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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 837)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

RESULTS HIGHLIGHTS

- Turnover decreased by 7.5% to approximately RMB276,062,000 (2014: RMB298,269,000).
- Gross profit decreased by 9.3% to approximately RMB178,106,000 (2014: RMB196,332,000).
- Gross profit margin was 64.5%, down by 1.3% points (2014: 65.8%).
- Profit for the year ended 31 December 2015 decreased by 6.9% to approximately RMB119,906,000 (2014: RMB128,762,000).
- Earnings per share decreased to approximately RMB 47.96 cents (2014: RMB51.50 cents).
- In view of the Group's results, the Directors recommend a final dividend in respect of the year ended 31 December 2015 of HK$29.22 cents (2014: HK$32.28 cents) which is subject to the shareholders' approval at the forthcoming annual general meeting to be held on Thursday, 26 May 2016.

The board (the "Board") of directors (the "Directors") of Carpenter Tan Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2015 together with the comparative figures for the year ended 31 December 2013 with the selected notes as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	For the year ended 31 December 2015 RMB'000	2014 RMB'000
Revenue	4	**276,062**	298,269
Cost of sales		**(97,956)**	(101,937)
Gross profit		**178,106**	196,332
Other revenue and other net income	5	**40,909**	39,301
Administrative expenses		**(24,055)**	(31,916)
Selling and distribution expenses		**(36,551)**	(30,076)
Other operating expenses		**(6,891)**	(7,544)
Profit from operations		**151,518**	166,097
Finance costs		**(3,150)**	(1,514)
Profit before taxation	6	**148,368**	164,583
Income tax	7	**(28,462)**	(35,821)
Profit for the year		**119,906**	128,762
Attributable to			
Owners of the Company		**119,906**	128,762
Earnings per share	9		
Basic and diluted		**RMB47.96 cents**	RMB51.50 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Profit for the year	**119,906**	128,762
Other comprehensive income for the year		
Items that will not be reclassified subsequent to profit or loss:		
Surplus on revaluation of leasehold land and buildings held for own use	**—**	14,394
Deferred tax charge arising from revaluation surplus on leasehold land and buildings held for own use	**—**	(3,872)
Surplus on revaluation of leasehold land and buildings held for own use, net of tax	**—**	10,522
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of functional currency to presentation currency	**(10,786)**	(2,083)
Total comprehensive income for the year	**109,120**	137,201
Attributable to		
Owners of the Company	**109,120**	137,201

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 31 December 2015 RMB'000	2014 RMB'000
Non-current assets			
Property, plant and equipment		**57,509**	23,776
Prepaid lease payments		**12,922**	13,284
Investment properties		**89,550**	85,920
Intangible assets		**—**	—
Derivative financial instruments		**—**	1,144
Fixed deposit held-at bank		**—**	127,756
Prepayment of acquisition of properties		**—**	33,556
		159,981	285,436
Current assets			
Prepaid lease payments		**362**	362
Inventories	11	**87,442**	77,783
Derivative financial instruments		**—**	542
Trade receivables	12	**2,377**	2,027
Other receivables, deposits and prepayments		**29,368**	23,331
Pledged bank deposits		**233,053**	149,099
Cash and cash equivalents		**194,114**	258,825
		546,716	511,969
Current liabilities			
Bank loans, secured		**—**	134,114
Trade payables	13	**3,943**	4,126
Other payables and accruals		**26,316**	29,934
Derivative financial instruments		**5,516**	—
Income tax payable		**25,161**	19,071
		(60,936)	(187,245)
Net current assets		**485,780**	324,724
Total assets less current liabilities		**645,761**	610,160
Non-current liabilities			
Deferred tax liabilities		**21,548**	30,606
Deferred income		**776**	812
		(22,324)	(31,418)
NET ASSETS		**623,437**	578,742
CAPITAL AND RESERVES			
Share capital		**2,200**	2,200
Reserves		**621,237**	576,542
TOTAL EQUITY		**623,437**	578,742

SELECTED NOTES TO THE 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 Room 101-102, Yuhufengjing Building 53, No. 11 Dongcheng Zhong Road, Jurong City, Jiangsu Province, the People's Republic of China (the "PRC") respectively.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

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

b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the "Group").

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

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

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

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

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

c) Subsidiaries

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

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

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

3. CHANGES IN ACCOUNTING POLICIES

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

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual improvements to HKFRSs 2010-2012 Cycle
Amendments to HKFRSs	Annual improvements to HKFRSs 2011-2013 Cycle

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

Annual Improvements to HKFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, HKAS 24, Related party disclosures has been amended to expand the definition of a "related party" to include amanagement entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining the key management personnel services provided by the management entity. These amendments do not have an impact on the Group's related party disclosures as the Group does not obtain key management personnel services from management entities.

4. REVENUE

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

	2015	2014
	RMB'000	RMB'000
Sales of goods	**275,792**	297,614
Franchise fee income	**270**	655
	276,062	298,269

5. OTHER REVENUE AND OTHER NET INCOME

	2015	2014
	RMB'000	RMB'000
Other revenue		
Government grants	**15**	250
Government grants released from deferred income	**35**	35
Interest income from financial assets not at fair value through profit or loss – bank interest income	**14,654**	16,293
PRC VAT refunds	**7,860**	10,932
Rental income from investment properties	**6,913**	5,177
Others	**510**	788
	29,987	33,475
Other income		
Net foreign exchange gain	**12,707**	—
Fair value change on derivative financial instruments	**(5,415)**	1,686
Change in fair value of investment properties	**3,630**	4,140
	40,909	39,301

6. PROFIT BEFORE TAXATION

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

	2015	2014
	RMB'000	RMB'000
a) Staff costs (including directors' emoluments)		
Salaries and other benefits	**44,392**	48,978
Contributions to retirement scheme	**1,964**	1,872
Total staff costs	**46,356**	50,850
b) Other items		
Auditor's remuneration	**1,043**	1,004
Amortisation of prepaid lease payments	**362**	400
Cost of inventories	**97,956**	101,937
Depreciation	**2,576**	2,856
Allowance on trade receivables	**69**	3
Net loss on disposal of property, plant and equipment	**96**	36
Net foreign exchange (gain)/loss	**(12,707)**	2,755
Operating lease rentals in respect of land and buildings	**3,797**	5,626
Provision for sales returns	**2,621**	3,648
Write-down of inventories	**1,837**	3,582
Gross rental income from investment properties	**(6,913)**	(5,177)
Less: Direct outgoings incurred for investment properties that generated rental income during the year	**456**	320
Direct outgoings incurred for investment properties that did not generate rental income during the year	**27**	70
Net rental income	**(6,430)**	(4,787)

Notes:

(i) Cost of inventories includes approximately RMB27,895,000 (2014: RMB30,667,000) relating to staff costs, depreciation and operating lease rentals, which are included in the respective total amounts disclosed separately above.

