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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 2023

RESULTS HIGHLIGHTS

- Revenue increased by 43.6% to approximately RMB499,688,000 (2022: RMB348,002,000).
- Gross profit increased by 46.6% to approximately RMB300,877,000 (2022: RMB205,248,000).
- Gross profit margin increased by 1.2% points to 60.2% (2022: 59.0%).
- Profit for the year ended 31 December 2023 increased by 62.0% to approximately RMB173,774,000 (2022: RMB107,258,000).
- Profit attributable to owners of the Company increased by 62.0% to approximately RMB173,734,000 (2022: RMB107,250,000).
- Earnings per share increased by 62.0% to approximately RMB69.85 cents (2022: RMB43.12 cents).
- In view of the Group's results, the Directors recommend a final dividend in respect of the year ended 31 December 2023 of HK38.64 cents per share (2022: HK25.03 cents) which is subject to the shareholders' approval at the forthcoming annual general meeting to be held on Thursday, 23 May 2024.

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 2023 (the “**Year Under Review**”) together with the comparative figures for the year ended 31 December 2022 with the selected notes as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
Revenue	4	499,688	348,002
Cost of sales		<u>(198,811)</u>	<u>(142,754)</u>
Gross profit		300,877	205,248
Other income and other net gain/(loss)	5	41,210	35,364
Administrative expenses		(40,469)	(31,975)
Selling and distribution expenses		(85,502)	(69,760)
Other operating expenses		<u>(5,844)</u>	<u>(4,887)</u>
Profit from operations		210,272	133,990
Finance costs	6(C)	<u>(581)</u>	<u>(627)</u>
Profit before taxation	6	209,691	133,363
Income tax	7(A)	<u>(35,917)</u>	<u>(26,105)</u>
Profit for the year		<u>173,774</u>	<u>107,258</u>
Attributable to			
Owners of the Company		173,734	107,250
Non-controlling interests		<u>40</u>	<u>8</u>
Profit for the year		<u>173,774</u>	<u>107,258</u>
Earnings per share			
Basic and diluted	9	<u>RMB69.85 cents</u>	<u>RMB43.12 cents</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	2023	2022
	RMB'000	RMB'000
Profit for the year	173,774	107,258
Other comprehensive income/(expense) for the year		
Item that will not be reclassified to profit or loss:		
Exchange differences on translation from functional currency to presentation currency	3,538	3,392
Item that are or may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	<u>(3,829)</u>	<u>(8,495)</u>
Other comprehensive expense for the year, net of nil income tax	<u>(291)</u>	<u>(5,103)</u>
Total comprehensive income for the year	<u>173,483</u>	<u>102,155</u>
Attributable to		
Owners of the Company	173,443	102,147
Non-controlling interest	<u>40</u>	<u>8</u>
Total comprehensive income for the year	<u>173,483</u>	<u>102,155</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2023

	Notes	2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment		105,925	91,370
Right-of-use assets		38,362	38,110
Investment properties		91,570	97,120
Intangible assets	11	–	–
Non-pledged fixed bank deposit		53,000	53,000
Other receivables, deposits and prepayments		601	767
		<u>289,458</u>	<u>280,367</u>
Current assets			
Inventories	12	248,136	244,430
Income tax recoverable		–	2
Trade receivables	13	6,808	5,349
Other receivables, deposits and prepayments		8,994	7,539
Financial assets at fair value through profit or loss		10,000	57,710
Non-pledged fixed bank deposit (maturity over 3 months, but within 1 year)		300,000	180,000
Cash and bank balances		67,381	27,160
Pledged bank deposit		–	3,000
		<u>641,319</u>	<u>525,190</u>
Current liabilities			
Trade payables	14	6,856	4,764
Other payables and accruals		50,435	44,759
Income tax payable		33,724	28,522
Lease liabilities		2,179	1,939
		<u>(93,194)</u>	<u>(79,984)</u>
Net current assets		<u>548,125</u>	<u>445,206</u>
Total assets less current liabilities		837,583	725,573

	2023	2022
	RMB'000	RMB'000
Non-current liabilities		
Deferred tax liabilities	17,943	23,779
Deferred income	518	530
Lease liabilities	10,638	9,385
	<u>(29,099)</u>	<u>(33,694)</u>
NET ASSETS	<u>808,484</u>	<u>691,879</u>
CAPITAL AND RESERVES		
Share capital	2,189	2,189
Reserves	802,196	685,631
Equity attributable to owners of the Company	804,385	687,820
Non-controlling interests	4,099	4,059
TOTAL EQUITY	<u>808,484</u>	<u>691,879</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2023

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. BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICIES INFORMATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with all Hong Kong Financial Reporting Standards (“**HKFRSs**”), which collective term includes all 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.

