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 2017

RESULTS HIGHLIGHTS

- Revenue increased by 14.3% to approximately RMB301,616,000 (2016: RMB263,783,000).
- Gross profit increased by 13.6% to approximately RMB196,591,000 (2016: RMB173,011,000).
- Gross profit margin decreased slightly by 0.4% to 65.2% (2016: 65.6%).
- Profit for the year ended 31 December 2017 increased by 5.4% to approximately RMB120,216,000 (2016: RMB114,003,000).
- Earnings per share increased to approximately RMB48.23 cents (2016: RMB45.60 cents).
- In view of the Group's results, the Directors recommend a final dividend in respect of the year ended 31 December 2017 of HK$30.72 cents per share (2016: HK$25.49 cents) which is subject to the shareholders' approval at the forthcoming annual general meeting to be held on Thursday, 17 May 2018.
- In addition, in order to address shareholders' expectations, the Directors recommend a special dividend of HK$30.72 cents per share (2016: nil) which is also subject to the shareholders' approval at the forthcoming annual general meeting to be held on Thursday, 17 May 2018.

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 2017 (the “Year Under Review”) together with the comparative figures for the year ended 31 December 2016 with the selected notes as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Notes	**2017**	2016
		RMB’000	RMB’000
Revenue	4	**301,616**	263,783
Cost of sales		**(105,025)**	(90,772)
Gross profit		**196,591**	173,011
Other income	5	**44,021**	44,087
Administrative expenses		**(30,331)**	(22,226)
Selling and distribution expenses		**(45,069)**	(42,835)
Other operating expenses		**(8,001)**	(8,250)
Profit before taxation	6	**157,211**	143,787
Income tax	7	**(36,995)**	(29,784)
Profit for the year		**120,216**	114,003
Attributable to			
Owners of the Company		**120,216**	114,003
Earnings per share	9		
Basic and diluted		**RMB48.23 cents**	RMB45.60 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	2017	2016
	RMB'000	RMB'000
Profit for the year	**120,216**	114,003
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	**1,906**	(2,554)
Total comprehensive income for the year	**122,122**	111,449
Attributable to		
Owners of the Company	**122,122**	111,449

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	**2017**	2016
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		**59,194**	59,812
Prepaid lease payments		**15,917**	16,654
Investment properties		**97,900**	92,450
Intangible assets	11	**—**	—
Non-pledged fixed bank deposits		**141,000**	—
		314,011	168,916
Current assets			
Prepaid lease payments		**737**	737
Inventories	12	**125,112**	104,363
Trade receivables	13	**2,286**	2,933
Other receivables, deposits and prepayments		**11,845**	9,507
Available-for-sale financial assets		**173,100**	—
Cash and bank balances		**214,750**	463,222
		527,830	580,762
Current liabilities			
Trade payables	14	**4,975**	4,797
Other payables and accruals		**40,470**	26,135
Income tax payable		**28,226**	27,313
		(73,671)	(58,245)
Net current assets		**454,159**	522,517
Total assets less current liabilities		**768,170**	691,433
Non-current liabilities			
Deferred tax liabilities		**31,297**	19,029
Deferred income		**704**	740
		(32,001)	(19,769)
NET ASSETS		**736,169**	671,664
CAPITAL AND RESERVES			
Share capital		**2,189**	2,200
Reserves		**733,980**	669,464
TOTAL EQUITY		**736,169**	671,664

SELECTED NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL INFORMATION

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

The functional currency of the Company and its subsidiaries in Hong Kong, and its subsidiaries in the PRC are Hong Kong dollars ("HK$") and Renminbi ("RMB") respectively. For the 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 and the PRC.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

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

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

b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "Group").

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

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except for the investment properties and available-for-sale financial assets 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, 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. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 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, returns and allowances, and franchise fee income. An analysis of the Group's revenue for the year is as follows:

	2017 **RMB'000**	2016 RMB'000
Sales of goods	**301,121**	263,402
Franchise fee income	**495**	381
	301,616	263,783

5. OTHER INCOME

	2017 **RMB'000**	2016 RMB'000
Government grants	**944**	877
Government grants released from deferred income	**36**	36
Interest income from financial assets		
– bank interest income	**8,025**	14,056
PRC VAT refunds (note 7(a)(i) and (vii))	**20,472**	16,568
Rental income from investment properties	**7,591**	7,199
Net foreign exchange gain	**—**	2,037
Change in fair value of investment properties	**5,450**	2,900
Reversal on impairment of other receivables	**—**	42
Others	**1,503**	372
	44,021	44,087

In 2016 and 2017, the group successfully applied for funding support from the International Marketing Developing Funds of Small-and-Medium-Sized Enterprises and Industrial Development Funds (the "Funds"), set up by Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China and Chongqing Provincial Human Resources and Social Security Department respectively. The purposes of the Funds are to encourage the involvement in overseas marketing by granting financial assistance to commercial entities who have involved in certain marketing activities outside the PRC; and to promote a stable employment environment and prevent unemployment risks by granting financial assistance to commercial entities whose structure, lay off rate, contributions to unemployment insurance meet certain criteria.

