梳造东方美

SHU ZAO DONG FANG MEI

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

2022 ANNUAL REPORT

譚木匠

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Tan Chuan Hua *(Chairman)*
Mr. Tan Di Fu
Mr. Luo Hongping *(appointed on 1 February 2023)*
Mr. Tan Lizi *(resigned on 1 May 2022)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chau Kam Wing, Donald
Ms. Liu Liting
Mr. Yang Tiannan *(appointed on 20 June 2022)*
Mr. Yang Yang *(resigned on 12 June 2022)*

AUDIT COMMITTEE

Mr. Chau Kam Wing, Donald *(Chairman)*
Ms. Liu Liting
Mr. Yang Tiannan *(appointed on 20 June 2022)*
Mr. Yang Yang *(resigned on 12 June 2022)*

REMUNERATION COMMITTEE

Mr. Chau Kam Wing, Donald *(Chairman)*
Ms. Liu Liting
Mr. Yang Tiannan *(appointed on 20 June 2022)*
Mr. Yang Yang *(resigned on 12 June 2022)*

NOMINATION COMMITTEE

Mr. Chau Kam Wing, Donald *(Chairman)*
Ms. Liu Liting
Mr. Yang Tiannan *(appointed on 20 June 2022)*
Mr. Yang Yang *(resigned on 12 June 2022)*

COMPANY SECRETARY

Mr. Chan Hon Wan *CA*

AUTHORISED REPRESENTATIVES

Mr. Chan Hon Wan *CA*
Mr. Tan Lizi *(resigned on 1 May 2022)*
Mr. Tan Chuan Hua *(appointed on 1 May 2022)*

REGISTERED OFFICE

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PO Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN MAINLAND CHINA

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The PRC

譚木匠

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Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Butterfield House
68 Fort Street
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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PRINCIPAL BANKERS

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The PRC

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

AUDITOR

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Leighton Centre
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Causeway Bay
Hong Kong

LEGAL ADVISORS TO THE COMPANY

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Hong Kong

STOCK CODE

837

COMPANY WEBSITE

www.ctans.com

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		Changes
	2022	2021	Increase/
	RMB'000	RMB'000	(decrease)
Financial Highlights			
Revenue	**348,002**	330,910	5.2%
Cost of sales	**(142,754)**	(131,120)	8.9%
Gross profit	**205,248**	199,790	2.7%
Profit before taxation	**133,363**	130,795	2.0%
Profit attributable to owners of the Company	**107,250**	107,663	(0.4)%
Basic earnings per share (RMB cents)	**43.12**	43.29	(0.4)%
Proposed final dividend per share (HK cents)	**25.03**	27.15	(7.8)%

	As at 31 December		Changes
			Increase/
	2022	2021	(decrease)
Liquidity and Gearing			
Current ratio(1)	**6.57**	7.42	(11.5)%
Quick ratio(2)	**3.51**	4.82	(27.2)%
Gearing ratio(3)	**N/A(4)**	N/A(4)	–

Notes:

(1) Current ratio is calculated as total current assets divided by total current liabilities as at the relevant year end.

(2) Quick ratio is calculated as total current assets less inventories divided by total current liabilities as at the relevant year end.

(3) Gearing ratio is calculated as total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity as at the end of relevant year and multiplied by 100%.

(4) As at 31 December 2022 and 2021, the Group did not have any interest-bearing bank borrowings. The calculation of gearing ratio is not meaningful.

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Carpenter Tan Holdings Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2022 (the "Year Under Review") to the shareholders (the "Shareholders") and potential investors for your review.

After three years of the novel coronavirus (COVID-19)(the "Pandemic"), we have finally turned the page to a new chapter. We believe that the three-year Pandemic was a challenge and test for the Group's business decision-making, organizational management, market operation, employee confidence, humanistic care and response to the crisis.

In the past three years, we have sent medical masks and paid wages on time and in full to our employees, giving them heartwarming and family-like care. We also sent medical masks, disinfectant alcohol, and business closure subsidies to franchisees. With the confidence to overcome difficulties together, we quickly organised and delivered protective clothing and medical gloves from overseas to Wuhan Central Hospital, showing great responsibility and great love.

The past three years have also been the third year in which we have implemented the second development plan. Although our sales performance has not met the planned target, and the equity profit was also affected to certain extent, we were not discouraged. Instead, we faced up to the difficulties, strived for innovation and development in adversity, and tried our best to do a good job in all aspects and achieve the best results, so as to make a new start after the Pandemic was over. We hope that our Shareholders and investors will continue to show us support with tolerance and encouragement.

2023 is the year when the Company ushers in its 30th year of entrepreneurship, and it is also the first year for the Company to implement the third development plan. Dedicating all efforts to push forward, we adhere to the corporate values of "Honesty, Work, Happiness" and upload the craftsmanship of making a good comb. We continue to adhere to the governance policy of "system + culture", make every effort to stabilize the market infrastructure, seize the market for development opportunities, and deepen and improve the quality of service. We are full of confidence with a down-to-earth attitude. We will do our utmost to carry out every job into practice and strive to produce impressive results for 2023.

I wish to express my gratitude to our Shareholders and investors, our dear friends, for their understanding, trust and continuous support they have given in such a tough year. Carpenter Tan has always been committed to being a good enterprise. Looking forward, we shall forge ahead while staying true to our original aspirations. Thank you!

Mr. Tan Chuan Hua
Chairman of the Board

Hong Kong, 31 March 2023

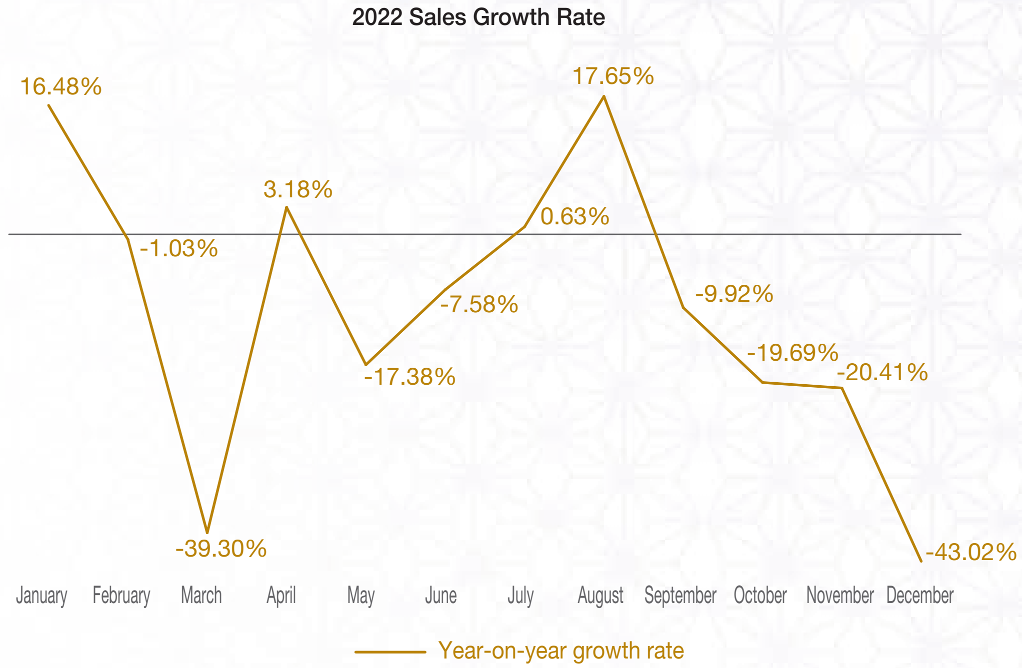
MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT REVIEW

I. Offline Business

During the Year Under Review, 123 new offline stores were built, the total number of specialty stores did not fluctuate significantly and the situation was stable. There were no "store closing trend" under the impact of the Pandemic. The proportion of stores in shopping malls and scenic spots remained stable, and the offline base remained stable. Although the total number of new stores in the Year Under Review was higher than that in the same period of last year, the multiple outbreak of the Pandemic and policy changes in December led to a sharp decline in market traffic in the short term. Rent levels did not decrease, and labour costs remained at a high level due to temporary suspension of business and staff being infected, and the operating pressure of franchisees has not been alleviated.

For the year ended 31 December 2022, the POS sales for our offline business achieved 75.72% of the target plan, representing a decrease of 11% as compared to the same period last year and an increase of 10.57% as compared to 2020. During the Year Under Review, shopping mall stores accounted for 62.13%, image stores of the third generation accounted for 81.89%, and Morandi image stores accounted for 11.31%. The expansion target of new stores reached 123% of the annual plan, and shopping mall stores accounted for 86.99% of the new stores. The Company achieved breakthroughs in the channels of China Resources, and the penetration of the original systems such as Zhongliang, Longhu, Wanda and Kaide as well as the local high-quality businesses was further enhanced, thus filling up the market gaps.



During the Year Under Review, the Group put forward three directional requirements for the marketing efforts, “Transformation, Going Global, Broaden Channels”. The team was resolved to implement this policy and conducted the following tasks related to group purchase:

1. **Adjustment of group purchase policy:** In March 2022, we issued the latest group purchase policy. For external group purchases with a cumulative amount of more than RMB500,000, the reward would be increased by RMB5,000 for each additional RMB100,000;

2. **Multi-version group purchase catalogue:** We designed and printed group purchase manual for international women’s day, which came with refined content for convenient dissemination; we also updated “Rites of Passage” atlas that accompanied with comprehensive content for collection;

3. **Lowering the charging rates of words engraving and gold or silver glazing for group purchases:** In order to strongly support the development of group purchase business, the charging rates for words engraving and gold or silver glazing were lowered on the premise of meeting the reasonable expenditure of logistics costs (such as labour costs and material fees), so as to reduce the costs of group purchase business for specialty stores;

4. **Develop group purchase products:** We adopted restocked material design and developed group purchase products, supporting the design and development of "Fu Lu Shou Xi" (福祿壽喜) group purchase manual, so as to develop group purchase for specialty stores;

5. **Regularly update the promotional materials of group purchase nodes:** The Mid-Autumn Festival group purchase picture and the teacher's day group purchase picture have been designed and released; the New Year group purchase picture is under design stage; the New Year's Day group purchase picture is soon to be designed;

6. **High-end customer rewards:** High-end customer rewards were designed and developed for high-end customers, which were used for specialty stores to maintain customer relations and highlight brand value.

During the Year Under Review, a total of 105 external group purchases were entered into through the store group, representing an increase of 52.17% as compared to the same period of last year; the group purchase amounted to RMB5.62 million, representing an increase of 189.84% as compared with the same period of last year.

Number of franchised stores, overseas stores and counters as at 31 December 2022

	As at 31 December			
	2022		2021	
	Franchised stores	**Self-operated stores**	Franchised stores	Self-operated stores
Mainland China	**1,088**	**1**	1,089	1
Hong Kong	**–**	**2**	–	2
Other countries and regions	**4**	**–**	5	–
Total	**1,092**	**3**	1,094	3

Number of franchised stores distribution in China as at 31 December 2022

	As at 31 December			
	2022		2021	
Type of stores	**Number of franchised store**	**Percentage**	Number of franchised store	Percentage
Shopping mall	**676**	**62.1%**	642	59.0%
Street shop	**269**	**24.7%**	290	26.6%
Department store	**61**	**5.6%**	68	6.2%
Supermarket	**25**	**2.3%**	27	2.5%
Scenic spot	**43**	**4.0%**	43	4.0%
Transportation hub	**8**	**0.7%**	9	0.8%
Hotel	**2**	**0.2%**	2	0.2%
Others	**4**	**0.4%**	8	0.7%
Total	**1,088**	**100.0%**	1,089	100.0%

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For the year ended 31 December 2022, the main tasks of the sales and marketing departments included the following:

Efficient operation and normalised pandemic prevention

During the Year Under Review, the Group's marketing team made solid efforts in store operation management, required all stores to comply with local Pandemic prevention requirements and carry out fundamental Pandemic prevention measures. We have fully implemented the supporting policies and provided certain policy support to stores which have been affected by repeated and prolonged impacts of the Pandemic and stores that have been closed down, so as to alleviate the operating pressure of the franchised stores, encourage franchised stores to operate with peace of mind, and continue to provide consumers with high-quality services. For new product display throughout the whole year, the quality of display props has been improved, and the overall colour and texture were better, which were conducive to the establishment of the overall atmosphere of the franchise stores and the enhancement of the brand level.

We have strengthened store inspection and imposed severe penalties for stores with non-compliant business operation. During the Year Under Review, nine stores were ordered to be dismantled due to non-compliance. Those stores were involved in a series of violations, including illegal online sales, illegal promotion with complimentary gifts, illegal sales of non-Carpenter Tan products, and illegal promotion on other online platforms.

The marketing team continued to adhere to the goal of opening good quality and premium stores. A tracking mechanism was introduced in newly opened stores in which marketing personnel were required to fully participate in the entire process of new store operation. Sales targets in new stores were set up and marketing personnel were evaluated to ensure high efficiency and profits in the new stores. During the Year Under Review, Beijing Han's Plaza, Guangzhou Tiyu Xilu Station, Chongqing Jiangbei Guanyin qiao Jinguan, Sichuan Jinjiang Chunxi Road, Yunnan Shuncheng Shopping Center, Chongqin The Mixc, BHG Mall, GuiZhou Guiyang no.1 achieved averaged monthly sales of more than RMB100,000 for the year.

During the Year Under Review, we achieved a breakthrough in the channels of China Resources. Hubei Wuhan Mixc Store, Zhongqing Jiulongpo Xiejiawan Mixc Store, Guangdong Songshan Lake Mixc Store, Shandong Qingdao Laoshan Mixc Store, Anhui Hefei Shushan Mixc Store, Joy City in ZhongLiang entered the China Resources system. Longhu Xichen Tian Street in Sichuan Jinniu District, Chongqing Yuzhong District Longhu Shidai Tian Street A, Hubei Wuhan Baishalong HuTian Street A, Beijing Daxing Longhu Tian Street were added to the Longhu system. The penetration of high-quality local businesses has been further strengthened. Newly entered systems included Chongqing Sam Members and Guangdong Shenzhen Shanshan Aolai.

Stepping up brand promotion

Facing the unfavourable situation of the large-scale pandemic in China in March and November 2022. the Group took the lead in placing WeChat feed advertisements promotional campaigns in first-tier cities such as Beijing, Shanghai, Guangzhou and Shenzhen, as well as new first-tier cities and some provincial capitals in China, which allowed customers to shop at home freely without leaving their doorstep. During the Season of Sakura and Mother's Day, the mini-program feed advertisements were launched nationwide, and the number of brand impressions reached over 6.57 million and the number of clicks reached 160,626 times. Achieving sales of mini programs over 7.50 million during Mother's day, the annual sales has reached more than 19 million; we carried out a fun daily "Make a post of combing" (梳頭打卡) activity to enhance the interaction between specialty stores and customers. Not only did it help Carpenter Tan fans develop a good habit of combing, it also enhanced the adhesiveness between customers, brand and specialty stores, which played a good role in increasing the repurchase rate of customers and promoting the healthy and uplifting brand image of Carpenter Tan; in September, we held the event of "Antique combing beauty" (梳房顏究院) in GuangZhou Mixc Store, and the display style was full of national charm which attracted a large number of visitors. Various fun activities such as scalp checking, combing experience and making post were offered with splendid presentation, and such event has greatly enhanced the brand image of Carpenter Tan. The "Wishes in the Year of the Tiger" wishing pool activity for the New Year attracted more than 9,000 visits. We upgraded the membership system, and the one-click import of tracking number for new members' orders and member blacklist settings were added. The efficiency of order processing was increased and the malicious exchange was reduced, which effectively avoided damage to the Company's interests. Through various marketing activities and promotion methods, the number of new members throughout the year was 94,168, and we currently have more than 500,000 members. The number of orders redeemed and processed for members throughout the year was 42,049.

Product type diversity

During the Year Under Review, a total of 15 new inserted comb products were launched, in which 3 of them were limited and customised series lacquer comb; we launched 7 "Chinese style with ancient charm" series products, in which the replica and extended designs were made based on prototypes of real ancient combs, including one of which was a phoenix peony co-branded with Hanfu brand Ming Hua Tang (明華堂); we have launched 2 tendon combs to supplement the lack of functional products; for hair care combs and ring combs, which were well received in the market, 8 new products were added to the market, and 1 new wooden comb with mirror set was added; the theme of the Chinese zodiac was continued, in which 2 new products with the theme of Lovers Rabbits and 2 new products with the theme of the Year of the Rabbit were launched. We continued to support self-research and development of specialty stores. In 2022, 19 new customised products were added. Among the 19 products, tendon comb-Hefeng and Hexie, hair-care comb Jinli were popular among customers, hence these products were converted into regular products.

During the Year Under Review, we have optimised the following works to improve the new packaging: the opening method of the upper and lower flaps of the packaging, the length of the flap ribbon, removal of handbag plastic coating, modification of pattern colour for festival handbags. In 2023, we plan to carry out optimisation work such as adjustment of the packaging structure of hair care combs and unification of the product bag material; we will strengthen the development of functional products to bring products that are more in line with market needs and continue to strengthen the management of Carpenter Tan's product system.

Store image upgrade

During the Year Under Review, a total of 178 stores were renovated, 91 of which were Morandi-styled stores and 87 of which were third generation-styled stores. After design adjustments, optimisation and improvements, Morandi-styled has been gradually accepted by merchants, customers and franchisees, and the number of renovations made for Morandi-styled stores has exceeded three generations-styled stores. We plan to further adjust and improve the store layout and cabinet structure design in 2023.

Training diversity

The training team used the accumulation of training materials as the base, and the training in diversified forms was combined with diverse tracking verification of training results. The diversification of training allowed the form of training not be limited to offline regular training. We have implemented various forms of training such as nation-wide live steaming online training, self-operated regional Tencent conferences, and implementing the national outstanding external market trainer program. During the Year Under Review, a total of 62 regional regular training, 19 national online live streaming training (including 2 sessions in the factory), 15 self-operated regional Tencent conference training, 11 online and offline salons, 3 offline group purchase experience sessions and 2 online sessions were held. We continued to develop and optimise various materials that were suitable for the market, such as basic and advanced versions of "Meridian health preservation for combing", "Value adding service" training material, "Experiential Sales" training material, "Private domain traffic" training material etc, to deliver knowledge content to the market in a timely manner. We collected outstanding sales cases from the market, developed and produced the "Case collection" information, so as to share more outstanding experiences to the market for learning, drawing on the strong points of others to make up for deficiencies; We have filmed more product usage videos, such as Hefeng tendon comb, ring comb, various massage boards, mixing wood craftsmanship, engraved comb craftsmanship, inserted comb craftsmanship, etc. We made the product usages and descriptions in video formats, allowing our store staffs to learn conveniently and providing guidance to our customers on usage. We collected and organised "Carpenter Tan's Hundred Questions and Answers", so that our store owners and staff can find information and answers whenever they needed.