7. INCOME TAX

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

	2015	2014
	RMB'000	RMB'000
Current tax		
PRC Enterprise Income Tax (notes 9(a) (i), (ii), (iii)and (iv))	**22,129**	23,431
Hong Kong profits tax (note 9(a) (vi))	**—**	—
Withholding tax on dividends (note 9(a) (vii))		
- Provision for the year (note 26(b))	**17,393**	7,158
- Under-provision in respect of prior years (note 9(a) (vii))	**—**	3,680
	39,522	34,269
Over provision in prior years, net		
PRC Enterprise Income Tax	**(2,002)**	—
Deferred tax		
Transfer to current tax upon distribution of dividends (note 26(b))	**(17,393)**	(7,158)
Provision for the year (note 9(a) (vii) and note 26(b))	**8,335**	8,710
Total	**28,462**	35,821

Notes:

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

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

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

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

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

(iv) The provision for PRC income tax is calculated on the assessable profits of the Group's subsidiaries incorporated in the PRC at a statutory income tax rate of 25% (2014: 25%) except for Zi Qiang Wood Works and Carpenter Tan which are eligible for the income tax concessions according to the preferential tax policies as stated in note 9(a) (ii) and (iii) above.

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

(vi) No provision for Hong Kong profits tax has been made for the years ended 31 December 2015 and 2014 as the subsidiaries did not have assessable profits subject to Hong Kong profits tax for these years.

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

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. Due to uncertainty as to whether the Group is able to enjoy the reduced rate, the withholding tax is provided for at 10%, resulting in an additional provision of RMB15,930,000 and RMB3,680,000 for deferred tax liabilities on the undistributed profits of the PRC subsidiaries as at 31 December 2013 and current tax liabilities on the dividend declared by a PRC subsidiary in 2013 but not yet remitted before 31 December 2013.

In around the end of 2014, the Group reversed partly the provision for deferred liabilities of RMB8,662,000 in relation to the undistributed profits of the PRC subsidiaries that are not expected to be distributed in the foreseeable future.

As at 31 December 2015, the deferred tax liabilities relating to withholding tax accrued on undistributed profits of the Group's PRC subsidiaries amounted to RMB5,838,000 (2014: RMB16,040,000) which are expected to be distributed in the foreseeable future.

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

	2015	2014
	RMB'000	RMB'000
Profits before taxation	**148,368**	164,583
Notional tax on profit before tax, calculated at the rates applicable to profits in the relevant tax jurisdiction	**35,082**	38,515
Tax effect of non-deductible expenses	**1,444**	582
Tax effect of non-taxable incomes	**(416)**	(498)
Effect of tax concessions granted to a subsidiary (note 9(a) (i))	**(2,617)**	(2,731)
Effect of concessionary tax rate enjoyed by subsidiaries (note 9(a) (i), (ii) and (iii))	**(12,146)**	(13,893)
Unrecognised temporary differences	**138**	1,468
Unrecognised tax losses	**1,788**	1,430
Withholding tax on dividends (note 9(a) (vii))	**7,191**	10,948
Over provision in prior years	**(2,002)**	—
Actual tax expenses	**28,462**	35,821

8. DIVIDENDS

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

	2015	2014
	RMB'000	RMB'000
Final dividend of HK$31.83 cents, equivalent to RMB26.13 cents per ordinary share (2014: HK$32.28 cents, equivalent to RMB25.77 cents) proposed after the end of the reporting period	**65,325**	64,425

The directors recommend the payment of a final dividend of HK$31.83 cents, equivalent to RMB26.13 cents per ordinary share, totaling RMB65,325,000. Such dividend is to be approved by the shareholders of the Company at the Annual General Meeting scheduled to be held on 31 May 2016. These financial statements do not reflect this recommended dividend.

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

	2015	2014
	RMB'000	RMB'000
Final dividend of HK$32.28 cents, equivalent to RMB25.77 cents per ordinary share (2014: HK$32.02 cents, equivalent to RMB25.17 cents) in respect of the previous financial year, approved and paid during the year	**64,425**	62,925

9. 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*

	2015	2014
	RMB'000	RMB'000
Earnings used in calculating basic and diluted earnings per share	**119,906**	128,762

(ii) *Weighted average number of ordinary shares*

	Number of shares	
	2015	2014
	'000	'000
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**250,000**	250,000

b) Diluted earnings per share

There were no dilutive potential ordinary shares in issue during the year. The diluted earnings per share is the same as the basic earnings per share during the years ended 31 December 2015 and 2014.

10. 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.

11. INVENTORIES

	2015 **RMB'000**	2014 RMB'000
Raw materials	**55,814**	45,106
Work-in-progress	**11,422**	10,974
Finished goods	**20,206**	21,703
	87,442	77,783

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

	2015 **RMB'000**	2014 RMB'000
Carrying amount of inventories sold	**96,119**	98,355
Write-down of inventories	**1,837**	3,582
	97,956	101,937

12. 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:

	2015	2014
	RMB'000	RMB'000
Trade receivables	**2,447**	2,028
Less: Allowance for doubtful debts (note 23(b))	**(70)**	(1)
	2,377	2,027

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

	2015	2014
	RMB'000	RMB'000
0 to 30 days	**2,240**	1,943
31 to 60 days	**11**	8
61 to 90 days	**4**	18
91 to 180 days	**24**	20
181 to 365 days	**25**	17
Over 1 year	**143**	22
	2,447	2,028

b) Movements in the allowance account for doubtful debts

Allowance for doubtful debts in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

