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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 2016

RESULTS HIGHLIGHTS

- Revenue decreased by 4.4% to approximately RMB263,783,000 (2015: RMB276,062,000).
- Gross profit decreased by 2.9% to approximately RMB173,011,000 (2015: RMB178,106,000).
- Gross profit margin increased slightly by 1.1% points to 65.6% (2015: 64.5%).
- Profit for the year ended 31 December 2016 decreased by 4.9% to approximately RMB114,003,000 (2015: RMB119,906,000).
- Earnings per share decreased to approximately RMB 45.60 cents (2015: RMB47.96 cents).
- In view of the Group's results, the Directors recommend a final dividend in respect of the year ended 31 December 2016 of HK$25.49 cents (2015: HK$29.22 cents) which is subject to the shareholders' approval at the forthcoming annual general meeting to be held on Wednesday, 31 May 2017.

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 2016 (the "Year Under Review") together with the comparative figures for the year ended 31 December 2015 with the selected notes as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Notes	**2016**	2015
		RMB'000	RMB'000
Revenue	4	**263,783**	276,062
Cost of sales		**(90,772)**	(97,956)
Gross profit		**173,011**	178,106
Other income and other net income	5	**44,087**	40,909
Administrative expenses		**(22,226)**	(24,055)
Selling and distribution expenses		**(42,835)**	(36,551)
Other operating expenses		**(8,250)**	(6,891)
Profit from operations		**143,787**	151,518
Finance costs		**—**	(3,150)
Profit before taxation	6	**143,787**	148,368
Income tax	7	**(29,784)**	(28,462)
Profit for the year		**114,003**	119,906
Attributable to			
Owners of the Company		**114,003**	119,906
Earnings per share	9		
Basic and diluted		**RMB45.60 cents**	RMB47.96 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016	2015
	RMB'000	RMB'000
Profit for the year	**114,003**	119,906
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of functional currency to presentation currency	**(2,554)**	(10,786)
Total comprehensive income for the year	**111,449**	109,120
Attributable to		
Owners of the Company	**111,449**	109,120

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	**2016**	2015
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		**59,812**	57,509
Prepaid lease payments		**16,654**	12,922
Investment properties		**92,450**	89,550
Intangible assets	11	**—**	—
		168,916	159,981
Current assets			
Prepaid lease payments		**737**	362
Inventories	12	**104,363**	87,442
Trade receivables	13	**2,933**	2,377
Other receivables, deposits and prepayments		**9,507**	29,368
Pledged bank deposits		**—**	233,053
Cash and bank balances		**463,222**	194,114
		580,762	546,716
Current liabilities			
Trade payables	14	**4,797**	3,943
Other payables and accruals		**26,135**	26,316
Derivative financial instruments		**—**	5,516
Income tax payable		**27,313**	25,161
		(58,245)	(60,936)
Net current assets		**522,517**	485,780
Total assets less current liabilities		**691,433**	645,761
Non-current liabilities			
Deferred tax liabilities		**19,029**	21,548
Deferred income		**740**	776
		(19,769)	(22,324)
NET ASSETS		**671,664**	623,437
CAPITAL AND RESERVES			
Share capital		**2,200**	2,200
Reserves		**669,464**	621,237
TOTAL EQUITY		**671,664**	623,437

SELECTED NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 20 June 2006 as an exempted company with limited liability under the Companies Law (Chapter 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the Company's registered office and the principal place of business are Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and Room 101-102, Yuhufengjing Building 53, No. 11 Dongchang 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 2016 comprise 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.

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.

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.

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 HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

None of these developments have had a material effect on how the Group's results and financial position for the current or prior years have been prepared or presented.

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

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:

	2016	2015
	RMB'000	RMB'000
Sales of goods	**263,402**	275,792
Franchise fee income	**381**	270
	263,783	276,062

5. OTHER INCOME AND OTHER NET INCOME

	2016	2015
	RMB'000	RMB'000
Other income		
Government grants	**877**	15
Government grants released from deferred income	**36**	36
Interest income from financial assets not at fair value through profit or loss – bank interest income	**14,056**	14,654
PRC VAT refunds (note 7(a)(i))	**16,568**	7,860
Rental income from investment properties	**7,199**	6,913
Others	**372**	509
	39,108	29,987
Other net income		
Net foreign exchange gain	**2,037**	12,707
Fair value change on derivative financial instruments	**—**	(5,415)
Change in fair value of investment properties	**2,900**	3,630
Reversal on impairment of other receivables	**42**	—
	44,087	40,909

In 2016, the group successfully applied for funding support from the International Marketing Developing Funds of Small-and-Medium-Sized Enterprises and Industrial Development Funds (the "Funds"), set up by Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China and Chongqing Provincial Human Resources And Social Security Department respectively. The 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.

6. PROFIT BEFORE TAXATION

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

		2016 RMB'000	2015 RMB'000
a)	**Staff costs (including directors' emoluments)**		
	Salaries and other benefits	**44,790**	44,392
	Contributions to retirement scheme	**1,828**	1,964
	Total staff costs	**46,618**	46,356
b)	**Other items**		
	Auditor's remuneration		
	– audit services	**780**	750
	– non-audit services	**324**	293
	Amortisation of prepaid lease payments	**393**	362
	Cost of inventories	**90,772**	97,956
	Depreciation	**2,280**	2,576
	Allowance on trade receivables	**130**	69
	Reversal of impairment loss on other receivables	**(42)**	–
	Net loss on disposal of property, plant and equipment	**121**	96
	Net foreign exchange gain	**(2,037)**	(12,707)
	Operating lease rentals in respect of land and buildings	**4,158**	3,797
	Provision for sales returns	**2,947**	2,621
	Write down of inventories	**3,667**	1,837
	Reversal of write-down of inventories	**(46)**	–
	Gross rental income from investment properties	**(7,199)**	(6,913)
	Less: Direct outgoings incurred for investment properties that generated rental income during the year	**514**	456
	Direct outgoings incurred for investment properties that did not generate rental income during the year	**259**	27
	Net rental income	**(6,426)**	(6,430)

Notes:

(i) Cost of inventories includes approximately RMB30,230,000 (2015: RMB27,895,000) relating to staff costs and depreciation, which are included in the respective total amounts disclosed separately above.