Continuous positive reviews from customers on life-long free maintenance services

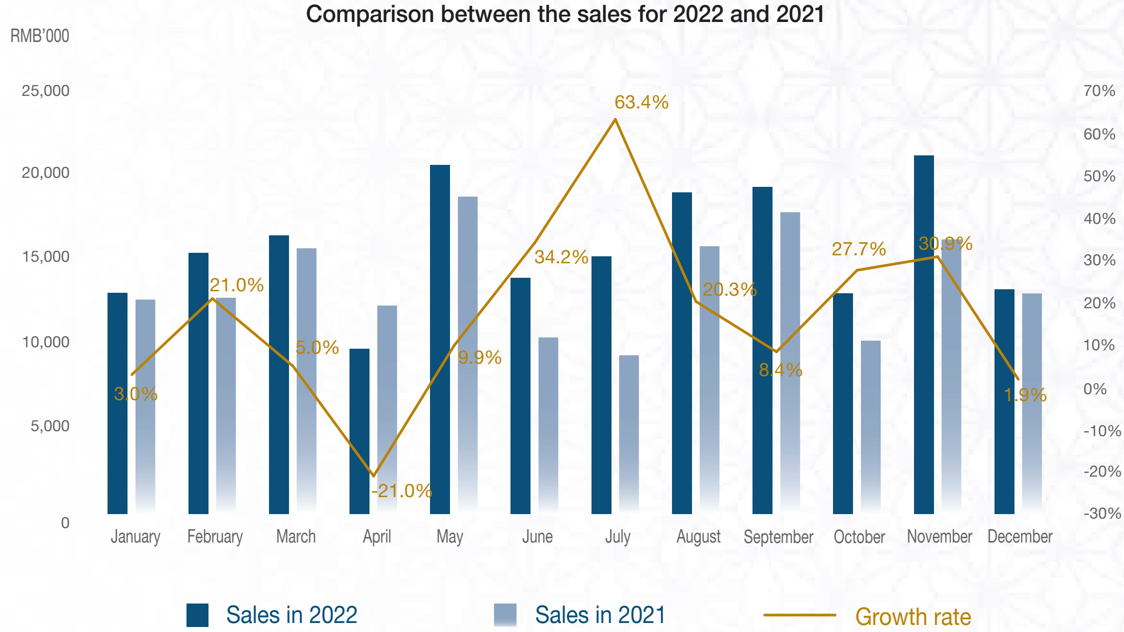
Online maintenance stations were functioning normally, with 28 nationwide maintenance stations receiving a total of 170,774 maintenance cases over the year. Together with the IT department, the maintenance system was constantly being upgraded, and the Group's maintenance stations took the lead in improving the standards for product maintenance and strengthening the requirements for maintenance quality. In 2022, a total of 2,441 valid questionnaires were collected from the customer satisfaction surveys, with a customer satisfaction rate of 98.81%, reaching the target of the Group's ISO quality standards of being not less than 90%. From the report, it could be seen that Carpenter Tan's philosophy of "making handicrafts as household accessories and household accessories as handicrafts" and "treat customers like family members" were carried out in the market and recognised by customers. Meanwhile, consumers also gave feedback and suggestions regarding product development, market expansion and service of franchise stores. In 2023, corresponding adjustments will be made by the Group in accordance with the contents of the report.

In 2023, the Group will focus on increasing the offline volume core: adjusting new store policy to guide and encourage franchised stores to accelerate the pace of expansion after the situation improves, and further proceed with the deployment in core cities, core business circles and core scenic spots; formulating group purchase supporting policies and development of group purchase products to increase the confidence of franchised stores in developing group purchase business; continuing to increase our support and attention to newly opened stores, carry out operational planning and assistance from the initial stage of store opening. For store owners with multiple stores, we strengthen the initiative of store owners and large store managers to increase the possibility of multiple sales models by assisting in adjusting the store management structure; we will improve the promotion of new products, so that the market can experience the upgrade and changes of the new products more quickly and directly, which in turn increase the overall sales of the stores; we will continue to upgrade the image of our stores and accelerate the work of design for new image; we will conduct brand promotion activities in key areas and core business circles to increase exposure and expand the influence of the brand.

II. Online Business

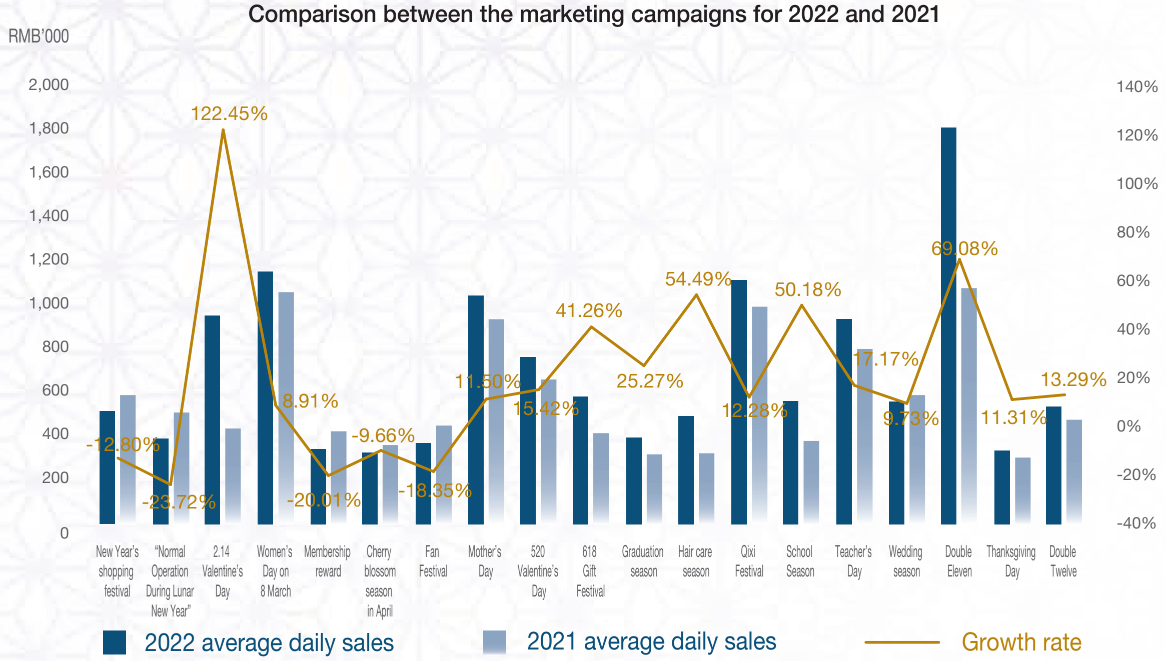
For the year ended 31 December 2022, the net sales (including sales tax) delivered by the e-commerce platform were RMB189 million, representing 99.47% of the total annual target of RMB190 million and a year-on-year increase of 15.9% compared with the sales for 2021. Among them, sales on the Tmall customer operation platform reached RMB146 million, representing 66.6% of the total e-commerce sales and a year-on-year increase of 21%. Sales on JD.com customer operation platform reached approximately RMB58.68 million, representing 26.7% of the total e-commerce sales and a year-on-year increase of 5.7%. 631,000 pieces of goods were delivered by e-commerce and logistics platforms, 201,300 pieces of goods were delivered by Yibaicang (驛佰倉) and 190,300 pieces of goods were delivered by JD.com, bringing the total number to 1,022,600 and representing a year-on-year increase of 11.2%.

Comparison between the sales for 2022 and 2021



At the same time, during the Year Under Review, our e-commerce team conducted a total of 19 events, and the number of events increased by 58% as compared to 2021. The sales data of "Normal Operation During Lunar New Year" campaign in January declined by 23.72% due to the severity of the Pandemic. The Valentine's Day sales event launched throughout February has achieved average daily sales with an increase by 122.45%. In mid-to-late March, due to the disruption of logistics in Shanghai, the sales declined during the event period in mid-to-late March and April were more severe. In June, the Pandemic situation gradually recovered, and the planning of the 618 event was carried out in advance. During the 618 event, the back-end sales increased by 52.81% year-on-year. In the second half of the year, there was a significant increase in the hair caring season, the school season and Double Eleven. Especially during Double Eleven, in light of a larger sales base last year, we still achieved a growth of 69%.

Comparison between the marketing campaigns for 2022 and 2021



During the Year Under Review, the e-commerce business sector faced increasing downward pressure on sales due to the Pandemic, and the team actively explored and sought ways to increase sales volume and attempted to expand sales channel. Two new sales platforms, Pingduoduo (拼多多) and A Living Room (一條生活館), were introduced, which resulted in certain promotional effect on increasing sales volume and brand communication, particularly the Pingduoduo platform which generated a back-end sales amount of approximately RMB4.01 million, net sales amount of approximately RMB2.80 million and an access volume of 4.21 million times, with overall traffic exceeding that of JD.com. Pingduoduo also joined hands with an external media entity to produce a video of "The birth of a comb (一把梳子誕生)" and broadcasted through the official Weibo account of Pear Video (梨視頻), attracting a viewership of nearly 4 million times. During the holiday on 8 March, an article recommended by a female craftsman of Carpenter Tan was published through the public account of "Person of Today (每日人物)" in order to assist the brand, and has attracted a readership of 70,000 times. However, its limitation was also obvious. Due to the discount features and activity requirements of the platform, there were many problems during the actual operation and customer service reception process, creating much pressure on the entire team and on pricing control of the products. Although the YIT platform (一條平台) had a higher tonality, its natural sales volume was not substantial, and it relied on the posts on its public account to achieve transforming contents into sales, which higher fees would be charged. Most of the shop sales were on the Mother's Day and the specific festive event of 520, which were sales transformed from posting of contents on its public account.

Furthermore, through internal data analysis, we found that the overall number of e-commerce visitors increased, but the conversion rate was declining, thus we have actively adjusted and optimised internal channels, increased private domain operation module, member maintenance, subdividing and optimizing the traffic entry of each segment in the backstage to achieve a refined traffic flow while increasing the probability of repurchase by existing customers and old members. Finally, brand communication was carried out through the Douyin platform, by transmission of quality short videos through our own account, together with the joint narration of promotional short video from a Douyin celebrity for two reasons: firstly, an established brand has its own basic group of supporting fans to increase the brand tone; secondly, through the promotion by Douyin celebrity, the traffic flow of users was expanded. In terms of internal and external promotion, regarding direct conversion projects, we kept up the development trend of the platform and studied the use of new promotional tools on the platform, which has increased the input-output ratio, achieving an output of 18.99; in terms of indirect conversion projects, we insisted on content output and affection marketing, retained and expanded crowd assets, and strengthened brand imprint. As a result, the number of brand awareness increased by 208% year-on-year.

In the coming year, the Group will focus on the following key plans to carry out our business: Event planning and content promotion for on and off-site: planning of e-commerce events according to marketing node and the flow of the platform events, and maintain a consistent flow of online and offline activities, while leveraging the offline gifting activity which has a higher resonant rate to cooperate with our marketing; Expansion of new platforms: through preliminary research and analysis, we plan to open Kuaishou stores and Jingxi APP (京喜APP) under JD so as to experiment marketing effects after a certain period of operation; cooperating with celebrities/leading artists: we will maintain business connection with leading artists including Dongfang zhenxuan (東方甄選) and Li Jiaqi (李佳琦), and strive for similar cooperation opportunities on the premise that the Company's profit is not compromised and marginal profits can be achieved. During the course of promotion, we also maintain the tone of the brand and achieve profitability for the Company; Expansion of the Douyin channel: adhering to self-established accounts for high-quality short video output, together with Douyin top artist's short video promotion mode, we construct the brand IP marketing matrix; Promote transformation of contents into sales, where the content focuses on the concept of 'Oriental New Makeup' (東方新梳妝). In addition to the previous layer of Oriental beauty and cultural content, the Company will explore deep-seated 'oriental' and 'new' content in the future; Creation of short videos of the products based on the angle of tradition culture, instead of simply displaying products. By leveraging emotions such as the ancient man's spirit and culture to embed in various products, we cultivate the core representation of the product and continue to create the selling point of 'health preservation'; We will realize brand promotion, product conversion and establishment of fan base; Live streaming of stores: to remain as the top streamer among the stores in the industry, improve the culture training for the streaming brand, focus on the promotional depth of the product to be introduced in the streaming, extend the streaming duration and consider whether to conduct streaming on platforms such as JD and Vipshop (唯品會).

III. Overseas Businesses

In 2022, countries worldwide have eased the Pandemic measures. Market activities were recovering, and consumer confidence has been boosted. Under these circumstances, the Company has been actively adjusting various projects. In November, our overseas team went abroad to explore the North American market and communicate with local franchisees and potential franchisees. In September and December, Hong Kong's local market held the "Poetic Comb", an offline painting activity, at Central Timeline.

As at 31 December 2022, we had two self-operated stores in Hong Kong, which were respectively located at the MTR Hong Kong Station and Lee Tung Avenue, Wanchai, the number of which remained unchanged from the previous year. During the Year Under Review, our two stores in Hong Kong and the online platform HKTVMALL (the two stores and the online platform were closed in March due to the Pandemic) recorded a total sales of HKD3,701,000, representing a decrease of 18.9% for the corresponding period of last year. Our oversea offline business has recorded a total shipment of approximately RMB3,342,400, representing an increase of 123.48% for the same period last year. During the same period, the total sales of cross-boundary e-commerce platform was approximately RMB601,500, representing an increase of 69.1% as compared to the previous year.

As at 31 December 2022, the Group had 1 overseas distributor which was located in Korea, 4 overseas franchisees which were located in New York in the United States, Toronto in Canada, Singapore and Taiwan (China), and 4 self-operated online platforms, including our U.S. official websites, U.S. Amazon, Japan Amazon and Canada Amazon respectively.

With regards to the prospects for overseas business, the Group will focus on the Southeast Asian market as a major direction for the Company overseas business development, striving to expand online and offline local market; we will explore the markets in Europe and the United States through cooperation with well-known channels or branding agents. By consolidation of resources, we will seek suitable expansion opportunities in the Europe-U.S. consumer market; we will continue to further explore the Hong Kong market, plan and host various offline activities; we plan to open a new store in Kowloon and expand the coverage of the stores; We are planning to hold 1-2 large-scale overseas exhibitions, such as comprehensive or professional exhibitions in target markets such as Germany, Japan and the U.S.; we will switch our delivery method in our major markets from domestic delivery to overseas warehouse delivery, so as to enhance logistic efficiency, lower logistic cost and enhance customer purchasing experience.

IV. Innovative Research and Development

In 2022, our R&D team focused on optimizing product structure, establishing product parameter database for product development, increasing R&D investment in new functions, new structures, new designs and new processes, continuing to make breakthroughs and innovations, maintaining close contact and connection with the market, so as to continuously enhance our product strength.

During the Year Under Review, we completed the design and development of 14 projects for new products, 35 new regular products, and managed to turn 15 new products into regular products as described in the 4 published evaluation reports which included 20 new products, representing a successful rate of product launch of 75%.; we developed and launched our group purchase product line, and designed draft for the product of the 'A hundred year of the Party establishment' series. We carried out 5 self- development projects which involved areas in function, structure, craftsmanship and materials. Major projects included upgrade of hair treatment function of inserted comb, supplement and development of health-related products, enhancement of mother-of-pearl inlay technique, restocked materials development. With the upgrade of our packaging system, we continued to monitor and collect market feedback and suggestions, hence providing improvement and supplement to the packaging system. We launched 9 packaging, 7 covers, 3 storage bags, 6 holiday hand-held bags and instruction booklet for accessories; we also adjusted the packaging structure of Qinxuan paper for hair care comb and used cotton cloth bags as replacement in order to save and optimize costs.

In retrospect to our research and development work, we completed the development projects for the popular products online: the development and launching of our two new products were available since the end of August, and realised a total shipment of 10,730 pieces and 11,294 pieces as at 31 December; the development and verification of the product's new function were completed: through a brand-new design of the comb tooth and the comb body, we newly developed diamond shaped comb tooth, reuleaux triangle comb tooth, rain-drop comb tooth, which have greatly improved the way of combing knotted hair, and the innovation has been awarded the utility model patent; exploration of new IP collaboration mode: targeted crowd was precisely located and matched with leading brand and organizations, enhancing trust and endorsement towards our brand and achieving market performance with high expectation. The product 'Feng Chuan Muan' has out-performed the market expectation, in which we will continue to promote IP cooperation in 2023; we have completed the establishment and preliminary application of the product parameter database; we have also completed the experiment, classification and re-definition of comb parameters in product parameters, and added comb parameter codes to our new products on the market.

In the future, we will implement a better connection and integration between product design and marketing front-end, strengthen the ability of independent research and development, learn from the ability to improve new functions and new style products such as products in health-care category, promote the improvement of the Company's product design capabilities and market competitiveness, reverse the passive situation of being as a follower, so as to return our brand products back to the level of dominating and leading the industry. From the design end to the production end and then to the marketing end, we have cooperated with the marketing department, Wanzhou Factory and other relevant departments to systematically make use of materials for product development from the beginning, so as to ensure there are as much supply of products as possible in the market, while at the same time we are able to minimize the increase in restocked materials, maximize the use of restocked materials, gradually reduce and eliminate restocked materials, and improve the comprehensive utilization rate of materials.

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V. Production technology

In 2022, normalised Pandemic prevention and control was still one of the priorities of Wanzhou factory. With the full liberalization of national Pandemic prevention and control policies, Wanzhou Factory formulated a response plan in advance, which insisted on wearing masks and conducting daily disinfection, timely arranged home isolation treatment for employees with relevant symptoms, and provided pre-job safety training before returning to work, which have prevented large-scale infections from leading to suspension of operation and production, ensuring effective achievement of the production works of the factory.

In terms of technological innovation, the main focus was on the following key projects:

Product development with new craftsmanship and new structure: The product design with a total of six new styles have been completed, covering three series namely top-pinched airbag massage comb, anti-stuck airbag massage comb and anti-deformation metal mirror.

Automated processing of the shape of hair care comb: The factory has promoted a number of product models for mass production, reducing many manual processing procedures and improving overall production efficiency.

Hair-care comb rubber automatic inserting: A comprehensive acceptance application for the project was submitted to the technical committee at the end of September, waiting for inspection and acceptance from the technical committee. The prototype equipment has been fully put into formal production, with processing efficiency of 200 pieces per shift for 90 teeth rubbers.

Comb teeth automatic polishing: Two technical solutions of numeric control and PLC were independently designed to achieve trial production verification, with the number of processed products exceeding 10,000 pieces.