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

	2015	2014
	RMB'000	RMB'000
At 1 January	**1**	1
Allowance for doubtful debts	**69**	3
Receivables written off during the year as uncollectible	**—**	(3)
At 31 December	**70**	1

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

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

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

	2015	2014
	RMB'000	RMB'000
Past due but not impaired		
1 to 30 days past due	**11**	8
31 to 60 days past due	**4**	18
61 to 150 days past due	**24**	20
151 to 365 days past due	**25**	17
More than 1 year past due	**73**	22
	137	85
Neither past due nor impaired	**2,240**	1,942
	2,377	2,027

Trade receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the management of the Group believes that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

13. TRADE PAYABLES

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

	2015	2014
	RMB'000	RMB'000
0 to 30 days	**2,339**	2,540
31 to 60 days	**749**	412
61 to 90 days	**95**	173
91 to 180 days	**250**	630
181 to 365 days	**181**	177
Over 1 year	**329**	194
	3,943	4,126

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW FOR 2015

In 2015, mired in financial market fluctuations, the global economy was still undergoing profound adjustment subsequent to the international financial crisis. The recovery of the global economy was winding, slow and complicated. The performances of major economies and the macro-economic policies apparently developed towards opposite direction. There had not been enough momentum to drive the growth. In respect of consumption, the new business models such as Internet shopping and e-commence had an increasing impact on the retail industry. The development trend for the integration of online-to-offline channels for the retail enterprises was further consolidated. Both the internal network platform and physical stores of the traditional retail enterprises as well as the cooperation between electrical appliances vendors and the physical stores were further expanded. The household consumption structure continued to improve with the increasing proportion of elaborated consumption and indulgent consumption. According to the National Bureau of Statistics of China, the total retail sales of social consumer goods in China in 2015 amounted to approximately RMB30,093.1 billion, representing a nominal increase of 10.7% and an actual increase of 10.6% after deducting price factors as compared with last year. The retail sales of urban consumer goods was approximately RMB25,899.9 billion, representing an increase of 10.5% as compared with last year. The retail sales of commodities was approximately RMB26,862.1 billion, representing an increase of 10.6%. The online retail sales in China was approximately RMB3,877.3 billion, representing an increase of 33.3% as compared with last year.

MARKET CONDITIONS AND REVIEW HIGHLIGHTS

In 2015, the retail industry underwent further transformation with intensified competition and diversified segmentation. The industry faced a new phase of integration and transformation and the retail industry underwent a phase of slow growth or downward adjustment for a long period of time. Traditional retail chain giants and chain enterprises closed a large number of their outlets. Affected by the policies of restraining three major sources of public entertainment spending, the department store industry faced a lot of challenges and resolved to transform the stores into complex shopping malls. According to the statistics of MallChina, there were 4,000 shopping malls in China.

During the Year Under Review, the head office of the Group was moved from Chongqing, Western China to Jurong, Eastern China with well-developed and stable corporate structure. Characterized by its young and energetic management team, the management structure was less hierarchical with higher communication efficiency. Both revenue from online and offline sales increased. In order to support and provide return to the offline segment, 30% of net profit in e-commerce business was allocated to boost the development of the offline segment and fund the offline stores. As a result, innovative business models for the offline segment were introduced. Franchisees were encouraged to proactively explore the market and gradually apply the O2O model, which facilitated the satisfactory performance of new franchised shops.

The decoration of offline stores was uplifted with a relatively comprehensive renovation in 2015. The image of Second Generation Stores of Carpenter Tan was no longer traditional and nostalgic. Instead, the new image was more sophisticated, trendy and artistic and was well-received by franchisees and consumers. With respect to the development of offline franchised shops, the Group exercised stringent control over their quality. By closing stores with poor performance and image, the Group focused on assisting the franchised shops in carrying out trustworthy marketing campaigns to adhere to its corporate culture of “Honesty, Work and Happiness”. Continuous efforts were made to optimize the sales process system, sales service system and management process system of franchised shops.

The Group focused on promoting the brand of online stores by introducing more personalized after-sales services. It also stepped up its efforts to combat infringement of copyrights in order to have a satisfactory business growth. The Group nurtured a team of young professionals and strengthened the management of marketing and services to highlight the brand concept and provide quality services.

Through the establishment of a sophisticated research and development team and effective cooperation with external parties, its brand promotion was proven practical. The Group engaged a famous design team in the Greater China region and a design team from Japan to enhance the brand image and products of the Company. Major projects were jointly launched with the School of Design of Nanjing University of the Arts (南京藝術學院設計學院).

"Comb Design Competition" (梳子設計大賽) was organized through the official website of the Company and received many creative entries. The Company selected three excellent designs every month and awarded each RMB10,000. With the overwhelming response from designers of the community, the brand was widely recognized. The Company also organized a social welfare campaign, "To Comb Mum's Hair" (給媽媽梳頭), reforestation and activities to support the disadvantaged groups, which promoted our brands and received favourable response.

During the Year Under Review, capitalizing on the development opportunities and a team of young professionals with a pragmatic approach, the Group strengthened the information technology of its franchised shops and nurtured a team of young professionals for internet marketing to refine the management of its operations and achieve business growth.

BUSINESS REVIEW

Retail outlets

The Group has developed a comprehensive distribution and retail network in China through the franchise programme and self-operated retail shops. As at 31 December 2015, the Group had 1,376 franchised shops in China, another 3 franchised shops in other countries and regions and 5 self-operated retail shops in Hong Kong. The following table sets out the number of the Group's franchised outlets and directly-operated outlets:

Number of shops

	For the year ended 31 December			
	2015		2014	
	Franchised shops	Directly-operated outlets	Franchised shops	Directly-operated outlets
Hong Kong	0	5	0	4
China	1,376	0	1,449	0
Other countries and regions	3	0	3	0
Total	1,379	5	1,452	4

The number of franchised shops decreased by 73, mainly retail outlets, as compared with 2014. This was mainly due to the impacts of rising rent, scattered location of traditional business districts and online sales. The Company took a prudent approach when developing overseas market. In pursuit of a healthy business growth, the Company continued to maintain the profitability of its operators.