The HKICPA has issued certain new and amendments to HKFRSs which are mandatorily effective or available for early adoption for the current accounting period of the Group. 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 the consolidated financial statements.

b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2023 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 as explained in the accounting policies.

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 discussed in note to the consolidated financial statements.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS AND HONG KONG ACCOUNTING STANDARDS

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA to the financial statements for the current accounting period for the first time, which are mandatorily effective for the Group's financial annual period beginning on or after 1 January 2023:

HKFRS 17 and related amendments	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules

The Group has not applied any amendments to HKFRSs that are not yet mandatorily effective for the current accounting period. Except as described below, the application of the new and amendments to HKFRSs, HKASs and guidance from HKICPA 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 the consolidated financial statements.

Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 Income Taxes so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

In prior years, for leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applied HKAS 12 requirements to the relevant assets and liabilities separately. Temporary differences on initial recognition of the relevant assets and liabilities were not recognised due to application of the initial recognition exemption.

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:

	2023 RMB’000	2022 RMB’000
Online business		
– Sales of goods	<u>211,468</u>	<u>166,409</u>
Offline business		
– Sales of goods	<u>282,441</u>	178,242
– Franchise joining fee income	<u>1,118</u>	<u>184</u>
	<u>283,559</u>	<u>178,426</u>
Directly-operated outlets		
– Sales of goods	<u>4,661</u>	<u>3,167</u>
	<u><u>499,688</u></u>	<u><u>348,002</u></u>

The Group’s customer base is diversified. No individual customer (2022: nil) had transaction which exceeded 10% of the Group’s aggregate revenue for the year ended 31 December 2023.

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)

	2023	2022
	RMB'000	RMB'000
Government grants (notes (I))	2,908	2,497
Government grants released from deferred income	12	35
Interest income from financial assets measured at amortised cost		
– bank interest income	8,805	422
PRC VAT refunds (note 7(A)(VI))	26,865	19,097
Rental income from investment properties	4,860	5,881
Net foreign exchange gain	505	18
Change in fair value of investment properties	(5,550)	(2,020)
Change in fair value of financial assets at		
fair value through profit or loss	883	8,382
Reversal of loss allowances on trade receivables	6	35
Loss on termination of lease contract	–	(8)
Others	1,916	1,025
	<u>41,210</u>	<u>35,364</u>

Note:

- (I) In 2023, among the government grants, approximately RMB2,908,000 (2022: approximately RMB2,497,000) 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):

	2023 RMB'000	2022 RMB'000
A) Staff costs (including directors' emoluments)		
Salaries and other benefits	92,101	71,674
Contributions to defined contribution retirement scheme	9,645	9,782
	<u>101,746</u>	<u>81,456</u>
B) Other items		
Auditor's remuneration		
– audit services	707	680
– non-audit services	250	238
Cost of inventories sold (note (I) and 12)	196,738	137,961
Depreciation of right-of-use assets (note (I))	3,652	3,628
Depreciation of property, plant and equipment (note (I))	6,462	4,625
Loss allowance on other receivables, net	37	38
Net loss on disposal of property, plant and equipment	44	102
Reversal of provision for sales returns	(508)	(1,891)
Write down of inventories (note 12)	2,091	4,850
Reversal of write-down of inventories (note 12)	(18)	(57)
Gross rental income from investment properties	(4,860)	(5,881)
Less: Direct outgoings incurred for investment properties that generated rental income during the year	671	719
Net rental income	<u>(4,189)</u>	<u>(5,162)</u>
C) Finance cost		
Interest on lease liabilities	<u>581</u>	<u>627</u>

Note:

- (I) Cost of inventories includes approximately RMB64,341,000 (2022: RMB50,511,000) 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:

	2023 RMB'000	2022 RMB'000
Current tax		
PRC Enterprise Income Tax (notes (I) and (II))	34,712	22,293
Hong Kong profits tax (note (IV))	–	–
Withholding tax on dividends (note (V))		
- Provision for the year	<u>4,579</u>	<u>4,310</u>
	39,291	26,603
Over provision in prior years, net		
PRC Enterprise Income Tax	(287)	(427)
Deferred tax		
Transfer to current tax upon distribution of dividends	–	(4,310)
Provision for the year	<u>(3,087)</u>	<u>4,239</u>
Total	<u>35,917</u>	<u>26,105</u>

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% (2022: 25%) except for Carpenter Tan (2022: 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 2023 and 2022 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.