Stability treatment of black rosewood materials: Some product models were put into application, and two models were selected for batch processing and sent to the market for verification in November.

Wood nourish treatment technology: Based on the formation of the scheme of crafting technological parameter, after conducting verification of effect, two models of jade sandalwood material have been selected for batch production and market verification, and will be promoted and applied according to the verification conclusions.

Promotion and application of profile milling and blurred polishing: The technology is now mature and fully promoted and applied, effectively improving work efficiency, replacing the sanding processing procedure and reducing the difficulty of sand bending, giving product appearance with great standard and beauty.

Promotion and application of hair care comb with automatic milling: After continuous optimization and adjustment, the technology has been used in batch production.

Mature production of lacquer products: The craftsmanship process has become matured and has been able to deliver in batch production; the product quality and efficiency have significantly improved, and labour costs has reduced by 50%.

For the year ended 31 December 2022, the Group's effective patents included 15 invention patents, 54 utility model patents and 12 design patents.

Laboratory construction: Carpenter Tan has passed the capability review and verification of China National Accreditation Service for Conformity Assessment (CNAS), and established the Carpenter Tan testing laboratory, which was authorised to perform testing in five areas for combs, including testing for wood moisture content, wood air-dried density, quality of comb appearance, strength of comb dropping resistance, and comb tooth thickness deviation.

VI. LOGISTICS AND DISTRIBUTION

During the Year Under Review, the logistics center organised the processing of products in a timely manner according to the order requirements of the franchisees and the e-commerce business department and the distribution plan of new products and promotional items of the marketing department, and completed the distribution task on time without delay in delivery. The logistics center clarified the quality standards and enhanced the inspection during the inspection process, and carried out inspection work based on the relevant requirements of the Measures for the Management and Control of Terminal and Process Quality Inspection, so as to prevent products with obvious quality problems and quality problems regarding low-level errors from entering the market. We insisted on preparing monthly quality reports for dissemination to the relevant personnel and leaders of the Company, enabling them to understand the quality situation, so that the relevant departments can improve and control the actual quality problems in existence. We continued to carry out after-sales maintenance of products properly, fully implemented and achieved the Company's established principles, and fulfilled the promise of "lifelong maintenance service", completing the maintenance work of the logistics center while providing services to each maintenance station properly.

VII. BRAND BUILDING

During the Year Under Review, we continued to cultivate the brand story of Carpenter Tan practicing "honesty, labour, and happiness", actively excavated, sorted out and leverage various channels and forms (such as comic books, internal publications, annual publications, WeChat public accounts, videos, etc.) for communication and sharing.We shared our brand image with the core of "Combing Oriental Beauty" (梳造東方美), which explores the beauty of craftsmanship in the process of making Carpenter Tan's combs, the beauty of heritage and innovation combined with traditional handicraft, the beauty of design and art of Carpenter's Tan combs, the beauty of history and fashion of comb culture, conveying good friendship by using comb as a medium.

The "The Beauty of Zhipei" (櫛佩之美) design competition 2022 was held and four universities (Nanjing Institute of Technology (南京工程學院), Nantong University (南通大學), Jiangxia University (江夏學院) and Jiangnan University (江南大學)) were invited to participate in the competition. Among the submitted works, a total of 142 pieces of works in 21 series were selected for proofing. Outstanding works from previous design competitions were selected and exhibited in conjunction with offline events such as "Antique combing beauty" (梳房顏究院) in Guangzhou and Nanjing Handicraft Parade Festival (南京手造巡遊節).

In cooperation with the Chinese Handicraft Magazine (中華手工雜誌), we jointly organised the 2023 "The Beauty of Zhipei" (櫛佩之美) design competition, inviting entries from various universities including the School of Handicraft Art of Sichuan Fine Arts Institute (四川美術學院手工藝術系), the School of Design of Xi'an Academy of Fine Arts (西安美術學院設計學院), the School of Design of Guangzhou Academy of Fine Arts (廣州美術學院設計學院), the School of Art of Soochow University (蘇州大學藝術學院), the School of Design of Jiangnan University (江南大學設計學院), School of Art and Design (Intangible Cultural Heritage) of Beijing Union University (北京聯合大學藝術設計（非遺）學院), and at the same time encouraged entries of design works from the public. We participated in the 2022 "Yu Jian Mei Pin" (渝見美品) Chongqing brand intensive promotion event organised by the Chongqing Economy and Informatization Commission, and launched giant-screen airport digital advertisements at Beijing Capital International Airport, Guangzhou Baiyun International Airport, and Chengdu Shuangliu International Airport. Carpenter Tan's most popular product "Lianyu" (蓮語) and the slogan "a good comb will accompany you for a lifetime" (一把好梳子，陪你一輩子) along with the aesthetic image captured the eyes of passengers.

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During the Year Under Review, we planned and implemented the online brand activity of “Make a post of combing” (梳頭打卡), which included: created a dedicated “comb posting” group in specialty stores and invited its respective members and customers to participate in the activities and form interactions; created a strategy of the “21-day hair combing challenge” (21天梳頭挑戰) in which hair combing tip is posted every day; spread the “good fortune stick” (順順簽) through the circle of friends and introduced the traditional culture of combs and Carpenter Tan products through live streaming. A total of 484 posting groups were established during the events, and a total of 3,352 people participated in the posting activities; a total of 11 live streaming was broadcast on Douyin and video account, gaining more than 100,000 exposures.

In 2022, we continued to build and precipitate corporate culture and encourage employees to actively tell stories about the brand. Here are some interesting stories:

A story about the 20 cents

At noon, while we were having meal next to the proofing factory, Huang Chao, the financial manager, came over and asked if we had any old fine sandpaper in the proofing factory. It turned out that he has just bought a writing desk but the top of the desk was a bit uneven, so he wanted to do a little polishing with some sandpapers. Sister Xu went searching for old sandpaper but could not find any, so she took out a small piece of new 800-grit fine sandpaper to manager Huang Chao.

In the afternoon, I went to meet Manager Huang Chao as there were some documents that required his signature. While I was there, I happened to see him making a transfer of 20 cents. I jokingly asked: “Manager Huang, why did you transfer 20 cents?” Then I saw he was sending a WeChat screenshot displayed on the computer, and asking Chai Wei to verify how much did the small piece of 800-grit fine sandpaper cost. From that moment I came to understand that Manager Huang wanted to transfer the money back to the company for that sandpaper. Although this was such a small and trivial matter, given that nowadays no one would even pick up 20 cents dropped on the floor, I cannot help but feel surprised by the act of Manager Huang Chao insisting on giving back the 20 cents to the company.

Quoting from the Twelve Principles of Work《工作原則十二條》for mutual encouragement. Our company (store) is like a family, and I come to here and now I am a member of this family. It is from this that I learn how to cherish.

I will cherish everything in the company (store), because I know that an honest person will never waste a penny of the company (store), and will never abuse any power granted by the company (store) for personal gain. A leader shall be able to manage a group, a department, a position, a store, and a company in an orderly manner. This is my duty and this is what I have to do. (Marketing Department: Yao Guogang)

Memories of the scarf

It was a summer afternoon three years ago. Shortly after I started my work, an old man aged around seventy to eighty came in. He was neatly dressed and was wearing a pair of glasses. He said he wanted to buy comb.

I asked him to sit down and combed his hair. He bought three combs, one for himself, one for his son and one for his daughter-in-law. After he paid for the combs, I told him, “Keep combing your hair after buying a nice comb. If you got nothing to do, you can bring along your comb to the store and I will help comb your hair.”

The old man asked, “Can I still come over and comb my hair after I buy a comb?” I replied, “Yes, you can come over whenever you are free. I will help you comb your hair. The old man smiled and said, “Sure!”

As I told him “I will help you comb your hair”, he kept it in his mind. Two days later in the morning, the old man came to the store by himself on a bicycle. I helped him comb his hair and we chatted while doing so. He told me he had a son and a daughter. His son was around forty years old and was busy doing business with his wife. His grandson was in his twenties and was abroad. There was only him and the housemaid living together.

Listening to the old man’s words, I felt his loneliness. I said to the old man, “Our store environment is very good. You can come to the store as much as you like when you are free. I will comb your hair and chat with you.” The old man was very happy and asked me for my phone number, saying that he would call me in advance whenever he would come, and I said sure.

Every now and then, the old man would call me in advance, and he would come to the store at an appointed time. We sit and talked together while I was combing his hair. Occasionally, he would stay in the store and we eat together in the afternoon.

One day, he came over and said with a mysterious tone, “I brought you some good things, take a look.” I opened it and there were two men’s scarves and a pack of chestnuts. He said the scarves were bought by his daughter-in-law from a business trip. He came over and brought them to me, saying he wanted to give them to my children.

The old man treated me like his daughter with kindness. When his birthday came, he even called in advance and invited me to go. Considering this kind of occasion was more suitable for his family and relatives, I made an excuse, saying that I couldn't make it due to work schedule.

It has been a long time since the old man came to visit the store. One day his daughter-in-law happened to come to the store and wanted to repair her comb. During the conversation, I was told that the old man was in poor health recently and was staying in the hospital. Next day, I went to visit him and found he was in serious illness. He held my hand and tried to speak, but his voice had left him. Since then, I never saw him coming to the store again. Three years has gone by, and I wondered if he might have passed away.

When one gets old, there will be afraid of loneliness. When parents are alive, we know where we come from; when parents are gone, what remains is only a way of returning home. Before everything is too late and while our parents are still alive, we must take better care and spend more time with them with love. (Carpenter Tan Luohe 1298 store: Xue Xiaorui)

VIII. Management Review for General Condition in 2022

In 2022, the Group mainly carried out its work in terms of internal control and governance, market operation expansion, business environment rectification, brand promotion and communication, product and technology research and development. The Company strictly abided by the national laws and regulations on labor safety, environmental protection and occupational health, and ensured that the system was sound, the measures were appropriate, and the inspection was thorough. During the Year Under Review, there were no violations of laws and regulations on the protection of employees' labor rights, no labor disputes or litigation, and no incidents in connection with labor safety, environmental protection or occupational health, and the reform and construction of the secondary safety standards were completed. In the course of production, sales and use of the products, no case of toxic or allergic reaction was found.

In the first half of 2022, due to the outbreak of COVID-19 in Shanghai, Beijing, Shenzhen, Guangzhou and other localities, various levels and durations of lockdowns were imposed, and resulted in difficulties of varying degrees in the areas of regional market expansion and operation of franchised stores. In the second half of the year, major adjustments to national epidemic prevention and control policies were made in favour of the market, nevertheless, there was a dilemma that shopkeepers and shop assistants contracted COVID-19 and could only suspend business in the short run. However, both the Company and the franchised stores have maintained a good attitude and strong confidence, we worked together and calmly dealt with the situation. The Company's raw material reserves, production and processing, new product development, brand building, technological innovation, risk prevention and control, logistics and distribution, and new factory construction were all carried out in an orderly manner and progressed as normal in accordance with the work plan at the beginning of the year.

The principles of "encouraging bold innovation while tolerating trial and error, and increasing punishment for bad nature and low-level mistakes" established at the beginning of the year were strictly implemented. During the Year Under Review, 13 cases involving a total of 25 person-times in violation of the Company's honesty culture, lack of warehouse management, inadequate peer comparisons, illegal sales of welfare products, improper use of seals for application and approval, procrastination in fire safety equipment maintenance, and superficial acceptance test of monitoring equipment were investigated and dealt with. At the same time, we have further improved the management systems such as how to make sufficient peer comparisons for long-term cooperation or sporadic purchases, the leapfrog reporting system for the equipment and facility, and project achievement confirmation. Acts that violate the Company's honest culture would be punished internally and liable for legal responsibilities in accordance with laws and regulations; a public notice was issued to the entire company for commendation on the timely reporting of discovering price differences in bearings of two places, and two cases involving violations of three person-times were reported on the leaking of the Company's intellectual property rights.

The Company still adhered to the market rights protection strategy of cracking down and running fast, and strengthened rectification of illegal behaviours of franchised stores in illegal online sales that caused disruptions in channels, prices and markets. During the Year Under Review, through multiple combinations of product anti-counterfeiting and identification technology upgrades and information traceability technology, a total of four franchisees were investigated and punished, nine stores in violation of regulations were shut down, and a total of approximately RMB195,400 for liquidated damages and fines were confiscated. The Company strictly cracked down on illegal acts of counterfeiting Carpenter Tan's brand and illegal acts that disrupted the Carpenter Tan market. During the Year Under Review, 25 cases were discovered and 24 cases were filed, and a total of 17 cases were closed in 2022, including nine cases from 2021, the recoverable amount of compensation amounted to RMB350,900. Efforts were made to eliminate non-compliance in market conduct, strengthen the confidence of franchisees, enhance brand image, and achieve sustainable and healthy development of the Company, the market and the franchise system.

FINANCIAL REVIEW

1. Revenue

The Group recorded a revenue of approximately RMB348,002,000 for the year ended 31 December 2022, representing an increase of approximately RMB17,092,000 or 5.2% as compared to that of approximately RMB330,910,000 for the year ended 31 December 2021. The increase in revenue was mainly due to the gradual recovery of market demand due to the control of the Pandemic during the Year Under Review as compared to the year ended 31 December 2021. The revenue of offline business amounted to approximately RMB178,242,000, representing a decrease of approximately RMB2,840,000 or 1.6% against last year of approximately RMB181,082,000. The revenue of online business amounted to approximately RMB166,409,000, representing an increase of approximately RMB20,459,000 or 14.0% against last year of approximately RMB145,950,000. The revenue of directly-operated outlets amounted to approximately RMB3,167,000, representing a decrease of approximately RMB485,000 or 13.3% against last year of approximately RMB3,652,000. As at 31 December 2022, the Group had 1,092 franchised stores and 3 directly-operated outlets, respectively, while as at 31 December 2021, the Group had 1,094 franchised stores and 3 directly-operated outlets, respectively. The franchise fee income was approximately RMB184,000, which represents a decrease of approximately RMB42,000 or 18.6% when compared to that of approximately RMB226,000 of last year.

	For the year ended 31 December			
	2022		2021	
	RMB'000	%	RMB'000	%
Revenue				
– Combs	41,150	11.8	51,129	15.4
– Mirrors	317	0.1	297	0.1
– Box sets	302,692	86.9	274,741	83.0
– Other accessories*	3,659	1.1	4,517	1.4
Franchise fee income	184	0.1	226	0.1
Total	348,002	100.0	330,910	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 RMB142,754,000 for the year ended 31 December 2022, representing an increase of approximately RMB11,634,000 or 8.9% as compared to that of approximately RMB131,120,000 for the year ended 31 December 2021. The increase in cost of sales was in line with the increase in sales volume and the change in sales mix for the Year Under Review.

3. Gross profit and gross profit margin

For the year ended 31 December 2022, the gross profit of the Group was approximately RMB205,248,000, representing an increase of approximately RMB5,458,000 or 2.7% as compared to that of approximately RMB199,790,000 for the year ended 31 December 2021. The gross profit margin decreased from 60.4% in 2021 to 59.0% in 2022. 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 and other net gain/(loss)

Other income and other net gain/(loss) was a gain of approximately RMB35,364,000 for the year ended 31 December 2022, representing a decrease of approximately RMB2,851,000 or 7.5% as compared to the gain of approximately RMB38,215,000 for the year ended 31 December 2021. Other income and other net gain/(loss) was mainly comprised of PRC VAT refunds of approximately RMB19,097,000, rental income of approximately RMB5,881,000, interest income of approximately RMB422,000, change in fair value of financial assets at fair value through profit or loss of approximately RMB8,382,000 and fair value change loss of investment properties of approximately RMB2,020,000, respectively (2021: PRC VAT refunds of approximately RMB18,777,000, rental income of approximately RMB6,841,000, interest income of approximately RMB609,000, change in fair value of financial assets at fair value through profit or loss of approximately RMB8,575,000 and negative fair value change of investment properties of approximately RMB2,100,000, respectively).

5. Selling and distribution expenses

The selling and distribution expenses of the Group amounted to approximately RMB69,760,000 for the year ended 31 December 2022, representing a decrease of approximately RMB1,855,000 or 2.6% as compared to that of approximately RMB71,615,000 for the year ended 31 December 2021. The selling and distribution expenses mainly included advertising and promotion expenses of approximately RMB25,646,000, delivery charges of approximately RMB8,717,000, depreciation of right-of-use assets of approximately RMB2,925,000, salaries and allowances of approximately RMB10,850,000 and travelling expenses of approximately RMB1,735,000, respectively (2021: advertising and promotion expenses of approximately RMB27,260,000, delivery charges of approximately RMB8,130,000, depreciation of right-of-use assets of approximately RMB4,303,000, salaries and allowances of approximately RMB11,122,000 and travelling expenses of approximately RMB1,553,000, respectively).

6. Administrative expenses

The administrative expenses of the Group were approximately RMB31,975,000 for the year ended 31 December 2022, representing an increase of approximately RMB1,154,000 or 3.7% as compared to that of approximately RMB30,821,000 for the year ended 31 December 2021. The administrative expenses were mainly comprised of salaries and allowances of approximately RMB17,675,000, legal and professional fee of approximately RMB1,229,000, design and sample expenses of approximately RMB538,000, consultancy fee of approximately RMB364,000 and audit and review fee of approximately RMB1,028,000, respectively (2021: salaries and allowances of approximately RMB16,083,000, legal and professional fee of approximately RMB709,000, design and sample expenses of approximately RMB1,893,000, consultancy fee of approximately RMB231,000 and audit and review fee of approximately RMB1,136,000, respectively).

7. Other operating expenses

Other operating expenses of the Group were approximately RMB4,887,000 for the year ended 31 December 2022, representing an increase of approximately RMB447,000 or 10.1% as compared to that of approximately RMB4,440,000 for the year ended 31 December 2021. The increase was mainly due to the increase in donations of approximately RMB475,000 during the Year Under Review.

8. Finance costs

The finance costs of the Group were approximately RMB627,000 for the year ended 31 December 2022, representing an increase of approximately RMB293,000 or 87.7% as compared to that of approximately RMB334,000 for the year ended 31 December 2021. The finance costs were interest on lease liabilities. The details is set out in Notes 7(C), 14(B) and 23(B) to the Financial Statements in this report.

9. Income tax

For the year ended 31 December 2022, the income tax expenses of the Group amounted to approximately RMB26,105,000, representing an increase of approximately RMB3,658,000 or 16.3% when compared to approximately RMB22,447,000 for the year ended 31 December 2021. The increase was mainly due to the increase in withholding tax on dividends during the Year Under Review. The details is set out in Note 8 to the Financial Statements in this report.

The effective tax rate for the Year Under Review was 19.6% when compared to 17.2% for the year ended 31 December 2021.