7. INCOME TAX

Taxation in the consolidated statement of profit or loss represents:

	2016	2015
	RMB'000	RMB'000
Current tax		
PRC Enterprise Income Tax (notes (ii) and (iii))	**23,603**	22,129
Hong Kong profits tax (note (v))	**—**	—
Withholding tax on dividends (note (vi))		
- Provision for the year	**8,700**	17,393
	32,303	39,522
Over provision in prior years, net		
PRC Enterprise Income Tax	**—**	(2,002)
Deferred tax		
Transfer to current tax upon distribution of dividends	**(8,700)**	(17,393)
Provision for the year (note (vi))	**6,181**	8,335
Total	**29,784**	28,462

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 5.

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

On 29 May 2012, both Zi Qiang Wood Works and Chongqing Carpenter Tan Handicrafts Co., Ltd ("Carpenter Tan"), wholly-owned subsidiaries, obtained the approval from Wanzhou Bureau of the State Administration of Taxation under notice No. 12 to enjoy concessionary Enterprise Income Tax rate of 15% from 1 January 2011 to 31 December 2020.

(iii) The provision for PRC income tax is calculated on the assessable profits of the Group's subsidiaries incorporated in the PRC at a statutory income tax rate of 25% (2015: 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 (a) (ii) above.

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

(v) No provision for Hong Kong profits tax has been made for the years ended 31 December 2016 and 2015 as the subsidiaries did not have assessable profits subject to Hong Kong profits tax for these years.

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

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

As at the date of the financial statements, the relevant formalities for the reduced tax rate have not yet been completed. However, the management assessed that the risk of surcharge is minimal since the Group had already paid for the withholding tax liabilities on dividend in 2013 and 2014 at 5%. In 2016, a provision of RMB8,700,000 (2015: RMB17,393,000) for current tax and RMB5,456,000 (2015: 7,191,000) for deferred tax has been made.

As at 31 December 2016, the deferred tax liabilities relating to withholding tax accrued on undistributed profits of the Group's PRC subsidiaries amounted to RMB2,594,000 (2015: RMB5,838,000) which are expected to be distributed in the foreseeable future.

8. DIVIDENDS

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

	2016	2015
	RMB'000	RMB'000
Final dividend of HK$25.49 cents, equivalent to RMB22.80 cents per ordinary share (2015: HK$29.22 cents, equivalent to RMB23.98 cents) proposed after the end of the reporting period	**57,000**	59,950

The directors recommend the payment of a final dividend of HK$25.49 cents, equivalent to RMB22.80 cents per ordinary share, totaling RMB57,000,000. Such dividend is to be approved by the shareholders of the Company at the Annual General Meeting scheduled to be held on 31 May 2017. 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

	2016	2015
	RMB'000	RMB'000
Final dividend of HK$29.22 cents, equivalent to RMB23.98 cents per ordinary share (2015: HK$32.28 cents, equivalent to RMB25.77 cents) in respect of the previous financial year, approved and paid during the year	**59,950**	64,425

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*

	2016	2015
	RMB'000	RMB'000
Earnings used in calculating basic and diluted earnings per share	**114,003**	119,906

(ii) *Weighted average number of ordinary shares*

	Number of shares	
	2016	2015
	'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 2016 and 2015.

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. INTANGIBLE ASSETS

	Trademark **RMB'000**
Cost	
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	1,037
Accumulated amortisation and accumulated impairment	
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	1,037
Carrying amount	
At 31 December 2016	—
At 31 December 2015	—

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.

12. INVENTORIES

	2016 **RMB'000**	2015 RMB'000
Raw materials	**71,386**	55,814
Work-in-progress	**20,561**	11,422
Finished goods	**12,416**	20,206
	104,363	87,442

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

	2016 **RMB'000**	2015 RMB'000
Carrying amount of inventories sold	**87,151**	96,119
Write down of inventories	**3,667**	1,837
Reversal of write-down of inventories	**(46)**	—
	90,772	97,956

13. 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:

	2016 **RMB'000**	2015 RMB'000
Trade receivables (note 13(a))	**3,005**	2,447
Less: Allowance for doubtful debts (note 13(b))	**(72)**	(70)
	2,933	2,377

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

	2016 **RMB'000**	2015 RMB'000
0 to 30 days	**2,305**	2,240
31 to 60 days	**585**	11
61 to 90 days	**24**	4
91 to 180 days	**6**	24
181 to 365 days	**8**	25
Over 1 year	**77**	143
	3,005	2,447

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:

	2016	2015
	RMB'000	RMB'000
At 1 January	**70**	**1**
Allowance for doubtful debts	**2**	**69**
At 31 December	**72**	**70**

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:

	2016	2015
	RMB'000	RMB'000
Past due but not impaired		
1 to 30 days past due	**585**	11
31 to 60 days past due	**24**	4
61 to 150 days past due	**6**	24
151 to 365 days past due	**8**	25
More than 1 year past due	**5**	73
	628	137
Neither past due nor impaired	**2,305**	2,240
	2,933	2,377

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.