- (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

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

	2023 RMB'000	2022 RMB'000
Interim dividend of HK nil cents, equivalent to RMB nil cents per ordinary share (2022: HK12.96, equivalent to RMB11.06 per ordinary share)	–	27,508
Final dividend of HK38.64 cents, equivalent to RMB34.98 cents per ordinary share (2022: HK25.03 cents, equivalent to RMB22.11 cents) proposed after the end of the reporting period (Note I)	<u>87,000</u>	<u>54,991</u>
	<u><u>87,000</u></u>	<u><u>82,499</u></u>

Note I:

The Directors recommend the payment of a final dividend of HK38.64 cents, equivalent to RMB34.98 cents per ordinary share, totaling RMB87,000,000. This dividend is to be approved by the shareholders of the Company at the Annual General Meeting scheduled to be held on 23 May 2024. These financial statements do not reflect this recommended dividends.

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

	2023 RMB'000	2022 RMB'000
Final dividend in respect of the financial year ended 31 December 2022, approved and paid during the current year, of HK25.03 cents, equivalent to RMB22.86 cents per ordinary share (2022: in respect of the financial year ended 31 December 2021, approved and paid during the year ended 31 December 2022, of HK27.15 cents, equivalent to RMB22.20 cents per ordinary share)	<u><u>56,878</u></u>	<u><u>55,215</u></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

	2023 RMB'000	2022 RMB'000
Earnings used in calculating basic earnings per share	<u>173,734</u>	<u>107,250</u>

(ii) Weighted average number of ordinary shares

	Number of shares	
	2023 '000	2022 '000
Weighted average number of ordinary shares outstanding	<u>248,714</u>	<u>248,714</u>

b) Diluted earnings per share

Diluted earnings per share for the year ended 31 December 2023 and 2022 was the same as the basic earnings per share because the exercise price of the share options granted was higher than the average market price of the Company's shares during the exercisable period before the lapse of the share options during the year ended 31 December 2023 and during the year ended 31 December 2022.

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

	Trademark RMB'000
Cost	
At 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	<u>1,037</u>
Accumulated amortisation and accumulated impairment	
At 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	<u>1,037</u>
Carrying amount	
At 31 December 2023	<u><u>–</u></u>
At 31 December 2022	<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

	2023 RMB'000	2022 RMB'000
Raw materials	189,151	188,900
Work-in-progress	25,981	17,047
Finished goods	33,004	38,483
	<u>248,136</u>	<u>244,430</u>

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

	2023 RMB'000	2022 RMB'000
Carrying amount of inventories sold	196,738	137,961
Write down of inventories	2,091	4,850
Reversal of write-down of inventories	(18)	(57)
	<u>198,811</u>	<u>142,754</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:

	2023 RMB'000	2022 RMB'000
Trade receivables	6,854	5,401
Less: Loss allowance (note (B))	(46)	(52)
	<u>6,808</u>	<u>5,349</u>

At 1 January 2022, trade receivables from contracts with customers amounted to RMB4,902,000.

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

	2023	2022
	RMB'000	RMB'000
0 to 30 days	3,662	4,944
31 to 60 days	1,939	52
61 to 90 days	672	4
91 to 180 days	323	26
181 to 365 days	169	207
Over 1 year	43	116
	<u>6,808</u>	<u>5,349</u>

B) Movements in the loss allowance for trade receivables

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

	2023	2022
	RMB'000	RMB'000
Opening loss allowance at 1 January	52	87
Reversal of loss allowance on trade receivables	<u>(6)</u>	<u>(35)</u>
Closing loss allowance at 31 December	<u>46</u>	<u>52</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:

	2023	2022
	RMB'000	RMB'000
0 to 30 days	5,016	2,979
31 to 60 days	1,511	1,133
61 to 90 days	119	415
91 to 180 days	22	43
181 to 365 days	109	110
Over 1 year	79	84
	<u>6,856</u>	<u>4,764</u>

MANAGEMENT REVIEW

The Company undertook the third three-year development plan. At the beginning of the year 2023, the Company clearly put forward, among others, the main directions of work, key tasks and business objectives for the whole year, including corporate governance, performance targets, governance policies, market rectification, specialty store upgrade, product development, hot item creation, technology research and development, brand building, safe production, supply guarantee, manpower policy, financial service, charity activities, project construction, multi-dimensional work such as improving production efficiency, increasing product gross profit, enhancing raw material utilization, and promoting and ensuring the employment of people with disabilities.

Due to the market optimization layout implemented against the three-year pandemic, the market recognition and competitiveness of the Company's brand have been better improved. As a result, the specialty stores have expanded to better channels, better business districts, better shopping malls and better shop locations, while the quality and profitability of new specialty stores are further improved. Meanwhile, the Company has strengthened its support and building of specialty stores located at tourist attractions, transportation port and other places that can represent the Company's brand image, thereby enhancing its brand recognition and market influence. Supportive measures have been put forward to revitalize the Northeast market, and the Northeast market begins to recover significantly. A new model of overseas market expansion has been implemented, while the expansion of overseas online and offline markets has been simultaneously strengthened. At the same time, the Company has put more effort on market rectification and achieved fruitful results. The franchise system has become more confident and the Company's credibility has been further maintained and improved.

The Company has strengthened its efforts in building and disseminating brand culture, and offline pop-up events became a sight to behold, which received genuine support, high acceptance and active invitation by customers and organizers. In 2024, the Company will continue to promote the experiential activities of the "Garden of Combs" both internationally and domestically.

During the Year Under Review, the Company had clear objectives, effective measures, full confidence, and diligent management. All departments performed their duties and cooperated closely. The Company made considerable progress and achieved good results in various aspects such as corporate governance. The material safety and strategic reserve was further consolidated, and the development of new products and creation of hot items made outstanding achievements. The transformation and application of technological development results and the improvement of production efficiency were increasingly effective. The product system was further optimized, with the new products and comprehensive gross profit margin reasonably increased. The market space was better expanded and the number and quality of specialty stores were significantly increased and improved. Accordingly, the Company's terminal retail and comprehensive profit performance exceeded expectations and increased significantly.

I. Offline Business

For the year ended 31 December 2023, POS sales for our offline business reached 139.80% of the planned target, representing an increase of 56.00% compared to 2022. During the Year Under Review, the offline business team seized opportunities to quickly capture market development opportunities, actively explored and innovated, and achieved certain results in key business indicators such as new stores, image enhancement, profit enhancement and group purchase business, boldly exploring new channels, new retail and other business models. Facing the increasing user demand and the complex and ever-changing market environment, the offline business adhered to the development strategy of brand, product and culture in parallel, and established a deep friendship with end users by broadening sales and promotion channels, enriching product system and after-sales service as well as conveying cultural connotation and emotional value.

1. Specialty Stores Overview

For the year ended 31 December 2023, Carpenter Tan had a total of 1,161 franchised stores and 1 self-operated store in Mainland China, 5 franchised stores in other countries and regions, and 3 self-operated stores in Hong Kong. The total number of stores was 1,170. There was an increased by 75 stores as compared to 1,095 stores as of 31 December 2022. Among them, shopping mall stores, image stores of the third generation, and Morandi image stores accounted for 66.70%, 66.44% and 29.86%, respectively.

