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

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 837)**

**ANNUAL RESULTS ANNOUNCEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**

**RESULTS HIGHLIGHTS**

- Revenue increased by 5.2% to approximately RMB348,002,000 (2021: RMB330,910,000).
- Gross profit increased by 2.7% to approximately RMB205,248,000 (2021: RMB199,790,000).
- Gross profit margin decreased by 1.4% points to 59.0% (2021: 60.4%).
- Profit for the year ended 31 December 2022 decreased by 1.0% to approximately RMB107,258,000 (2021: RMB108,348,000).
- Profit attributable to owners of the Company decreased by 0.4% to approximately RMB107,250,000 (2021: RMB107,663,000).
- Earnings per share decreased by 0.4% to approximately RMB43.12 cents (2021: RMB43.29 cents).
- In view of the Group's results, the Directors recommend a final dividend in respect of the year ended 31 December 2022 of HK25.03 cents per share (2021: HK27.15 cents) which is subject to the shareholders' approval at the forthcoming annual general meeting to be held on Tuesday, 23 May 2023.

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 2022 (the “**Year Under Review**”) together with the comparative figures for the year ended 31 December 2021 with the selected notes as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
<b>Revenue</b>	4	<b>348,002</b>	330,910
<b>Cost of sales</b>		<u>(142,754)</u>	<u>(131,120)</u>
<b>Gross profit</b>		<b>205,248</b>	199,790
Other income and other net gain/(loss)	5	<b>35,364</b>	38,215
Administrative expenses		<b>(31,975)</b>	(30,821)
Selling and distribution expenses		<b>(69,760)</b>	(71,615)
Other operating expenses		<u>(4,887)</u>	<u>(4,440)</u>
<b>Profit from operations</b>		<b>133,990</b>	131,129
Finance costs	6(c)	<u>(627)</u>	<u>(334)</u>
<b>Profit before taxation</b>	6	<b>133,363</b>	130,795
Income tax	7	<u>(26,105)</u>	<u>(22,447)</u>
<b>Profit for the year</b>		<u><b>107,258</b></u>	<u>108,348</u>
<b>Attributable to</b>			
Owners of the Company		<b>107,250</b>	107,663
Non-controlling interests		<u><b>8</b></u>	<u>685</u>
<b>Profit for the year</b>		<u><b>107,258</b></u>	<u>108,348</u>
<b>Earnings per share</b>			
Basic and diluted	9	<u><b>RMB43.12 cents</b></u>	<u>RMB43.29 cents</u>

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment		91,370	77,852
Right-of-use assets		38,110	41,814
Investment properties		97,120	99,140
Intangible assets	11	–	–
Non-pledged fixed bank deposit		53,000	–
Other receivables, deposits and prepayments		767	705
		<u>280,367</u>	<u>219,511</u>
<b>Current assets</b>			
Inventories	12	244,430	198,103
Income tax recoverable		2	60
Trade receivables	13	5,349	4,902
Other receivables, deposits and prepayments		7,539	8,355
Financial assets at fair value through profit or loss		57,710	317,580
Non-pledged fixed bank deposit (maturity over 3 months, but within 1 year)		180,000	–
Cash and bank balances		27,160	35,795
Pledged bank deposit		3,000	–
		<u>525,190</u>	<u>564,795</u>
<b>Current liabilities</b>			
Trade payables	14	4,764	2,441
Other payables and accruals		44,759	48,738
Income tax payable		28,522	22,540
Lease liabilities		1,939	2,388
		<u>(79,984)</u>	<u>(76,107)</u>
<b>Net current assets</b>		<u>445,206</u>	<u>488,688</u>
<b>Total assets less current liabilities</b>		<b>725,573</b>	<b>708,199</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2022

### 1. GENERAL INFORMATION

Carpenter Tan Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 20 June 2006 as an exempted company with limited liability under the Companies Law (Chapter 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The addresses of the Company’s registered office and the principal place of business are Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and Type A Factory Building, Longbao Shuanghekou, Light Industry Park, Wanzhou District, Chongqing, the People’s Republic of China (the “**PRC**”) respectively.

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

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

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### a) Statement of compliance

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

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

**b) Basis of preparation of the consolidated financial statements**

The consolidated financial statements for the year ended 31 December 2022 comprise the Company and its subsidiaries (together referred to as the “**Group**”).