10. Profit for the year

As a result of the foregoing, the profit for the year ended 31 December 2022 was approximately RMB107,258,000, representing a decrease of approximately RMB1,090,000 or 1.0% as compared to that of approximately RMB108,348,000 for the year ended 31 December 2021. The decrease was mainly due to the increase in income tax for the Year Under Review.

11. Profit for the year attributable to owners of the Company

The profit for the year attributable to owners of the Company for the year ended 31 December 2022 was approximately RMB107,250,000, representing a decrease of approximately RMB413,000 or 0.4% as compared to that of approximately RMB107,663,000 for the year ended 31 December 2021.

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 2022, the book value of property, plant and equipment amounted to approximately RMB91,370,000, representing an increase of approximately RMB13,518,000 or 17.4% as compared with the previous year of approximately RMB77,852,000. The increase was mainly attributable to the increase in addition of construction in progress for the year ended 31 December 2022. The details is set out in Note 14 to the Financial Statements in this report.

2. Inventories

The Group's inventories as at 31 December 2022 increased by approximately RMB46,327,000 or 23.4% from approximately RMB198,103,000 as at 31 December 2021 to approximately RMB244,430,000 as at 31 December 2022, primarily due to the increase in raw materials level. Raw materials increased by approximately RMB47,482,000 or 25.1% from approximately RMB141,418,000 in last year to approximately RMB188,900,000 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 2022, the Group's trade receivables amounted to approximately RMB5,349,000 which increased by approximately RMB447,000 or 9.1% as compared to that of approximately RMB4,902,000 as at 31 December 2021.

4. Other receivables, deposits and prepayments

The Group's other receivables, deposits and prepayments (non-current plus current portion) decreased by approximately RMB754,000 or 8.3% from approximately RMB9,060,000 as at 31 December 2021 to approximately RMB8,306,000 as at 31 December 2022. The decrease in other receivables, deposits and prepayments was mainly due to an decrease in prepayments when compared to that of last year.

5. Trade payables

As at 31 December 2022, the Group's trade payables amounted to approximately RMB4,764,000 which increased by approximately RMB2,323,000 or 95.2% as compared to that of approximately RMB2,441,000 as at 31 December 2021. The credit terms granted by the suppliers are generally 30 days. The ageing analysis of trade payables is set out in Note 24 to the Financial Statements in this report.

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 and contract liabilities. The Group's other payables and accruals decreased by approximately RMB3,979,000 or 8.2% from approximately RMB48,738,000 as at 31 December 2021 to approximately RMB44,759,000 as at 31 December 2022. The decrease was primarily due to a decrease in trade deposits received during the Year Under Review.

CASH FLOWS

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.

During the Year Under Review, the Group's cash and cash equivalents decreased by approximately RMB8,635,000, which mainly comprised the net cash inflow generated from operating activities with the amount of approximately RMB67,457,000, net cash inflow generated from investing activities with the amount of approximately RMB14,023,000, net cash outflow used in financing activities with the amount of approximately RMB85,684,000 and the foreign exchange loss of approximately RMB4,431,000. Details of cash flows of the Group are set out on pages 75 and 76 of the Consolidated Cash Flow Statement in this report.

CAPITAL STRUCTURE

1. Indebtedness

As at 31 December 2022, the Group did not have any interest-bearing bank borrowings (2021: RMB nil).

2. Gearing ratio

As at 31 December 2022 and 2021, the Group did not have any interest-bearing bank borrowings. The calculation of gearing ratio is not meaningful.

3. Pledge of assets

As at 31 December 2022, the Group did not have any pledged assets to the bank (2021: RMB nil).

4. Capital expenditure

The capital expenditures of the Group primarily included purchases of plant and equipment, furniture and fixtures, construction in progress and motor vehicles. The Group's capital expenditures amounted to approximately RMB18,286,000 and approximately RMB21,794,000 for the year ended 31 December 2022 and the year ended 31 December 2021, 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 2022, 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 2022, the Group had cash and bank balances of approximately RMB27,160,000 (2021: approximately RMB35,795,000), which was mainly generated from operations of the Group and funds raised by the Company in 2009.

CAPITAL COMMITMENT

As at 31 December 2022, the Group had capital commitment amounted to approximately RMB16,279,000 (2021: approximately RMB21,982,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2022, the Group had not made any material acquisition and disposal.

FUTURE OUTLOOK

2023 is the first year of the Group's third development plan. The national epidemic prevention and control policies have made favourable adjustments for the healthy and orderly development of the market. We still adhere to the ingenuity of crafting a good comb, continue to adhere to the governance principle of "system + culture", and make every effort to seize development opportunities in the market, stabilize the basic structure, and deepen the improvement of service quality. We have proposed challenging performance targets and clarified the key tasks of the year. We must be full of confidence, down-to-earth, and implement every task in a solid and proper manner, striving to achieve good performance results in 2023.

Adhering to and deeply practicing the core values of "honesty, labour and happiness", and insisting on walking with two legs, being "the Group is kind and tolerant, but also has principles and bottom lines, and will not compromise on principles" and "system + culture". It is imperative to implement a good governance policy on both hands, by leading employees not to work purely for money and interests, not to make profit only, not to sacrifice long-term interest for short-term gains only, and not to act unscrupulously for money and interests, the benefits of employees must be consistent with the Group's performance results and share the fruits of development with the Group. While continuing to encourage bold innovation and tolerance of trial and error, we will increase administrative supervision and punishment on dishonesty in words and deeds, corruptions, default in commitments, low-level mistakes and repeated mistakes, refusal to admit wrongful deeds proactively, and practice of favouritism for personal gains. Rectification by education on various aspects including norms, behaviours, awareness, knowledge and other aspects should be carried out.

The management of the Group's design functions would be optimised to promote the product design capabilities, promote better coordination and integration with front-end marketing for enhancing the Group's market competitiveness and surviving abilities comprehensively. From a strategic perspective, the Group will focus on the overall gross profit margin of the Group's products with core competitiveness, and will improve and upgrade systematic key tasks that would affect the entire organization with a slight change to achieve the targets.

By expanding external resources, improving the supervision of the franchise system and enhancing the self-discipline of the franchise system, the franchise system does not allow the production and sale of counterfeit products. The linkage to illegal online sales of mainstream e-commerce platforms such as Tmall and JD.com will be removed in a timely manner, the illegal online sales through non-mainstream small e-commerce platforms and counterfeit sales will be cracked down. We will intensify the investigation and punishment of illegal online sales, and severely crack down on the manufacture and sale of counterfeit products, so as to deter operators who infringe on the rights and interests of the Company. Strictly investigate and punish employees' misconduct of obtaining economic gains by taking advantage of the Company's employee benefits such as discounts on staff purchases, holidays, birthdays and through any other means, including sales through online platforms.

We will focus on the market, we will support and protect the supply chain by implementing various development policies, operation promotions and expanding product categories. We will eliminate irregularities and violations within and outside the franchise system to make the franchise system and the market environment healthier and sustainable. We will strengthen the Group's comprehensive governance, by improving the establishment of various systems based on the Group's core values. Employees must be non-corruptive, be prudent at heart, with self-monitoring and self-discipline abilities, and not to harm others and the Company. Adhering to the principles of tightening the use of people and money, implementing the established control measures to manage the Company's assets and the use of money properly. We will organize and sincerely carry out public welfare activities. While making a warm comb, we will pass on the warmth and love of Carpenter Tan to others, for building and maintaining good brand image and reputation of the Company.

HUMAN RESOURCES AND TRAINING

We believe that our long-term growth depends on the expertise and experience of our employees. We primarily recruit our personnel through campus recruiting, career fairs, recruitment websites and internal recommendation. We provide regular training programs to our employees, including, among others, introductory training, safety training and technical training, to enhance their skills and knowledge. As at 31 December 2022, the Group had a total of 968 employees (2021: 986 employees), total staff cost for the Year Under Review amounted to approximately RMB81,456,000 (2021: approximately RMB83,117,000).

The salaries of our employees depend mainly on their position, nature of work and results of their annual performance evaluation. For employees of our PRC subsidiary, we made contributions to social insurance funds, including pension, medical, unemployment, maternity and occupational injury insurance, and housing provident funds for our employees in accordance with applicable PRC laws and regulations. We have established a labour union that aims to protect our employees' legal rights, assist us in attaining our economic objectives and encourage employees to participate in management decisions.

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 HK25.03 cents per share for the year ended 31 December 2022 to the Shareholders whose names appear on the register of members of the Company on Friday, 2 June 2023, amounting to approximately HK$62,253,000 (equivalent to approximately RMB54,991,000) in total, subject to the approval of the Shareholders at the Company's forthcoming annual general meeting to be held on Tuesday, 23 May 2023. The dividend payout ratio is 50.0% of the profit for the year attributable to owners of the Company or 41.2% of the profit before taxation of the Company.

There is no arrangement under which a Shareholder has waived or agreed to waive any dividends, the above-mentioned final dividend is expected to be paid on or before Friday, 30 June 2023.

DIRECTORS

Executive Directors

Mr. Tan Chuan Hua (譚傳華), aged 65, 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 24 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 Ms. Fan Cheng Qin, father of Mr. Tan Di Fu and Mr. Tan Lizi and the uncle of Ms. Tan Yinan. Mr. Tan was appointed as an executive Director of the Company on 20 June 2006.

Mr. Tan Di Fu (譚棣夫), aged 37, 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 an executive Director of the Company, and Ms. Fan Cheng Qin, the elder brother of Mr. Tan Lizi and the cousin of Ms. Tan Yinan. Mr. Tan was appointed as an executive Director of the Company on 18 August 2010.

Mr. Tan Lizi (譚力子), aged 32, 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 an executive Director of the Company, and Ms. Fan Cheng Qin, the younger brother of Mr. Tan Di Fu and the cousin of Ms. Tan Yinan. He joined the Group in September 2012. Mr. Tan was appointed as an executive Director of the Company on 15 September 2017. Mr. Tan resigned as an executive Director and chief executive officer of the Company on 1 May 2022.

Mr. Luo Hongping (羅洪平), aged 56, at present is the administration controller of the Group. Mr. Luo joined the Group in July 2003, and is responsible for human resources and administration, risk management, finance and accounting, product design, technological research and development, company culture, production, storage and logistic and construction. He has been the factory manager of the Wanzhou factory of the Group 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 ten 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 four years where he gained experience in sales of electrical appliances. Mr. Luo was appointed as an executive Director and chief executive officer of the Company on 1 February 2023. Upon the appointment as an executive Director and chief executive officer of the Company, Mr. Luo will continue to serve as the administration controller of the Group.

Independent non-executive Directors

Mr. Chau Kam Wing, Donald (周錦榮), aged 60, has over 30 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), Ching Lee Holdings Limited (Stock Code: 3728) and Kangda International Environmental Company Limited (Stock Code: 6136), respectively, these four companies 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) which is listed on the Growth Enterprise Market of the HKEx. Mr. Chau was also an independent non-executive director of Zhejiang Chang'an Renheng Technology Co., Ltd. (Stock Code: 8139), which is listed on the Growth Enterprise Market of the Stock Exchange, from May 2014 to May 2019. Mr. Chau has been appointed as an independent non-executive Director of the Company since 17 November 2009.

Ms. Liu Liting (劉麗婷), aged 41, has over 18 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. Ms. 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. Ms. Liu was appointed as an independent non-executive Director of the Company on 31 May 2017.

Mr. Yang Tiannan (楊天南), aged 54, has about 31 years of experience in the financial and securities market. Prior to joining the Company, Mr. Yang served as a manager of the financial and securities department of Beijing Vantone Holdings Co., Limited* (北京萬通實業股份有限公司) from January 1993 to August 1999. Subsequently, Mr. Yang served as the associate vice president of the customer department of Merrill Lynch in California, the United States from September 1999 to December 2001. From March 2002 to August 2005, Mr. Yang served as the investment consultant of Manulife Financial Corporation. Since September 2007, Mr. Yang has been the chief executive officer of Beijing Golden Stone Asset Management Co., Limited (北京金石致遠資產管理有限公司). Mr. Yang is currently the visiting professor of College of Management and Economics* (管理與經濟學院) of Beijing Institute of Technology, Zhongnan University of Economics and Law and Northeast Normal University. Mr. Yang obtained a Master degree of Business Administration from University of San Diego in the United States in May 2001. Mr. Yang was appointed as an independent non-executive Director of the Company on 20 June 2022.

Mr. Yang Yang (楊揚), aged 44, has over 22 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 an independent non-executive Director of the Company on 1 January 2016. Mr. Yang resigned as an independent non-executive Director of the Company on 12 June 2022.

SENIOR MANAGEMENT

Ms. Fan Cheng Qin (范成琴) aged 58, 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 20 years' experience in the industry of manufacturing small wooden handicrafts. Ms. Fan is the spouse of Mr. Tan Chuan Hua, the mother of Mr. Tan Di Fu and Mr. Tan Lizi.

Ms. Liu Kejia (劉珂佳), aged 38, is the deputy chief executive officer of the Group. Ms. Liu joined the Group in October 2009, and is responsible for the sales management and business development of the Group. 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. Chan Hon Wan (陳漢雲), aged 62, 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 36 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.

* *For identification purpose only*

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' continuous 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 had complied with the code provisions as set out in the CG Code in force, other than code provision C.2.1 of the CG Code.

According to code provision C.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. During the period from 1 May 2022 to 1 February 2023, Mr. Tan Chuan Hua holds both the positions of the chairman of the Board and the chief executive officer. The Board believes that vesting the role of both positions in Mr. Tan provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies. The Board also considers that this arrangement will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a strong and independent non-executive element in the Board. The Board believes that the arrangement outlined above is beneficial to the Company and its business.

Nevertheless, in order to comply with the CG Code, Mr. Tan resigned as the chief executive officer of the Company on 1 February 2023 and Mr. Luo Hongping was appointed as a chief executive officer of the Company on 1 February 2023.

MODEL CODE FOR SECURITIES TRANSACTIONS

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 2022, the Board comprises a total of five Directors, being two executive Directors and three independent non-executive Directors. Mr. Tan Chuan Hua and Mr. Tan Di Fu served as executive Directors; and Mr. Yang Tiannan, Ms. Liu Liting and Mr. Chau Kam Wing, Donald served as independent non-executive Directors. These 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 section headed "Biography of Directors and Senior Management" on pages 37 to 39 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" on page 45 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 Articles 84(1) of the Articles of Association of the Company, one-third of the Directors shall retire from office by rotation at each annual general meeting. Accordingly, Ms. Liu Liting and Mr. Yang Tiannan 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

We have adopted the board diversity policy (the "Board Diversity Policy") with a view to achieving a sustainable and balanced development. Our Board has a balanced composition comprising six Directors, including one female Director and five male Directors as at the date of this report. Our Directors aged between late-thirty and mid-sixty as at the date of this report, and were from different backgrounds. Our Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. Selection of candidates of our Directors will be based on a range of diversity perspectives, including but not limited to gender, age, cultural, race, educational background, professional experience, skills and knowledge. We aim to achieve a balanced composition of our Board by ensuring appropriate balance of diversity in various aspects, including gender diversity, so as to enable our Board to discharge its duties and responsibilities effectively. The Company will continue to take gender diversity into consideration during recruitment and increase the female proportion at all levels over time with the ultimate goal of achieving gender parity, such that there is a pipeline of female senior management and potential successors to the Board in the future. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. We planned to identifying female candidates and appointing at least one more female director on the Board within three years.

As at 31 December 2022, the Group employed a total of 968 full time employees, the overall gender ratio in the workforce for male to female was male 41.3% to female 58.7%.

In recognition of the importance of board diversity, we will continue to promote diversity of our Company at all levels, including at the Board and senior management level, to enhance the effectiveness of our corporate governance. We will continue to provide diversified career development opportunities to our staff and engage different training resources for our staff in order to develop future candidates for Director and senior management. Our nomination committee is responsible for the implementation of the Board Diversity Policy and compliance with relevant codes governing board diversity under the CG Code as set forth in Appendix 14 to the Listing Rules. Our nomination committee will review the board diversity policy and our diversity profile (including gender balance) from time to time to ensure its continued effectiveness.

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 an audit committee (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 Ms. Liu Liting, Mr. Yang Tiannan 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" on page 45 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 2021, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2022 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 31 March 2023 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 and the results announcement for the year ended 31 December 2022, and this 2022 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, and was of the opinion that the preparation of the financial statements in this 2022 annual report complies with the applicable accounting standards and the requirements under the Listing Rules and adequate disclosures have been made.

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "Remuneration Committee") on 17 November 2009 with written terms of reference in compliance with the CG Code. The terms of reference were updated on 30 December 2022, in accordance with the prevailing provision of the CG Code. The Remuneration Committee currently has three members, namely Ms. Liu Liting, Mr. Yang Tiannan 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 a nomination committee (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 Ms. Liu Liting, Mr. Yang Tiannan 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 include:

- 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 meetings.

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 will be 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 2022 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 *(resigned on 1 May 2022)*	1/4	–	–	–	–
Independent Non-Executive Directors					
Mr. Chau Kam Wing, Donald	4/4	2/2	2/2	2/2	1/1
Ms. Liu Liting	4/4	2/2	2/2	2/2	1/1
Mr. Yang Tiannan *(appointed on 20 June 2022)*	3/4	1/2	1/2	1/2	–
Mr. Yang Yang *(resigned on 12 June 2022)*	1/4	1/2	1/2	1/2	1/1

Subsequent to the year ended 31 December 2022 and up to the date of this report, the Board held another Board meeting in March 2023 for the main purpose of approving the annual results of the Group for the year ended 31 December 2022 and this annual report for publication and formulating business development strategies. All Directors attended such meeting.

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 *(resigned on 1 May 2022)*	— Reading materials/attending external and in house seminars and programmes
Ms. 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 Tiannan *(appointed on 20 June 2022)*	— Reading materials/attending external and in house seminars and programmes
Mr. Yang Yang *(resigned on 12 June 2022)*	— 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.

BUSINESS COMPLIANCE AND ANTI-CORRUPTION

We strive to maintain a high level of business integrity as it is vital to our reputation and the protection of our business partners and customers. To achieve so, the Group is in strict compliance with the Prevention of Bribery Ordinance (Cap. 201) in Hong Kong, and the Anti-Money Laundering Law and the Criminal Law of the PRC.

We do not, in any case, tolerate any business misconduct and malpractices, this includes any form of bribery, extortion, fraud and money laundering. As stated clearly in the Prevention of Bribery Ordinance incorporated in our Employee's Handbook, unethical business practices such as the offering and accepting of gifts are strictly prohibited. Once we discover any misconduct committed, the employees will be subject to termination of employment or disciplinary action.