14. 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:

	2016	2015
	RMB'000	RMB'000
0 to 30 days	**2,670**	**2,339**
31 to 60 days	**1,000**	**749**
61 to 90 days	**176**	**95**
91 to 180 days	**385**	**250**
181 to 365 days	**181**	**181**
Over 1 year	**385**	**329**
	4,797	**3,943**

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT REVIEW

The Company encountered the disruption from re-location of the headquarter in 2014. Even though we started the planning half year before the actual move, a lot of work was behind schedule. The families and houses of our staffs are in Chongqing, less than one third of the original office staff team move to the new quarter in Jurong with us. In particular, the research and development team, nearly the whole team did not move with us. Under such situation, the Company needed to start again just like when we set up the business at the very first beginning. In 2015 the Company entered the phase of stable operation through organizational restructuring and adjustment. During the Year Under Review, Mr. Zhang Chuanjin, an outstanding regional manager, was appointed as an offline segment operation controller, Mr. Luo Hongping, a factory chief, was redesignated as the administration controller, Ms. Liu Kejia is responsible for online marketing and overseas business development, and Mr. Tan Lizi was redesignated as the assistant to Chairman, responsible for coordinating with the service operation controller. The new management team of the Company closely cooperated with each other, worked on fundamental tasks in a humble manner despite their positions and broke the barriers between different levels and departments to reduce the communication costs. Joint efforts were made by management and frontline staff. Chairman Tan ChuanHua, the founder of the Company, attended every weekly meeting, led the team to handle the problems in operation step by step, continuously strengthened the healthy value set, purified the character of the team and put the corporate philosophy of "Honesty, Work and Happiness" into practice. The team guided Carpenter Tan through an extraordinary year in a humble and practical manner, which made the brand more glamorous and created new momentum for the Company's operation.

1. **Sales from offline physical stores started to increase from dropping**

After the sales and marketing team became mature, the Company has started to strengthen the internal management and service and increase efforts in external expansion and training based on the principal of "daily clearance", so as to "finish the daily tasks within the same day". The Company encouraged the franchisees to renovate their stores through the comparison of sales data between new and old stores. During the Year Under Review, a total of 315 stores were renovated, and recorded year-on-year increase of 11% in operating results. Instead of letting the franchisees to find stores for approval on their own, the Company's marketing managers identified outstanding stores in shopping centers and chose outstanding franchisees for operation to avoid losing good chances. Stores in key markets will be negotiated by the Company. During the Year Under Review, special training assistants were appointed to strengthen the training for franchisees and employees with focus on strengthening the corporate philosophy and enhancing the awareness and ability of services. The Company created the position of market supervisor to conduct back-to-back inspection on regional operation, which supplemented the deficiency of regional managers and provided comprehensive marketing support. We seized the opportunities from the preparation activities for new store opening and festival topics by follow-up promotion, encouragement and sharing. We also implemented experiential marketing initiatives and carried out nationwide wood comb color painting activities in physical stores to enhance the participation of consumers and increase their time stayed in stores. The Company adhered to the commitment of "lifetime comb repairing service for free" to increase the recurring sales activities. It also implemented topic marketing for launch of new products and hunger marketing for designer products by offering customized carving masterpiece with collection value. The Company benchmarked the outstanding franchisees such as Zhao Ling and shared their stories through videos to reduce the negative emotion and improve the management standard of the stores. The Company also conducted spot check and random check on stores with abnormal data, investigated, dissuaded and punished non-compliant online sales, and implemented the franchisee credit deposit system. The Company planned to open 100 new stores and finished with 151 new stores. The average same-store sales of new stores recorded year-on-year increase from RMB40,000 in 2015 to RMB43,000 in 2016.

Despite the decrease in total number of franchised stores, with their good shop image, new stores performed far better than old stores and recorded increase in same-store growth, which provided confidence to the franchisees. As such, in December 2016, the Company recorded increase in operating results when compared to the same period last year despite the decrease of 95 stores in total number of franchised stores.

As at 31 December 2016, Carpenter Tan had 1,281 franchised stores in China.

	At 31 December	
	2016	2015
Mainland China	1,281	1,376

The decrease in number of franchised stores in China was due to the shift of urban commercial area and overexpansion of stores in supermarkets in the last few years, which resulted in the close of 246 old stores.

The actual number of stores in operation as at 31 December 2016 decreased by 95 stores as compared to that as at 31 December 2015, but recorded a positive growth of 1.24%.

2. **Online segment maintained strong growth**

With outstanding position in wood comb sector of T mall and Jingdong, Carpenter Tan implemented the cooperation model of online sales and offline repairing services, and adhered to the principal of same price for online and offline purchase. Carpenter Tan's sales network covers various major e-commerce platforms including T Mall, Jingdong, Suning, Amazon, Yihaodian and Dangdang. In 2016, the Company recorded sales of more than RMB70 million, representing an increase of more than 24% as compared to 2015. Among the 115,445 vendors in comb category of the Taobao platform, the daily ranking of Carpenter Tan's official flagship store in "family/personal sanitary products" category ranged from second to sixth, comb products accounted for 88.25% in this category and ranked first, and our ranking in payment received in the last 30 days maintained in the second or third place. We ranked number one in "comb" category.

During the Year Under Review, T Mall and Jingdong remained to be our major online sales platforms:

	Total number of visitors (period-on-period increase)	**Average views per month**	**Number of customers**	**Number of products sold**	**Conversion rate**	**Average spending per customer (period-on-period increase)**
T Mall	7,640,000 (22%)	5,070,000	33,000	47,000	5.24%	167.49 (2.3%)
Jingdong	1,490,000 (35.7%)	900,000	8,000	10,000	6.48%	198 (7.6%)

Online operation has the features of relatively simple business mode and more intensive competition with competitors of different levels. In response to such unique features, Carpenter Tan's e-commerce team, led by controller Liu Kejia, actively carried out innovative activities with their hard work. During key marketing periods such as Chinese and Western Valentine's Day, Double 11 Day, International Women's Day, Mother's Day and other important festivals, the management and frontline staff made joint efforts to work on the tasks in a passionate and hardworking manner often seen in small companies without bureaucracy or haggling, which reflected Carpenter Tan's corporate culture.