6. PROFIT BEFORE TAXATION

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

		2017 RMB'000	2016 RMB'000
a)	**Staff costs (including directors' emoluments)**		
	Salaries and other benefits	**58,520**	44,790
	Contributions to defined contribution retirement scheme	**1,805**	1,828
	Total staff costs	**60,325**	46,618
b)	**Other items**		
	Auditor's remuneration		
	- audit services	**805**	780
	- non-audit services	**316**	324
	Amortisation of prepaid lease payments	**737**	393
	Cost of inventories	**105,025**	90,772
	Depreciation	**3,647**	2,280
	Allowance on trade receivables	**22**	2
	Impairment loss on other receivables, net	**14**	—
	Reversal of impairment loss on other receivables	**—**	(42)
	Net loss on disposal of property, plant and equipment	**245**	121
	Net foreign exchange loss/(gain)	**796**	(2,037)
	Operating lease rentals in respect of land and buildings	**4,787**	4,158
	Provision for sales returns	**3,311**	2,947
	Write down of inventories	**2,902**	3,667
	Reversal of write-down of inventories	**(48)**	(46)
	Gross rental income from investment properties	**(7,591)**	(7,199)
	Less: Direct outgoings incurred for investment properties that generated rental income during the year	**830**	514
	Direct outgoings incurred for investment properties that did not generate rental income during the year	**8**	259
	Net rental income	**(6,753)**	(6,426)

Notes:

(i) Cost of inventories includes approximately RMB38,933,000 (2016: RMB30,230,000) relating to staff costs and depreciation, 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:

	2017	2016
	RMB'000	RMB'000
Current tax		
PRC Enterprise Income Tax (note 7(a) (ii) and (iii))	**21,807**	23,603
Hong Kong profits tax (note 7(a) (v))	**—**	—
Withholding tax on dividends (note 7(a) (vi))		
- Provision for the year	**2,876**	8,700
	24,683	32,303
Under provision in prior years, net		
PRC Enterprise Income Tax	**44**	—
Deferred tax		
Transfer to current tax upon distribution of dividends	**(2,876)**	(8,700)
Provision for the year (note 7(a) (vi))	**15,144**	6,181
Total	**36,995**	29,784

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% (2016: 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 7(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 2017 and 2016 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, nonresident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or place of business in the PRC will be subject to withholding income tax at the rate of 10% on various types of passive income such as dividends derived from sources in the PRC. Pursuant to the double tax arrangement between the PRC and Hong Kong effective on 1 January 2007, the withholding income tax rate will be reduced to 5% if the investment by the Hong Kong investor in the investee entities in the PRC is not less than 25%. On 22 February 2008, the SAT approved Caishui (2008) No. 1, pursuant to which dividend distributions out of retained earnings of foreign investment enterprises prior to 31 December 2007 will be exempted from withholding income tax.

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

As at the date of the financial statements, the relevant formalities for the reduced tax rate have not yet been completed. However, the management consulted with PRC lawyers and assessed that the risk of surcharge is minimal since the Group had already paid for the withholding tax liabilities on dividend in previous years at 5%. In 2017, a provision of approximately RMB2,876,000 (2016: RMB8,700,000) for current tax and approximately RMB13,782,000 (2016: RMB5,456,000) for deferred tax has been made.

As at 31 December 2017, the deferred tax liabilities relating to withholding tax accrued on undistributed profits of the Group's PRC subsidiaries amounted to approximately RMB13,500,000 (2016: RMB2,594,000) which are expected to be distributed in the foreseeable future.

(vii) Chongqing Carpanter Tan Handicrafts Co., Ltd ("Carpenter Tan"), a wholly-owned subsidiary of the Company, is a registered social welfare enterprise since 24 November 2016. Pursuant to the notice on preferential tax policies to social welfare enterprise issued by the State Administration of Taxation of the PRC (the "SAT"), Ministry of Finance of the PRC that, with effect from 1 October 2006, Carpenter Tan is entitled to income tax concessions on a double deduction of salaries paid to its employees with disabilities, and VAT refund which is equivalent to the number of employees with disabilities multiplied by a specified annual cap amount as determined by the SAT.

The Group recognised the VAT refund in the Group's consolidated statement of profit or loss on an accrual basis. The amounts of the VAT refunded to the Group during the year are detailed in note 5.

8. DIVIDENDS

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

	2017	2016
	RMB'000	RMB'000
Final dividend of HK$30.72 cents, equivalent to RMB25.68 cents per ordinary share (2016: HK$25.49 cents, equivalent to RMB22.80 cents) proposed after the end of the reporting period	**63,870**	57,000

	2017	2016
	RMB'000	RMB'000
Special dividend of HK$30.72 cents, equivalent to RMB25.68 cents per ordinary share proposed after the end of the reporting period	**63,870**	—

The Directors recommend the payment of a final dividend of HK$30.72 cents, equivalent to RMB25.68 cents per ordinary share, totaling RMB63,869,755. In addition, the Directors recommend a special dividend of HK$30.72 cents, equivalent to RMB25.68 cents per ordinary share totaling RMB63,869,755. These dividends are to be approved by the shareholders of the Company at the Annual General Meeting scheduled to be held on 17 May 2018. These financial statements do not reflect this recommended dividends.

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

	2017	2016
	RMB'000	RMB'000
Final dividend of HK$25.49 cents, equivalent to RMB22.80 cents per ordinary share (2016: HK$29.22 cents, equivalent to RMB23.98 cents) in respect of the previous financial year, approved and paid during the year	**56,706**	59,950

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

	2017	2016
	RMB'000	RMB'000
Earnings used in calculating basic and diluted earnings per share	**120,216**	114,003

(ii) Weighted average number of ordinary shares

	Number of shares	
	2017	2016
	'000	'000
Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share	**249,264**	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 2017 and 2016.