Holding on to the values of openness, probity and accountability, we have formulated the Whistleblowing Policy which allows employees to voice their concerns or if they suspect any misconduct is being committed within the business. As the policy provides absolute anonymous reporting channels, it protects the whistleblowers from any unfair treatment and undesired consequences such as dismissal, victimization and disciplinary action, even for substantiated cases. At the same time, the Audit Committee has been tasked with handling the cases and delineating the investigation procedures. The Whistleblowing Policy not only apply to internal employees but also to our suppliers and contractors.

During the Year Under Review, there were no reported legal cases regarding the corrupt practices of our employees relating to bribery, extortion, fraud and/or money laundering. Though the Group did not provide any internal anti-corruption training to Directors and employees during the Year Under Review, they are encouraged to attend anti-corruption training provided by external parties at the Company's expenses.

REMUNERATION OF EXTERNAL AUDITORS

For the year ended 31 December 2022, the total remuneration paid to the external auditors in Hong Kong for audit services amounted to approximately RMB680,000 (equivalent to approximately HK$800,000).

For the year ended 31 December 2022, the total remuneration for the permissible non-audit services provided by the external auditors amounted to approximately RMB238,000 (equivalent to approximately HK$280,000), mainly representing the remuneration for interim reporting 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 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 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 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.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2022, there had been no significant change in the Company's constitutional documents, a copy of which is available on the websites of the Stock Exchange and the Company.

DIRECTORS' INSURANCE

The Company has arranged appropriate insurance cover in respect of the legal action against the Directors.

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, 31 March 2023

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2022 (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 and the PRC. 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 2022 and the state of affairs of the Company and the Group at that date are set out in the Consolidated Financial Statements on pages 70 to 144.

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 HK25.03 cents per share for the financial year ended 31 December 2022 to the Shareholders whose names appear on the register of members of the Company on Tuesday, 6 June 2023, amounting to approximately HK$62,253,000 (equivalent to approximately RMB54,991,000) in total, subject to the approval of the Shareholders at the Company's forthcoming annual general meeting to be held on Tuesday, 23 May 2023. The dividend payout ratio is 51.3% of the profit for the year attributable to owners of the Company or 41.2% of the profit before taxation of the Company.

There is no arrangement under which a Shareholder has waived or agreed to waive any dividends, the above-mentioned final dividend is expected to be paid on or before Friday, 30 June 2023.

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 forthcoming annual general meeting

The register of members of the Company will be closed from Thursday, 18 May 2023 to Tuesday, 23 May 2023 (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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 17 May 2023.

To qualify for the proposed final dividend

The register of members of the Company will be closed from Thursday, 1 June 2023 to Tuesday, 6 June 2023 (both days inclusive) during which period no transfer of Shares will be registered. To be qualified for receiving the proposed final dividend, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 31 May 2023.

BUSINESS REVIEW

A review of the business of the Group for the Year Under Review and a discussion on the Group's future business development are provided in the "Management Discussion and Analysis" on pages 7 to 36. 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.

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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

Included in the Group's property, plant and equipment, there is a property located in Jurong, Jiangsu, with a carrying amount of approximately RMB25,981,000 as at 31 December 2022. The Group purchased the property from 蘇州建興置業有限公司 (the "Developer") in 2013. The Group has fully paid the cost of the buildings but as at 31 December 2022, the Group has not obtained the ownership certificate yet. The Group has litigations against the Developer in these few years. During the Year Under Review, the Developer was under liquidation procedure. The management has obtained legal opinion and assessed it is more probable for the liquidator will continue to execute the sales and purchase agreement between the Developer and the Group and complete the issue of ownership certificate. Therefore, there are no material adverse effect on the business operation and financial position of the Group.

Save as disclosed above, as at 31 December 2022, 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 disclosed in the announcement of the Company dated 21 September 2022 (the "Announcement"), there had been a change in use of the net proceeds from the Listing. Please refer to the Announcement for further details. As at 31 December 2022, the Group had utilised approximately RMB70,800,000 of the net proceeds and the remaining balance of the net proceeds is approximately RMB46,000,000. Details of which are set out in the table below:

	Planned use of the net proceeds as disclosed in the Prospectus *(RMB million)*	Revised use of net proceeds as disclosed in the Announcement *(RMB million)*	Actual utilised amount of the net proceeds as at 31 December 2022 *(RMB million)*	Unutilised amount of the net proceeds as at 31 December 2022 *(RMB million)*	Expected timeline of utilisation
Enhancement of the Group's design and product development and enhancement of operational efficiency	25.5	25.5	25.5	–	N/A
Construction of production base, logistic center and purchase of production equipment and machinery	27.5	27.5	16.6	10.9	June 2023
Enhancement of the sales network and sales support services through internet and group sales to corporate customers	16.5	16.5	16.5	–	N/A
General working capital of the Group	12.2	12.2	12.2	–	N/A
Setting up new international shops in the overseas market	11.0	–	–	–	N/A
Setting up high-end home accessories shops in the PRC under the brand name of "Tan's"	19.0	–	–	–	N/A
Setting up lifestyle handicraft stores	5.1	–	–	–	N/A
Further enhancement of the Group's production facilities and environmental protection infrastructure	–	18.0	–	18.0	August 2023
Enhancement of the Group's logistic center	–	17.1	–	17.1	October 2023
	116.8	116.8	70.8	46.0	

The expected timeline for utilising the remaining net proceeds is made based on the best estimation of the Company taking into account, among others, the prevailing and future market conditions and business developments and needs, and therefore is subject to change.

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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 its 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. Details of the Share Option Scheme are set out in the Prospectus. The Share Option Scheme was expired on 28 December 2019.

As at 31 December 2022, the Company had granted to certain eligible participants (the "Grantees"), a total of 400,000 share options to subscribe for a total of 400,000 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 2022 is as follows:

Grantees	Position held with the Group	Date of grant	Option period (Note 1)	Exercise price per share (HK$) (Note 2)	Number of Share Options: Outstanding as at 1 January 2022	Granted during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2022	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)	–	–	–
Ms. Liu Kejia	Sales Controller	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%
					700,000	–	(300,000)	–	400,000	0.16%

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 2022.

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 2022 and up to the date of this report, at least 25% issued shares of the Company were held by public Shareholders.

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

For the year ended 31 December 2022, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 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 the "Consolidated Statement of Changes in Equity" on page 74 and Note 30 to the Financial Statements.

DISTRIBUTABLE RESERVES

As at 31 December 2022, 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 RMB97,361,000, of which approximately RMB54,991,000 (equivalent to approximately HK$62,253,000) has been proposed as a final dividend for the year. Under the Companies Law, a company may make distribution to its Shareholders out of the share premium account under certain circumstances.

CHARITABLE DONATIONS

The Group had charitable donations of approximately RMB475,000 for the year ended 31 December 2022 (2021: approximately RMB50,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group for the year ended 31 December 2022 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 of the Group's investment properties as at 31 December 2022 amounted to approximately RMB97,120,000 which had decreased by approximately RMB2,020,000 when compared to 2021. Details of movements in the investment properties of the Group are set out in Note 15 to the Financial Statements of the Group for the year ended 31 December 2022. Details of the principal properties held for investment purposes are set out on page 145 of this report.

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 2022 are set out in Note 17 to the Financial Statements.

DIRECTORS

The Directors of the Company during the financial year ended 31 December 2022 and up to the date of this report are as follows:

Executive Directors

Mr. Tan Chuan Hua *(Chairman)*
Mr. Tan Di Fu
Mr. Luo Hongping (appointed on 1 February 2023)
Mr. Tan Lizi (resigned on 1 May 2022)

Independent Non-Executive Directors

Mr. Chau Kam Wing, Donald
Ms. Liu Liting
Mr. Yang Tiannan (appointed on 20 June 2022)
Mr. Yang Yang (resigned on 12 June 2022)

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 37 to 39 of this report.

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 1 Director (2021: 1 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 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 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 are as follows:

	RMB'000
Executive Directors	
Mr. Tan Chuan Hua *(Chairman)*	152
Mr. Tan Di Fu	204
Mr. Tan Lizi (resigned on 1 May 2022)	1,047
Independent Non-Executive Directors	
Mr. Chau Kam Wing, Donald	132
Ms. Liu Liting	88
Mr. Yang Tiannan (appointed on 20 June 2022)	48
Mr. Yang Yang (resigned on 12 June 2022)	40

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 2022, 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 2022, 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%
Yang Tiannan	Beneficial owner	2,480,000	0.99%

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.

(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 2022, 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. Ms. Fan is a controlling shareholder within the meaning of the Listing Rules.

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

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

RELATED PARTY TRANSACTIONS

Details of the Group's related party transactions for the year ended 31 December 2022 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 2022, the Group had pledged bank deposit of RMB3,000,000 to the bank to secure a financial guarantee issued by the bank to distribution agents for the Group's operation (2021: 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 2022, 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 2022, the Group had cash and bank balances of approximately RMB27,160,000 (2021: approximately RMB35,795,000) mainly generated from operations of the Group and funds raised by the Company in 2009.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales to the five largest customers of the Group accounted for approximately 2.7% of the Group's total revenue and sales to the largest customer accounted for approximately 0.7% of the Group's total revenue for the year ended 31 December 2022. The aggregate purchases from the five largest suppliers of the Group accounted for approximately 69.7% of the Group's total purchases and purchases from the largest supplier accounted for approximately 47.5% of the Group's total purchases for the year ended 31 December 2022.

None of the Directors, their associates, or any Shareholder which to the knowledge of the Directors owns 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 2022 are set out in Note 2(N) to the Financial Statements. No forfeited contributions (by the Group on behalf of employees who leave the defined contribution plans prior to vesting fully in such contributions) can be used by the Group to reduce the existing level of contributions.

FINANCIAL SUMMARY

A summary of the results, the assets and liabilities of the Group for the last five financial years is set out in the "Financial Summary" on page 146 of this report.

EVENTS AFTER THE REPORTING PERIOD

Resignation of chief executive officer and appointment of executive director and chief executive officer

As disclosed in the announcement of the Company dated 1 February 2023 (the "February Announcement"), Mr. Tan Chuan Hua has resigned from the position of chief executive officer with effect from 1 February 2023. Mr. Luo Hongping has been appointed as the executive Director and chief executive officer of the Company with effect from 1 February 2023. Please refer to the February Announcement for further details.

Saved as disclosed above, there are no material events after the reporting period as at the date of this report.

AUDITOR

Crowe (HK) CPA Limited ("Crowe (HK)") acted as auditor of the Company and audited the Group's consolidated financial statements for the financial year ended 31 December 2022. Crowe (HK) retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Crowe (HK) 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, 31 March 2023

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 70 to 144, which comprise the consolidated statement of financial position as at 31 December 2022, 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 2022, 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 MATTER	HOW THE MATTER WAS ADDRESSED IN OUR AUDIT
Net realisable value of inventories	
Refer to notes 4 and 18 to the consolidated financial statements and the accounting policies on page 88. 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, actions taken to eliminate threats or safeguards applied.

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.

Crowe (HK) CPA Limited
Certified Public Accountants
Hong Kong
31 March 2023

Leung Pak Ki
Practising Certificate Number P08014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
Revenue	5	**348,002**	330,910
Cost of sales		**(142,754)**	(131,120)
Gross profit		**205,248**	199,790
Other income and other net gain/(loss)	6	**35,364**	38,215
Administrative expenses		**(31,975)**	(30,821)
Selling and distribution expenses		**(69,760)**	(71,615)
Other operating expenses		**(4,887)**	(4,440)
Profit from operations		**133,990**	131,129
Finance costs	7(C)	**(627)**	(334)
Profit before taxation	7	**133,363**	130,795
Income tax	8(A)	**(26,105)**	(22,447)
Profit for the year		**107,258**	108,348
Attributable to			
Owners of the Company		**107,250**	107,663
Non-controlling interests		**8**	685
Profit for the year		**107,258**	108,348
Earnings per share			
Basic and diluted	13	**RMB43.12 cents**	RMB43.29 cents

The notes on pages 77 to 144 form part of these financial statements.

Details of dividends payable to owners of the Company attributable to profit for the year are set out in Note 12.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	2022 RMB'000	2021 RMB'000
Profit for the year	**107,258**	108,348
Other comprehensive (expense)/income for the year		
Item that will not be reclassified to profit or loss:		
Exchange differences on translation from functional currency to presentation currency	**3,392**	(859)
Item that are or may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(8,495)**	1,086
Other comprehensive (expense)/income for the year, net of nil income tax	**(5,103)**	227
Total comprehensive income for the year	**102,155**	108,575
Attributable to		
Owners of the Company	**102,147**	107,890
Non-controlling interest	**8**	685
Total comprehensive income for the year	**102,155**	108,575

The notes on pages 77 to 144 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment	14(A)	**91,370**	77,852
Right-of-use assets	14(B)	**38,110**	41,814
Investment properties	15	**97,120**	99,140
Intangible assets	16	**–**	–
Non-pledged fixed bank deposit	23(A)	**53,000**	–
Other receivables, deposits and prepayments	20	**767**	705
		280,367	219,511
Current assets			
Inventories	18	**244,430**	198,103
Income tax recoverable	22(A)	**2**	60
Trade receivables	19	**5,349**	4,902
Other receivables, deposits and prepayments	20	**7,539**	8,355
Financial assets at fair value through profit or loss	21	**57,710**	317,580
Non-pledged fixed bank deposit (maturity over 3 months, but within 1 year)	23(A)	**180,000**	–
Cash and bank balances	23(A)	**27,160**	35,795
Pledged bank deposit	23(B)	**3,000**	–
		525,190	564,795
Current liabilities			
Trade payables	24	**4,764**	2,441
Other payables and accruals	25	**44,759**	48,738
Income tax payable	22(A)	**28,522**	22,540
Lease liabilities	26	**1,939**	2,388
		(79,984)	(76,107)
Net current assets		**445,206**	488,688
Total assets less current liabilities		**725,573**	708,199

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	Notes	2022 RMB'000	2021 RMB'000
Non-current liabilities			
Deferred tax liabilities	22(B)	**23,779**	23,850
Deferred income	27	**530**	565
Lease liabilities	26	**9,385**	11,337
		(33,694)	(35,752)
NET ASSETS		**691,879**	672,447
CAPITAL AND RESERVES			
Share capital	28	**2,189**	2,189
Reserves	30	**685,631**	666,207
Equity attributable to owners of the Company		**687,820**	668,396
Non-controlling interests		**4,059**	4,051
TOTAL EQUITY		**691,879**	672,447

Approved and authorised for issue by the board of directors on 31 March 2023.

Tan Chuan Hua
Director

Luo Hongping
Director

The notes on pages 77 to 144 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	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	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2021	2,189	110,503	10,275	58,211	17,542	12,245	(16,312)	268	411,303	12,915	619,139
Profit for the year	–	–	–	–	–	–	–	–	107,663	685	108,348
Exchange differences on translation from functional currency to presentation currency	–	–	–	–	–	–	(859)	–	–	–	(859)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	1,086	–	–	–	1,086
Total comprehensive income for the year	–	–	–	–	–	–	227	–	107,663	685	108,575
Dividends approved in respect of the previous year (note 12)	–	–	–	–	–	–	–	–	(40,540)	–	(40,540)
Changes in the Group's interests in existing subsidiary	–	–	–	–	–	–	–	–	(5,316)	(10,557)	(15,873)
Capital contribution from non-controlling interest	–	–	–	–	–	–	–	–	–	1,008	1,008
Transfer to reserve	–	–	–	239	–	–	–	–	(239)	–	–
Equity settled share-based transactions	–	–	–	–	–	–	–	138	–	–	138
At 31 December 2021	2,189	110,503	10,275	58,450	17,542	12,245	(16,085)	406	472,871	4,051	672,447
At 1 January 2022	**2,189**	**110,503**	**10,275**	**58,450**	**17,542**	**12,245**	**(16,085)**	**406**	**472,871**	**4,051**	**672,447**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**107,250**	**8**	**107,258**
Exchange differences on translation from functional currency to presentation currency	**-**	**-**	**-**	**-**	**-**	**-**	**3,392**	**-**	**-**	**-**	**3,392**
Exchange differences arising on translation of foreign operations	**-**	**-**	**-**	**-**	**-**	**-**	**(8,495)**	**-**	**-**	**-**	**(8,495)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**(5,103)**	**-**	**107,250**	**8**	**102,155**
Dividends approved in respect of the previous year (note 12)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(55,215)**	**-**	**(55,215)**
Dividends declared in respect of the current year (note 12)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(27,508)**	**-**	**(27,508)**
Transfer to reserve	**-**	**-**	**-**	**62**	**-**	**-**	**-**	**(144)**	**82**	**-**	**-**
At 31 December 2022	**2,189**	**110,503**	**10,275**	**58,512**	**17,542**	**12,245**	**(21,188)**	**262**	**497,480**	**4,059**	**691,879**

The notes on pages 77 to 144 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
Operating activities			
Profit before taxation		**133,363**	130,795
Adjustments for:			
Finance costs	7(C)	**627**	334
Interest income	6	**(422)**	(609)
Change in fair value of investment properties	6	**2,020**	2,100
Change in fair value of financial assets at fair value through profit or loss	6	**(8,382)**	(8,575)
Net loss on disposal of property, plant and equipment	7(B)	**102**	329
Depreciation of property, plant and equipment	7(B)	**4,625**	4,505
Depreciation of right-of-use assets	7(B)	**3,628**	5,147
Equity settled share-based payment expenses	7(A)	**–**	138
Write down of inventories	7(B)	**4,850**	1,987
Net foreign exchange gain	7(B)	**(18)**	(669)
Government grants released from deferred income	6	**(35)**	(35)
Reversal of loss allowances on trade receivables, net	6	**(35)**	(12)
Loss allowance/(reversal of loss allowances) on other receivables, net	7(B)	**38**	(30)
(Reversal of provision)/provision for sales returns	7(B)	**(1,891)**	1,788
Reversal of write-down of inventories	7(B)	**(57)**	(269)
Loss on termination of lease contract	6	**8**	–
Operating profit before working capital changes		**138,421**	136,924
Increase in inventories		**(51,120)**	(40,417)
Increase in trade receivables		**(412)**	(1,176)
Decrease in other receivables, deposits and prepayments		**716**	3,543
Increase/(decrease) in trade payables		**2,323**	(1,673)
Decrease in other payables and accruals		**(2,088)**	(3,529)
Cash generated from operations		**87,840**	93,672
Interest received		**422**	609
Income tax paid		**(16,495)**	(26,105)
Withholding tax paid		**(4,310)**	(2,027)
Net cash generated from operating activities		**67,457**	66,149

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
Investing activities			
Purchase of property, plant and equipment		**(18,286)**	(21,794)
Placement of pledged bank deposit		**(3,000)**	–
Placement of non-pledged fixed bank deposit		**(233,000)**	–
Proceeds from disposal of property, plant and equipment		**57**	21
Payment for purchase of financial assets at fair value through profit or loss		**(264,110)**	(591,580)
Proceeds from sale of financial assets at fair value through profit or loss		**532,362**	546,575
Net cash generated from/(used in) investing activities		**14,023**	(66,778)
Financing activities			
Dividend paid	23(C)	**(82,723)**	(40,540)
Capital contribution from non-controlling interests		**–**	1,008
Capital element of lease rentals paid	23(C)	**(2,334)**	(4,265)
Interest element of lease rentals paid	23(C)	**(627)**	(334)
Payment to non-controlling interests for additional interests in existing subsidiary		**–**	(15,873)
Net cash used in financing activities		**(85,684)**	(60,004)
Net decrease in cash and cash equivalents		**(4,204)**	(60,633)
Cash and cash equivalents at beginning of year	23(A)	**35,795**	95,777
Effect of foreign exchange rate changes, net		**(4,431)**	651
Cash and cash equivalents at end of year	23(A)	**27,160**	35,795

The notes on pages 77 to 144 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 Type A Factory Building, Longbao Shuanghekou, Light Industry Park, Wanzhou District, Chongqing, the People's Republic of China (the "PRC") respectively.