3. **Effort to develop overseas market is not strong enough**

Hong Kong market has been considered to be the starting point for the overseas expansion of Carpenter Tan. However, due to the high rent and labour cost in Hong Kong, the Company is too conservative in the development of Hong Kong and overseas market. As a result, the progress for the business expansion is slow. The Company continuous to adopt a self-operation model for Hong Kong market, and closed two stores with relatively low popularity. Currently, three stores in Hong Kong remain in operation, namely Hong Kong MTR station, Mong Kok MTR station and The One shopping centre.

Carpenter Tan has yet to identify the most suitable channel for development of overseas market. For overseas market promotion, the Company selectively participated in the Hong Kong Gifts & Premium Fair and Tokyo International Gift Show. Carpenter Tan's Chinese logo was shown in international exhibitions. As the only Chinese brand at the Tokyo International Gift Show, Carpenter Tan exhibited its products with special decoration in the professional hall, which drew great attention from the expo organizers and the guests, and the brand received great exposure from the event. Through years of accumulation, Carpenter Tan has been getting more attention from the overseas distributors, and the procedure for selection and training of distributors is becoming more mature gradually. Progress was made in the channel development of European sales agents. Also, our products became available in ten stores of Eslite Bookstores in Taiwan. Overseas market began to make certain contribution to the operating results of the Company.

As at 31 December 2016, Carpenter Tan directly operated three stores in Hong Kong, and had three franchised stores and over ten sales agents and distributors in other countries and regions.

For overseas operation, the Company adopted various cooperation models such as franchisees, distributors and exclusive sales agents mainly scattered in Singapore, Korea, Japan, France, United Kingdom, Switzerland, Germany, United Arab Emirates, United States and Taiwan.

4. **More efforts were made in the research and development of innovative designs**

Carpenter Tan has been focusing on self-development supplemented with certain external designs. In over twenty years of operation, we found that the ideas and designs of many designers were "quantified" under the quantitative assessment system after they were hired by the Company. As such, the Company made a bold decision to break the existing pattern by integrating the external design resources in an open manner in addition to cultivating its own internal design team, and thereby gaining access to more resources in research and development as a small company. After the successful initial launch of the "Global Comb Design Competition" on the official website in 2015, the Company further expanded the design competition in 2016 through the cooperation with "ZCOOL (站酷)", a well-known design platform in China, which provided abundant internet design resources to Carpenter Tan. Over 2,700 designers participated in Carpenter Tan's design competition with over 3,000 pieces of designs, and 34 of which were launched in the market, among which 8 became regular products through trial sales. "Uncle Nextdoor (隔壁大叔)", an independent designer in Northeast China, was prized for seven of his designs with one winning the grand award, and rewarded with RMB170,000. "Sun Wukong (齊天大聖)", one of his designs, gained the popularity among younger generation. Overseas cooperation team also showed progress with the products ("Another Companion (一半一伴)" and "Noah's Ark (諾亞方舟)") designed by Taiwanese designer "Biaugust (兩個八月)" available for sales in ten stores of "Eslite Bookstore" in Taiwan. Designer products cooperated with Nanjing University of the Arts and Jiangnan University will also be launched in the market soon. Through the integration of various resources, product design experienced fundamental changes with more elements of younger generation, and became more fashionable and more close to the consumers.

During the Year Under Review, we focused on the stability of the third-generation implanted teeth comb, combination of wood and mixed material, production techniques of metallic mirrors, cooperation with external design teams and prototyping of awarded designer works. On top of the development and improvement of classic products, we put extra effort in the products catering to younger generation. We offered adequate training to our own designer team and actively cooperated with external design teams. During the year, we established good cooperation and delivered satisfactory results with the School of Design of Nanjing University of the Arts, the School of Design of Jiangnan University, Biaugust in Taiwan, Jose in Germany, Yunma Design, Chengdu Beyond Design and the team of Liu Zhaoqun.

During the Year Under Review, we launched a total of 119 new products and 4 promotional products, among which 52 were self-developed products, 38 were products developed through cooperation with external parties and 29 were limited edition products available on official online stores including 8 products turned to regular sales. The carving workshop completed the design of 4 image products and physical prototyping of 5 designs and the design of 39 general products and physical prototyping of 38 designs, completed two copies of "Shuoguoleilei" as scheduled, and 13 packaging designs were also launched.

5. **Skilled production technology and continuous technical innovation are also the beauty of Carpenter Tan**

The skilled production technology team of Carpenter Tan is formed by more than 50% of disabled workers. They overcome their disabilities and help each other to form a happy group which loves their work and strives for self-improvement. Despite their disabilities, they create many complete products. It is their work, which is also their life.

Carpenter Tan maintains its leading position in the industry through technical innovation and invention. The Company values inventions, hence proposes over 10 projects on technological breakthroughs and encourages employees to tender. It was outstandingly successful in 2016: Zeng Zhiqiang, the engineer of technology center, overcame the difficulties in automatic blade milling machine technology, which was brought into application, with efficiency enhanced by 2 times. The team of painting workshop led by Liu Xueping conducted new craft transformation of colour painting, with efficiency enhanced by more than 2 times and was brought into use. The processing efficiency of the tridentate quick pasting project led by the team of Zhang Yichun, the deputy factory manager, increased by 40%. The average dislocation quality of dentate pasting decreased from 1.5mm to 0.5mm, and production difficulty reduced by 50%. The processing efficiency of dentate trimming project by the team led by Huang Xuejun increased by 80% and production difficulty reduced by 70%. During the year, rewards for the above amounted to RMB73,000.

The Company perennially establishes Technological Progress Awards and Annual Innovation Awards. During the year, the Company achieved technology breakthroughs and promoted the adoption of teeth root polishing to provide smooth combing experience without hair damage. The Company adopted new processing of implanted teeth comb with hair protection, enhancing efficiency by nearly 100%. The Company established and promoted safety visualization, and recorded none production safety incidents during the year. During the year, rewards for the above amounted to approximately RMB30,000.