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 2016, 31 December 2016, 1 January 2017 and 31 December 2017	1,037
Accumulated amortisation and accumulated impairment	
At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017	1,037
Carrying amount	
At 31 December 2017	—
At 31 December 2016	—

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

	2017 RMB'000	2016 RMB'000
Raw materials	**80,733**	71,386
Work-in-progress	**18,078**	20,561
Finished goods	**26,301**	12,416
	125,112	104,363

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

	2017 RMB'000	2016 RMB'000
Carrying amount of inventories sold	**102,171**	87,151
Write down of inventories	**2,902**	3,667
Reversal of write-down of inventories	**(48)**	(46)
	105,025	90,772

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

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:

	2017	2016
	RMB'000	RMB'000
Trade receivables	**2,380**	3,005
Less: Allowance for doubtful debts (note 13(b))	**(94)**	(72)
	2,286	2,933

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

	2017	2016
	RMB'000	RMB'000
0 to 30 days	**2,224**	2,305
31 to 60 days	**7**	585
61 to 90 days	**5**	24
91 to 180 days	**7**	6
181 to 365 days	**35**	8
Over 1 year	**8**	5
	2,286	2,933

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:

	2017	2016
	RMB'000	RMB'000
At 1 January	**72**	70
Allowance for doubtful debts	**22**	2
At 31 December	**94**	72

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:

	2017	2016
	RMB'000	RMB'000
Past due but not impaired		
1 to 30 days past due	**7**	585
31 to 60 days past due	**5**	24
61 to 150 days past due	**7**	6
151 to 365 days past due	**35**	8
More than 1 year past due	**8**	5
	62	628
Neither past due nor impaired	**2,224**	2,305
	2,286	2,933

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:

	2017	2016
	RMB'000	RMB'000
0 to 30 days	**3,688**	2,670
31 to 60 days	**456**	1,000
61 to 90 days	**313**	176
91 to 180 days	**225**	385
181 to 365 days	**18**	181
Over 1 year	**275**	385
	4,975	4,797

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT REVIEW

On a beautiful and small island in a lake of the heartland of Jiangnan, stands a small and exquisite brand with vigor, she is Carpenter Tan. Relocation of headquarters is definitely a remarkable move for a company. In March 2014, Carpenter Tan relocated its head office from the main urban area of Chongqing to Jurong here, making the people who cared about and loved Carpenter Tan anxious.

During the Year Under Review, the "Second Entrepreneurship" of Carpenter Tan was on the right track. In this year, as the new office was put into use, we held exhibition of 13 wood artists from the world, held professional wood art exhibitions and forums exploring brand, quality and taste. The Group also cooperated with domestic famous design platform to hold design-sharing activities and offline experiential activities including Changzhou Color Painting Contest. We also participated in international gift shows with our Chinese logo of "譚木匠". We strived to enhance trainings on customer service. With the efforts of all staffs of the Company, better quality was seen in channel expansion, stores picked up their paces to create new images, and sales figures kept rising. Moreover, new products research and development has shown signs of success. New product outperformed all product lines in national wide. Our team was mature and stable. Our governance structure worked reasonably and smoothly. We made numerous technical creation and renovation. At the same time, a skilled production team with 50% of members with disabilities was able to show its resilience and self-reliance while working in the big family of Carpenter Tan. The Company perennially strengthened a healthy value set, advocated simple interpersonal relationship and put the corporate philosophy of "Honesty, Work, Happiness" into practice. Our team managed Carpenter Tan through a busy but happy year in a humble and practical manner with innovative thinking, which made staffs more confident. The brand was more glamorous and created new momentum for the Group's operation.

We believe that Carpenter Tan is in a position to flourish.

1. Offline Business

The Group's offline business equipped with a mature and self-governed sales team of strong cohesion, cooperation between our inhouse and outdoor staffs worked smoothly. During the Year Under Review, the Group focused on closing old stores with weak profitability due to the shift of urban commercial area and the aging of supermarkets. We increased efforts in expansion in shopping malls and transportation hubs, renovation of new images stores and practical training. As at 31 December 2017, among all stores throughout the country, nearly one third of them located in shopping malls, new image stores accounted for almost half of the total, and more than one third of them located in provincial cities and municipalities. Over the year, we carried out more than 100 training programs, with store participating rates reaching 100%. We encouraged old franchisees to set up new stores with enhanced management and improved profitability. We held promotional activities for new store opening in order to arouse public's attention, and created festival events by follow-up promotion, encouragement and sharing. We also implemented in-depth experiential marketing initiatives, and continued to carry out wood comb color painting activities, DIY bracelets, combining experiential activities, etc, in order to enhance the participation of consumers and increase their time stayed in stores. The Company adhered to the commitment of "Free Lifetime Comb Repairing Service" to increase the recurring sales activities. The Company dissuaded and punished non-compliant online sales, and finalised the franchisee credit deposit system. In 2017, Carpenter Tan planned to open 150 new stores and finished with 177 new stores, more than the planned figure by 27.