Sales network

The PRC market

As at 31 December 2015, the number of franchised shops of the Group and Second Generation Concept Stores (高鐵二代形象店) in China was 1,376 and 149 respectively, covering urban complexes, airports and high-speed railway stations in Beijing, Zhejiang, Jiangsu, Anhui, Hubei, Hunan, Jiangxi, Guangxi, Chongqing, Shandong, Henan, Sichuan and other cities.

Second Generation Concept Stores (高鐵二代形象店) featured the signature decoration style of Carpenter Tan in 2015. Franchisees and consumers reflected that the store image was trendier and in line with the general style of Carpenter Tan. Such image attracted a larger consumer group and contributed to a substantial increase in sales in most of the retail outlets.

In respect of strategies, the Group targeted at the first-tier cities. In the face of high costs, changes in consumption structure and consumption method, the Group concentrated on consolidating its image at the central business districts and exploring business opportunities at the new complex shopping malls and key transport hubs including airports and high-speed railway stations. Developing its business at the nearby business districts with its new image, the Group gradually extended its business coverage to the new complex shopping malls. As for the second-tier cities, emphasis was placed on securing prime locations at the central business districts of the cities. Franchisees mainly operated by way of sales counters to lower their investment and ensure profitability. With respect to the third-tier cities, the Group carried out trial operation in Jiangsu Province and Guangdong Province. The Group will only expand into other provinces when both the store image and profitability are assured.

Overseas market

The Group continued its business development in overseas market. As at 31 December 2015, the Group established a total of eight shops in overseas market, including five directly operated outlets in Hong Kong, two franchised shops in Singapore, and one franchised shop in Canada. The Group developed its businesses by conducting sales through agents and general distributors. The products under the brand name "Carpenter Tan" have been sold in various overseas countries and regions, including Germany, United Kingdom, France, Spain, Australia, United States, Canada, Japan and Taiwan.

E-commerce

During the Year Under Review, the e-commerce business of the Group grew steadily. Its e-commerce business mainly includes Tmall PC flagship store, Tmall wireless flagship store, Jingdong PC flagship store, Jingdong wireless flagship store, Jingdong micro shop, One Shop flagship store, Suning Tesco flagship store, Amazon flagship store, Dangdang flagship store and CCB Shan Rong E- Commerce flagship store. Average online sales was basically the same as that of 2014.

Sales management

During the Year Under Review, the Company adopted an active and open attitude during the annual meeting with franchisees who actively offered suggestions and expressed their confidence in the Company in the face of the market transformation and economic downturn. They also made recommendations and shared their views on the adjustments arising from the transformation of business districts as well as new logo, new stores, new products and new promotion approach of the Company.

The Group has placed great emphasis on the upgrade and management of its marketing system and has formulated a standardized service procedure for franchised shops. It also continued to assess the service of franchised shops and adopted such results as a basis of regional management. Moreover, the Group also established a supervising team independent of the provincial managers and assistant managers. The team conducted monthly random inspection on the shops and supervised the operation of the franchised shops, which resulted in the enhancement of a uniform image and service level for the franchised shops.

In addition to standardized management and supervision, the Group provided one week regular training to new franchisees in each quarter. The training aimed at consolidating the team spirit, brand awareness and service quality of the franchisees. According to the statistics of the Group, sales of the franchised shops improved after the training.

The Group further enhanced risk management in respect of sales, inventory and supply chain. The performance of sales personnel was no longer assessed according to the SAP data prepared by the Group. Instead, it was assessed according to the POS data of tier-1 retail sales. By improving the inventory management, the Company focused more on sales. All franchised shops were required to conduct monthly stocktaking and upload the sales data on time in order to ensure the accuracy of sales and inventory data. The franchised shops without uploading data and conducting stocktaking would be punished accordingly and were required to rectify within a time limit. The sales and inventory data of the franchised shops would be kept and analysed monthly, which provided information to effectively support sales management.

Products

During the Year Under Review, the designer team of Carpenter Tan became more experienced and had a great rapport with external teams. As at 31 December 2015, Carpenter Tan has launched a total of 459 products, comprising 109 lockets, 253 box sets, 24 mirrors, 62 accessories and a total of 11 sets of limited edition products and regional only products. During the Year Under Review, the Group launched a total of 88 new products, including 53 box sets, 12 lockets, 14 accessories and 9 mirrors. There were 30 qualified new products, including 19 box sets, 4 lockets and 7 accessories. 15 online products were developed with specific packaging.

Development and design

Besides its team, the Company has been cooperating with other recognized professional teams in China. During the year, the Company cooperated with different parties, such as the School of Design of Nanjing University of the Arts (南京藝術學院設計學院), Yunma Design (雲馬設計) and Feish Design (飛魚設計). Long-term cooperation relationships were established with internationally renowned design agencies, such as Mr. Tommy Li, a design industry guru in Hong Kong, Biaugust in Taiwan, Mr. Yoshimaru Takahashi, a famous Japanese designer and JOSE workshop in Germany.

The development plans and objectives of the Group are to conduct modern interpretation and research on the fine traditions of China. Apart from passing on the craftsmanship, the Group is committed to the research and design of new product system that combines natural or mixed materials with wood. It also strives to develop new structures and new technologies.

During the Year Under Review, the Group streamlined and optimized its product research and innovation system. While maintaining distinguished traditional Chinese culture and rejuvenating the image, the Group persevered with the handmade and natural features of its products. Each comb is viewed as a carrier to deliver feelings. To enhance the core competitiveness of the products, the Group served the stylish consumers with trendy design, natural materials and exquisite craftsmanship. Moreover, the Group formulated the research and development plan for products of low-to-mid price level in order to explore the potential of such consumer market.

The Group has always placed an emphasis on the research and development and design of new products. Development on new technologies was commenced with an aim to improve efficiency, reduce the utilization of labor, enhance security, save materials, optimize processes and reduce costs. We mainly focused on developing the automatic processing equipment for tenon and mortise, the technology for mixing wooden combs with different materials and the lacquer technology. There was also a new breakthrough in the technology of binding wood for the production of combs.