Through implementation of "Innovation Star Award" and "Factory Manager Reward", the Company mobilized staff's innovation initiatives. Staff actively identify the problems for the whole process of factory production and the organizational improvement was enhanced. The red lacquer testing by the team led by Zhang Wanli was successful; polisher enhancement by Zhang Yongwei, the staff of first-tier workshop, drilling improvement by the team of Tan Bangmei and Zhang Yongwei as well as improvement in shaping process and dust removal were achieved. During the Year Under Review, the Company had over 20 innovations. Enrichment of product categories, improvement of working environment, ensuring of product quality, enhancement of production efficiency and production safety well proceeded and supported internal coherence and development of the Company. During the Year Under Review, rewards for the above amounted to RMB48,000.

The Wanzhou Factory of Carpenter Tan had a total of 734 production workers, 94% of whom were skilled workers (under employment for over one year). The factory focused on the production of combs, and also produced proper amount of mirrors and other accessories. During the Year Under Review, we put great efforts in safe production, performance management and process control to enhance the production efficiency. We also fully cooperated with the designers in prototyping of new products and mass production with focus on ensuring the sales progress. The factory was well organized and achieved the result of "nil" accident and "nil" compensation.

Actual production and comparison with the corresponding period last year are set out below:

	For the year ended 31 December	
	2016	2015
Combs	3,306,278	3,435,651
Mirrors	749,828	778,913
Total	4,056,106	4,214,564

6. **The brand culture of "Honesty, Work and Happiness" is the core value of Carpenter Tan**

During the Year Under Review, we held the "Touching Design with Creativity – Find Out the Most Touching Product of the Year (情懷之作,創意之舉—尋找最具情懷的年度好作品)" design competition on our official website, and cooperated with "ZCOOL (站酷)" (an outstanding design website in China) to hold the "Beauty of Ingenuity (別具匠心的美好)" design competition, and received more than 3,000 works from over 2,700 designers during the Year Under Review, and the competition webpage recorded over 1,560,000 clicks. Through such competitions, more outstanding designers can participate in Carpenter Tan's design and brand promotion activities.

We carefully prepared and provided various training materials based on the need of corporate development and operation of stores. The videos of "The Story of A Comb" and "Artisans in Carpenter Tan" demonstrated Carpenter Tan's deep feelings about the comb to the stores and public. The promotional video of "Craftsmanship Spirit" based on combs conveyed Carpenter Tan's craftsmanship spirit of endeavoring to "make comb for the whole world" in an honest manner. The serial videos of "Store Managed by Zhao Ling" related to an outstanding staff provided practical marketing cases to the stores through various dimensions and perspectives such as staff management, data analysis, product display, target management and group purchase for promotion.

We published information related to new products, promotional activities, operational activities and "Small Stories of Carpenter Tan's Staff" through our official website and Wechat platform. We also developed new functions on Wechat platform so as to keep our customers updated on the latest development of Carpenter Tan and attract our customers to the stores for shopping.

We organized various brand culture activities such as designers' visit to Wanzhou Factory, ZCOOL market, "Combing Dearest Mother" campaign, design competition in Shanghai University, "Knowing Carpenter Tan (走進譚木匠)" investor relationship activity (cooperated with Chinese Securities Journal), 2016 comb colour painting competition and Carpenter Tan's brand promotion in Nanjing University.

7. **Strict governance is the guarantee of brand quality**

In 2016, the Company proposed "transformation" and operated with focus on meticulous operation and services marketing by all staff. The Company optimized the management structure and assigned the staff with more experiences to important positions. The Company appointed Mr. Luo Hongping, the factory manager, as chief executive officer for better coordination between departments, service enhancement and supervision on rectification, to strengthen the teamwork.

We also provided comprehensive training in different situations and different forms with focus on important aspects and weak points so as to improve the overall quality of the Company; we implemented the Rules of Professional Practices, and included franchisees in the franchise contracts to ensure the sustainable and healthy development of franchise system. We also established the risk assessment mechanism, strengthened the target responsibility system, optimized and streamlined the positions, enhanced the execution efficiency and achieved practical working manner. A beneficial situation was formed through the competition among suppliers. We established a regulatory system to eliminate internal corruption, and encouraged the recommendation of talents regardless of whether they are relatives or not. The Company formulated the requirement of "no hospitality expenses" and provided staff with a clean environment, so as to establish a healthy and transparent supply security system for the Company.

The Company implemented a scientific and reasonable talent incentive scheme and had a functioning remuneration system which encouraged the employees to work with creativity. Carpenter Tan established its own team and tendering mechanism was implemented on the projects of technology development and improvement. The Company encouraged staff to be creative and active through rewarding. These systems facilitated the Company in technical improvement, human resources conservation, efficiency enhancement, cost reduction and safety assurance. We also established and implemented a sound system for administration and human resources management and worked innovatively to create a clean and positive working environment.

We encouraged all departments to carry out practical caring and welfare activities, cut the formalities and organized public service activities within the capability of our employees, in order to let them enjoy the feelings of "Honesty, Work and Happiness".

8. **Being an enterprise with social responsibilities**

During the Year Under Review, Carpenter Tan provided a total of 318 jobs for people with disabilities. In Carpenter Tan, employees with disabilities are under the same requirements as ordinary employees. The Company focused on facilitating the employees with disabilities in developing self-reliance ability and healthy mind, improving working skills and performance and strengthening overall competitiveness. In addition, based on the physical conditions of employees with disabilities, the Company offered special attention to employees with disabilities, formulated relevant rules, provided guaranteed basic salary, increased living allowances and installed relevant living facilities in order to enable the employees to enjoy the dignity of labor and happiness of life in Carpenter Tan.