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

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except for the investment properties and financial assets at fair value through profit or loss (“**FVPL**”) are stated at their fair value.

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

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

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

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

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

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

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

#### **Amendments to HKFRS 3 Reference to the Conceptual Framework**

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

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

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

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

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

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

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

### **Amendments to HKFRSs Annual Improvements to HKFRSs 2018- 2020**

The annual improvements make amendments to the following standards:

#### ***HKFRS 9 Financial Instruments***

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

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

#### ***HKFRS 16 Leases***

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

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

#### 4. REVENUE

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

Disaggregation of revenue by sales channels is as follows:

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

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

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

## 5. OTHER INCOME AND OTHER NET GAIN/(LOSS)

	2022 RMB'000	2021 RMB'000
Government grants (note 5(i))	2,497	3,675
Government grants released from deferred income	35	35
Interest income from financial assets measured at amortised cost		
– bank interest income	422	609
PRC VAT refunds (note 7(vi))	19,097	18,777
Rental income from investment properties	5,881	6,841
Net foreign exchange gain	18	669
Change in fair value of investment properties	(2,020)	(2,100)
Change in fair value of financial assets at		
fair value through profit or loss	8,382	8,575
Reversal of loss allowances on trade receivables (note 13(b))	35	12
Loss on termination of lease contract	(8)	–
Others	1,025	1,122
	<u>35,364</u>	<u>38,215</u>

Note:

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

## 6. PROFIT BEFORE TAXATION

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

	2022 RMB'000	2021 RMB'000
<b>A) Staff costs (including directors' emoluments)</b>		
Salaries and other benefits	71,674	74,115
Contributions to defined contribution retirement scheme	9,782	8,864
Equity-settled share-based payment expenses	–	138
	<u>          </u>	<u>          </u>
Total staff costs (note 6(i))	<u><u>81,456</u></u>	<u><u>83,117</u></u>
<b>B) Other items</b>		
Auditor's remuneration		
– audit services	680	668
– non-audit services	238	351
Cost of inventories sold (note 6(i))	137,961	129,402
Depreciation of right-of-use assets (note 6(i))	3,628	5,147
Depreciation of property, plant and equipment (note 6(i))	4,625	4,505
Loss allowance/(reversal of loss allowances) on other receivables, net	38	(30)
Net loss on disposal of property, plant and equipment	102	329
(Reversal of provision)/provision for sales returns	(1,891)	1,788
Write down of inventories (note 12)	4,850	1,987
Reversal of write-down of inventories (note 12)	(57)	(269)
Gross rental income from investment properties	(5,881)	(6,841)
Less: Direct outgoings incurred for investment properties that generated rental income during the year	719	846
	<u>          </u>	<u>          </u>
Net rental income	<u><u>(5,162)</u></u>	<u><u>(5,995)</u></u>
<b>C) Finance cost</b>		
Interest on lease liabilities	<u><u>627</u></u>	<u><u>334</u></u>

Note:

- (i) Cost of inventories includes approximately RMB50,511,000 (2021: RMB54,139,000) relating to staff costs and depreciation, which are included in the respective total amounts disclosed separately above.

## 7. INCOME TAX

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

	2022 RMB'000	2021 RMB'000
<b>Current tax</b>		
PRC Enterprise Income Tax (notes 7(i) and (ii))	22,293	19,765
Hong Kong profits tax (note 7(iv))	–	–
Withholding tax on dividends (note 7(v))		
- Provision for the year	<u>4,310</u>	<u>2,027</u>
	<b>26,603</b>	21,792
<b>Over provision in prior years, net</b>		
PRC Enterprise Income Tax	(427)	–
<b>Deferred tax</b>		
Transfer to current tax upon distribution of dividends	(4,310)	(2,027)
Provision for the year (note 7(v))	<u>4,239</u>	<u>2,682</u>
<b>Total</b>	<b><u>26,105</u></b>	<b><u>22,447</u></b>

Notes:

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

On 29 May 2012, Chongqing Carpenter Tan Handicrafts Co., Ltd (“Carpenter Tan”), wholly-owned subsidiary, obtained the approval from Wanzhou Bureau of the State Administration of Taxation under notice No. 12 to enjoy concessionary Enterprise Income Tax rate of 15% from 1 January 2011 to 31 December 2020. On 23 April 2020, the SAT extended the policy from 1 January 2021 to 31 December 2030.