Number of franchised stores, overseas stores and counters as at 31 December 2023

	As at 31 December			
	2023		2022	
	Franchised stores	Self-operated stores	Franchised stores	Self-operated stores
Mainland China	1,161	1	1,088	1
Hong Kong	–	3	–	2
Other countries and regions	5	–	4	–
Total	<u>1,166</u>	<u>4</u>	<u>1,092</u>	<u>3</u>

Number of franchised stores distribution in China as at 31 December 2023

Type of stores	As at 31 December			
	2023		2022	
	Number of franchised store	Percentage	Number of franchised store	Percentage
Shopping mall	774	66.7%	676	62.1%
Street shop	248	21.3%	269	24.7%
Department store	63	5.4%	61	5.6%
Supermarket	17	1.5%	25	2.3%
Scenic spot	44	3.8%	43	4.0%
Transportation hub	7	0.6%	8	0.7%
Hotel	2	0.2%	2	0.2%
Others	6	0.5%	4	0.4%
Total	<u>1,161</u>	<u>100.0%</u>	<u>1,088</u>	<u>100.0%</u>

2. Channel Development

In terms of the development of store channel:

During the Year Under Review, the number of new stores reached 215, reaching a record high of 165.38% of the annual plan. The proportion of stores in shopping malls reached 92.09%. At the same time, the average area of new stores increased significantly to 23.82 square meters. As a result, the Group's store scale quickly recovered to the pre-pandemic level, and the store image was also significantly improved. Significant breakthroughs have been made in the development of key provinces and cities and blank markets such as Beijing, Shanghai, Zhejiang, Henan, Shaanxi, Hubei and Northeast China (Heijiliao). In terms of city distribution of new stores: Beijing, Shanghai, Guangzhou and Shenzhen accounted for 31.00%, provincial capitals and sub-provincial cities accounted for 67.44%. The layout of the stores has become more reasonable, which has consolidated the foundation for the long-term development of the Group's offline business.

During the Year Under Review, the offline business team continuously strengthened the requirements for basic management and service of stores, introduced external training resources, self-built internal training teams at all levels, implemented internal and external training programs for the management and first-line shopping guides, and conveyed the Group's operation philosophy of "making friends with a comb" to the first-tier stores by providing customers with a clean and comfortable shopping environment that was full with experience and strong cultural atmosphere so as to facilitate reputation marketing.

In terms of the development of major customer channel:

During the Year Under Review, we launched themed group-purchase merchandise, which brought good wishes to customers. Customers could choose any patterns in the theme gallery, and they could also customize patterns and personalized value-added service by themselves, making the group purchase gifts more unique and meaningful. At the same time, the Group supported the Group purchase in various aspects: adjusting the group purchase policy, providing multi-versions of group purchase catalogue, lowering the charging rates for words engraving and gold and silver glazing, updating the engraving template, and continuously enriching the e-cards for group purchase products, aiming to encourage franchised stores to actively expand group purchase business.

A total of 126 external group purchases were signed with the Group through stores, representing an increase of 20.00% as compared to the corresponding period of last year. Group purchases amounted to approximately RMB6.28 million, representing an increase of 11.00% as compared to the corresponding period of last year. The group purchase amount achieved by the franchised stores through independent engagement was approximately RMB83.04 million, accounting for approximately 11.50% of the annual sales results.

3. *Offline Activities*

During the Year Under Review, the offline business team proactively contacted and coordinated various channels to implement brand promotion closely with the stores through resource exchange, cost reduction, efficiency enhancement and other means, under the premise and requirements of ensuring that sales expenses were controllable and achieving optimal conversion. During the Year Under Review, we held a total of 1 offline pop-up event, 3 brand train promotion activities, 1 important node promotion, 12 brand exhibitions led by various types of governments at all levels, more than 130 self-owned brand promotions in various regions across the country, and successfully cooperated with a well-known middle school in Beijing to hold 1 "wood art course". Through the explanation and on-site experience of wooden comb-making culture and craftsmanship, the brand could penetrate into young people, realized long-term promotion exploration and accumulated valuable experience.

4. *Membership Service*

During the Year Under Review, we completed the redesign and visual adjustment of the user interface of our membership system. We also added new module functions such as member points redemption card coupons, interactive member points functions, member questionnaire and launch of new agricultural by-products to provide better visuals and interactive experiences for our members. The total number of active members reached 780,000, reaching 108.45% of the new member target. A total of 135,080 member redemption orders were processed, representing an increase of 221.00% as compared to the corresponding period of last year. The significant increase in member redemption orders reflected the significant increase in the number of active brand members and, to a certain extent, reflected the effective upgrades of membership service.