During the year, the Company cooperated with Jurong Boai Special Education School (句容市博愛特殊教育學校), the management members carried out monthly caring activities in the school such as teaching the kids to draw, knit and play table tennis. The logistics department of Wanzhou Factory paid monthly visits to Wanzhou Linghui Institution for the Mentally Handicapped (萬州區慧靈智障人士機構) to offer care and help and teach the people to draw and make handicrafts. Carpenter Tan has been caring for the disadvantaged groups for twenty years, so that love and gratitude may grow within the Group, and the employees may give back to the society and understand the meaning of "enough is as good as a feast".

9. Recognitions by the government and the industry during the Year Under Review:

- Leading Enterprise of Forestry Industry of the City (市級林業龍頭企業) by Forestry Administration of Chongqing;
- Outstanding Organization Award by Federation of People with Disabilities of Wanzhou;
- Grade A Tax-paying Enterprise (A級納稅企業) of 2015 by Wanzhou Taxation Bureau;
- Technology Enterprise in Chongqing;
- ZCOOL Most Respectful Design Enterprise Award by ZCOOL (website);
- "Star of Chain Store" (連鎖之星) by Enterpreneur (magazine);
- Top 100 Valuable Brand in China;
- Top 50 Influential Chain Brand in China; and
- Wooden mirror products were awarded the title of "2016 Brand-name Product in Chongqing".

During the Year Under Review, the Company had 2 newly registered patents and 8 licensed patents. As of the end of the year, Carpenter Tan had 44 patents in total, of which 14 were invention patents.

With positive mind-set of the Company's staff, the Company achieved positive growth in operation results of off-line stores for the Year Under Review. However, Carpenter Tan's business performance was not satisfactory for the year ended 31 December 2016. The Company apologized in the face of shareholders' trust. We know that room for improvement between Carpenter Tan's products and packaging and its brand still exists. We will put emphasis on shop locations, enhancement of new image stores and investments in overseas market. As the gap between the Company and a good company in terms of management details, quality of first-tier service and innovativeness is still large, the Board hereby apologizes to shareholders. In 2017, we will continuously deny ourselves, be humble as a beginner and handle their matters with a practical and simple style as well as an attitude of loving our work and being honest.

FINANCIAL REVIEW

1. Revenue

The Group recorded a revenue of approximately RMB263,783,000 for the year ended 31 December 2016, representing a decrease of RMB12,279,000 or 4.4% as compared to that of approximately RMB276,062,000 for the year ended 31 December 2015. The decrease was attributable to the down turn of the retail market in China, which resulted in a decrease in the sales of products. As at 31 December 2016, the Group had 1,284 franchise shops and 3 directly-operated outlets respectively while as at 31 December 2015, the Group had 1,379 franchise shops and 5 directly-operated outlets respectively. The franchise fee income was approximately RMB381,000 which represents an increase of approximately RMB111,000 when compared to that of approximately RMB270,000 of last year.

	For the year ended 31 December			
	2016		2015	
	RMB'000	**%**	RMB'000	%
Revenue				
– Combs	**65,609**	**24.9**	73,705	26.7
– Mirrors	**1,065**	**0.4**	1,752	0.6
– Box sets	**195,105**	**74.0**	196,531	71.2
– Other accessories	**1,623**	**0.6**	3,804	1.4
Franchise fee income	**381**	**0.1**	270	0.1
Total	**263,783**	**100.0**	276,062	100.0

2. **Cost of sales**

The cost of sales of the Group was approximately RMB90,772,000 for the year ended 31 December 2016, representing a decrease of RMB7,184,000 or 7.3% as compared to that of approximately RMB97,956,000 for the year ended 31 December 2015, which was mainly as a result of the drop in revenue.

3. **Gross profit and gross profit margin**

As at 31 December 2016, gross profit of the Group was approximately RMB173,011,000 representing a decrease of RMB5,095,000 or 2.9% as compared to that of approximately RMB178,106,000 for the year ended 31 December 2015. The gross profit margin increased slightly from 64.5% in 2015 to 65.6% in 2016. The increase in gross profit margin was mainly due to the increase in proportion of online sales which has a higher gross profit margin.

4. **Other income and other net income**

Other income and other net income was approximately RMB44,087,000 for the year ended 31 December 2016, representing an increase of RMB3,178,000 or 7.8% as compared to that of approximately RMB40,909,000 for the year ended 31 December 2015. Other income and other net income is mainly comprised of net foreign exchange gain of approximately RMB2,037,000, PRC VAT refunds of approximately RMB16,568,000, rental income of approximately RMB7,199,000, interest income of approximately RMB14,056,000, fair value change of investment properties of RMB2,900,000 and fair value gain on derivative financial instruments of approximately RMB nil respectively (2015: 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).

5. **Selling and distribution expenses**

The selling and distribution expenses amounted to approximately RMB42,835,000 for the year ended 31 December 2016, representing an increase of approximately RMB6,284,000 or 17.2% as compared to that of approximately RMB36,551,000 for the year ended 31 December 2015. The selling and distribution expenses mainly including advertising and promotion expenses of approximately RMB10,454,000, delivery charges of approximately RMB6,601,000, rental expenses of approximately RMB3,919,000, salaries and benefits of approximately RMB7,226,000 and travelling expenses of approximately RMB1,929,000 respectively (2015: 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).

6. **Administrative expenses**

The administrative expenses of the Group was approximately RMB22,226,000 for the year ended 31 December 2016, representing a decrease of approximately RMB1,829,000 or 7.6% as compared to that of approximately RMB24,055,000 for the year ended 31 December 2015. The administrative expenses is mainly comprised of salaries and benefits of approximately RMB8,563,000, legal and professional fee of approximately RMB2,210,000, design and sample expenses of approximately RMB1,430,000, consultancy fee of approximately RMB465,000, depreciation charges of approximately RMB50,000 and audit fee of approximately RMB1,190,000 respectively (2015: 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).