As at 31 December 2015, the creative design centre of the Group had 19 design and development staff members of which there was 1 design director, 1 manager, 4 product specialists, 7 designers, 2 gravers, and 4 gravers apprentice. There were a total of 575 new product samples completed. By developing key technologies which combine wooden combs with other materials to create special products, the variety of the product line was increased and allowed the Company to cater for market demand and enhance its sales.

As at 31 December 2015, the Wanzhou Factory of the Group had a total of 691 full-time production staff members, approximately 98% of whom were skilful technicians. The factory mainly manufactures combs, followed by mirrors and other accessories. Actual production and comparison with the corresponding period last year are set out as below:

Actual Production (Pieces)

	For the year ended 31 December	
	2015	**2014**
Combs	3,435,651	3,771,990
Mirrors	778,913	1,059,719
Total	4,214,564	4,831,709

Technology innovation

For technology innovation, the Group mainly focused on enhancing production efficiency, reducing manpower, improving safety, saving materials, refining techniques, reducing costs and developing new technology. The Group completed the development of processing equipment for falcon tenon groove and cleaning of combs after binding of wood. The Group also commenced the development of maintenance technology of wood and products. Through controlling the moisture content of material after dehydration, the effect of moisture on wood in natural environment can be avoided. As such, deformation and cracking of products can be prevented and the repair rate of products will decrease.

Marketing and promotion

Offline marketing

The themes of marketing and promotion activities of the Company were mainly about traditional festivals and the idea of family affection, friendship and love. The Company held 7 festival promotion activities for over 60 days in total. Regional managers and stores organized marketing activities based on different characteristics of the respective regions. Lifetime warranty is the selling point of Carpenter Tan and has been highly recognized by customers.

The Company has strived to strengthen itself in its pursuit of fundamental improvement. It exerted great effort in organizing training programs for franchisees in 2015. A total of 25 training sessions were held for over 550 employees of all franchisees in China in 2015. The training programs mainly focused on four main aspects, namely corporate culture, hospitality, product sales technique and product display at stores. The results of the training programs were satisfactory.

In addition, franchisees also devoted themselves to organizing marketing activities based on the needs of their own regions and customers through social media platforms. For instance, certain franchisees allowed customers to try the combs out in the store and provided on-site hair styling services on festivals. Such activities boosted the confidence of customers in the brand of the Company.

Online marketing

In 2015, the Company promoted its brand and organized marketing activities through sales platforms and social media platforms. Investment in online promotion was increased in line with the change in ways of receiving information of customers. The Company analyzed popular internet festival celebrations and organized 19 online interactive activities for festivals, including Mother's Day, Lunar July 7th Valentine's Day and November 11th Shopping Festival, attracting over 10,000 customers in total. The Company promoted its "To Comb Mom's Hair" (給媽媽梳頭) event for 2015 through online channels, including Weibo, WeChat, Weitao and Tmall.com. The online marketing campaigns of Carpenter Tan were excellent and interesting and the innovative promotion activities included "Intimate Festival" (閨蜜節) and "Frequent Customers Festival" (回饋老客戶節).

Overseas market

During the Year Under Review, the Company opened two self-operated retail shops in Hong Kong, which are located at The One, a shall mall in Tsim Sha Tsui, and Shop No.56 at Hong Kong Station of the MTR. The Company also entered into distribution contracts in Korea, Taiwan, Japan and Switzerland. Through visiting and communicating with markets in Taiwan, India and France, the Company formulated a practical plan for the expansion of overseas market.

Promotion and innovation of the corporate brand and culture

In 2015, the Group exerted great efforts in advertising and promoting its brand and distributed approximately 400,000 copies of comic books about its brand, reaching over 1.6 million people. The Group also produced two microfilms which attracted over 2.6 million viewers. The Group made use of a great variety of channels for brand promotion, such as Weibo and WeChat. The Group has organized "To Comb Mum's Hair" (給媽媽梳頭), a large charity campaign, for three consecutive years, and promoted the idea of family affection to approximately 900,000 people. The Company held webpage design contest which was an important activity of the Group in 2015. Through the design competition, the Company collected many creative product designs and also provided young designers with opportunities to demonstrate their talent. As of the end of December 2015, the design competition received overwhelming response and participation from designers with over 870 designs collected. It also marked a breakthrough of Carpenter Tan in shifting its focus to younger customers.

Awards and accreditation

During the Year Under Review, the Group has received many honors and awards:

— the Group was awarded the title "Warm Home" by Wanzhou District Union;

— the Group was awarded the title "Advanced Base Level Trade Union Organisations" in "Innovation and Excellence" Competition by Wanzhou District Union;

— the Open Gear Workshop Polishing Team of the Group was awarded "Chongqing May 1st Heroine Awards" by Chongqing City Union;

— the Group was awarded the title "Workers Vanguard" by Chongqing City Union;

— the Group was awarded "Star of Chain Store" (連鎖之星) by Entrepreneur;

— the Group was named the "Leading Enterprise of Forestry Industry of the City" (市級林業龍頭企業) by Forestry Administration of Chongqing; and

— the Group obtained "Safety Production Standardization Certificate" from Administration of Work Safety of Wanzhou.

FINANCIAL REVIEW

1. Turnover

The Group recorded turnover of approximately RMB276,062,000 for the year ended 31 December 2015, representing a decrease of RMB22,207,000 or 7.5% as compared to that of approximately RMB298,269,000 for the year ended 31 December 2014. The decrease was attributable to the down turn of the retail market in China, which resulted in a decrease in the number of franchise shops and sales of products. As at 31 December 2015, the Group had 1,379 franchise shops and 5 directly-operated outlets respectively while as at 31 December 2014, the Group had 1,452 franchise shops and 4 directly-operated outlets respectively. The franchise fee income was approximately RMB270,000 which represents a decrease of approximately RMB385,000 when compared to that of approximately RMB655,000 of last year.

	For the year ended 31 December			
	2015		2014	
	RMB'000	%	RMB'000	%
Sales				
– Combs	73,705	26.7	80,880	27.1
– Mirrors	1,752	0.6	2,781	0.9
– Box sets	196,531	71.2	201,310	67.6
– Other accessories	3,804	1.4	12,643	4.2
Franchise fee income	270	0.1	655	0.2
Total	276,062	100.0	298,269	100.0

2. Cost of sales

The cost of sales of the Group was approximately RMB97,956,000 for the year ended 31 December 2015, representing a decrease of RMB3,981,000 or 3.9% as compared to that of approximately RMB101,937,000 for the year ended 31 December 2014, which was mainly as a result of the drop in turnover.

