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譚木匠

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 2018

RESULTS HIGHLIGHTS

- Revenue increased by 3.5% to approximately RMB312,274,000 (2017: RMB301,616,000).
- Gross profit decreased by 4.0% to approximately RMB188,676,000 (2017: RMB196,591,000).
- Gross profit margin decreased by 4.8% points to 60.4% (2017: 65.2%).
- Profit for the year ended 31 December 2018 decreased by 4.7% to approximately RMB114,510,000 (2017: RMB120,216,000).
- Earnings per share decreased by 4.5% to approximately RMB46.04 cents (2017: RMB48.23 cents).
- In view of the Group's results, the Directors recommend a final dividend in respect of the year ended 31 December 2018 of HK25.86 cents per share (2017: HK30.72 cents) which is subject to the shareholders' approval at the forthcoming annual general meeting to be held on Wednesday, 22 May 2019.
- In addition, in order to address shareholders' expectations, the Directors recommend a special dividend of HK25.86 cents per share (2017: HK30.72 cents) which is also subject to the shareholders' approval at the forthcoming annual general meeting to be held on Wednesday, 22 May 2019.

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 2018 (the "Year Under Review") together with the comparative figures for the year ended 31 December 2017 with the selected notes as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	4	**312,274**	301,616
Cost of sales		**(123,598)**	(105,025)
Gross profit		**188,676**	196,591
Other income	5	**50,555**	44,021
Administrative expenses		**(35,131)**	(30,331)
Selling and distribution expenses		**(54,079)**	(45,069)
Other operating expenses		**(5,859)**	(8,001)
Profit before taxation	6	**144,162**	157,211
Income tax	7	**(29,652)**	(36,995)
Profit for the year		**114,510**	120,216
Attributable to			
Owners of the Company		**114,510**	120,216
Earnings per share			
		RMB	RMB
Basic and diluted	9	**46.04 cents**	48.23 cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	**2018**	2017
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		**60,883**	59,194
Prepaid lease payments		**15,180**	15,917
Investment properties		**100,120**	97,900
Intangible assets	11	**—**	—
Financial assets at fair value through profit or loss		**65,000**	—
Non-pledged fixed bank deposits		**—**	141,000
		241,183	314,011
Current assets			
Prepaid lease payments		**737**	737
Inventories	12	**145,626**	125,112
Trade receivables	13	**2,351**	2,286
Other receivables, deposits and prepayments		**15,560**	11,845
Available-for-sale financial assets		**—**	173,100
Financial assets at fair value through profit or loss		**370,480**	—
Cash and bank balances		**46,203**	214,750
		580,957	527,830
Current liabilities			
Trade payables	14	**3,617**	4,975
Other payables and accruals		**42,166**	40,470
Income tax payable		**27,164**	28,226
		(72,947)	(73,671)
Net current assets		**508,010**	454,159
Total assets less current liabilities		**749,193**	768,170

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018

1. GENERAL INFORMATION

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

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

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

b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group").

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

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except for the investment properties and financial assets at fair value through profit or loss/available-for-sale financial assets are stated at their fair value as explained in the accounting policies set out below.

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

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

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")

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

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

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

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

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

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

HKFRS 9 Financial instruments

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

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

a. Classification of financial assets and financial liabilities

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

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

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

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

b. Credit loss

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

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

- trade receivables
- other financial assets carried at amortised cost

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

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

(a) Trade receivables

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

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

(b) Other financial assets carried at amortised cost

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

c. Transition

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

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

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

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

4. REVENUE

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

Disaggregation of revenue by sales channels is as follows:

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

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

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

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

5. OTHER INCOME

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

Note:

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

6. PROFIT BEFORE TAXATION

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

	2018	2017
	RMB'000	RMB'000
a) Staff costs (including directors' emoluments)		
Salaries and other benefits	**64,624**	58,520
Contributions to defined contribution retirement scheme	**9,345**	1,805
Equity-settled share-based payment expenses	**47**	—
Total staff costs	**74,016**	60,325
b) Other items		
Auditor's remuneration		
– audit services	**805**	805
– non-audit services	**327**	316
Amortisation of prepaid lease payments	**737**	737
Cost of inventories	**118,657**	105,025
Depreciation	**4,351**	3,647
Loss allowance on trade receivables	**—**	22
Loss allowance on other receivables, net	**208**	14
Reversal of loss allowance on trade receivables	**(56)**	—
Reversal of loss allowance on other receivables	**(80)**	—
Net loss on disposal of property, plant and equipment	**77**	245
Net foreign exchange (gain)/loss	**(7,192)**	796
Operating lease rentals in respect of land and buildings	**5,121**	4,787
Provision for sales returns	**2,607**	3,311
Write down of inventories	**5,008**	2,902
Reversal of write-down of inventories	**(67)**	(48)
Gross rental income from investment properties	**(7,018)**	(7,591)
Less: Direct outgoings incurred for investment properties that generated rental income during the year	**859**	830
Direct outgoings incurred for investment properties that did not generate rental income during the year	**—**	8
Net rental income	**(6,159)**	(6,753)