5. *New Product Launch*

During the Year Under Review, a total of 45 new products were launched on Valentine's Day, International Women's Day, Mother's Day, Children's Day, Father's Day, Qixi Festival, Double Eleven, respectively, and were well received by the market. Among them, 2 new home furnishing products were distributed in limited quantities as rewards to customers; 1 set of Chinese Zodiac concept products was distributed in limited quantities to celebrate the Mid-Autumn Festival. Among the remaining 42 new products, 12 functional products were launched as the main type of products in 2023, which can meet the needs of different groups of people from multiple perspectives and types, including 2 sharp-tail combs for children, 2 large sized angular wood massage boards, 1 tendon sticks, and 7 tendon combs. At the same time, Carpenter Tan's own IP was developed, and 5 new products of the Panda Tantan (熊貓譚譚) series, 2 new products of the Long Yan Da Yue (龍顏大悅) series were launched respectively. Based on the organization, optimization and supplement of the product system, a total of 4 wooden lacquer combs, 3 inserted lacquer combs, 5 hair bob accessories, 2 high-end inserted carved combs, 9 inserted wooden combs, 2 BJ lacquer combs were launched.

6. *Improving Store Image*

During the Year Under Review, the total number of stores designed was 329. 267 stores completed design plans and 253 stores were renovated, including 209 new stores, 24 relocated stores and 20 refurbished stores. Categorized by store style, there were a total of 64 Carpenter Tan third generation-styled stores and a total of 189 Morandi-styled stores. The image of Morandi has been well received, accounting for approximately 70.00% of the completed number. Such image could be continuously enhanced and promoted.

Mini-sized comb-making equipment was added to some of the larger stores to enrich the consumption scenarios by adding handmade experience modules and enhance shopping enjoyment.

7. *Offline Business Focus In 2024*

We will consolidate and further expand the existing sales channels. Through improving the number and quality of the stores, we will enhance users' understanding and recognition of the brand and products. Offline business will continue to play the role as a window and medium for face-to-face communication with users. Through exploring and satisfying the needs of group purchase, we will strengthen key customers' understanding and acceptance of the gift attributes and value enhancement contained in the products.

Through analyzing the needs of target customers, we will plan and arrange product portfolios, enrich product categories, enhance product value and improve product quality. We will also strengthen the promotion and dissemination of new products and interaction between users, and reshape the enduring best-selling classics. We will formulate appropriate marketing strategies and activities, effectively reaching more consumer groups through cooperation with stores, communication with private domains and integration of platforms, strengthening the development of offline interactive activities with new and old consumers, establishing and spreading the emotional connection with family, love and friendship.

We will continuously devote resources to give back to our users. Through continuous promotion of our membership system, we plan to provide customers with more favorable membership redemption gifts and more comprehensive membership services to further meet the needs of our members. By making good use of reasonable suggestions, and understanding users' opinions and feedback through WeCom, Mini Programs, Aps, etc., we will ensure timely response and positive improvements.

II. Online Business

For the year ended 31 December 2023, the online business completed sales of approximately RMB237 million and met 112.90% of the yearly target, representing a year-on-year increase of 25.72% when compared to same period of 2022. Since its establishment, the sales data of the online business team has been increasing every year. From 2014 to 2020, the annual growth rate kept declining due to increasing sales base, from the highest point of increase of 35.00% to the lowest point of 6.12%. Starting from 2021, the growth rate has returned to more than 15.00%, and reached the highest point of 25.72% this year, with sales continuously breaking historical highs.

1. *New Platform Expansion*

During the Year Under Review, two new platforms, Kuaishou and Jingxi, were introduced. Kuaishou platform was mainly used to open flagship stores and cover channels. We used reposted short videos for brand promotion and did not conduct live sales. Currently, the traffic and sales volume of our brand are relatively low on this platform. Since Jingxi platform and the flagship store shared the same backstage, traffic and sales volume on Jingxi platform could not be calculated separately. We mainly used the Jingxi platform as a new exposure display to continuously attract traffic to the JD flagship store.

2. *New Platform Modules And New Promotion Methods*

In terms of the use of new promotion methods, the online business team kept up with platform development trend, actively opened new platform modules and operated new promotion methods, such as marketing on Gen Dan Bao mini program, private domain group chat and dedicated customer services, new customer promotion of the brand and super short video promotion. The cumulative transaction volume brought by new channels and new promotion models accounted for 11.00% of the total business volume.