7. **Other operating expenses**

Other operating expenses of the Group was approximately RMB8,250,000 for the year ended 31 December 2016, representing an increase of RMB1,359,000 or 19.7% as compared to that of approximately RMB6,891,000 for the year ended 31 December 2015. The increase was mainly due to the increase in loss on disposal of raw materials during the Year Under Review.

8. **Finance costs**

Finance costs of the Group was approximately RMB nil for the year ended 31 December 2016, representing a decrease of RMB3,150,000 as compared to approximately RMB3,150,000 for the year ended 31 December 2015. The decrease was mainly due to the decrease in bank borrowings for the Year Under Review. For the year ended 31 December 2016, the Group did not have any bank borrowings.

9. **Income tax**

For the year ended 31 December 2016, income tax expenses for the Group amounted to approximately RMB29,784,000, increased by approximately RMB1,322,000 or 4.6% when compared to approximately RMB28,462,000 for the year ended 31 December 2015, mainly due to the decrease in written back of deferred tax during the Year Under Review.

The effective tax rate for the Year Under Review was 20.7% when compared to 19.2% for the year ended 31 December 2015.

10. Profit for the year

The profit for the year ended 31 December 2016 was approximately RMB114,003,000, representing a decrease of RMB5,903,000 or 4.9% as compared to that of approximately RMB119,906,000 for the year ended 31 December 2015. The decrease was mainly due to the decrease in gross profit of approximately RMB5,095,000 and increase in selling and distribution expenses of approximately RMB6,284,000 which were partially off-set by the decrease in administrative expenses of approximately RMB1,829,000 and increase in other revenue and other net income of approximately RMB3,178,000 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 2016, the net book value of property, plant and equipment amounted to approximately RMB59,812,000, representing an increase of approximately RMB2,303,000 or 4.0%, as compared with the previous year of approximately RMB57,509,000. The increase was mainly attributable to the addition of plant and equipment for the year ended 31 December 2016.

2. Inventories

The Group's inventories as at 31 December 2016 increased by approximately RMB16,921,000 or 19.4% from approximately RMB87,442,000 as at 31 December 2015 to approximately RMB104,363,000 as at 31 December 2016, primarily due to the increase in raw materials level. Raw materials increased by RMB15,572,000 or 27.9% from RMB55,814,000 in last year to RMB71,386,000 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 2016, the Group's trade receivables amounted to RMB2,933,000 which is close to that of RMB2,377,000 as at 31 December 2015.

4. Other receivables, deposits and prepayments

The Group's other receivables, deposits and prepayments decreased by approximately RMB19,861,000 or 67.6% from approximately RMB29,368,000 as at 31 December 2015 to approximately RMB9,507,000 as at 31 December 2016. Decrease in other receivables, deposits and prepayments was mainly due to a decrease in interest receivables on deposits at banks when compared to last year.

5. Trade payables

As at 31 December 2016, the Group's trade payables was approximately RMB4,797,000, which is close to that of approximately RMB3,943,000 as at 31 December 2015.

6. Other payables and accruals

The balance consists of dividend payables, other payables, accruals, trade deposits received, provision for sales return, VAT and other non-income tax payables. The Group's payables and accruals decreased slightly by approximately RMB181,000 from approximately RMB26,316,000 as at 31 December 2015 to approximately RMB26,135,000 as at 31 December 2016. The decrease was primarily due to a decrease in other payables and accruals.

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 2016, the Group's net cash inflow generated from operating activities amounted to approximately RMB109,035,000, representing an increase of net cash inflow generated from operating activities of approximately RMB18,081,000 from approximately RMB90,954,000 for the year ended 31 December 2015. The increase was primarily due to a decrease in other receivables, deposits and prepayments during the Year Under Review.

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

For the year ended 31 December 2016, the Group's net cash outflow used in investing activities amounted to approximately RMB4,767,000, representing a decrease of approximately RMB129,648,000 as compared with the cash inflow generated from investing activities of approximately RMB124,881,000 for the year ended 31 December 2015. The decrease is mainly due to the decrease in fixed deposits held at bank of approximately RMB127,756,000 during the Year Under Review.

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

For the year ended 31 December 2016, the Group's net cash inflow generated from financing activities amounted to approximately RMB129,831,000, representing an increase of approximately RMB412,324,000 as compared with the net cash outflow used in financing activities of approximately RMB282,493,000 for the year ended 31 December 2015. The increase was primarily due to the decrease in pledged deposit of approximately RMB233,053,000 during the year ended 31 December 2016.

CAPITAL STRUCTURE

1. **Indebtedness**

As at 31 December 2016, the Group did not have any bank borrowings (as at 31 December 2015: RMB nil).

2. **Gearing ratio**

As at 31 December 2016 and 2015, the Group did not have any bank borrowings. The calculation of gearing ratio is not meaningful.

3. **Pledge of assets**

As at 31 December 2016, the Group did not have any pledged assets to the bank (as at 31 December 2015 : approximately RMB233,053,000).

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 RMB4,807,000 and approximately RMB2,935,000 for the year ended 31 December 2016 and 2015 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 2016, 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 announcement.

As at 31 December 2016, the Group had cash and bank balances of approximately RMB463,222,000 (as at 31 December 2015: approximately RMB194,114,000) mainly generated from operations of the Group and funds raised by the Company in 2009.

CAPITAL COMMITMENT

As at 31 December 2016, the Group had capital commitment amounted to approximately RMB883,000 (as at 31 December 2015: approximately RMB172,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2016, the Group has not made any material acquisition and disposal.

OUTLOOK

Carpenter Tan's vision is "becoming a comb of the world". The Company has always been adhering to the corporate philosophy of "Honesty, Work and Happiness" and strives to bring wonderful experience to customers by trendy design, quality craftsmanship and caring service.