3. Gross profit and gross profit margin

As at 31 December 2015, gross profit of the Group was approximately RMB178,106,000 representing a decrease of RMB18,226,000 or 9.3% as compared to that of approximately RMB196,332,000 for the year ended 31 December 2014. The gross profit margin decreased from 65.8% in 2014 to 64.5% in 2015. The decrease in gross profit margin was mainly due to the adjustment of sales mix of the Group in order to enlarge the customer base.

4. Other revenue and other net income

Other revenue and other net income was approximately RMB40,909,000 for the year ended 31 December 2015, representing an increase of RMB1,608,000 or 4.1% as compared to that of approximately RMB39,301,000 for the year ended 31 December 2014. Other revenue and other net income is mainly comprised of PRC VAT refunds of approximately RMB7,860,000, rental income of approximately RMB6,913,000, interest income of approximately RMB14,654,000, fair value change of investment properties of RMB3,630,000 and fair value loss on derivative financial instruments of approximately RMB5,415,000 respectively (2014: PRC VAT refunds of approximately RMB10,932,000, rental income of approximately RMB5,177,000, interest income of approximately RMB16,293,000, fair value change of investment properties of RMB4,140,000 and fair value gain on derivative financial instruments of approximately RMB1,686,000 respectively).

5. Selling and distribution expenses

The selling and distribution expenses amounted to approximately RMB36,551,000 for the year ended 31 December 2015, representing an increase of RMB6,475,000 or 21.5% as compared to that of approximately RMB30,076,000 for the year ended 31 December 2014. The selling and distribution expenses mainly including advertising and promotion expenses of RMB7,532,000, delivery charges of RMB6,256,000, rental expenses of RMB3,537,000, salaries and benefits of RMB7,110,000 and travelling expenses of RMB1,695,000 respectively (2014: advertising and promotion expenses of RMB3,247,000, delivery charges of RMB6,343,000, rental expenses of RMB4,132,000 salaries and benefits of RMB7,264,000 and travelling expenses of RMB1,504,000 respectively).

6. Administrative expenses

The administrative expenses of the Group was approximately RMB24,055,000 for the year ended 31 December 2015, representing a decrease of RMB7,861,000 or 24.6% as compared to that of approximately RMB31,916,000 for the year ended 31 December 2014. The administrative expenses is mainly comprised of salaries and benefits of RMB10,777,000, legal and professional fee of RMB2,592,000, design and sample expenses of RMB1,647,000, consultancy fee of RMB553,000, depreciation charges of RMB272,000 and audit fee of RMB1,152,000 respectively (2014: salaries and benefits of RMB13,638,000, legal and professional fee of RMB1,831,000, design and sample expenses of RMB3,215,000 consultancy fee of RMB1,702,000, depreciation charges of RMB771,000 and audit fee of RMB1,224,000 respectively).

7. Other operating expenses

Other operating expenses of the Group was approximately RMB6,891,000 for the year ended 31 December 2015, representing a decrease of RMB653,000 or 8.7% as compared to that of approximately RMB7,544,000 for the year ended 31 December 2014. The decrease was mainly due to the decrease in other taxation during the Year Under Review.

8. Finance costs

Finance costs of the Group was approximately RMB3,150,000 for the year ended 31 December 2015, representing an increase of RMB1,636,000 or 108.1% as compared to RMB1,514,000 for the year ended 31 December 2014. The increase was mainly due to the new bank borrowings arranged for the Year Under Review. As at 31 December 2015, the bank borrowings had been fully repaid.

9. Income tax

For the year ended 31 December 2015, income tax expenses for the Group amounted to approximately RMB28,462,000, decreased by approximately RMB7,359,000 or 20.5% when compared to approximately RMB35,821,000 for the year ended 31 December 2014, mainly due to the decrease in profit before tax.

The effective tax rate for the Year Under Review was 19.2% when compared to 21.8% for the year ended 31 December 2014.

10. Profit for the year

The Profit for the year ended 31 December 2015 was approximately RMB119,906,000, representing a decrease of RMB8,856,000 or 6.9% as compared to that of approximately RMB128,762,000 for the year ended 31 December 2014. The decrease was mainly due to the decrease in gross profit of RMB18,226,000 which was partly off-set by the decrease in administrative expenses of RMB7,861,000 for the Year Under Review.

ANALYSIS OF MAJOR CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

1. Property, plant and equipment

The Group's property, plant and equipment consists of building, leasehold improvements, plant and machinery, furniture and equipment, motor vehicles and construction in progress. As at 31 December 2015, the net book value of property, plant and equipment amounted to approximately RMB57,509,000, representing an increase of approximately RMB33,733,000 or 141.9%, as compared with the previous year of approximately RMB23,776,000. The increase was mainly attributable to the transfer of prepayment of acquisition of properties of RMB33,556,000 to property for the year ended 31 December 2015.

2. Inventories

The Group's inventories as at 31 December 2015 increased by approximately RMB9,659,000 or 12.4% from approximately RMB77,783,000 as at 31 December 2014 to approximately RMB87,442,000 as at 31 December 2015, primarily due to the increase in raw materials level. Raw materials increasd by RMB12,614,000 or 28.0% from RMB45,106,000 in last year to RMB57,720,000 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 2015, the Group's trade receivables amounted to RMB2,377,000 which is close to that of RMB2,027,000 as at 31 December 2014.

4. Other receivables, deposits and prepayments

The Group's other receivables, deposits and prepayments increased by approximately RMB6,037,000 from approximately RMB23,331,000 as at 31 December 2014 to approximately RMB29,368,000 as at 31 December 2015. Increase in other receivables, deposits and prepayments was mainly due to an increase in other deposit when compared to last year.

5. Trade payables

As at 31 December 2015, the Group's trade payables was approximately RMB3,943,000, which is close to that of approximately RMB4,126,000 as at 31 December 2014.