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

	As at 31 December		
	2017	2016	2015
Total number of stores	**1,275**	1,281	1,376
Newly-opened stores	**177**	151	111
Old stores closed	**183**	246	184
Percentage of stores in provincial cities and municipalities	**38%**	37%	39%
Percentage of new image stores with the third generation	**44%**	23%	11%
Percentage of stores in shopping malls	**30%**	22%	21.6%

Since the establishment of Carpenter Tan's franchising chain model, the Group has been devoting substantial human and financial resources to store management year by year. It turns out that only franchisees with good location and quality service are able to make profit, which is the sole guarantee of brand quality. As a result, old store renovation and new store expansion has one goal in common - helping franchisees to achieve better profitability. Otherwise, we are not able to guarantee brand quality.

2. Online Business

Carpenter Tan's online business is relatively straight forward, with the theme "Family Affection, Friendship, Love", we endeavored to build gifts sharing emotional bond. With an outstanding position in wood comb sector of T Mall and Jingdong, Carpenter Tan adhered to the principle of same price for online and offline sales, not offering any discounts for online sales. Carpenter Tan's sales network covers various major e-commerce platforms including T Mall, Jingdong, Suning, Amazon, Yihaodian and Dangdang. Among millions of vendors in comb category of the e-commerce platform, the daily ranking of Carpenter Tan's official flagship store in "family/ personal sanitary products" category reached around tenth, while in comb products category still ranked first. Our ranking in payment received in the last 30 days maintained in the first place while the number of visitors increased by 1.21%, conversion rate decreased by 0.24% and average spending per customer increased from RMB167 of last year to RMB173 of this year. During the Year Under Review, our revenue increased by 22% despite the advertising and promotion spending was kept at the similar level as compared to previous year, which was attributable to Carpenter Tan's outstanding online position and preserving team efforts.

During the Year Under Review, the management of our online business team improved significantly through comparison and consolidation, with operating costs controlled preferably. The logistics costs per unit decreased from RMB10.16 of the previous year to RMB8.69 of the current year. Carpenter Tan's online business team, led by our sales controller Ms. Liu Kejia, has always been glorified as a gorgeous sight of the Company with its young, energetic, happy and diligent staff. Ms. Liu stuck to her post till the day before she gave birth to twins. During peak delivery periods, the internal staff including all those from the headquarters, together with their spouse, parents, children as well as former staff made joint efforts.

3. Overseas Market

It is embarrassing to report the results recorded in the overseas market. Although supports and investment were made in a progressive manner and manpower engagement was enhanced during the Year Under Review, the effect was insignificant as a result of the relatively weak foundation and the shallow insight into the market. Neither the self-operated stores in Hong Kong nor the sales counters in Eslite Bookstore in Taiwan achieved the expected results. Both are still in the loss-making positions due to the relatively high investment and operation costs, even if they recorded a slight increase in their results compared with the previous year.

Carpenter Tan's Chinese logo was shown in international exhibitions. As the only Chinese brand at the Tokyo International Gift Show for the Year Under Review, Carpenter Tan exhibited its products with special decoration in the professional hall, which drew great attention from the expo organisers and the guests. Our brand received great exposure, the appreciation from the expo organisers and an interview from CCTV Channel 2. Through years of accumulation, Carpenter Tan has been gaining 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.

As at 31 December 2017, Carpenter Tan directly operated three stores in Hong Kong. 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. Innovative Design

The new research, development and design team of Carpenter Tan became mature during the Year Under Review, substantially achieving the ability to complete the design and the social design conversion work. It continued the cooperation with Nanjing University of the Arts, Biaugust in Taiwan, the JOSE design team in Germany as well as the professional design platforms ZCOOL and Locker in China to create a wide range of new designs. As a result, Toothed Comb products were successfully expanded and the "Encounter (遇見)" series of Swarovski rhinestone ranked top by annual sales revenue. The forthcoming flower series of airbag combs will also present the highlights of the research and development for the year. With younger and fashionable design, the new series is expected to achieve good performance and be well received by consumers. The number of new products launched by Carpenter Tan each year will not be too many, but each and every product is carefully selected and well prepared, which conveys our attitudes towards the research and development.

5. Production Technology

The skilled production technical 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. Leveraging on the advantageous production conditions and strong technical abilities, Carpenter Tan recorded stable quality and quantity of the orders completed.

The factories of Carpenter Tan promoted and encouraged inventions, innovations and technology updates. The Group had a municipal technical center in Chongqing and its factories would issue targets of technical improvement projects at the beginning of each year. All the staff were encouraged to take advantage of their subjective initiatives and participate in the technology updates so as to enhance working efficiency and safety, to reduce the labor intensity and to stabilise the material properties for the more scientific usage of the materials. During the Year Under Review, the feeding method of the materials was changed through technical improvements, with an increase of 2% in the material utilisation rate, the realisation of 39 technical innovations and the issuance of rewards for technical renovation amounting to around RMB100,000. During the Year Under Review, there was 1 newly registered patent and 3 licensed patents. At 31 December 2017, Carpenter Tan possessed 47 patents in total, of which 16 were invention patents.

The factories of Carpenter Tan have been focusing on the 6S management, adhering to a standard, tidy, serious and personalised production environment. Over the years, it became a symbol of Wanzhou. As far as we are concerned, the beautiful products should be completed happily by persons with integrity and kindness in a beautiful environment.

