,000	87,926,000
Issued and fully paid:			
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	248,714,000	2,487,140	2,189,160

(a) Authorised share capital

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

(b) Capital management

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

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

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

29. EQUITY SETTLED SHARE-BASED TRANSACTIONS

The Company has a share option scheme which was adopted on 29 December 2009 whereby the directors of the Company are authorised, at their discretion, to invite certain employees, directors, consultants, suppliers, customers and shareholders (the "Grantees") of any member of the Group, to take up options at consideration HK$4.896 for options granted on 31 August 2018 to subscribe for shares of the Company. The options will be exercisable in three tranches and 30%, 30% and 40% of the options granted vest on one year, two years and three years from the grant date respectively (the"Vesting Dates").

Pursuant to the relevant terms of the share option scheme, the options are exercisable from the Vesting Dates to 30 August 2023. Each of the options will give the holder the right to subscribe for 1 ordinary share in the Company and will be settled gross in shares. After all of the above grants, a total number of 900,000 share options were granted to the Grantees.

In addition, the unexercised options granted under the share option scheme will be forfeited when the Grantees cease to be the directors or employees of the Group for reasons other than death, ill-health or retirement.

The terms and conditions of the grants are as follows:

	Number of instruments	Vesting conditions	Contractual life of options
Options granted to directors			
– On 31 August 2018	90,000	1 year from the date grant	5 years
– On 31 August 2018	90,000	2 years from the date grant	5 years
– On 31 August 2018	120,000	3 years from the date grant	5 years
Options granted to employees			
– On 31 August 2018	180,000	1 year from the date grant	5 years
– On 31 August 2018	180,000	2 year from the date grant	5 years
– On 31 August 2018	240,000	3 year from the date grant	5 years
Total share options granted	900,000		

29. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

The number and weighted average exercise prices of share options are as follows:

	2018		2017	
	Weighted exercise price HK$	Number of options	Weighted exercise price HK$	Number of options
Outstanding at the beginning of the year	—	—	—	—
Granted during the year	4.896	900,000	—	—
Outstanding at the end of the year	4.896	900,000	—	—
Exercisable at the end of the year	4.896	90,000	—	—

No share option was exercised during the year as all share options are out of the vesting conditions.

The share option scheme is governed by chapter 17 of the Listing Rules. No option has been granted for the year ended 31 December 2018.

The share options outstanding at 31 December 2018 had an exercise price of HK$4.896 and a weighted average remaining contractual life of 4.67 years (2017: Nil).

30. 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 62.

The Company

	Attributable to owners of the Company					
	Share premium RMB'000 (note a)	Currency translation reserve RMB'000 (note f)	Other reserves RMB'000 (note d)	Equity settled share-based payment reserve RMB'000 (note g)	(Accumulated losses)/ Retained profits RMB'000	Total RMB'000
At 1 January 2017	114,674	(6,788)	(3,272)	—	(40,887)	63,727
Profit for the year	—	—	—	—	187,552	187,552
Exchange differences arising on translation of functional currency to presentation currency	—	(6,809)	—	—	—	(6,809)
Total comprehensive income for the year	—	(6,809)	—	—	187,552	180,743
Dividends	—	—	—	—	(56,707)	(56,707)
Share repurchase	—	—	(905)	—	—	(905)
Transaction cost attributable to share repurchase	—	—	(5)	—	—	(5)
Share repurchase and cancelled	(4,171)	—	4,182	—	—	11
At 31 December 2017	110,503	(13,597)	—	—	89,958	186,864

	Attributable to owners of the Company					
	Share premium RMB'000 (note a)	Currency translation reserve RMB'000 (note f)	Other reserves RMB'000 (note d)	Equity settled Share-based payment reserve RMB'000 (note g)	Retained profits RMB'000	Total RMB'000
At 1 January 2018	110,503	(13,597)	—	—	89,958	186,864
Profit for the year	—	—	—	—	109,164	109,164
Exchange differences arising on translation of functional currency to presentation currency	—	2,867	—	—	—	2,867
Total comprehensive income for the year	—	2,867	—	—	109,164	112,031
Equity settled share-based transactions	—	—	—	47	—	47
Dividends	—	—	—	—	(127,740)	(127,740)
Share repurchase	—	—	(196)	—	—	(196)
At 31 December 2018	110,503	(10,730)	(196)	47	71,382	171,006

30. RESERVES *(Continued)*

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

Month of repurchase	No. of ordinary shares repurchased	Price per share		Aggregate consideration paid
		Highest	Lowest	
		RMB	RMB	RMB'000
September 2018	50,000	3.93	3.92	196

During the year ended 31 December 2018, 50,000 ordinary shares of the Company were repurchased, these repurchased shares had not been cancelled as at 31 December 2018 and the date of this report.