3. *Douyin Channel Expansion*

In terms of Douyin channel promotion, we focused on promoting brand culture, and adopted the three-in-one promotion model of with our own account operation + talent account creative video promotion + leading account live streaming. During the Year Under Review, (i) a total of 314 videos were published on our own account, with the total number of followers reaching more than 276,000, the total account exposure exceeding 140 million and the total account interactions reaching over 2.516 million; (ii) we collaborated with a total of 64 talent accounts and published a total of 96 videos for the year, with the total promotion exposure reaching over 59.8049 million and the total promotion interaction exceeding 856,000; (iii) we cooperated with Dongfang Zhenxuan account to conduct two Douyin live streaming promotions, with the cumulative exposures in the live streaming reaching 76.5356 million, the number of viewers in the live streaming room reaching 14.1313 million, and the number of visitors for our brand products reaching 2.05 million. The sales of the two live streamings accounted for 46% of the total Douyin sales of the corresponding month. However, the shortcoming was that the host did not make sufficient explanation on the brand culture during the live streaming was and failed to fully achieve the dual purposes of brand promotion and sales.

4. *Marketing Activities*

During the Year Under Review, we carried out a total of 14 online marketing activities. On-site and off-site content promotion was arranged in advance based on activity nodes and the pace of platform activities, putting effort on various channels simultaneously. Therefore, sales increased significantly during the event. For example, the average daily sales increased by 39% year-on-year during the 8-day Mother's Day event, breaking the historical record. However, the overall average daily sales of Double Eleven increased by only 3.22% year-on-year, which exposed our inadequate online exclusive products framework. There are still many subdivided paths that need to be supplemented with our main products. In the future, we will exert strong effort on optimization and build a sound product system.

5. *On-Site And Off-Site Content Promotion*

We continued to output content through on-site content channels and off-site Xiaohongshu channel to promote brand culture and strengthen emotional marketing, adhering to the two-pronged approach of "expanding crowd assets + on-site conversion". During the Year Under Review, on-site channels such as Tmall and JD(personal product recommendation, Daka Dianping, good product sharing, Guangguang, U-first, ranking, golden procedures, etc.) published a total of 1,065 pieces of talent content, generated more than 5.686 million customer views and more than 2.448 million customer visits. Off-site Xiaohongshu published 155 pieces of content, generated more than 2.46 million readership and more than 221,000 interaction.

6. *Digital Transformation*

AI softwares were actively used to improve data capabilities, customer care capabilities and service capabilities based on our business needs. We improved our online data analysis capabilities and existing customer care service by utilizing smart AI softwares in scenarios such as revisiting customers who made inquiry but did not place order in the past 30 days, Business Advisor competing store data capture, market brand ranking analysis, Vipshop work order reminder, online shop manager (Jackyun) clear analysis, revisiting existing customers via AI smart phone calls, YTO Express and ems express automatic interception. Hence, the brand reputation was enhanced. Utilizing the Banniu work order system, we completed the registration and analysis of after-sales return orders, the feedback processing of pre-sales reception issues, SF express automatic interception, after-sales batch refund by Alipay, management list processing of public opinion monitoring, etc. This improved the work process connection between various positions in departments and enhanced work efficiency and overall service capabilities.

7. *Creating Popular Products*

During the Year Under Review, the online business team created popular new products based on 3 products, being “Da Ju Da Li (大橘大利)”, “Xin Xiang Shi Cheng (心想事成)” and “Meng Xiong (萌熊)”. According to the online product sales statistics, “Meng Xiong (萌熊)” ranked first in terms of both sales volume and sales revenue; “Xin Xiang Shi Cheng (心想事成)” ranked fifth in terms of both sales volume and sales revenue; “Da Ju Da Li (大橘大利)” ranked twelfth in terms of sales volume and ranked ninth in terms of sales revenue.

The online business sales team is equipped with matured capabilities to create popular products, from warm-up and launch of new products to attracting new members with tools, night time live streaming room recommendations and using post-purchase links to promote cross-selling. The online business sales team can exert their sales capabilities on the premise of sufficient product strength and inventory. At the same time, we are also fully aware that the time span of creating a popular product should follow the product life cycle, so as to maximize the traffic bonus obtained from the popular product in the cycle.