6. Brand Culture

During the Year Under Review, Carpenter Tan organised brand campaigns in various types and distinctive subjects, with an aim to promote traditional Chinese culture and its corporate culture but not the pursuit of utilitarianism. With "Beauty of Ingenuity (別具匠心的美好)" as its main theme of campaigns and "Dawning of Serendipity (啟之於情緣)", "Colors from Combs (梳外添彩)", "Love in Combs, Flowers in Mirrors (梳情畫意,鏡月花緣)" and "World of Carpenter (木匠的世界)" as design competition topics, we held a total of 4 contests and 2 annual selections, attracting up to 4,108 designers to participate in and submit 4,474 pieces of design work, with a page view of more than 2.3 million times. We found that participants included designer having joined for 3 years, newcomers, students, art lovers, and students with autism from WABC whose works were made use of colours and graphics.

Wood art exhibitions were another significant branding event of the year. An exhibition themed "Ingenuity (匠心)" has bought together works of 13 domestic and overseas outstanding wood artists. Wood art exhibitions of a famous French artist couple Alen, were held to discuss how "wood art goes into life", and 2 dialogue activities held in Shanghai and Hangzhou allowed art lectures of foreign master being held in our small factories.

After the launch of videos of "The Story of A Comb (一把梳子的故事)", "Artisans in Carpenter (譚木匠的工匠們)", "Sharing of Store Management Experience (店舖管理經驗分享)" and "New Home of Carpenter Tan (譚木匠的新家)", "Voiceless World (無聲的世界)" is a promotion video highlighting the stories of employees with disabilities who learn to be self-reliant and independent and enjoy their work and lives, gained ratings over 2 million viewers.

To promote its marketing theme of the year "Love", Carpenter Tan carried out "Love is no small matter" events, linking the brand image of Carpenter Tan with "Love" and establishing its IP right. Each of its marketing events delivered warm and romantic messages.

Besides, during the Year Under Review, Carpenter Tan organised extensive cultural marketing events, such as management comb making competition, cooking competition, weeding comptition and rice harvesting competition based on its brand philosophy of "Honesty, Work, Happiness". Carpenter Tan also carried out campus colour-painting contests and a colour-painting competition at Wanda Plaza, Changzhou, to strengthen brand loyalty bond with consumers. It held 3 events of "Into Carpenter Tan", with more than 100 investors attended, with an aim to help investors learn more about Carprnter Tan.

Carpenter Tan has arranged certain marketing unrelated events with efforts and resources every year which looked like to be unregistered behaviors. However, we believe in our value, not being too aggressive and feeling obliged to give back to the society and be more considerate. Indeed, our teams enjoyed every event, which strengthened team spirit and brand loyalty, and they in turn gained confidence in working and reached higher level.

7. Corporate Governance

During the Year Under Review, the Group continued to implement "Professional Ethics Regulations", strengthened target responsibility system, established risk assessment mechanism and completed deposit system for franchisees. We launched the competition system among suppliers in order to manage raw material prices at a reasonable level and eliminate internal corruption. By advocating the control of "no hospitality expenses", Carpenter Tan provided its staff with a clean working environment. We carried out a scientific talent incentive scheme by having a functioning remuneration system and establishing its own team. Thus, under the incentive reward program, staff of Carpenter Tan were encouraged to work innovatively and inspired to work hard and think hard, creating a clean working environment where learning and hard-working was encouraged.

8. Social Responsibilities

During the Year Under Review, the Group provided a total of 460 jobs for people with disabilities. Based on the physical conditions of employees with disabilities, we offered special attention to employees with disabilities, formulated relevant rules, provided guaranteed basic salary, increased living allowances and installed relevant living facilities. Moreover, the Group focused more on facilitating the employees with disabilities in developing self-reliance ability and healthy mind set, and improving working skills and performance. Through all these assistances and incentive measures, all employees of workshop A3 where the number of employees with disabilities was the highest were lifted out of poverty, which meant that the employees, no longer being eligible to receive salary allowance, could earn a salary above the lowest social average salary by providing labor services. Carpenter Tan has made such a positive and encouraging achievement and let the disabled employees truly demonstrating the pride of work and the happiness of life.

The Group has insisted to serve Jurong Fraternity Special School and Wanzhou Hui Ling Organization for intellectual disabilities every month, by arranging cultural and sporty activities including drawing, handicrafts, knitting and table tennis lessons. Carpenter Tan has been caring for the disadvantaged groups for twenty years, so that love and gratitude may grow within the Group, and its employees may give back to the society and understand the meaning of "enough is as good as a feast", realizing the value of "it is more blessed to give than to receive".

9. Honor

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

- In January 2018, the Company won the "Best Shareholders' Return" award in Golden Hong Kong Stocks Awards in 2016;
- In February 2017, the wooden comb products of Carpenter Tan was granted the certificate and plaque of brand-name products by Chongqing Brand-name Products Association (重慶市名牌產品協會);
- In February 2017, the comb and horn comb products of Carpenter Tan were granted the certificate of "Brand-name Product in Chongqing" by Chongqing Brand-name Products Association (重慶市名牌產品協會);
- In March 2017, Carpenter Tan was honored with the title plaque of "2017-2018 E-commerce Demonstration Enterprise in Jiangsu Province";
- In May 2017, "Huang Xuejun" was selected as a Model Worker of Chongqing by the municipal party committee and the people's government of Chongqing; and
- In December 2017, Carpenter Tan was rated as 2016 Grade A Enterprise in Tax-paying Credit (2016年度納稅信用A級企業) by the national taxation bureau and local taxation bureau of Wanzhou district.