- (ii) The provision for PRC income tax is calculated on the assessable profits of the Group’s subsidiaries incorporated in the PRC at a statutory income tax rate of 25% (2021: 25%) except for Carpenter Tan (2021: Carpenter Tan) which is eligible for the income tax concessions according to the preferential tax policies as stated in note 7(A)(i) above.
- (iii) The Company is incorporated in the Cayman Islands and is exempted from income tax in the Cayman Islands. The Company’s subsidiary established in the British Virgin Islands is exempted from income tax in the British Virgin Islands.

- (iv) No provision for Hong Kong profits tax has been made for the years ended 31 December 2022 and 2021 as the subsidiaries did not have assessable profits subject to Hong Kong profits tax for these years.
- (v) Under the Enterprise Income Tax Law of the PRC, with effect from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or place of business in the PRC will be subject to withholding income tax at the rate of 10% on various types of passive income such as dividends derived from sources in the PRC. Pursuant to the double tax arrangement between the PRC and Hong Kong effective on 1 January 2007, the withholding income tax rate will be reduced to 5% if the investment by the Hong Kong investor in the investee entities in the PRC is not less than 25%. On 22 February 2008, the SAT approved Caishui (2008) No. 1, pursuant to which dividend distributions out of retained earnings of foreign investment enterprises prior to 31 December 2007 will be exempted from withholding income tax.

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

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

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

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

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

## 8. DIVIDENDS

### A) Dividends payable to owners of the Company attributable to the year

	2022 RMB'000	2021 RMB'000
Interim dividend of HK12.96 cents, equivalent to RMB11.06 cents per ordinary share (2021: HKnil, equivalent to RMBnil per ordinary share)	27,508	–
Final dividend of HK25.03 cents, equivalent to RMB22.11 cents per ordinary share (2021: HK27.15 cents, equivalent to RMB22.20 cents) proposed after the end of the reporting period (note 8(i))	<u>54,991</u>	<u>55,215</u>
	<u><u>82,499</u></u>	<u><u>55,215</u></u>

Note:

- (i) The Directors recommend the payment of a final dividend of HK25.03 cents, equivalent to RMB22.11 cents per ordinary share, totaling RMB54,991,000. This dividend is to be approved by the shareholders of the Company at the Annual General Meeting scheduled to be held on 23 May 2023. These financial statements do not reflect this recommended dividends.

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

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

## 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

	2022 RMB'000	2021 RMB'000
Earnings used in calculating basic earnings per share	<u>107,250</u>	<u>107,663</u>

#### (ii) Weighted average number of ordinary shares

	Number of shares	
	2022 '000	2021 '000
Weighted average number of ordinary shares in issue	<u>248,714</u>	<u>248,714</u>
Weighted average number of ordinary shares for the purpose of basic earning per share	<u>248,714</u>	<u>248,714</u>

### b) Diluted earnings per share

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

## 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 chief operating decision maker 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

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

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

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

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

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

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:

	2022 RMB'000	2021 RMB'000
Trade receivables	5,401	4,989
Less: Loss allowance (note 13(b))	<u>(52)</u>	<u>(87)</u>
	<u><b>5,349</b></u>	<u><b>4,902</b></u>

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

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

- b) Movements in the loss allowance for trade receivables

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

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

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.

#### 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:

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

## MANAGEMENT REVIEW

### I. Offline Business

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

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

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

- 1. Adjustment of group purchase policy:** In March 2022, we issued the latest group purchase policy. For external group purchases with a cumulative amount of more than RMB500,000, the reward would be increased by RMB5,000 for each additional RMB100,000;
- 2. Multi-version group purchase catalogue:** We designed and printed group purchase manual for international women’s day, which came with refined content for convenient dissemination; we also updated “Rites of Passage” atlas that accompanied with comprehensive content for collection;
- 3. Lowering the charging rates of words engraving and gold or silver glazing for group purchases:** In order to strongly support the development of group purchase business, the charging rates for words engraving and gold or silver glazing were lowered on the premise of meeting the reasonable expenditure of logistics costs (such as labour costs and material fees), so as to reduce the costs of group purchase business for specialty stores;

4. **Develop group purchase products:** We adopted restocked material design and developed group purchase products, supporting the design and development of “Fu Lu Shou Xi” (福祿壽喜) group purchase manual, so as to develop group purchase for specialty stores;
5. **Regularly update the promotional materials of group purchase nodes:** The Mid-Autumn Festival group purchase picture and the teacher’s day group purchase picture have been designed and released; the New Year group purchase picture is under design stage; the New Year’s Day group purchase picture is soon to be designed;
6. **High-end customer rewards:** High-end customer rewards were designed and developed for high-end customers, which were used for specialty stores to maintain customer relations and highlight brand value.