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

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

Notes:

a) **Share premium**

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

b) **Capital reserve**

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

30. RESERVES *(Continued)*

Notes: *(Continued)*

c) **Statutory reserves**

The statutory reserves include the following reserves in the PRC:

i) Statutory surplus reserve

The PRC subsidiaries of the Group are required to transfer 10% of the profit after tax, as determined under the PRC accounting rules and according to their articles of association, to the statutory surplus reserve until the balance reaches 50% of their registered capital. The transfer to this reserve must be made before distributing dividends to shareholders. The reserve can be used to make up previous years' losses, expand existing operations or convert into additional capital of the subsidiaries. In 2010, the Company's wholly-owned subsidiary, Carpenter Tan, increased its registered capital to RMB100,000,000. Other subsidiaries, Jiangsu Carpenter Tan and Beijing Carpenter Tan had profit in the current year. RMB1,536,000 (2017: RMB1,561,000) and RMB336,000 (2017: RMB274,000), being approximately 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 2018 and 2017 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 years ended 31 December 2018 and 2017 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 8a(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 RMBnil (2017: RMBnil) of its net profit to these funds for the year ended 31 December 2018.

d) **Other reserves**

Other reserves represent the difference between the consideration for the acquisition of the subsidiaries paid by the Group and the nominal value of the paid-up capital of the subsidiaries and share repurchased but not yet cancelled during the year ended 31 December 2017.

During the year 2018, the Company repurchased 50,000 shares at prices ranging from RMB3.92 to RMB3.93 through the Stock Exchange at a total consideration of approximately RMB196,000, these repurchased shares had not been cancelled as at 31 December 2018.

As at 4 June 2017, the Company held a total of 1,286,000 treasury shares. During the year 2017, a total of 1,286,000 repurchased shares have been cancelled on 5 June 2017.

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).

30. RESERVES *(Continued)*

Notes: *(Continued)*

f) Currency translation reserve

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

g) Equity settled share-based payment reserve

The equity settled share-based payment reserve comprises the portion of the grant date fair value of unexpected shares options granted to the grantees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payment in note 2 (m)(ii).

h) Distributable reserves

Distributable reserves of the Company as at 31 December 2018 was RMB181,885,000 (2017: RMB200,461,000).

31. FINANCIAL INSTRUMENTS

a) Categories of financial instruments

	2018 RMB'000	2017 RMB'000
Financial assets		
Trade receivables	**2,351**	2,286
Other receivables	**2,525**	3,821
Available-for-sale financial assets	**—**	173,100
Financial assets at fair value through profit or loss	**435,480**	—
Cash and bank balances	**46,203**	214,750
Non-pledged fixed bank deposit	**—**	141,000
Loans and receivables (including cash and cash equivalents)	**486,559**	534,957
Financial liabilities		
Trade payables	**3,617**	4,975
Other payables and accruals	**16,711**	15,205
Financial liabilities at amortised cost	**20,328**	20,180

31. FINANCIAL INSTRUMENTS *(Continued)*

b) Financial risk management objectives and policies

Details of the Group's financial instruments as stated in note 31(a) are disclosed in the respective note. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

i) Currency risk

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

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.

	2018	2017
	RMB'000	RMB'000
Assets		
US$	**1,447**	1,380
Euro	**52**	46
	1,499	1,426

31. FINANCIAL INSTRUMENTS *(Continued)*

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

i) Currency risk (Continued)

Sensitivity analysis

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

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

	Effect on profit after tax and retained profits	
	2018	2017
	RMB'000	RMB'000
US$	**64**	60
Euro	**3**	2
	67	62

ii) Interest rate risk

The Group is exposed to interest rate risk mainly from bank deposits (note 24) of the Group. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management of the Group will consider hedging significant interest rate exposures should the need arise.

31. FINANCIAL INSTRUMENTS *(Continued)*

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

ii) Interest rate risk (Continued)

Sensitivity analysis

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

If interest rates had been 100 basis point higher and all other variables were held constant, the Group's profit for the year ended 31 December 2018 and the retained earnings as at the reporting date would increase by approximately RMB451,000 (2017: RMB3,543,000). An equal and opposite impact on the Group's profit for the respective years would result if the interest rates had been 100 basis points lower.

iii) Credit risk

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

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

iv) Liquidity risk

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

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

31. FINANCIAL INSTRUMENTS *(Continued)*

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

iv) *Liquidity risk (Continued)*

	Weighted average effective interest rate RMB'000	Within 1 year RMB'000	1-2 years RMB'000	2-5 years RMB'000	Over 5 years RMB'000	Total contractual undiscounted cash flow RMB'000	Total carrying amount RMB'000
At 31 December 2017							
Trade payables	—	4,975	—	—	—	4,975	4,975
Other payables and accruals	—	15,205	—	—	—	15,205	15,205
		20,180	—	—	—	20,180	20,180
At 31 December 2018							
Trade payables	—	3,617	—	—	—	3,617	3,617
Other payables and accruals	—	16,711	—	—	—	16,711	16,711
		20,328	—	—	—	20,328	20,328

c) Fair value

Fair value hierarchy

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

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

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

31. FINANCIAL INSTRUMENTS *(Continued)*

c) Fair value *(Continued)*

Fair value hierarchy (Continued)

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

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

	Fair value at 31 December 2018	Fair value measurements as at 31 December 2018 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement				
Assets				
– Financial assets at fair value through profit or loss	435,480	—	—	435,480

	Fair value at 31 December 2017	Fair value measurements as at 31 December 2017 categorised into		
		Level 1	Level 2	Level 3
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement				
Assets				
– Available-for-sale financial assets	173,100	—	—	173,100

During the years ended 31 December 2018 and 2017, 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.