6. Other payables and accruals

The balance consists of other payables, accruals, trade deposits received, provision for sales return, VAT and other non-income tax payables. The Group's payables and accruals as at 31 December 2015 decreased by approximately RMB3,618,000 from approximately RMB29,934,000 as at 31 December 2014 to approximately RMB26,316,000 as at 31 December 2015. The decrease was primarily due to a decrease in provision for tax payable.

CASH FLOW

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

1. Net cash generated from operating activities

The Group's cash inflow from operations primarily derives from payments for the sale of the Group's products. For the year ended 31 December 2015, the Group's net cash inflow generated from operating activities amounted to approximately RMB99,744,000, representing a decrease of net cash inflow generated from operating activities of approximately RMB11,119,000 from approximately RMB110,863,000 for the year ended 31 December 2014. The decrease was primarily due to a decrease in profit before taxation.

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

For the year ended 31 December 2015, the Group's net cash inflow generated from investing activities amounted to approximately RMB43,653,000, representing an increase of approximately RMB253,197,000 as compared with the cash outflow used in investing activities of approximately RMB209,544,000 for the year ended 31 December 2014. The increase is mainly due to the decrease in pledged bank deposits of approximately RMB130,511,000 during the Year Under Review.

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

For the year ended 31 December 2015, the Group's net cash outflow used in financing activities amounted to approximately RMB198,539,000, representing a decrease of approximately RMB202,899,000 as compared with the net cash inflow generated from financing activities of approximately RMB4,360,000 for the year ended 31 December 2014. The decrease was primarily due to the repayment of bank loans during the Year Under Review.

CAPITAL STRUCTURE

1. Indebtedness

As at 31 December 2015, the Group did not have any bank borrowings (as at 31 December 2014: approximately RMB134,114,000).

2. Gearing ratio

As at 31 December 2015, the Group did not have any bank borrowings. The calculation of gearing ratio is not meaningful (as at 31 December 2014: 16.8%, calculated as the total bank borrowings divided by total assets multiplied by 100%).

3. Pledge of assets

As at 31 December 2015, the Group had pledged bank deposits to the bank in the total carrying amount of approximately RMB233,053,000 (as at 31 December 2014 : approximately RMB149,099,000).

4. Capital expenditure

The capital expenditures of the Group primarily included purchases of plant and equipment, leasehold improvements and purchases of motor vehicles. The Group's capital expenditures amounted to approximately RMB2,965,000 and approximately RMB2,018,000 for the year ended 31 December 2015 and 2014 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 2015, the effective interest rates for variable rate loans was 1.7% to 2.5%.

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 2015, the Group had cash and cash equivalents of approximately RMB194,114,000 (as at 31 December 2014: approximately RMB258,825,000) mainly generated from operations of the Group and funds raised by the Company in 2009.

CAPITAL COMMITMENT

As at 31 December 2015, the Group did not have any capital commitment (as at 31 December 2014: nil).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2015, the Group has not made any material acquisition and disposal.

FUTURE OUTLOOK

Sales Operation

The Group will continue to consolidate its market presence in the first- and second-tier cities and expand its network coverage in key business districts in these cities. The Group will also adopt a prudent approach when expanding in county-level cities. Through cooperating with chain commercial real estate projects, the Group will expand its business by establishing stores in large integrated shopping centers, such as Wanda, CapitaLand, Suning and Vanke. The Group will restrict the development of counters in supermarkets and exert efforts in transforming distribution channels. Through the long-term effective supporting policies, the Group wishes to attract high quality franchisees and expand its business in transportation hubs, such as airports and high-speed railway stations, in order to promote its new brand image.

Promotion Strategy

The Group will develop and display products based on the preference of young customers. The Group also aims to position the product of Carpenter Tan as "affordable comb". With the launch of the website design competition, the Company will set up counters for more effective promotion to students through cooperation with various colleges. The Group aims to achieve breakthrough by fully capitalizing on major festival celebrations and using innovative promotion approaches. Special local services will also be introduced according to the characteristics of different regions.

Overseas Market

The Group will set up various channels to promote its products in overseas market. For products and packaging, the Group will introduce products which are suitable for the hair texture and combing habit of foreign customers.

E-commerce Business

The Group will strive to stand out from its peers by carrying out analysis on its competitors. More efforts will be made to eliminate non-compliant online Carpenter Tan stores. Promotion initiatives will be adopted online through its website and other offline channels to increase its brand exposure. The Group will maintain good communication with media platforms to increase the number of participants of its promotion events. Consumer groups will be analyzed to identify the development focus of products.

Product Research and Development

In 2016, the design team of the Group will show their enormous capability. Featuring more specific product themes, the products of the Group will be made in a combination of wood and other materials with traditional craftsmanship and new packaging. In order to introduce products to young customers, the Group will continue to recruit avant-garde designers of great creativity. The Group will establish a small design drawing center in head office in Jurong, Jiangsu to ensure higher efficiency, shorter research and development time and higher design practicality. Its continuous cooperation with external teams will also generate more creative design ideas.

Production Technology

The Group will focus on new technology research, new product development, cost reduction, efficiency and protection safety. New methods will be explored to shape wood and use remnants and new materials.

Branding Culture

The design competition of Carpenter Tan will be the main promotion activity of the brand in 2016. The Group will choose three winning entries in May and the winners will receive an award of RMB100,000 each. The design competition will be an influential event in the design industry in China. In order to organize a design competition with extensive influence, the Company will cooperate with popular design websites in China and promote online and offline interaction. The Group intends to establish close ties with younger generation through the design competition.

Major promotion initiatives will be launched in 2016 following the official introduction of the new logo of the Group so as to present its new and positive brand image to old and new customers and investors.

The Carpenter Tan Handicraft Center (譚木匠手工館), which is located at the Jurong head office, will open to the public in 2016. The handicraft hall will be regarded as a flagship store and design center, providing customers with onsite design drawing service and interaction experience. The brand image of "Carpenter Tan Workshop" will be also be enhanced.

Social Responsibilities

Carpenter Tan believes that it is more blessed to give than to receive and it will lead its employees to support the underprivileged in 2016 and reinforce the sense of social responsibility of all employees. In order to promote love for the family and caring for and expressing gratitude to parents, the Company will organize different kinds of events under the campaign of "To Comb Mum's Hair" (給媽媽梳頭), which is in line with its brand philosophy of "family affection, friendship and love".