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

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

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

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

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

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

### ***Efficient operation and normalised pandemic prevention***

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

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

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

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

### ***Stepping up brand promotion***

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

### ***Product type diversity***

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

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

### ***Store image upgrade***

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

### ***Training diversity***

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

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

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

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

## **II. Online Business**

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

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

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

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

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

### III. Overseas Businesses

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

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

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

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

#### **IV. Innovative Research and Development**

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

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

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

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

## **V. Production Technology**

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

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

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

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

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

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

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

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

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

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

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

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

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

## **VI. Logistics and Distribution**

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

## **VII. Brand Building**

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

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

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

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

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

### ***A story about the 20 cents***

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

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

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

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

### ***Memories of the scarf***

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

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

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

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

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

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

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

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

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

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

### **VIII. Management Review for General Condition in 2022**

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

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

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

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

## FINANCIAL REVIEW

### 1. Revenue

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

	For the year ended 31 December			
	2022		2021	
	RMB'000	%	RMB'000	%
Revenue				
– Combs	41,150	11.8	51,129	15.4
– Mirrors	317	0.1	297	0.1
– Box sets	302,692	86.9	274,741	83.0
– Other accessories*	3,659	1.1	4,517	1.4
Franchise fee income	184	0.1	226	0.1
Total	<u>348,002</u>	<u>100.0</u>	<u>330,910</u>	<u>100.0</u>

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

### 2. Cost of sales

The cost of sales of the Group was approximately RMB142,754,000 for the year ended 31 December 2022, representing an increase of approximately RMB11,634,000 or 8.9% as compared to that of approximately RMB131,120,000 for the year ended 31 December 2021. The increase in cost of sales was in line with the increase in sales volume and the change in sales mix for the Year Under Review.

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

For the year ended 31 December 2022, the gross profit of the Group was approximately RMB205,248,000, representing an increase of approximately RMB5,458,000 or 2.7% as compared to that of approximately RMB199,790,000 for the year ended 31 December 2021. The gross profit margin decreased from 60.4% in 2021 to 59.0% in 2022. The decrease in gross profit margin was mainly due to the change in sales mix of our Group for the Year Under Review.

### **4. Other income and other net gain/(loss)**

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

### **5. Selling and distribution expenses**

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

## **6. Administrative expenses**

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

## **7. Other operating expenses**

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

## **8. Finance costs**

The finance costs of the Group were approximately RMB627,000 for the year ended 31 December 2022, representing an increase of approximately RMB293,000 or 87.7% as compared to that of approximately RMB334,000 for the year ended 31 December 2021. The finance costs were interest on lease liabilities. The details is set out in Notes 6(C) to the Financial Statements in this announcement.

## **9. Income tax**

For the year ended 31 December 2022, the income tax expenses of the Group amounted to approximately RMB26,105,000, representing an increase of approximately RMB3,658,000 or 16.3% when compared to approximately RMB22,447,000 for the year ended 31 December 2021. The increase was mainly due to the increase in withholding tax on dividends during the Year Under Review. The details is set out in Note 7 to the Financial Statements in this announcement.

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

## **10. Profit for the year**

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

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

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

## **ANALYSIS OF MAJOR CONSOLIDATED STATEMENT OF FINANCIAL POSITION ITEMS**

### **1. Property, plant and equipment**

The Group's property, plant and equipment consists of building, leasehold improvements, plant and machinery, furniture and equipment, motor vehicles and construction in progress. As at 31 December 2022, the book value of property, plant and equipment amounted to approximately RMB91,370,000, representing an increase of approximately RMB13,518,000 or 17.4% as compared with the previous year of approximately RMB77,852,000. The increase was mainly attributable to the increase in addition of construction in progress for the year ended 31 December 2022.