In 2017, shopping malls in major cities, first-tier business districts, airports and high-speed railway will continue to be the key development aspects. The Company will close the stores in unfavorable locations, with poor shop images and profitability, and will create new images for old stores. Making DIY products in stores can enhance consumers' loyalty to the brand. Meanwhile, the Company will introduce collectable high-end tailored products from well-known engravers. The Company intends to select some areas for carrying out O2O trial operation to integrate online sales and physical store sales, raising response time and quality of service. The Company's ultimate customer base can be expanded by creating secondary sales and enhancing customer satisfaction through collaboration.

The Company will also increase its investment in the e-commerce business, optimize peer competition strategy, continuously enhance Carpenter Tan's brand and demonstrate the brand culture of kindness and innovation and its position in the industry in terms of product differentiation. The Company will launch activities suitable for target customers, strengthen online shop design, adhere to the principle of offering same price to online sales and physical store sales, strictly combat illegal shops to protect its brand quality and interests of physical store franchisees.

The Company will participate in more overseas exhibitions, enhance the quality of participation and expand the scale of participation to introduce Carpenter Tan to more professional buyers, brand owners and overseas investors. We will try our best to fulfill their products and packaging adjustment requirements and develop products and packaging that meet the consumption habits of overseas customers when appropriate.

The Company's direction of development is to target consumers with various ages and cultures by respective positioning. Classic mature models and young and lively models are to be showcased in the same store. Mixed materials combination, especially silver inlays, is the development focus. Structural research on metal mirror basically has been completed and has entered the product launch process. The Company will continue to cooperate with excellent design teams to develop valuable new products, constantly organize international design contests with an open mind, innovatively explore method of display such as videos and animation, brochures and H5 websites, to meet the demand for display in various environments. To many consumers, Carpenter Tan's products have a strong position. It is often heard that "you may consider it too expensive if you have never used it. However, if you have used combs from Carpenter Tan, you will never use other combs". This is a sincere evaluation of products from Carpenter Tan.

Carpenter Tan puts its brand philosophy of "Honesty, Work and Happiness" into practice from the inside out. We hope to handle every matter sincerely and truthfully. In this era of strong consumer participation, Carpenter Tan set up a small external factory at its headquarter office in Jurong, with a view to teach its management to make combs and to let consumers experience the process from designing combs to making combs. Recently, the small factory officially opened to the public and, together with an exhibition on wood craft collections of twelve famous artists from Taiwan, Sweden, Germany and mainland China as well as the first "Carpenter Forum" (匠心論壇) held by Carpenter Tan, Carpenter Tan's culture and brand value will be further enhanced.

Carpenter Tan has been shouldering its social responsibility. The Company allocates special funds every year to provide aids and subsidies to over 300 people with disabilities for acquiring equipment. Mr. Tan Chuan Hua, our chairman, always appreciate the Management's care for people with disabilities. Meanwhile, Carpenter Tan's staff with disabilities also participate in helping the underprivileged and have been helping Wanzhou Hui Ling Organization for Intellectual Disabilities and Jurong Fraternity Special School for years, realizing the value of "It is more blessed to give than to receive".

We will continue to carry forward our excellent quality in the past, identify and make up for our inadequacies, and continuously make innovative improvement. Under the increasing pressure in the retail environment, Carpenter Tan maintains its thrifty style in an orderly manner, works diligently in a pragmatic manner, acts in good faith and cooperates with outstanding teams with an open mind in order to bring long-term value to investors and reward shareholders for their trust to Carpenter Tan.

DIVIDENDS

To extend the Company's gratitude for the support of our shareholders, the Board has recommended the distribution of a final dividend of HK$25.49 cents per share for the financial year ended 31 December 2016 to the shareholders whose names appear on the register of members of the Company on Friday, 9 June 2017, amounting to approximately HK$63,725,000 subject to the approval of the Company's annual general meeting to be held on Wednesday, 31 May 2017. The dividend payout ratio is 50.0% of the profit for the year or 39.4% of the profit before taxation of the Company. The above-mentioned final dividend is expected to be paid on or before Friday, 30 June 2017.

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 Thursday, 25 May 2017 to Wednesday, 31 May 2017 (both days inclusive) during which period no transfer of shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 24 May 2017.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Wednesday, 7 June 2017 to Friday, 9 June 2017 (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 Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Tuesday, 6 June 2017.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2016, 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 2016, the Group had used net proceeds of approximately RMB50,700,000, of which approximately RMB22,000,000 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 2016, 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 2016.

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 such period shall not exceed ten years from the date of grant of the relevant option.

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

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

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

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

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 2016 and up to the date of this announcement, 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 2016, the Company repurchased a total of 1,024,000 ordinary shares of HK$0.01 each in the share capital of the Company at an aggregate price of approximately HK$3,777,000. The highest price paid and the lowest price paid was HK$4.27 and HK$3.48 respectively. Those repurchased shares had not been cancelled as at 31 December 2016 and the date of this announcement.

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 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.

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 two independent non-executive Directors, namely, Mr. Yang Yang 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 2016, and agreed with the accounting treatment adopted by the Group.

EVENTS AFTER THE REPORTING PERIOD

As disclosed in the announcement of the Company dated 28 February 2017, Mr. Liu Chang (劉暢) has resigned as a non-executive Director of the Company with effect from 28 February 2017. Madam Huang Zuoan (黃佐安) has been re-designated from an independent non-executive Director to a non-executive Director of the Company with effect from 28 February 2017.

DISCLOSURE OF INFORMATION

The annual results announcement for the year ended 31 December 2016 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 2016 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, 30 March 2017

As at the date of this announcement, 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 Madam Huang Zuoan; and two independent non-executive Directors, namely Mr. Yang Yang and Mr. Chau Kam Wing, Donald.

* *For identification purpose only*