The Company will invite its franchisees and customers to participate in tree planting events in spring and autumn, so as to maintain friendly relationships with customers while preserving and protecting the environment. The Company will also organize activities to support the underprivileged during office hours. All departments will continue to make good use of their expertise to sponsor their respective charity organizations with a view to creating social values for such organizations.

With the increasing number of reclusive young people born after 1980s and 1990s who express their dislike of dull office work, the Company will organize website design competition for them in order to provide them with chances to create their own social value.

Human Resources and Training

In 2016, there will not be a significant change in the number of employees of the Group but the quality of employees will be greatly improved. The Group will recruit professional employees from the society and employ outstanding graduates from high schools and universities. In addition, the Group will provide new and practical training programs for its employees. In order to boost the morale of employees in the face of new challenges in 2016, the Group will improve their quality with a wide range of activities, including franchisees annual conferences, sports games and skill competitions for employees of the Group.

DIVIDENDS

To extend the Company's gratitude for the support of our shareholders, the Board has recommended the distribution of a final dividend of HK$29.22 cents per share for the financial year ended 31 December 2015 to the shareholders whose names appear on the register of members of the Company on Wednesday, 6 June 2016, amounting to approximately HK$73,050,000 subject to the approval of the Company's annual general meeting to be held on Thursday, 26 May 2016. The dividend payout ratio is 50% of the profit for the year or 52% of the distributable profit of the Company (after deducting the non-distributable statutory reserves of RMB4,781,000 for the year ended 31 December 2015). The above-mentioned final dividend is expected to be paid on or before Thursday, 30 June 2016.

CLOSURE OF THE REGISTER OF MEMBERS

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

The register of members of the Company will be closed from Friday, 22 May 2015 to Wednesday, 27 May 2015 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investors Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Thursday, 21 May 2015.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Saturday, 30 May 2015 to Wednesday, 3 June 2015 (both days inclusive) during which period no transfer of Shares will be registered. To be qualified for receiving the proposed final dividend, all share transfer documents must be lodged with the Company's share registrar, Tricor Investors Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration on or before 4:30 p.m. on Friday, 29 May 2015.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2015, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

USE OF PROCEEDS FROM THE LISTING OF THE COMPANY

The proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited on 29 December 2009, after deducting the related issuance expenses, amounted to approximately HK$132,900,000 (equivalent to approximately RMB116,800,000). As at 31 December 2015, the Group had used net proceeds of approximately RMB45,700,000, of which approximately RMB17,000,000 had been applied for enhancement of the Group's design and product development and enhancement for operational efficiency, approximately RMB16,500,000 for enhancement for sales network and sales support services, construction of production base and approximately RMB12,200,000 as working capital. The remaining net proceeds have been deposited with banks.

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

SHARE OPTION SCHEME

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

As at 31 December 2015, there were no outstanding options granted under the Share Option Scheme. There were also no options granted to or exercised by any Director or chief executive of the Company or employee of the Group or any other Eligible Persons (as defined herein below), nor any options cancelled or lapsed under the Share Option Scheme during the year ended 31 December 2015.

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

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

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

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

   The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Group shall not exceed 30% of the Shares in issue from time to time. As at 30 March 2015 and 28 August 2015, being the dates of the 2014 annual report of the Company and this interim report respectively, the number of Shares available for issue in respect thereof were 25,000,000 Shares and 25,000,000 Shares, representing approximately 10% and 10% of the then issued shares of the Company respectively.

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

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

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

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

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

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

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 2015 and up to the date of this report, at least 25% issued shares of the Company was held by public shareholders.

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

For the year ended 31 December 2015, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' INTERESTS IN CONTRACTS

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.

CORPORATE GOVERNANCE PRACTICES

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

During the Year Under Review, the Company complied with the code provisions as set out in the CG Code, other than code provision A.2.1 and A.2.7 of the CG Code.

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

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

MODEL CODE FOR SECURITIES TRANSCATIONS

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

AUDIT COMMITTEE

The Company has established an audit committee on 17 November 2009 and has formulated its written terms of reference, which have from time to time been modified, in accordance with the prevailing provisions of the CG Code. The primary duties of the audit committee are (among other things) to provide an independent review and supervision of financial reporting, and examine the effectiveness of the internal controls of the Group and to ensure the external auditor are independent and the audit process is effective. The audit committee examines all matters relating to the accounting principles and policies adopted by the Group, auditing functions, internal controls, risk management and financial reporting. The audit committee also serves as a channel of communication between the Board and the external auditor.

The audit committee currently comprises the three independent non-executive Directors, namely, Mr. Yu Ming Yang, Madam Huang Zuoan and Mr. Chau Kam Wing, Donald. Mr. Chau is the chairman of the audit committee, and he possesses recognised professional qualifications in accounting as required by the Listing Rules.

The audit committee has, together with the management of the Company and external independent auditors, reviewed the consolidated financial statements, accounting principles and practices adopted for the Group for the year of 2014, and agreed with the accounting treatment adopted by the Group.

DISCLOSURE OF INFORMATION

The annual results announcement for the year ended 31 December 2015 is published on the website of The Stock Exchange of Hong Kong Limited (http://www.hkexnews.hk) under "Listed Company Information" and the website of the Company (http://www.ctans.com) under "Investor Relations". The annual report for 2015 containing all necessary information as required by the Listing Rules will be sent to shareholders of the Company in due course, and will be published on the website of The Stock Exchange of Hong Kong Limited (http://www.hkexnews.hk) under "Listed Company Information" and the website of the Company (http://www.ctans.com) under "Investor Relations".

By order of the Board
Carpenter Tan Holdings Limited
Tan Chuan Hua
Chairman

Hong Kong, 28 March 2016

As at the date of this notice, the Board comprises three executive Directors, namely Mr. Tan Chuan Hua, Mr. Tan Di Fu and Mr. Geng Chang Sheng; two non-executive Directors, namely Madam Tan Yinan and Mr. Liu Chang; and three independent non-executive Directors, namely Madam Huang Zuoan, Mr. Yang Yang and Mr. Chau Kam Wing, Donald.

* *For identification purpose only*