10. Investor Relations

After winning the "Best Shareholders' Return" in Golden Hong Kong Stocks Awards in 2016, the Group was honored with the recognition for the "Best Social Responsibilities" in 2017. During the Year Under Review, we invited investors to pay visits to the Company for three times, receiving about 100 visitors in total. More than 80 corporate and individual investors who conducted research on the Company were participated. In order to fulfill its responsibilities as a listed company, the Company communicated with investors in an honest, sincere and positive manner, and replied emails and answered questions from investor platforms earnestly.

Owing to the hard work of all staff, the year 2017 passed smoothly. However, there is still a long way to reach our goals. Our products and packaging still do not match with our brand and we need to accelerate the improvement on our store positions and images as well as the expansion of overseas markets. Our service quality and innovation capabilities are far from good. O2O which we started over a year ago still cannot operate smoothly. Carpenter Valley, a brand that was introduced during the Year Under Review, performs less than expected. In spite of all this, we still received understanding and tolerance from our investors, for which the management of the Group hereby say sorry to the shareholders. Working hard, carefully and sincerely, in the coming year is the only thing that we can do to repay the shareholders.

FINANCIAL REVIEW

1. Revenue

The Group recorded a revenue of approximately RMB301,616,000 for the year ended 31 December 2017, representing an increase of approximately RMB37,833,000 or 14.3% as compared to that of approximately RMB263,783,000 for the year ended 31 December 2016. The increase was mainly attributable to the Group's enhancements in team structure, store image and channel distribution for offline business, as well as the proactive marketing for online business. As at 31 December 2017, the Group had 1,275 franchised stores and 4 directly-operated outlets respectively while as at 31 December 2016, the Group had 1,281 franchised stores and 3 directly-operated outlets respectively. The franchise fee income was approximately RMB495,000 which represents an increase of approximately RMB114,000 when compared to that of approximately RMB381,000 of last year.

	For the year ended 31 December			
	2017		2016	
	RMB'000	**%**	RMB'000	%
Revenue				
– Combs	**66,114**	**21.9**	65,609	24.9
– Mirrors	**766**	**0.2**	1,065	0.4
– Box sets	**233,320**	**77.4**	195,105	74.0
– Other accessories*	**921**	**0.3**	1,623	0.6
Franchise fee income	**495**	**0.2**	381	0.1
Total	**301,616**	**100.0**	263,783	100.0

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

2. Cost of sales

The cost of sales of the Group was approximately RMB105,025,000 for the year ended 31 December 2017, representing an increase of approximately RMB14,253,000 or 15.7% as compared to that of approximately RMB90,772,000 for the year ended 31 December 2016, the increase in cost of sales is in line with the increase in revenue for the Year Under Review.

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

As at 31 December 2017, gross profit of the Group was approximately RMB196,591,000 representing an increase of approximately RMB23,580,000 or 13.6% as compared to that of approximately RMB173,011,000 for the year ended 31 December 2016. The gross profit margin decreased slightly from 65.6% in 2016 to 65.2% in 2017. The decrease in gross profit margin was mainly due to the change in sales mix for online business for the Year Under Review.

4. **Other income**

Other income was approximately RMB44,021,000 for the year ended 31 December 2017, representing a slight decrease of RMB66,000 or 0.2% as compared to that of approximately RMB44,087,000 for the year ended 31 December 2016. Other income is mainly comprised of PRC VAT refunds of approximately RMB20,472,000, rental income of approximately RMB7,591,000, interest income of approximately RMB8,025,000 and fair value change of investment properties of RMB5,450,000 respectively (2016: 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 net foreign exchange gain of approximately RMB2,037,000 respectively).

5. **Selling and distribution expenses**

The selling and distribution expenses amounted to approximately RMB45,069,000 for the year ended 31 December 2017, representing an increase of approximately RMB2,234,000 or 5.2% as compared to that of approximately RMB42,835,000 for the year ended 31 December 2016. The selling and distribution expenses mainly including advertising and promotion expenses of approximately RMB10,768,000, delivery charges of approximately RMB7,097,000, rental expenses of approximately RMB3,516,000, salaries and allowances of approximately RMB9,089,000 and travelling expenses of approximately RMB1,950,000 respectively (2016: 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 allowances of approximately RMB7,226,000 and travelling expenses of approximately RMB1,929,000 respectively).

6. **Administrative expenses**

The administrative expenses of the Group was approximately RMB30,331,000 for the year ended 31 December 2017, representing an increase of approximately RMB8,105,000 or 36.5% as compared to that of approximately RMB22,226,000 for the year ended 31 December 2016. The administrative expenses is mainly comprised of salaries and allowances of approximately RMB11,457,000, legal and professional fee of approximately RMB2,161,000, design and sample expenses of approximately RMB3,251,000, consultancy fee of approximately RMB358,000, audit and review fee of approximately RMB1,121,000 respectively (2016: salaries and allowances 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, audit and review fee of approximately RMB1,104,000 respectively).