The functional currency of the Company and its subsidiaries in Hong Kong, and its subsidiaries in the PRC are Hong Kong dollars ("HK$") and Renminbi ("RMB") respectively. For the 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 and also engaged in the operation of retail shops for direct sale of the Group's products in Hong Kong. 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 (the "Stock Exchange"). 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 2022 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"). The 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") are stated at their fair value as explained in the accounting policies set out below.

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

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

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

C) Subsidiaries And Non-ContRolling Interests

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. The Group reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the elements of control.

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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

C) Subsidiaries And Non-Controlling Interests *(Continued)*

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the owners of the Company. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised. Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

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)).

D) Property, plant and equipment

The following items of property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and impairment losses (see note 2(H)(II)):

- interests in leasehold land and buildings where the Group is the registered owner of the property interest (see note 2(E));
- right-of-use assets arising from leases over leasehold properties where the Group is not the registered owner of the property interest; and
- items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see note 2(E)).

Depreciation is calculated to write off the cost of items of property, plant and equipment, other than construction in progress, 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 equipment	5 to 10 years
Furniture and fixtures	5 to 6 years
Motor vehicles	5 to 6 years

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

D) Property, plant and equipment *(Continued)*

Construction in progress represents buildings, leasehold improvements, and 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 profits.

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 separate asset is derecognised when replaced. All other repairs and maintenance are recognised in profit or loss during the reporting period in which they are incurred.

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

Buildings in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling any such items and the related costs are recognised in profit or loss. The cost of those items is measured in accordance with the measurement requirements of HKAS 2 Inventories ("HKAS 2"). Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

E) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(I) As a lessee

Where the contract contains lease components and non-lease components, the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

E) LEASED ASSETS *(Continued)*

(I) AS A LESSEE *(Continued)*

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments (less any lease incentives receivable) payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

Lease payments also include amounts expected to be payable by the Group under residual value guarantees; the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. Except for that which is classified as investment property and measured at fair value, right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities.

The initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to debt instruments carried at amortised cost (see notes 2(H)(I) and 2(Q)(III)). Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in cost of right-of-use assets.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

E) LEASED ASSETS *(Continued)*

(I) AS A LESSEE *(Continued)*

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of HKFRS 16 Leases. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concessions are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concessions occurred.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position. In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

(II) AS A LESSOR

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 2(Q)(IV).

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

When the Group is an intermediate lessor, the sub-lease is classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in note 2(E)(I), then the Group classifies the sub-lease as an operating lease.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

E) Leased assets *(Continued)*

(II) As a lessor (Continued)

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals. The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease. For rent concession under which the Group legally releases the lessee from its obligation to make specifically identified lease payments, of which some of these lease payments are contractually due but not paid and some of them are not yet contractually due, the Group accounts for the portions which have been recognised as operating lease receivables (i.e. the lease payments which are contractually due but not paid) by applying the ECL and derecognition requirements under HKFRS 9 and applies lease modification requirements for the forgiven lease payments that the Group has not recognised (i.e. the lease payments which are not yet contractually due) as at the effective date of modification.

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 also include leased properties which are being recognised as right-of-use assets and subleased by the Group under operating leases.

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(Q)(IV).

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 lives 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. Gain or loss arising from the derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, is 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

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

— financial assets measured at amortised cost (including bank deposit, cash and bank balances, trade receivables, other receivables and deposits).

Other financial assets measured at fair value, including financial assets 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, 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

(i) Credit losses from financial instruments *(Continued)*

Measurement of ECLs *(Continued)*

Loss allowances for trade receivables and lease receivables are always measured at an amount equal to lifetime ECLs. ECLs on trade receivables are estimated using a provision matrix/internal credit rating 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 a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16.

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 unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

H) CREDIT LOSSES AND IMPAIRMENT OF ASSETS *(Continued)*

(I) CREDIT LOSSES FROM FINANCIAL INSTRUMENTS (Continued)

Significant increase in credit risk *(Continued)*

The Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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, with the exception of trade receivables, other receivable and deposits where the corresponding adjustment is recognised through a loss allowance account.

Basis of calculation of interest income

Interest income recognised in accordance with note 2(Q)(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.

Credit-impaired financial assets

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 past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

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.

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, including right-of-use assets;

— 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). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

— 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 value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— Reversal of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

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 assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

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

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

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Costs necessary to make the sale include incremental costs directly attributable to the sale and non-incremental costs which the Group must incur 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.

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost, using the effective interest method, less allowance for ECL (see note 2(H)(I)).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

K) Contract Liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 2(Q)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2(J)).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

L) Trade and other payables

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, trade and other payables are stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

M) Cash and cash equivalents

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

Cash at bank excludes bank balances that are subject to regulatory restrictions that result in such balances no longer meeting the definition of cash. Bank balances for which use by the Group is subject to third party contractual restrictions are included as part of cash unless the restrictions result in a bank balance no longer meeting the definition of cash. Contractual restrictions affecting use of bank balances are disclosed in note 23.

N) Employee benefits

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

N) EMPLOYEE BENEFITS *(Continued)*

(II) SHARE-BASED PAYMENTS

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in equity settled share-based payment reserve within equity. The fair value is measured at grant date, without taking into consideration of all non-market vesting conditions, 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.

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 under review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the equity settled share-based payment 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 equity settled share-based payment 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 equity settled share-based payment 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 profits). When the share options are forfeited prior to the expiry date, the amount previously recognised in equity settled share-based payment reserve will be transferred to retained profits.

(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.

O) INCOME TAX

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

O) 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 sale of those assets at their carrying value at the reporting date unless the properties are depreciable and are held within a business model whose objective is to consume substantially all of the economic benefits embodied in the properties 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)*

O) 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.

P) Provisions, contingent liabilities and onerous contracts

(I) Provisions and Contingent liabilities

Provisions are recognised 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.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

(II) Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of fulfilling with the contract.

Prior to application of HKAS 37 amendments on 1 January 2022, the Group only considers incremental costs when assessing whether a contract is onerous or loss-making. Effective 1 January 2022, outstanding unfulfilled contracts as at 1 January 2022 are assessed by considering both the incremental costs and an allocation of other costs that relate directly to fulfilling contracts.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Q) 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 the Group's assets under leases in the ordinary course of the Group's business.

In determining whether the Group acts as a principal or as an agent, it considers whether it obtains control of the products or services before they are transferred to the customers. Control refers to the Group's ability to direct the use of and obtain substantially all of the remaining benefits from the products or services.

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.

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").

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. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component as the period of financing is 12 months or less.

The Group typically offers franchisees customers rights of return the eligible products for a period of 1 year upon customer acceptance. Such rights of return give rise to variable consideration. The Group uses an expected value approach to estimate variable consideration based on the Group's current and future performance expectations and all information that is reasonably available. This estimated amount is included in the transaction price to the extent it is highly probable that a significant reversal of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved. At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period. A provision for sales return is recognised for the expected returns. A right to recover returned goods and corresponding adjustment to cost of sales are also recognised for the right to recover products from customers. This right to recover returned goods is measured at the former carrying amount of the inventory less any expected costs to recover goods (including potential decreases in the value of the returned goods).

(II) Franchise joining fee income

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

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Q) Revenue and other income *(Continued)*

(III) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets (other than purchased or originated credit-impaired financial assets) measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset.

(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 recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful life of the related asset.

R) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except the exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's net investment in the foreign operation.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

R) Translation of foreign currencies *(Continued)*

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 and are not re-translated. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities. 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. When a fair value gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is also recognised in profit or loss. When a fair value gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is also recognised in other comprehensive income.

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.

S) Financial assets at fair value through profit or loss

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 excluding transaction costs which are recognised directly in profit or loss, 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.

For an explanation of how the Group determine fair value of financial instruments, see note 31(c).

T) 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).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

T) Related parties *(Continued)*

(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.

U) 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.

(V) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

(W) Derecognition of financial LIABILITIES

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND HONG KONG ACCOUNTING STANDARDS

The Group has applied the following amendments to HKFRSs and HKASs issued by the HKICPA to these financial statements for the current accounting period for the first time:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKAS 16	Property, Plant and Equipment – Proceeds before intended use
Amendment to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendment to HKFRSs	Annual Improvements to HKFRSs 2018-2020

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Except as described below, the application of the amendments to HKFRSs and HKASs in the current year has no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosure set out in these financial statements.

Amendments to HKFRS 3 Reference to the Conceptual Framework

The Group has applied the amendments to business combinations for which the acquisition date was on or after 1 January 2022. The amendments update a reference in HKFRS 3 Business Combinations so that it refers to the *Conceptual Framework for Financial Reporting 2018* issued in June 2018 (the "Conceptual Framework") instead of *Framework for the Preparation and Presentation of Financial Statements* (replaced by the *Conceptual Framework for Financial Reporting 2010* issued in October 2010), add a requirement that, for transactions and events within the scope of HKAS 37 or HK(IFRIC)-Int 21, an acquirer applies HKAS 37 or HK(IFRIC)-Int 21 instead of the Conceptual Framework to identify the liabilities it has assumed in a business combination and add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

Amendments to HKAS 16 Property, Plant and Equipment: Proceeds before Intended Use

The amendments prohibit an entity from deducting the proceeds from selling items produced before that asset is available for use from the cost of an item of property, plant and equipment. Instead, the sales proceeds and the related costs should be included in profit and loss. The cost of the items is measured in accordance with HKAS 2.

The amendments do not have a material impact on these financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS AND HONG KONG ACCOUNTING STANDARDS *(CONTINUED)*

Amendments to HKAS 37 Onerous Contracts – Cost of Fulfilling a Contract

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts. Previously, the Group included only incremental costs when determining whether a contract was onerous.

In accordance with the transitional provisions, the Group has applied the new accounting policy to contracts for which it has not yet fulfilled all its obligations at 1 January 2022, and has concluded that none of them is onerous.

Amendments to HKFRSs Annual Improvements to HKFRSs 2018- 2020

The annual improvements make amendments to the following standards:

HKFRS 9 *Financial Instruments*

The amendment clarifies that for the purpose of assessing whether modification of terms of original financial liability constitutes substantial modification under the “10 per cent” test, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or the lender on the other’s behalf.

In accordance with the transitional provisions, the Group applied the amendment to financial liabilities that are modified or exchanged as at the date of initial application, 1 January 2022.

HKFRS 16 *Leases*

The amendment to Illustrative Example 13 accompanying HKFRS 16 removes from the example the illustration of reimbursement relating to leasehold improvements by the lessor in order to remove any potential confusion.

None of these impact on the Group’s consolidated financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

A) Critical accounting judgement in applying the accounting policies

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

(I) 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.

(II) Deferred taxation on investment properties

For the purposes of measuring deferred tax arising from investment properties that are measured using the fair value model, the directors of the Company have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in determining the deferred taxation on investment properties, the directors of the Company have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted.

B) Key sources of estimation uncertainty

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

(I) Depreciation and amortisation

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

(II) Impairment on property, plant and equipment and right-of-use assets

The Group assesses annually whether property, plant and equipment and right-of-use assets have any indication of impairment. The recoverable amounts of property, plant and equipment and right-of-use assets 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.

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

B) KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(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-DOWN OF INVENTORIES

Inventories are written down to net realisable value based on an assessment of the realisability of inventories. Write-down of inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-down 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-down of inventories in the period 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.

(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 4% 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.

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

B) KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(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 end of the reporting period.

(VIII) FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Where the fair value of financial assets 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's 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:

	2022 **RMB'000**	2021 RMB'000
Online business		
– Sales of goods	**166,409**	145,950
Offline business		
– Sales of goods	**178,242**	181,082
– Franchise joining fee income	**184**	226
	178,426	181,308
Directly-operated outlets		
– Sales of goods	**3,167**	3,652
	348,002	330,910

The Group's customer base is diversified. No individual customer (2021: nil) had transactions which exceeded 10% of the Group's aggregate revenue for the year ended 31 December 2022.

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

6. OTHER INCOME AND OTHER NET GAIN/(LOSS)

	2022 RMB'000	2021 RMB'000
Government grants (notes (I))	**2,497**	3,675
Government grants released from deferred income (note 27)	**35**	35
Interest income from financial assets measured at amortised cost		
– bank interest income	**422**	609
PRC VAT refunds (note 8(A)(VI))	**19,097**	18,777
Rental income from investment properties	**5,881**	6,841
Net foreign exchange gain	**18**	669
Change in fair value of investment properties (note 15)	**(2,020)**	(2,100)
Change in fair value of financial assets at		
fair value through profit or loss (note 21)	**8,382**	8,575
Reversal of loss allowances on trade receivables (note 19(B))	**35**	12
Loss on termination of lease contract	**(8)**	–
Others	**1,025**	1,122
	35,364	38,215

Note:

(I) In 2022, among the government grants, approximately RMB2,497,000 (2021: approximately RMB3,675,000) was for the PRC subsidiaries of the Group. It was for funding supporting mainly from Chongqing Regulatory Bureau, Ministry of Finance and Chongqing Provincial Human Resources and Social Security Department (the "Funds"). The purpose of the Funds are to encourage the involvement in overseas marketing by granting financial assistance to commercial entities who have involved in certain marketing activities outside the PRC; and to promote a stable employment environment and prevent unemployment risks by granting financial assistance to commercial entities whose structure, lay off rate, contributions to unemployment insurance meet certain criteria.

7. PROFIT BEFORE TAXATION

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

	2022 RMB'000	2021 RMB'000
A) Staff costs (including directors' emoluments)		
Salaries and other benefits	**71,674**	74,115
Contributions to defined contribution retirement scheme	**9,782**	8,864
Equity-settled share-based payment expenses (note 29)	**–**	138
Total staff costs (note (I))	**81,456**	83,117
B) Other items		
Auditor's remuneration		
– audit services	**680**	668
– non-audit services	**238**	351
Cost of inventories sold (note (I) and 18)	**137,961**	129,402
Depreciation of right-of-use assets (note (I))	**3,628**	5,147
Depreciation of property, plant and equipment (note (I))	**4,625**	4,505
Loss allowance/(reversal of loss allowances) on other receivables, net	**38**	(30)
Net loss on disposal of property, plant and equipment	**102**	329
(Reversal of provision)/provision for sales returns	**(1,891)**	1,788
Write down of inventories (note 18)	**4,850**	1,987
Reversal of write-down of inventories (note 18)	**(57)**	(269)
Gross rental income from investment properties	**(5,881)**	(6,841)
Less: Direct outgoings incurred for investment properties that generated rental income during the year	**719**	846
Net rental income	**(5,162)**	(5,995)
C) Finance cost		
Interest on lease liabilities (notes 14(B) and 23(C))	**627**	334

Note:

(I) Cost of inventories includes approximately RMB50,511,000 (2021: RMB54,139,000) 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:

	2022 RMB'000	2021 RMB'000
Current tax		
PRC Enterprise Income Tax (notes (I) and (II))	**22,293**	19,765
Hong Kong profits tax (note (IV))	**–**	–
Withholding tax on dividends (note (V))		
- Provision for the year	**4,310**	2,027
	26,603	21,792
Over provision in prior years, net		
PRC Enterprise Income Tax	**(427)**	–
Deferred tax		
Transfer to current tax upon distribution of dividends (note 22(B))	**(4,310)**	(2,027)
Provision for the year (note (V) and note 22(B))	**4,239**	2,682
Total	**26,105**	22,447

Notes:

(I) On 6 April 2012, the State Administration of Taxation of the PRC (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, Chongqing Carpenter Tan Handicrafts Co., Ltd ("Carpenter Tan"), wholly-owned subsidiary, 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. On 23 April 2020, the SAT extended the policy from 1 January 2021 to 31 December 2030.

8. INCOME TAX *(Continued)*

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

Notes: *(Continued)*

(II) 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% (2021: 25%) except for Carpenter Tan (2021: Carpenter Tan) which is eligible for the income tax concessions according to the preferential tax policies as stated in note 8(A)(I) above.

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

(IV) No provision for Hong Kong profits tax has been made for the years ended 31 December 2022 and 2021 as the subsidiaries did not have assessable profits subject to Hong Kong profits tax for these years.

(V) 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 been completed. The management consulted with PRC lawyers and assessed that the Group is entitled to 5% withholding income tax rate since 2019. In 2022, a provision of approximately RMB4,310,000 (2021: RMB2,027,000) for current tax and approximately RMB4,298,000 (2021: RMB2,761,000) for deferred tax has been made.

As at 31 December 2022, the deferred tax liabilities relating to withholding tax accrued on undistributed profits of the Group's PRC subsidiaries amounted to approximately RMB2,749,000 (2021: RMB2,761,000) which are expected to be distributed in the foreseeable future.

(VI) Pursuant to the notice on preferential tax policies to entities with disabilities issued by the SAT, Ministry of Finance of the PRC that, Carpenter Tan, a wholly-owned subsidiary of the Group, 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 since 24 November 2016.

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.