### **2. Inventories**

The Group's inventories as at 31 December 2022 increased by approximately RMB46,327,000 or 23.4% from approximately RMB198,103,000 as at 31 December 2021 to approximately RMB244,430,000 as at 31 December 2022, primarily due to the increase in raw materials level. Raw materials increased by approximately RMB47,482,000 or 25.1% from approximately RMB141,418,000 in last year to approximately RMB188,900,000 in this year.

### **3. Trade receivables**

Generally, franchisees are required to settle the payments for the products prior to delivery. The Group's trade receivables consist of credit sales of products to be paid by some of the Group's franchisees who had better sales performance. As at 31 December 2022, the Group's trade receivables amounted to approximately RMB5,349,000 which increased by approximately RMB447,000 or 9.1% as compared to that of approximately RMB4,902,000 as at 31 December 2021.

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

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

#### **5. Trade payables**

As at 31 December 2022, the Group's trade payables amounted to approximately RMB4,764,000 which increased by approximately RMB2,323,000 or 95.2% as compared to that of approximately RMB2,441,000 as at 31 December 2021. The credit terms granted by the suppliers are generally 30 days. The ageing analysis of trade payables is set out in Note 14 to the Financial Statements in this announcement.

#### **6. Other payables and accruals**

The balance of other payables and accruals consists of dividend payables, other payables, accruals, trade deposits received, provision for sales return, VAT and other non-income tax payables and contract liabilities. The Group's other payables and accruals decreased by approximately RMB3,979,000 or 8.2% from approximately RMB48,738,000 as at 31 December 2021 to approximately RMB44,759,000 as at 31 December 2022. The decrease was primarily due to a decrease in trade deposits received during the Year Under Review.

## **CAPITAL STRUCTURE**

### **1. Indebtedness**

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

### **2. Gearing ratio**

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

### **3. Pledge of assets**

As at 31 December 2022, the Group had pledged bank deposit of RMB3,000,000 to the bank to secure a financial guarantee issued by the bank to distribution agents for the Group's operation (2021: RMB nil).

### **4. Capital expenditure**

The capital expenditures of the Group primarily included purchases of plant and equipment, furniture and fixtures, construction in progress and motor vehicles. The Group's capital expenditures amounted to approximately RMB18,286,000 and approximately RMB21,794,000 for the year ended 31 December 2022 and the year ended 31 December 2021, respectively.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Group has met its working capital needs mainly through cash generated from operations and various long and short-term bank borrowings. For the year ended 31 December 2022, the Group did not have any bank borrowings. The disclosure of effective interest rates for variable rate loans is not applicable.

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

As at 31 December 2022, the Group had cash and bank balances of approximately RMB27,160,000 (2021: approximately RMB35,795,000), which was mainly generated from operations of the Group and funds raised by the Company in 2009.

## **CAPITAL COMMITMENT**

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

## **MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP**

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

## **FUTURE OUTLOOK**

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

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

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

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

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

## **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\$25.03 cents per share for the year ended 31 December 2022 to the shareholders whose names appear on the register of members of the Company on Tuesday, 6 June 2023, amounting to approximately HK\$62,253,000 (equivalent to approximately RMB54,991,000) in total, subject to the approval of the Shareholders at the Company's forthcoming annual general meeting to be held on Tuesday, 23 May 2023. The dividend payout ratio is 51.3% of the profit for the year attributable to owners of the Company or 41.2% of the profit before taxation of the Company.

The above-mentioned final dividend is expected to be paid on or before Friday, 30 June 2023.

## **CLOSURE OF THE REGISTER OF MEMBERS**

### **To be eligible to attend and vote in the forthcoming annual general meeting**

The register of members of the Company will be closed from Thursday, 18 May 2023 to Tuesday, 23 May 2023 (both days inclusive) during which period no transfer of Shares will be registered. To be qualified for attending and voting at the forthcoming annual general meeting, all share transfer documents must be lodged with the Company's share registrar in Hong Kong, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, for registration no later than 4:30 p.m. on Wednesday, 17 May 2023.