7. Other operating expenses

Other operating expenses of the Group was approximately RMB8,001,000 for the year ended 31 December 2017, representing a slight decrease of RMB249,000 or 3.0% as compared to that of approximately RMB8,250,000 for the year ended 31 December 2016. The decrease was mainly due to the decrease in other tax of RMB367,000 during the Year Under Review.

8. Finance costs

There was no finance costs for both the year ended 31 December 2017 and 2016 as the Group did not have any bank borrowings.

9. Income tax

For the year ended 31 December 2017, income tax expenses for the Group amounted to approximately RMB36,995,000, increased by approximately RMB7,211,000 or 24.2% when compared to approximately RMB29,784,000 for the year ended 31 December 2016, the increase was mainly due to the increase in withholding tax of approximately RMB8,326,000 during the Year Under Review.

The effective tax rate for the Year Under Review was 23.5% when compared to 20.7% for the year ended 31 December 2016.

10. Profit for the year

The profit for the year ended 31 December 2017 was approximately RMB120,216,000, representing an increase of approximately RMB6,213,000 or 5.4% as compared to that of approximately RMB114,003,000 for the year ended 31 December 2016. The increase was mainly due to the increase in gross profit of approximately RMB23,580,000 which was partially off-set by the increase in selling distribution expenses of approximately RMB2,234,000, administrative expenses of approximately RMB8,105,000 and income tax of approximately RMB7,211,000 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 2017, the net book value of property, plant and equipment amounted to approximately RMB59,194,000, representing a slight decrease of approximately RMB618,000 or 1.0%, as compared with the previous year of approximately RMB59,812,000. The decrease was mainly attributable to the increase in depreciation of buildings for the year ended 31 December 2017.

2. **Inventories**

The Group's inventories as at 31 December 2017 increased by approximately RMB20,749,000 or 19.9% from approximately RMB104,363,000 as at 31 December 2016 to approximately RMB125,112,000 as at 31 December 2017, primarily due to the increase in finished goods and raw materials level. Finished goods increased by approximately RMB13,885,000 or 111.8% from approximately RMB12,416,000 in last year to approximately RMB26,301,000 in this year. Raw materials increased by approximately RMB9,347,000 or 13.1% from RMB71,386,000 in last year to approximately RMB80,733,000 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 2017, the Group's trade receivables amounted to approximately RMB2,286,000 which is close to that of approximately RMB2,933,000 as at 31 December 2016.

4. **Other receivables, deposits and prepayments**

The Group's other receivables, deposits and prepayments increased by approximately RMB2,338,000 or 24.6% from approximately RMB9,507,000 as at 31 December 2016 to approximately RMB11,845,000 as at 31 December 2017. Increase in other receivables, deposits and prepayments was mainly due to an increase in trade and other deposits when compared to last year.

5. **Trade payables**

As at 31 December 2017, the Group's trade payables was approximately RMB4,975,000, which is close to that of approximately RMB4,797,000 as at 31 December 2016.

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 increased by approximately RMB14,335,000 from approximately RMB26,135,000 as at 31 December 2016 to approximately RMB40,470,000 as at 31 December 2017. The increase was primarily due to an increase in trade deposits received of approximately RMB9,749,000 during the Year Under Review.

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 2017, the Group's net cash inflow generated from operating activities amounted to approximately RMB126,560,000, representing an increase of net cash inflow generated from operating activities of approximately RMB17,525,000 from approximately RMB109,035,000 for the year ended 31 December 2016. The increase was primarily due to an increase in cash inflow as a result of the increase in revenue during the Year Under Review.

2. Net cash used in investing activities

For the year ended 31 December 2017, the Group's net cash outflow used in investing activities amounted to approximately RMB176,446,000, representing an increase of approximately RMB171,679,000 as compared with the cash outflow used in investing activities of approximately RMB4,767,000 for the year ended 31 December 2016. The increase is mainly due to the net increase in financial assets of approximately RMB173,100,000 during the Year Under Review.

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

For the year ended 31 December 2017, the Group's net cash outflow used in financing activities amounted to approximately RMB158,617,000, representing a decrease of approximately RMB288,448,000 as compared with the net cash inflow generated from financing activities of approximately RMB129,831,000 for the year ended 31 December 2016. The decrease was primarily due to the net increase in pledged and non-pledged deposit of approximately RMB294,053,000 during the year ended 31 December 2017.

CAPITAL STRUCTURE

1. Indebtedness

As at 31 December 2017, the Group did not have any bank borrowings (as at 31 December 2016: RMB nil).

2. **Gearing ratio**

As at 31 December 2017 and 2016, the Group did not have any bank borrowings. The calculation of gearing ratio is not meaningful.

3. **Pledge of assets**

As at 31 December 2017, the Group did not have any pledged assets to the bank (as at 31 December 2016 : RMBnil).

4. **Capital expenditure**

The capital expenditures of the Group primarily included purchases of plant and equipment, leasehold improvements and purchases of motor vehicles. The Group's capital expenditures amounted to approximately RMB3,352,000 and approximately RMB4,807,000 for the year ended 31 December 2017 and the year ended 31 December 2016 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 2017, 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 2017, the Group had cash and bank balances of approximately RMB214,750,000 (as at 31 December 2016: approximately RMB463,222,000) mainly generated from operations of the Group and funds raised by the Company in 2009.