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8. INCOME TAX *(Continued)*

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

	2022 RMB'000	2021 RMB'000
Profit before taxation	**133,363**	130,795
Notional tax on profit before tax, calculated at the rates applicable to profits in the relevant tax jurisdiction	**33,424**	32,903
Tax effect of non-deductible expenses	**2,340**	634
Tax effect of non-taxable incomes	**(2,199)**	(1,983)
Effect of tax concessions granted to subsidiaries (note 8(A)(VI))	**(4,387)**	(4,771)
Effect of concessionary tax rate enjoyed by subsidiaries (note 8(A)(I))	**(7,036)**	(7,479)
Unrecognised temporary differences	**(62)**	(128)
Unrecognised tax losses	**523**	510
Utilisation of previously unrecognised tax losses	**(369)**	–
Withholding tax on dividends (note 8(A)(V))	**4,298**	2,761
Over provision in prior years	**(427)**	–
Income tax expenses	**26,105**	22,447

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 2022

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 9(H)) RMB'000	Total RMB'000
Executive directors						
Mr. Tan Chuan Hua (note 9(B))	88	64	–	–	–	152
Mr. Tan Di Fu	88	116	–	–	–	204
Mr. Tan Lizi (note 9(E))	29	666	337	15	–	1,047
Independent non-executive directors						
Mr. Yang Yang (note 9(F))	40	–	–	–	–	40
Mr. Chau Kam Wing, Donald	132	–	–	–	–	132
Ms. Liu Liting	88	–	–	–	–	88
Mr. Yang Tiannan (note 9(G))	48	–	–	–	–	48
	513	846	337	15	–	1,711

9. DIRECTORS' EMOLUMENTS *(Continued)*

For the year ended 31 December 2021

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 9(H)) RMB'000	Total RMB'000
Executive directors						
Mr. Tan Chuan Hua (note 9(B))	88	64	2	–	–	154
Mr. Tan Di Fu	88	–	–	–	–	88
Mr. Tan Lizi	88	190	520	37	59	894
Independent non-executive directors						
Mr. Yang Yang	88	–	–	–	–	88
Mr. Chau Kam Wing, Donald	132	–	–	–	–	132
Ms. Liu Liting	88	–	–	–	–	88
Non-executive directors						
Ms. Tan Yinan (note 9(C))	26	–	–	–	–	26
Ms. Huang Zuoan (note 9(D))	37	–	–	–	–	37
	635	254	522	37	59	1,507

Notes:

A) For the years ended 31 December 2022, RMB623,000 (2021: RMB nil) were paid by the Group to Mr. Tan Lizi as compensation for loss of office. No emoluments were paid by the Group to the directors and chief executive as an inducement to join or upon joining the Group for both years. None of the directors waived or agreed to waive any emoluments for the years ended 31 December 2022 and 2021.

B) Being the Executive Director and Chairman of the Group. Appointed as chief executive officer with effect from 1 May 2022.

C) Ms. Tan Yinan resigned as non-executive director on 12 April 2021.

D) Ms. Huang Zuoan resigned as non-executive director on 1 June 2021.

E) Mr. Tan Lizi resigned as executive director and chief executive officer on 1 May 2022.

F) Mr. Yang Yang resigned as independent non-executive director on 12 June 2022.

G) Mr. Yang Tiannan appointed as independent non-executive director on 20 June 2022.

H) 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 notes 2(N)(II) and 29.

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 one director (2021: one) of the Company whose emoluments are disclosed in note 9 above. Details of the emoluments paid by the Group to the remaining four (2021: four) non-director individuals during the year are as follows:

	2022 RMB'000	2021 RMB'000
Salaries and other emoluments	634	659
Bonus	1,363	1,308
Retirement scheme contributions	124	110
Share-based payments	–	79
	2,121	2,156

The emoluments of the 4 (2021: 4) individuals (who are not directors of the Company) with the highest emoluments are within the following band:

	2022 Number of individuals	2021 Number of individuals
Nil up to HK$1,000,000 (equivalent to RMB851,000)	4	4

No emoluments were paid by the Group to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office for both years.

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

	2022 RMB'000	2021 RMB'000
Interim dividend of HK12.96 cents, equivalent to RMB11.06 cents per ordinary share (2021: HK nil, equivalent to RMB nil per ordinary share)	**27,508**	–
Final dividend of HK25.03 cents, equivalent to RMB22.11 cents per ordinary share (2021: HK27.15 cents, equivalent to RMB22.20 cents) proposed after the end of the reporting period (Note I)	**54,991**	55,215
	82,499	55,215

Note I:

The Directors recommend the payment of a final dividend of HK25.03 cents, equivalent to RMB22.11 cents per ordinary share, totaling RMB54,991,000. This dividend is to be approved by the shareholders of the Company at the Annual General Meeting scheduled to be held on 23 May 2023. 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

	2022 RMB'000	2021 RMB'000
Final dividend of HK27.15 cents, equivalent to RMB22.20 cents per ordinary share (2021: HK19.58 cents, equivalent to RMB16.30 cents) in respect of the previous financial year, approved and paid during the year	**55,215**	40,540

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

	2022 RMB'000	2021 RMB'000
Earnings used in calculating basic earnings per share	**107,250**	107,663

(II) Weighted average number of ordinary shares

	Number of shares	
	2022 '000	2021 '000
Weighted average number of ordinary shares in issue	**248,714**	248,714
Weighted average number of ordinary shares for the purpose of basic earnings per share	**248,714**	248,714

B) Diluted earnings per share

Diluted earnings per share for the year ended 31 December 2022 and 2021 was the same as the basic earnings per share because the exercise price of the share options granted was higher than the average market price of the Company's shares during the year ended 31 December 2022 and 2021.

14. PROPERTY, PLANT AND EQUIPMENT

A) Property, plant and equipment

	Buildings (Note I) RMB'000	Leasehold improvements RMB'000	Plant and equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2021	42,894	15,695	21,924	9,474	2,134	5,572	97,693
Additions	–	266	1,516	1,139	–	18,873	21,794
Disposals	–	(173)	(800)	(352)	(411)	–	(1,736)
Transfer	–	–	30	–	–	(30)	–
Exchange adjustments	–	(3)	–	(4)	–	–	(7)
At 31 December 2021	42,894	15,785	22,670	10,257	1,723	24,415	117,744
At 1 January 2022	42,894	15,785	22,670	10,257	1,723	24,415	117,744
Additions	–	369	673	922	–	16,322	18,286
Disposals	–	–	(513)	(127)	(161)	–	(801)
Transfer	–	–	3,285	–	–	(3,285)	–
Exchange adjustments	–	20	–	1	–	–	21
At 31 December 2022	42,894	16,174	26,115	11,053	1,562	37,452	135,250
Accumulated depreciation							
At 1 January 2021	8,351	5,958	14,479	6,553	1,432	–	36,773
Charge for the year	1,487	768	1,147	937	166	–	4,505
Eliminated on disposals	–	(173)	(668)	(175)	(370)	–	(1,386)
Exchange adjustments	–	–	–	–	–	–	–
At 31 December 2021	9,838	6,553	14,958	7,315	1,228	–	39,892
At 1 January 2022	9,838	6,553	14,958	7,315	1,228	–	39,892
Charge for the year	1,487	695	1,462	867	114	–	4,625
Eliminated on disposals	–	–	(467)	(114)	(61)	–	(642)
Exchange adjustments	–	4	–	1	–	–	5
At 31 December 2022	11,325	7,252	15,953	8,069	1,281	–	43,880
Carrying amounts							
At 31 December 2022	31,569	8,922	10,162	2,984	281	37,452	91,370
At 31 December 2021	33,056	9,232	7,712	2,942	495	24,415	77,852

Note I:

Included in buildings is a property located in Jurong, Jiangsu, with a carrying amount of approximately RMB25,981,000 (2021: RMB27,280,000) as at 31 December 2022. The Group purchased the property from 蘇州建興置業有限公司 (the "developer") in 2013. The Group has fully paid the cost of the buildings but at the end of the reporting period, the Group has not obtained the ownership certificate yet. The Group has litigations against the developer these years. During the year, the developer was under liquidation procedure. The management has obtained legal opinion and assessed it is more probable for the liquidator to continue to execute the sales and purchase agreement between the developer and the Group and complete the issue of ownership certificate. Therefore, there are no material adverse effect on the business operation and financial position of the Group.

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

B) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Notes	2022 RMB'000	2021 RMB'000
Ownership interests in leasehold land held for own use, carried at cost less depreciation with remaining lease term of:			
– between 22 and 40 years	(I)	**24,820**	25,648
Other leasehold land and buildings leased for own use, carried at cost less depreciation	(II)	**13,290**	16,166
		38,110	41,814

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2022 RMB'000	2021 RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Ownership interests in leasehold land held for own use	**828**	828
Other leasehold land and buildings leased for own use	**2,800**	4,319
	3,628	5,147
Interest on lease liabilities (note 7(C))	**627**	334
Expense relating to short-term leases	**229**	243

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

B) RIGHT-OF-USE ASSETS *(Continued)*

During the year, additions to right-of-use assets were approximately RMB207,000 (2021: RMB10,219,000). This amount included the lease modification of the existing leases via new tenancy agreements of RMB nil (2021: RMB3,697,000), and the remainder primarily related to the capitalised lease payments payable under new tenancy agreements for new leases.

The total cash outflow for leases in 2022 was RMB3,190,000 (2021: RMB4,842,000).

The maturity analysis of lease liabilities is set out in note 31(B)(IV).

(I) OWNERSHIP INTERESTS IN LEASEHOLD LAND HELD FOR OWN USE

The Group holds several leasehold land and industrial buildings for its manufacture of small size wooden handicrafts and accessories business, where its manufacturing facilities are primarily located. The Group is the registered owner of these property interests, including the whole or part of undivided share in the underlying land. Lump sum payments were made upfront to acquire these property interests from their previous registered owners, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

Included in right-of-use assets is land use rights of a piece of land in Chongqing City Wanzhou District (the "Land") having carrying amount of approximately RMB5,739,000 (2021: RMB5,900,000) as at 31 December 2022. 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. The Group originally intended to erect a production complex on the Land.

On 8 February 2012, Carpenter Tan received another notice from 萬州經濟技術開發區土地儲備中心, 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 will not be lower than the carrying amount of the land. The Group has commenced the development on the Land during the year, there is no material adverse effect on the business operation and financial position of the Group.

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

B) Right-of-use assets *(Continued)*

(II) Other leasehold land and buildings leased for own use

The Group has obtained the right to use other properties as its warehouses and retail stores through tenancy agreements. The retail stores leases typically run for an initial period of 1 to 3 years. Lease payments are usually increased every year to reflect market rentals.

During the year ended 31 December 2022 and 2021, the Group leased a number of retail stores which contain variable lease payment terms that are based on sales generated from the retail stores and minimum annual lease payment terms that are fixed. These payment terms are common in retail stores in Hong Kong where the Group operates. The amount of fixed and variable lease payments recognised in profit or loss for the year is summarised below:

	2022		
	Fixed payments RMB'000	**Variable payments RMB'000**	**Total payments RMB'000**
Retail stores – Hong Kong	**1,359**	**–**	**1,359**

	2021		
	Fixed payments RMB'000	Variable payments RMB'000	Total payments RMB'000
Retail stores – Hong Kong	2,453	–	2,453

In addition, the Group has obtained the right to use certain land to construct a production complex through tenancy agreements which run for a period of 18 years. Lease payments are usually increased every few years to reflect market rentals.

15. INVESTMENT PROPERTIES

	RMB'000
Fair value	
At 1 January 2021	101,240
Net fair value loss recognised in profit or loss (note 6)	(2,100)
At 31 December 2021	99,140
At 1 January 2022	99,140
Net fair value loss recognised in profit or loss (note 6)	(2,020)
At 31 December 2022	97,120

The Group leases out certain commercial and residential property units under operating leases. The leases typically run for an initial period of 1 to 6 years (2021: 1 to 6 years). Lease payments are fixed over the lease terms.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and lessees' options to purchase the properties at the end of lease terms.

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.

15. INVESTMENT PROPERTIES *(Continued)*

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

(I) Fair value hierarchy *(Continued)*

	Fair value at 31 December 2022 RMB'000	**Fair value measurements as at 31 December 2022 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	**92,000**	**–**	**–**	**92,000**

	Fair value at 31 December 2021 RMB'000	Fair value measurements as at 31 December 2021 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement				
Investment properties:				
– Residential – PRC	5,240	–	–	5,240
– Commercial – PRC	93,900	–	–	93,900

During the years ended 31 December 2022 and 2021, 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 2022. The valuation was carried out by Cushman & Wakefield Limited, independent qualified professional valuers not connected with the Group. Cushman & Wakefield 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 Direct Comparison Approach or 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 2022.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

15. 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	RMB6,900 – RMB7,300 (2021: RMB7,100 – RMB7,400)
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% (2021: 7.5%)
		Monthly market rent per square meter, taking into account of factors such as location condition, size of property and layout/design	RMB86 – RMB257 (2021: RMB90 – RMB259)

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.

15. INVESTMENT PROPERTIES *(Continued)*

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

(II) Information about Level 3 fair value measurements *(Continued)*

There were no transfers into or out of Level 3 during the year. 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 2021	5,240	96,000	101,240
Net fair value loss recognised in profit or loss	–	(2,100)	(2,100)
At 31 December 2021 and 1 January 2022	5,240	93,900	99,140
Net fair value loss recognised in profit or loss	(120)	(1,900)	(2,020)
At 31 December 2022	5,120	92,000	97,120

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

16. INTANGIBLE ASSETS

	Trademark RMB'000
Cost	
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	1,037
Accumulated amortisation and accumulated impairment	
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	1,037
Carrying amount	
At 31 December 2022	–
At 31 December 2021	–

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.

17. 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 and voting power 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
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%	RMB11,000,000	Distribution of small size wooden handicrafts and accessories through internet	Domestic enterprise
Jiangsu Mujianggu Tourism Development Company Limited ("Jiangsu Mujianggu")	The PRC	–	95%	USD13,684,211	Distribution of small size wooden handicrafts and accessories through internet	Foreign-owned enterprise

None of the subsidiaries had issued any debt securities at the end of the year.

18. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	**188,900**	141,418
Work-in-progress	**17,047**	20,843
Finished goods	**38,483**	35,842
	244,430	198,103

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

	2022 RMB'000	2021 RMB'000
Carrying amount of inventories sold	**137,961**	129,402
Write down of inventories	**4,850**	1,987
Reversal of write-down of inventories	**(57)**	(269)
	142,754	131,120

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

19. 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:

	2022 RMB'000	2021 RMB'000
Trade receivables	**5,401**	4,989
Less: Loss allowance (note (B))	**(52)**	(87)
	5,349	4,902

19. TRADE RECEIVABLES *(CONTINUED)*

At 1 January 2021, trade receivables from contracts with customers amounted to RMB3,714,000.

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

	2022	2021
	RMB'000	RMB'000
0 to 30 days	**4,944**	3,507
31 to 60 days	**52**	791
61 to 90 days	**4**	264
91 to 180 days	**26**	138
181 to 365 days	**207**	75
Over 1 year	**116**	127
	5,349	4,902

B) Movements in the loss allowance for trade receivables

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

	2022	2021
	RMB'000	RMB'000
Opening loss allowance at 1 January	**87**	99
Reversal of loss allowance on trade receivables	**(35)**	(12)
Closing loss allowance at 31 December	**52**	87

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. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2022 RMB'000	2021 RMB'000
Other receivables	**2,297**	2,508
Trade and other deposits	**4,366**	3,482
Prepayments	**1,436**	2,826
VAT and other non-income tax recoverable	**294**	293
	8,393	9,109
Less: Loss allowance (note (A))	**(87)**	(49)
	8,306	9,060
Representing:		
Current	**7,539**	8,355
Non-current	**767**	705
	8,306	9,060

Except for rental deposits of RMB767,000 (2021: RMB705,000) which are expected to be recovered after one year from the end of the reporting period, all other deposits, prepayments and other receivables are expected to be recovered or recognised as expense within one year.

A) Movements in the loss allowance for other receivables are as follows:

	2022 RMB'000	2021 RMB'000
Opening loss allowance at 1 January	**49**	79
Loss allowance/(reversal of loss allowance)	**38**	(30)
Closing loss allowance at 31 December	**87**	49

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVPL")

	2022 RMB'000	2021 RMB'000
Principal Guaranteed Wealth Management Product, at fair value		
– Non-current	–	–
– Current	57,710	317,580
	57,710	317,580

As at 31 December 2022, the Group's financial asset at FVPL represents investment in principal guaranteed wealth management product with following details:

	RMB'000
Balance as at 1 January 2021	264,000
Additions	591,580
Change in fair value* (note 6)	8,575
Disposal	(546,575)
Balance as at 31 December 2021	317,580
Balance as at 1 January 2022	317,580
Additions	264,110
Change in fair value* (note 6)	8,382
Disposal	(532,362)
Balance as at 31 December 2022	57,710

* Includes unrealised gains or losses recognised in profit or loss attributable to balances held at the end of the reporting period:

	RMB'000
2022	–
2021	–

The amount represents investment in principal guaranteed wealth management products issued by banks in the PRC with expected return ranging from 2.54% to 3.3% per annum (31 December 2021: 1.49% to 3.76% per annum). The amount of RMB57,710,000 (31 December 2021: RMB317,580,000) is with maturity within one year.

22. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	2022 RMB'000	2021 RMB'000
Provision for the year	**22,293**	19,765
Over provision in prior years, net	**(427)**	–
Withholding tax on dividend	**4,310**	2,027
	26,176	21,792
Tax paid	**(20,805)**	(28,132)
	5,371	(6,340)
Balance of provision for income tax related to prior years	**23,149**	28,820
Net income tax payable	**28,520**	22,480
Representing:		
Income tax recoverable	**(2)**	(60)
Income tax payable	**28,522**	22,540
	28,520	22,480

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 arising from undistributed profits of subsidiaries RMB'000	Total RMB'000
At 1 January 2021	4,446	16,722	2,027	23,195
Release upon distribution of dividends (note 8(A))	–	–	(2,027)	(2,027)
(Credited)/charged to consolidated statement of profit or loss for the year (note 8(A))	–	(79)	2,761	2,682
At 31 December 2021	4,446	16,643	2,761	23,850

22. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

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

	Revaluation surplus of land and buildings RMB'000	Fair value changes in investment properties RMB'000	Withholding tax on dividends arising from undistributed profits of subsidiaries RMB'000	Total RMB'000
At 1 January 2022	4,446	16,643	2,761	23,850
Release upon distribution of dividends (note 8(A))	–	–	(4,310)	(4,310)
(Credited)/charged to consolidated statement of profit or loss for the year (note 8(A))	–	(59)	4,298	4,239
At 31 December 2022	4,446	16,584	2,749	23,779

C) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of approximately RMB55,345,000 (2021: RMB52,542,000) 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 RMB52,897,000 (2021: RMB49,725,000) which do not expire under current tax legislation.

D) Deferred tax liabilities not recognised

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards.

At 31 December 2022, temporary differences relating to the undistributed profits of subsidiaries amounted to RMB444,084,000 (2021: RMB424,362,000). Deferred tax liabilities of RMB22,205,000 (2021: RMB21,218,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

23. CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION

A) CASH AND BANK BALANCES

	2022 RMB'000	2021 RMB'000
Cash and bank balances in the consolidated statement of financial position	**27,160**	35,795
Cash and cash equivalents in the consolidated cash flow statement	**27,160**	35,795
Non-pledged fixed bank deposit (maturity over 3 months, but within 1 year)	**180,000**	–
Non-pledged fixed bank deposit with original maturity over 1 year	**53,000**	–

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

The interest rates for non-pledged fixed bank deposits during the year ended 31 December 2022 ranged from 2.1% to 3.69% per annum (2021: not applicable).