31. FINANCIAL INSTRUMENTS *(Continued)*

c) Fair value

Fair value hierarchy (Continued)

Valuation techniques and inputs used in Level 3 fair value measurements

The fair value of financial assets at fair value through profit or loss/available-for-sale financial assets in Level 3 is determined by discounting the contractual price of financial assets. The discount rate used is derived from the expected return.

32. COMMITMENTS

a) Capital commitments

At 31 December 2018, capital commitments not provided for in the financial statements were as follows:

	2018 RMB'000	2017 RMB'000
Contracted but not provided for in respect of		
– property, plant and equipment	1,535	439

b) Operating lease commitments

As lessee

i) At 31 December 2018, the total future minimum lease payables under non-cancellable operating leases in respect of premises are as follows:

	2018 RMB'000	2017 RMB'000
Within one year	5,251	3,012
After one year but within five years	11,590	5,463
After five years	3,984	4,794
	20,825	13,269

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 12 years.

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

32. COMMITMENTS *(Continued)*

b) Operating lease commitments *(Continued)*

As lessor

(ii) The Group leases out investment properties under operating lease. The leases were negotiated for terms ranging from 1 to 5 years. None of the lease include contingent rental. At 31 December 2018, the total future minimum lease payments receivable under non-cancellable operating leases in respect of premises are as follows:

	2018 RMB'000	2017 RMB'000
Within one year	4,090	4,819
After one year but within five years	9,310	5,311
	13,400	10,130

33. RELATED PARTY TRANSACTIONS

(a) Key management compensation

Remuneration for key management personnel of the Group including certain amounts paid to the directors as disclosed in note 9 and certain amounts paid to the highest paid employees as disclosed in note 10, is as follows:

	2018 RMB'000	2017 RMB'000
Short-term employee benefits	3,695	2,878
Post-employment benefits	125	144
Equity-settled share-based payment expenses	36	—
	3,856	3,022

Note:

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

34. COMPANY LEVEL – STATEMENT OF FINANCIAL POSITION

	Notes	2018 RMB'000	2017 RMB'000
Non-current assets			
Investment in a subsidiary		47	47
Current assets			
Amounts due from subsidiaries		194,876	207,069
Prepayment		127	—
Cash and cash equivalents		335	375
		195,338	207,444
Current liabilities			
Amounts due to subsidiaries		19,087	15,363
Other payables and accruals		3,103	3,075
		(22,190)	(18,438)
Net current assets		173,148	189,006
NET ASSETS		173,195	189,053
CAPITAL AND RESERVES			
Share capital	28	2,189	2,189
Reserves	30	171,006	186,864
TOTAL EQUITY		173,195	189,053

Approved and authorised for issue by the board of directors on 28 March 2019.

Tan Chuan Hua

Tan Lizi

35. EVENTS AFTER REPORTING PERIOD

There is no material events after the reporting period as at the date of this report.

36. ULTIMATE HOLDING COMPANY

At 31 December 2018, the directors consider the immediate parent and ultimate holding company of the Group to be Lead Charm Investments Limited, a company incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Tan Chuan Hua. This entity does not produce financial statements available for public use.

37. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Employee Benefits[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after a date to be determined

Except for the new and amendments to HKFRSs mentioned below, the directors anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

37. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(Continued)*

HKFRS 16 Leases

As disclosed in note 2(e), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

37. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(Continued)*

HKFRS 16 Leases *(Continued)*

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As at 31 December 2018, the Group has non-cancellable operating lease commitments of RMB20,825,000 as disclosed in note 32(b). A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

FINANCIAL SUMMARY

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

	For the year ended 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**312,274**	301,616	263,783	276,062	298,269
Profit before taxation	**144,162**	157,211	143,787	148,368	164,583
Income tax	**(29,652)**	(36,995)	(29,784)	(28,462)	(35,821)
Profit for the year	**114,510**	120,216	114,003	119,906	128,762
Attributable to					
Owners of the Company	**114,510**	120,216	114,003	119,906	128,762
Assets and liabilities					
Total assets	**822,140**	841,841	749,678	706,697	797,405
Total liabilities	**(104,882)**	(105,672)	(78,014)	(83,260)	(218,663)
Equity attributable to owners of the Company	**717,258**	736,169	671,664	623,437	578,742
Liquidity and Gearing					
Current ratio(1)	**7.96**	7.16	9.97	8.97	2.73
Quick ratio(2)	**5.97**	5.47	8.18	7.54	2.32
Asset-liability ratio(3)	**N/A(4)**	N/A(4)	N/A(4)	N/A(4)	16.8%

Notes:

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

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

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

(4) As at 31 December 2018, 2017, 2016 and 2015, the Group did not have any bank borrowings. The calculation of asset-liability ratio is not meaningful.