Note:

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

7. INCOME TAX

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

	2018	2017
	RMB'000	RMB'000
Current tax		
PRC Enterprise Income Tax (notes 7(a) (ii) and (iii))	**22,692**	21,807
Hong Kong profits tax (note 7(a) (v))	**—**	—
Withholding tax on dividends (note 7(a) (vi))		
– Provision for the year	**6,835**	2,876
	29,527	24,683
Under provision in prior years, net		
PRC Enterprise Income Tax	**155**	44
Deferred tax		
Transfer to current tax upon distribution of dividends	**(6,835)**	(2,876)
Provision for the year (note 7(a) (vi))	**6,805**	15,144
Total	**29,652**	36,995

Notes:

(i) Chongqing Wanzhou District Zi Qiang Wood Works Co., Ltd ("Zi Qiang Wood Works"), a wholly-owned subsidiary of the Company, is a registered social welfare enterprise since 29 April 2004. Pursuant to the notice on preferential tax policies to social welfare enterprise issued by the State Administration of Taxation of the PRC (the "SAT"), Ministry of Finance of the PRC that, with effect from 1 October 2006, Zi Qiang Wood Works is entitled to income tax concessions on a double deduction of salaries paid to its employees with disabilities, and VAT refund which is equivalent to the number of employees with disabilities multiplied by a specified annual cap amount as determined by the SAT. At the beginning of this year, Zi Qiang Wood Works was dormant and had transferred its staff to a fellow subsidiary, Chongqing Carpenter Tan Handicrafts Co., Ltd ("Carpenter Tan"), which also registered as social welfare enterprise since 24 November 2016 (note vii). Since no salary were paid by Zi Qiang Wood Works to its employees with disabilities, thus Zi Qiang Wood Works was no longer entitled to all the income tax concessions mentioned above.

The Group recognised the VAT refund in the Group's consolidated statement of profit or loss on an accrual basis. The amounts of the VAT refunded to the Group during the year are detailed in note 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 Carpenter Tan, wholly-owned subsidiaries, obtained the approval from Wanzhou Bureau of the State Administration of Taxation under notice No. 12 to enjoy concessionary Enterprise Income Tax rate of 15% from 1 January 2011 to 31 December 2020. Since Zi Qiang Wood Works was dormant during the year, Zi Qiang Wood Works is not entitled to enjoy concessionary Enterprise Turnover Tax rate of 15% for the year.

(iii) The provision for PRC income tax is calculated on the assessable profits of the Group's subsidiaries incorporated in the PRC at a statutory income tax rate of 25% (2017: 25%) except for Carpenter Tan (2017: Zi Qiang Wood Works and Carpenter Tan) which is eligible for the income tax concessions according to the preferential tax policies as stated in note 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 2018 and 2017 as the subsidiaries did not have assessable profits subject to Hong Kong profits tax for these years.

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

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

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

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

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

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

8. DIVIDENDS

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

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

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

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

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

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

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

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

(ii) Weighted average number of ordinary shares

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

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

b) Diluted earnings per share

There were no dilutive potential ordinary shares in issue during the year. The diluted earnings per share is the same as the basic earnings per share during the years ended 31 December 2018 and 2017.

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 2017, 31 December 2017, 1 January 2018 and 31 December 2018	1,037
Accumulated amortisation and accumulated impairment	
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	1,037
Carrying amount	
At 31 December 2018	—
At 31 December 2017	—

The trademark represents the trademark previously acquired by the Group and registered in the PRC. Subsequent expenditure on internally generated trademarks is recognised as an expense in the period in which it is incurred.

12. INVENTORIES

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

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

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

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

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:

	2018	2017
	RMB'000	RMB'000
Trade receivables	**2,389**	2,380
Less: Loss allowance (note 13(b))	**(38)**	(94)
	2,351	2,286

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

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

b) Movements in the loss allowance for trade receivables

Loss allowances 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 loss allowance for trade receivables are as follows:

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

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

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

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

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

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

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

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:

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

MANAGEMENT REVIEW

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

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

1. Offline Business

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

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

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

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

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

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

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

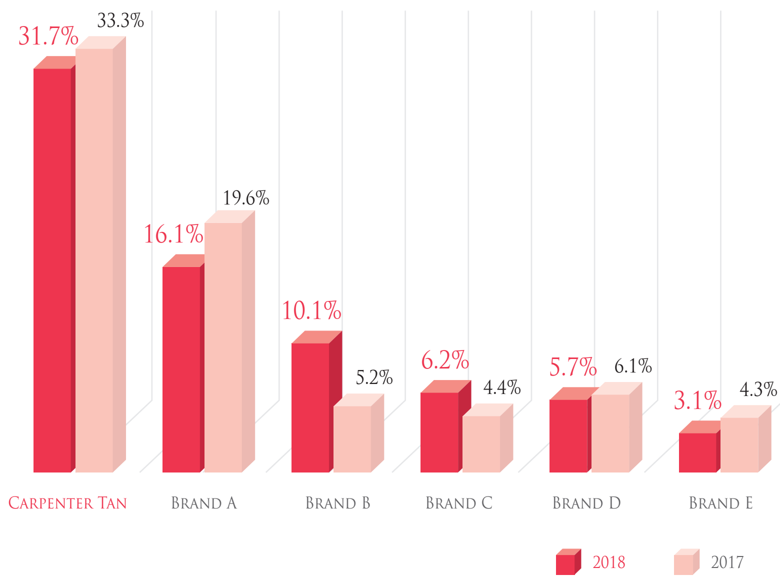
2. Online Business

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

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

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

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



3. Innovative Research and Development

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

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

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

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

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

4. Production and Logistics

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

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

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

5. Brand Culture

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

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

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

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

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

6. Comprehensive Management

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

7. Social Responsibilities

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

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

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

HONORS

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

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

FINANCIAL REVIEW

1. Revenue

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

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

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

2. Cost of sales

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

3. Gross profit and gross profit margin

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

4. Other income

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

5. Selling and distribution expenses

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

6. Administrative expenses

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

7. Other operating expenses

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

8. Finance costs

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

9. Income tax

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

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

10. Profit for the year

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

ANALYSIS OF MAJOR CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS

1. Property, plant and equipment

The Group's property, plant and equipment consists of building, leasehold improvements, plant and machinery, furniture and equipment, motor vehicles and construction in progress. As at 31 December 2018, the book value of property, plant and equipment amounted to approximately RMB60,883,000, representing an increase of approximately RMB1,689,000 or 2.9% as compared with the previous year of approximately RMB59,194,000. The decrease was mainly attributable to the increase in depreciation of buildings for the year ended 31 December 2018.

2. Inventories

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

3. Trade receivables

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

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

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

5. **Trade payables**

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

6. **Other payables and accruals**

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

CASH FLOW

The Group's cash is primarily used to meet its working capital requirement, repay the principal and interest of its indebtedness falling due and finance the capital expenditures and growth of the Group's operations.

1. **Net cash generated from operating activities**

The Group's cash inflow from operations primarily derives from payments for the sale of the Group's products. For the year ended 31 December 2018, the Group's net cash inflow generated from operating activities amounted to approximately RMB79,700,000, representing a decrease of net cash inflow generated from operating activities of approximately RMB46,860,000 from approximately RMB126,560,000 for the year ended 31 December 2017. The decrease was primarily due to a decrease in cash inflow as a result of the decrease in profit before taxation of approximately RMB13,049,000 during the Year Under Review.

2. **Net cash used in investing activities**

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

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

For the year ended 31 December 2018, the Group's net cash inflow generated from financing activities amounted to approximately RMB13,064,000, while there was a net cash outflow used in financing activities of approximately RMB158,617,000 for the year ended 31 December 2017. The difference was primarily due to the decrease in non-pledged deposit of approximately RMB141,000,000 and dividend paid of approximately RMB121,740,000 during the year ended 31 December 2018.

CAPITAL STRUCTURE

1. Indebtedness

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

2. Gearing ratio

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

3. Pledge of assets

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

4. Capital expenditure

The capital expenditures of the Group primarily included purchases of plant and equipment, leasehold improvements and purchases of motor vehicles. The Group's capital expenditures amounted to approximately RMB6,163,000 and approximately RMB3,352,000 for the year ended 31 December 2018 and the year ended 31 December 2017 respectively.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

CAPITAL COMMITMENT

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

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

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

OUTLOOK

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

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

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

DIVIDENDS

Final dividend

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

Special dividend

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

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

CLOSURE OF THE REGISTER OF MEMBERS

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

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

To qualify for the proposed final dividend and special dividend

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

CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 31 December 2018, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

USE OF PROCEEDS FROM THE LISTING OF THE COMPANY

The proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited on 29 December 2009, after deducting the related issuance expenses, amounted to approximately HK$132,900,000 (equivalent to approximately RMB116,800,000). As at 31 December 2018, the Group had used net proceeds of approximately RMB54,200,000, of which approximately RMB25,500,000 had been applied for enhancement of the Group's design and product development and enhancement for operational efficiency, approximately RMB16,500,000 for enhancement for sales network and sales support services, construction of production base and approximately RMB12,200,000 as working capital. The remaining net proceeds have been deposited with banks.

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

SHARE OPTION SCHEME

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

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

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

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

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

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

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

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

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

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

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

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

GOING CONCERN

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

PUBLIC FLOAT

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

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 2017, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2018 and the effectiveness of the internal control practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly.

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

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 2018 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 2018 containing all necessary information as required by the Listing Rules will be sent to shareholders of the Company in due course, and will be published on the website of The Stock Exchange of Hong Kong Limited (http://www.hkexnews.hk) under "Listed Company Information" and the website of the Company (http://www.ctans.com) under "Investor Relations".

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

Hong Kong, 28 March 2019

As at the date of this announcement, 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*