As at 31 December 2022, the cash and bank balances and non-pledged fixed bank deposits that were placed with banks in Mainland China amounted to approximately RMB22,516,000 (2021: RMB30,678,000) and RMB233,000,000 (2021: RMB nil) respectively. Remittance of funds out of Mainland China is subject to relevant rules and regulations of foreign exchange controls.

B) PLEDGED BANK DEPOSIT

Pledged bank deposit represented deposit pledged to bank to secure a financial guarantee issued by the bank to distribution agent for the Group's operation. The pledged deposits at 31 December 2022 carried interest at 1.80% per annum (2021: not applicable) and with maturity within 1 year.

23. CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION *(CONTINUED)*

C) RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	Dividend payable RMB'000 (note 25)	Lease liabilities RMB'000 (note 26)	Total RMB'000
At 1 January 2021	1,667	7,875	9,542
Changes from financing cash flows	(40,540)	(4,599)	(45,139)
Exchange adjustments	(30)	(104)	(134)
New leases entered	–	10,219	10,219
Interest expenses (note 7(C))	–	334	334
Dividend declared in respect of the previous financial year (note 12(II))	40,540	–	40,540
At 31 December 2021	1,637	13,725	15,362
At 1 January 2022	1,637	13,725	15,362
Changes from financing cash flows	(82,723)	(2,961)	(85,684)
Exchange adjustments	132	158	290
New leases entered	–	207	207
Lease early terminated	–	(432)	(432)
Interest expenses (note 7(C))	–	627	627
Dividend declared in respect of the previous financial year and interim dividend declared in the year (note 12(I) and (II))	82,723	–	82,723
At 31 December 2022	1,769	11,324	13,093

24. 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:

	2022 RMB'000	2021 RMB'000
0 to 30 days	**2,979**	2,081
31 to 60 days	**1,133**	111
61 to 90 days	**415**	7
91 to 180 days	**43**	74
181 to 365 days	**110**	44
Over 1 year	**84**	124
	4,764	2,441

25. OTHER PAYABLES AND ACCRUALS

	2022 RMB'000	2021 RMB'000
Dividend payable	**1,769**	1,637
Salary payable	**12,680**	12,337
Other payables and accruals	**9,342**	9,584
Provision for sales returns (note 25(A))	**3,470**	5,361
VAT and other non-income tax payables	**2,749**	2,496
Trade deposits received	**12,270**	14,447
Contract liabilities (note 25(B))	**2,479**	2,876
	44,759	48,738

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

	2022 RMB'000	2021 RMB'000
At 1 January	**5,361**	3,573
(Reversal)/charge for the year	**(1,891)**	1,788
At 31 December	**3,470**	5,361

The provision for sales returns is determined by the Group using its accumulated historical experience to estimate 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) All the contract liabilities at the beginning of the year has been recognised as revenue during the year. All contract liabilities at the end of the reporting period are expected to be recognised as income within one year.

At 1 January 2021, contract liabilities amounted to RMB3,488,000.

26. LEASE LIABILITIES

At 31 December 2022, the lease liabilities are payable as follows:

	2022 RMB'000	2021 RMB'000
Within 1 year	**1,939**	2,388
After 1 year but within 2 years	**695**	1,789
After 2 years but within 5 years	**1,154**	1,609
After 5 years	**7,536**	7,939
	9,385	11,337
	11,324	13,725

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 RMB35,000 (2021: RMB35,000) 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 2021, 31 December 2021, 1 January 2022 and 31 December 2022	10,000,000,000	100,000,000	87,926,000
Issued and fully paid:			
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	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 with exercise price of HK$4.896 per share 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"). The share option scheme was expired on 28 December 2019.

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 remaining outstanding are as follows:

	Number of instruments			
	2022	2021	Vesting conditions	Contractual life of options
Options granted to directors				
– On 31 August 2018	–	90,000	1 year from the date of grant	5 years from the date of grant
– On 31 August 2018	–	90,000	2 years from the date of grant	5 years from the date of grant
– On 31 August 2018	–	120,000	3 years from the date of grant	5 years from the date of grant
Options granted to employees				
– On 31 August 2018	120,000	120,000	1 year from the date of grant	5 years from the date of grant
– On 31 August 2018	120,000	120,000	2 years from the date of grant	5 years from the date of grant
– On 31 August 2018	160,000	160,000	3 years from the date of grant	5 years from the date of grant
Total outstanding share options	400,000	700,000		

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

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

	2022		2021	
	Weighted average exercise price HK$	**Number of options**	Weighted average exercise price HK$	Number of options
Outstanding at the beginning of the year	**4.896**	**700,000**	4.896	700,000
Forfeited during the year	**4.896**	**(300,000)**	–	–
Outstanding at the end of the year	**4.896**	**400,000**	4.896	700,000
Exercisable at the end of the year	**4.896**	**400,000**	4.896	700,000

No share option was exercised during the year ended 31 December 2022. During the year ended 31 December 2022, one of the director resigned and left the Group, the directors of the Group approved to cancel the share options granted to him.

The share option scheme is governed by chapter 17 of the Listing Rules. No option has been granted for the years ended 31 December 2022 and 2021.

The share options outstanding at 31 December 2022 had an exercise price of HK$4.896 and a weighted average remaining contractual life of 0.66 years (2021: 1.66 years).

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30. RESERVES

The Group

The capital and reserves of the Group are set out in the "Consolidated Statement of Changes in Equity" on page 74.

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)	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2021	110,503	(13,328)	(196)	268	(9,063)	88,184
Profit for the year	–	–	–	–	50,385	50,385
Exchange differences on translation from functional currency to presentation currency	–	(859)	–	–	–	(859)
Total comprehensive income for the year	–	(859)	–	–	50,385	49,526
Dividends approved in respect of the previous year (note 12)	–	–	–	–	(40,540)	(40,540)
Equity settled share-based transactions	–	–	–	138	–	138
At 31 December 2021	110,503	(14,187)	(196)	406	782	97,308

	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/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2022	110,503	(14,187)	(196)	406	782	97,308
Profit for the year	–	–	–	–	79,384	79,384
Exchange differences on translation from functional currency to presentation currency	–	3,392	–	–	–	3,392
Total comprehensive income for the year	–	3,392	–	–	79,384	82,776
Dividends approved in respect of the previous year (note 12)	–	–	–	–	(55,215)	(55,215)
Dividends declared in respect of the current year (note 12)	–	–	–	–	(27,508)	(27,508)
Transfer to retained profits	–	–	–	(144)	144	–
At 31 December 2022	110,503	(10,795)	(196)	262	(2,413)	97,361

30. RESERVES *(Continued)*

Notes:

A) Share premium

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

B) Capital reserve

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

C) Statutory reserves

The 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, upon approval by the relevant authorities, can be used to make up previous years' losses, expand existing operations or convert into additional capital of the subsidiaries.

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 in prior years.

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 2022.

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 note 2(D).

30. RESERVES *(Continued)*

Notes: *(Continued)*

F) Currency translation reserve

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

G) Equity settled share-based payment reserve

The equity settled share-based payment reserve comprises the portion of the grant date fair value of unexpired 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(N)(II).

31. FINANCIAL INSTRUMENTS

A) Categories of financial instruments

	2022 RMB'000	2021 RMB'000
Financial assets		
Trade receivables	**5,349**	4,902
Other receivables and deposits	**3,505**	5,131
Cash and bank balances	**27,160**	35,795
Non-pledged fixed bank deposit	**53,000**	–
Non-pledged fixed bank deposit (maturity over 3 months but within 1 year)	**180,000**	–
Pledged bank deposit	**3,000**	–
Financial assets at amortised cost	**272,014**	45,828
Financial assets at fair value through profit or loss	**57,710**	317,580
Financial liabilities		
Trade payables	**4,764**	2,441
Other payables and accruals	**36,061**	38,005
Lease liabilities	**11,324**	13,725
Financial liabilities at amortised cost	**52,149**	54,171

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 cash and bank balances that are denominated in United States dollars ("US$") and Euros ("Euro"). 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.

	2022	2021
	RMB'000	RMB'000
Assets		
US$	**117**	125
Euro	**96**	93
	213	218

Sensitivity analysis

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 by 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 comprehensive income, and the balance below would be negative.

	Effect on profit after tax and retained profits	
	2022	2021
	RMB'000	RMB'000
US$	**5**	6
Euro	**4**	4
	9	10

The above sensitivity analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2021.

31. FINANCIAL INSTRUMENTS *(Continued)*

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

II) *Interest rate risk*

Pledged and non-pledged bank deposits and lease liabilities are carried at fixed interest rates and are not subject to interest rate risk. The Group is exposed to interest rate risk mainly from bank deposits (note 23) 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.

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 2022 and the retained earnings as at the reporting date would increase by approximately RMB248,000 (2021: RMB338,000). 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*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables, pledged and non-pledged bank deposits, bank balances, other receivables and deposits. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

The estimated loss rates are determined based on historically observed default rates over the expected lives of the debtors and are adjusted for forward-looking information, including but not limited to the general economic conditions, that is available without undue cost or effort. The Group assessed 12-month ECL for bank deposits and bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12-month ECL on bank deposits and bank balances is considered to be insignificant and therefore no loss allowance was recognised.

For trade receivables at amortised cost, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Trade receivables at amortised cost are assessed individually for impairment allowance based on the historical credit losses experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the end of the reporting period, including the time value of money where appropriate.

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.

31. FINANCIAL INSTRUMENTS *(Continued)*

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

III) *Credit risk* *(Continued)*

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 Group's exposure to credit risk arising from refundable rental deposits is considered to be low, taking into account (i) the landlords' credit rating and (ii) the remaining lease term and the period covered by the rental deposits.

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.

	Within 1 year or on demand 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 2021						
Trade payables	2,441	–	–	–	2,441	2,441
Other payables and accruals	38,005	–	–	–	38,005	38,005
Lease liabilities	2,961	2,370	2,993	10,881	19,205	13,725
	43,407	2,370	2,993	10,881	59,651	54,171
At 31 December 2022						
Trade payables	**4,764**	**–**	**–**	**–**	**4,764**	**4,764**
Other payables and accruals	**36,061**	**–**	**–**	**–**	**36,061**	**36,061**
Lease liabilities	**2,454**	**1,181**	**2,431**	**10,071**	**16,137**	**11,324**
	43,279	**1,181**	**2,431**	**10,071**	**56,962**	**52,149**

31. FINANCIAL INSTRUMENTS *(Continued)*

C) Fair value

I) *Fair value hierarchy*

The directors consider the carrying amounts of 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.

- 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 2022	**Fair value measurements as at 31 December 2022 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	**57,710**	**–**	**–**	**57,710**

	Fair value at 31 December 2021	Fair value measurements as at 31 December 2021 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	317,580	–	–	317,580

During the years ended 31 December 2022 and 2021, 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 *(Continued)*

II) INFORMATION ABOUT LEVEL 3 FAIR VALUE MEASUREMENT

Financial assets	Fair value as at 31 December 2022 RMB'000	Fair value as at 31 December 2021 RMB'000	Level 3 Valuation technique and key inputs	Level 3 Significant unobservable inputs	Level 3 Range
Financial assets at fair value through profit or loss					
– Principal guaranteed wealth management products	**57,710**	317,580	Discounted cash flow	Expected returns	2.54% to 3.3% (2021: 1.49% to 3.76%)

The fair value of financial assets at fair value through profit or loss in Level 3 is determined by discounting the contractual price of financial assets. The discount rate used is derived from the expected returns ranging from 2.54% to 3.3% (2021: 1.49% to 3.76%). The fair value measurement is positively correlated to the expected returns.

32. COMMITMENTS

A) CAPITAL COMMITMENTS

At 31 December 2022, capital commitments not provided for in the financial statements were as follows:

	2022 RMB'000	2021 RMB'000
Contracted but not provided for in respect of		
– property, plant and equipment	**16,279**	21,982

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32. COMMITMENTS *(Continued)*

B) Operating lease commitments

The Group leases out investment properties under operating lease. The leases were negotiated for terms ranging from 1 to 6 years. None of the lease include contingent rental. At 31 December 2022, the total future minimum lease payments receivable under non-cancellable operating leases in respect of premises are as follows:

	2022 RMB'000	2021 RMB'000
Within one year	**1,412**	2,190
After one year but within two years	**1,711**	1,572
After two years but within three years	**1,763**	1,711
After three years but within four years	**1,023**	1,763
After four years but within five years	**708**	1,023
After five years	**–**	708
	6,617	8,967

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:

	2022 RMB'000	2021 RMB'000
Short-term employee benefits	**3,693**	3,378
Post-employment benefits	**139**	147
Equity-settled share-based payment expenses	**–**	138
	3,832	3,663

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.

(B) Other related party transactions

During the year ended 31 December 2021, the Group acquired further 9.09% equity interests in Jiangsu Carpenter Tan for a consideration of RMB15,873,000 from the non-controlling interests, which is a company beneficially owned by Mr. Tan Chuan Hua, an executive director and the chairman of the Company. Details of the transaction are disclosed in note 35.

34. COMPANY LEVEL – STATEMENT OF FINANCIAL POSITION

	Notes	2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment		–	1
Investment in a subsidiary		47	47
		47	48
Current assets			
Amounts due from subsidiaries		127,411	123,719
Deposit and prepayments		31	20
Cash and bank balances		580	1,790
		128,022	125,529
Current liabilities			
Amounts due to subsidiaries		25,625	23,219
Other payables and accruals		2,894	2,861
		(28,519)	(26,080)
Net current assets		99,503	99,449
NET ASSETS		99,550	99,497
CAPITAL AND RESERVES			
Share capital	28	2,189	2,189
Reserves	30	97,361	97,308
TOTAL EQUITY		99,550	99,497

Approved and authorised for issue by the board of directors on 31 March 2023.

Tan Chuan Hua
Director

Luo Hongping
Director

35. EQUITY TRANSACTIONS WITH NON-CONTROLLING SHAREHOLDERS

ACQUISITION OF EQUITY INTERESTS IN AN INDIRECT SUBSIDIARY

On 14 January 2021, a subsidiary of the Group, Chongqing Carpenter Tan, entered into the Equity Transfer Agreement with Jurong Yuechang Travel Development Company Limited, a company beneficially owned by Mr. Tan Chuan Hua, who is executive Director and Chairman of the Group, to acquire 9.09% equity interest of Jiangsu Carpenter Tan at a consideration of RMB15,873,000. On 8 March 2021, the transaction was completed. The Group held 100% equity of Jiangsu Carpenter Tan. Jiangsu Carpenter Tan became a wholly-owned subsidiary of the Group.

The Group recognized a net decrease in non-controlling interests of RMB10,557,000 and an aggregate decrease in equity attributable to owners of the Company of RMB5,316,000 for the year ended 31 December 2021. The effects on the equity attributable to the owners of the Group during the period is summarized follows:

	Acquisition of 9.09%equity interest in Jiangsu Carpenter Tan RMB'000
Carrying amounts of non-controlling interests decreased	10,557
Less: Consideration paid by cash to the non-controlling shareholder for acquiring 9.09% of the issued capital of Jiangsu Carpenter Tan	(15,873)
Deficiency of carrying amounts recognized in the equity transactions with non-controlling interests within equity of the Group	(5,316)

There were no equity transactions with non-controlling interests in 2022.

36. EMPLOYEE RETIREMENT BENEFITS

DEFINED CONTRIBUTION RETIREMENT PLAN

The Group 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.

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

There is no forfeited contribution that may be used by the Group to reduce the existing level of contribution.

37. ULTIMATE HOLDING COMPANY

At 31 December 2022, the directors consider the immediate parent and ultimate holding company of the Group to be Lead Charm Investments Limited, a company incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Tan Chuan Hua. This entity does not produce financial statements available for public use.

38. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2022

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard which are not yet effective for the year ended 31 December 2022 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[3]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 and Non-current Liabilities with Covenants[3]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2024

The directors anticipate that the application of the above new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

China

Location	Lot number	Type	Lease term
Nos. 701-703, 703A, 705-713, 713A, 715, 723 and 723A, 7th Floor, North Tower of Junefield Plaza, Nos. 6, 8, 10, 12, 16 and 18 Xuanwu Menwai Street, Xuanwu District, Beijing,	–	Commercial	2044
Levels 43 and 44, Yingli Building (Future International), No. 6 Yizhi Road, Jianxin Bei Road, Jiangbei District, Chongqing,	JB3-49-68	Commercial	2045
Portion of Level 42, Yingli Building (Future International), No. 6 Yizhi Road, Jianxin Bei Road, Jiangbei District, Chongqing,	JB3-49-68	Commercial	2045
Unit Nos. 2-5, 2-6, 2-7 and 2-8, Block A7, Jiazhou Garden, Longxi Road, Yubei District, Chongqing,	YB4-19-46	Residential	2062
A residential unit situated at No. 1-8-3, No. 8 Huangjiaoping Street, Jiulongpo District, Chongqing,	JL4-14-92	Residential	2051

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				
	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Results					
Revenue	**348,002**	330,910	277,261	336,538	312,274
Profit before taxation	**133,363**	130,795	100,785	154,344	144,162
Income tax	**(26,105)**	(22,447)	(19,777)	(31,794)	(29,652)
Profit for the year	**107,258**	108,348	81,008	122,550	114,510
Attributable to					
Owners of the Company	**107,250**	107,663	79,060	122,484	114,510

	As at 31 December				
	2022	2021	2020	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities					
Total assets	**805,557**	784,306	734,415	867,525	822,140
Total liabilities	**(113,678)**	(111,859)	(115,276)	(270,921)	(104,882)
Total equity	**691,879**	672,447	619,139	596,604	717,258

	As at 31 December				
	2022	2021	2020	2019	2018
Liquidity and Gearing					
Current ratio(1)	**6.57**	7.42	6.16	2.78	7.96
Quick ratio(2)	**3.51**	4.82	4.33	2.14	5.97
Gearing ratio(3)	**N/A(4)**	N/A(4)	N/A(4)	N/A(4)	N/A(4)

Notes:

(1) Current ratio is calculated as total current assets divided by total current liabilities as at the relevant year end.

(2) Quick ratio is calculated as total current assets less inventories divided by total current liabilities as at the relevant year end.

(3) Gearing ratio is calculated as total interest-bearing bank borrowings, less cash and cash equivalents, divided by total equity as at the end of relevant year and multiplied by 100%.

(4) As at 31 December 2022, 2021, 2020, 2019 and 2018, the Group did not have any interest-bearing bank borrowings. The calculation of gearing ratio is not meaningful.