### **To qualify for the proposed final dividend**

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

## **CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS**

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

Save as disclosed above, as at 31 December 2022, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

## **USE OF PROCEEDS FROM THE LISTING OF THE COMPANY**

The proceeds from the Company's issue of new shares at the time of its listing on The Stock Exchange of Hong Kong Limited on 29 December 2009, after deducting the related issuance expenses, amounted to approximately HK\$132,900,000 (equivalent to approximately RMB116,800,000). As disclosed in the announcement of the Company dated 21 September 2022 (the "Announcement"), there had been a change in use of the net proceeds from the Listing. Please refer to the Announcement for further details. As at 31 December 2022, the Group had utilised approximately RMB70,800,000 of the net proceeds and the remaining balance of the net proceeds is approximately RMB46,000,000. Details of which are set out in the table below:

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

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

## SHARE OPTION SCHEME

On 17 November 2009, the Company conditionally adopted a share option scheme (the “Share Option Scheme”), which became effective on 29 December 2009 (the “Effective Date”). Under the Share Option Scheme, the Board may, at its absolute discretion, at any time within a period of ten years commencing from the Effective Date offer to grant to any Eligible Persons (as defined herein below), including employees, directors, consultants, suppliers, customers and shareholders of any member of the Group, options to subscribe for Shares. Details of the Share Option Scheme are set out in the Prospectus. The Share Option Scheme was expired on 28 December 2019.

As at 31 December 2022, the Company had granted to certain eligible participants (the “Grantees”), a total of 400,000 share options to subscribe for a total of 400,000 ordinary shares of HK\$0.01 each in the capital of the Company under the Share Option Scheme which were accepted by such Grantees. A summary of share options granted under the Share Option Scheme of the Company during the year ended 31 December 2022 is as follows:

Grantees	Position held with the Group	Date of grant	Option period  (Note 1)	Exercise price per share  (HK\$)  (Note 2)	Number of Share Options				Outstanding as at 31 December 2022	Approximate percentage of the Company’s total issued share capital
					Outstanding as at 1 January 2022	Granted during the year	Cancelled during the year	Lapsed during the year		
Mr. Tan Lizi	Executive Director	31 August 2018	31 August 2018 to 30 August 2023	4.896	300,000	-	(300,000)	-	-	-
Ms. Liu Kejia	Sales Controller	31 August 2018	31 August 2018 to 30 August 2023	4.896	200,000	-	-	-	200,000	0.08%
Mr. Luo Hongping	Administration Controller	31 August 2018	31 August 2018 to 30 August 2023	4.896	200,000	-	-	-	200,000	0.08%
					<u>700,000</u>	<u>-</u>	<u>(300,000)</u>	<u>-</u>	<u>400,000</u>	<u>0.16%</u>

Note 1: The vesting and exercise of certain Share Option are subject to the terms of the Share Option Scheme and the performance target(s) and terms set out in the respective letters of grant.

Note 2: The closing price of the Share on the date of grant of Share Options on 31 August 2018 was HK\$4.83.

## GOING CONCERN

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

## **PUBLIC FLOAT**

According to information disclosed publicly and as far as the Directors are aware, for the year ended 31 December 2022 and up to the date of this announcement, at least 25% issued shares of the Company were held by public shareholders.

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

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

## **CORPORATE GOVERNANCE FUNCTIONS**

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

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

## MODEL CODE FOR SECURITIES TRANSACTIONS

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

## AUDIT COMMITTEE

The Company established an audit committee (the “**Audit Committee**”) on 17 November 2009 with written terms of reference in compliance with the CG Code. The Audit Committee has three members comprising all the independent non-executive Directors. Members of the Audit Committee include Ms. Liu Liting, Mr. Yang 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 to 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 2021, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2022 and the effectiveness of the internal control practices of the Group. The Audit Committee has also reviewed the audit plan and approach of the external auditor and monitored the progress and results of the audit regularly.

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

Pursuant to the meeting of the Audit Committee held on 31 March 2023 attended by all the members of the Audit Committee, the Audit Committee has, together with the management of the Company and external independent auditor, reviewed the consolidated financial statements and this results announcement for the year ended 31 December 2022, and the 2022 annual report and accounting principles and practices adopted by the Group for the Year Under Review, and agreed with the accounting treatments adopted by the Group, and was of the opinion that the preparation of the financial statements in this result announcement complies with the applicable accounting standards and the requirements under the Listing Rules and adequate disclosures have been made.

## **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 2022 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 2022 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, 31 March 2023

*As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Tan Chuan Hua, Mr. Tan Di Fu and Mr. Luo Hongping; and three independent non-executive Directors, namely Mr. Yang Tiannan, Ms. Liu Liting and Mr. Chau Kam Wing, Donald.*

*\* For identification purpose only*