CAPITAL COMMITMENT

As at 31 December 2017, the Group had capital commitment amounted to approximately RMB439,000 (as at 31 December 2016: approximately RMB883,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2017, the Group had not made any material acquisition and disposal.

OUTLOOK

Carpenter Tan's vision is "becoming a comb of the world" by making the best combs for consumers. The Group has always been adhering to the corporate philosophy of "Honesty, Work, Happiness" and the traditional Chinese culture and strives to bring wonderful experience to consumers by trendy design, quality craftsmanship and caring service.

In 2018, the Group will continue to expand franchised stores in shopping malls of major cities, first-tier business districts, airports and high-speed railway stations, as our key business development aspects. We will close the stores in unfavorable locations, with poor shop images and profitability, and will speed up the renovations of new image stores. We will also set up combing experience areas, color-painting experience areas, DIY experience areas and etc. in the stores. The development and operation of O2O business mode will be accelerated by utilising marketing opportunities, adjusting overseas expansion strategy, and participating in quality exhibitions in favorable locations, to overcome the limitation of "not presentable". Outstanding management personnel will be deployed to expand overseas business and investments will be made in developing products and packaging that meet the consumption habits of overseas customers when appropriate. Meanwhile, the Group will also explore new marketing channels other than its existing platforms, with an aim to demonstrate Carpenter Tan in all-round, multi-platform and extensive ways.

The Group will also enhance trainings for its design team to achieve better cooperation. Carpenter Tan will quantify the launch of new products and encourage technology renovation, striving for improvement every day. The Group has attached high emphasis to the progress of Carpenter Valley and endeavors to achieve breakthrough progress. It is scheduled to have a large-scale culture exchange activity with Nanjing University of the Arts. Through the activity, 400 of our employees with disabilities will have a face-to-face interaction with the college students in terms of culture and handicraft. We can learn from the college students and in the meantime will convey the spirit of craftsman which Carpenter Tan has adhered to, and motivate our employees with disabilities to learn to be self-reliant and independent. Carpenter Tan maintains its thrifty style, works diligently in a pragmatic manner, acts in good faith and innovates with an open mind in order to bring long-term value to investors and reward shareholders for their trust and support to Carpenter Tan.

DIVIDENDS

Final dividend

To extend the Company's gratitude for the support of our shareholders, the Board has recommended the distribution of a final dividend of HK$30.72 cents per share for the year ended 31 December 2017 to the shareholders whose names appear on the register of members of the Company on Tuesday, 29 May 2018, amounting to approximately HK$76,405,000 subject to the approval of the Company's annual general meeting to be held on Thursday, 17 May 2018. The dividend payout ratio is 53.1% of the profit for the year or 40.6% of the profit before taxation of the Company.

Special dividend

In addition, in order to address Shareholders' expectations while keeping in view of the Group's financial capacity for future development, the Board has recommended a special dividend of HK$30.72 cents per share. The special dividend will be payable to shareholders whose names appear on the register of members of the Company on Tuesday, 29 May 2018, amounting to approximately HK$76,405,000 subject to the approval of the Company's annual general meeting to be held on Thursday, 17 May 2018.

The above-mentioned dividend is expected to be paid on or before Saturday, 23 June 2018.

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 Monday, 14 May 2018 to Thursday, 17 May 2018 (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 Friday, 11 May 2018.

To qualify for the proposed final dividends

The register of members of the Company will be closed from Friday, 25 May 2018 to Tuesday, 29 May 2018 (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 Thursday, 24 May 2018.

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2017, 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 2017, the Group had used net proceeds of approximately RMB54,200,000, of which approximately RMB25,500,000 had been applied for enhancement of the Group's design and product development and enhancement for operational efficiency, approximately RMB16,500,000 for enhancement for sales network and sales support services, construction of production base and approximately RMB12,200,000 as working capital. The remaining net proceeds have been deposited with banks.

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

SHARE OPTION SCHEME

On 17 November 2009, the Company conditionally adopted a share option scheme (the "Share Option Scheme"), which became effective on 29 December 2009 ("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 2017, 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 2017.

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 2017 and 24 August 2017, being the dates of the 2016 annual report of the Company and 2017 interim report respectively, the number of Shares available for issue in respect thereof were 25,000,000 Shares and 24,871,400 Shares, representing approximately 10% and 10% of the then issued shares of the Company respectively.

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

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

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

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

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

9. Subject to early termination by an ordinary resolution in general meeting of Shareholders, the Share Option Scheme shall 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 2017 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 2017, the Company repurchased a total of 262,000 ordinary shares of HK$0.01 each in the share capital of the Company at an aggregate price of approximately HK$1,042,000. The highest price paid and the lowest price paid was HK$4.04 and HK$3.89 respectively. These Shares together with 1,024,000 Shares of the Company which were repurchased during the year ended 31 December 2016 were cancelled on 5 June 2017.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

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

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

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

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

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

The duties and responsibilities of the Audit Committee include:

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

During the Year Under Review, the Audit Committee had held two meetings. The work performed by the Audit Committee during the Year Under Review included reviewing the audited consolidated financial statements of the Group for the year ended 31 December 2016, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2017 and the effectiveness of the internal control practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly.

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

EVENTS AFTER THE REPORTING PERIOD

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

DISCLOSURE OF INFORMATION

The annual results announcement for the year ended 31 December 2017 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 2017 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, 26 March 2018

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

* *For identification purpose only*