8. *Tmall Live Streaming*

During the Year Under Review, the online business team continued to set up live streaming rooms on Tmall platform, with a total of 2,678 streaming hours throughout the year and a year-on-year increase of 73% in transaction amount generated from streaming. The live broadcast room penetration rate reached 10.6% and the annual live broadcast sales target achievement rate was 170%. There were 42,000 new fans, representing a year-on-year increase of 53%. The total number of viewers in the live streaming rooms was 4.35 million, representing a year-on-year increase of 42%. We remained first in terms of store live streaming sales in the comb industry, and achieved outstanding store live streaming scale.

9. *Online Business Focus In 2024*

The marketing activities for 2024 will be carried out under the general strategy of “adhering to the basic idea of channel diversification”. We will cooperate with on-site content channels, off-site Xiaohongshu channel, Douyin channel and other publicity channels to carry out promotion simultaneously. We will actively contact and maintain cooperation with reputable top streamers and accounts to expand the topicality and exposure of our brand.

We will continuously improve and enhance our service capabilities. Firstly, we continuously invest resources in fundamental system optimization, increase the number of JD consulting robots to improve the efficiency of artificial intelligence use, and increase the weight of store DSR assessment while improving service quality to obtain more free platform traffic. Secondly, we optimize the design of store homepage and product details page to enhance the visual tone of the brand and increase the staying time of customers. Thirdly, we improve the overall service quality across the stores, such as price guarantee service for members, words engraving and gold glazing, response time of stores, etc., to reduce return rate and time spent of refund processing. We also take measures such as providing small compensation/red packets for minor problems like damaged packaging to avoid refund, so as to improve net sales rate.

We will optimize online product system and improve special product system. The popular products, products for redirecting traffic and profitable products of each platform need to be reclassified to maximize the advantages of each platform.

We will construct an online omni-channel membership system, develop private domain traffic pool, which will be the entrance of fission marketing, and establish the brand’s own free traffic network to support our sales. We will transform customers from traffic operation to members retention to bring room for sales increase for the brand, truly accumulating the online crowd assets and creating long term value for the brand.

We will create popular products based on the new products of the Year of the Dragon and the panda IP series. We will use corresponding nodes to pave the way for the basic sales of new product, and simultaneously combine various new product promotion tools and on-site and off-site promotion empowerment, in order to gradually increase the weighting of products and increase product sales. In terms of promotion direction, we will plan activities and visual schemes with the key focus on “dragon” elements and “panda” elements. With the creation of brand owned IP, we will also improve IP display layout to implant into consumer’s heart. Leveraging on our IP image, we will get more involved with the youngsters, reaching more people and enhancing the brand awareness.

III. Overseas Business

During the Year Under Review, the overseas business team mainly carried out the following tasks:

Actively visited and developed new and existing overseas franchisees and opened new overseas franchised stores. The new Morandi style store in Toronto, Canada opened at the end of July this year, which is also the first overseas Morandi style store; the new joint-venture store in Malaysia completed the renovation and commenced trial operation at the end of December 2023.

Performed well in the content production of overseas social media accounts and found suitable celebrities to attract traffic to the website. We continued to update the content of social media accounts, and filmed a series of model unboxing videos for products on the US official website.

Participated in the Malaysia Cultural Fair held in Kuala Lumpur and presented a 72-square-meter custom-made booth, which attracted a large number of visitors, highlighting the brand image and charm.

Continued to deepen the expansion of the Hong Kong market and cooperated with the famous hair salon HAIR CORNER in Festival Walk, Kowloon Tong, Hong Kong to open a new counter.

For the year ended 31 December 2023, offline overseas business recorded a total shipment of RMB3,857,500, representing a year-on-year increase of 15.12%. The sales of cross-border e-commerce platform amounted to RMB798,500, representing a year-on-year increase of 32.72%. The self-operated stores and online platforms in Hong Kong achieved a total sales of HK\$4,648,400, representing a year-on-year increase of 25.60%, and the Hong Kong market realized a turnaround from loss to profit.

Overseas business outlook:

To consolidate presence in the Southeast Asian market, actively promote the overseas joint venture policy and open 2 to 3 new stores in the Southeast Asian market; to deeply cultivate the Hong Kong market, explore the new market in Kowloon and expand the coverage of stores; to carry out franchise cooperation in Hong Kong; in key overseas markets, to change domestic shipments to shipping from overseas warehouses so as to improve logistics and distribution efficiency, reduce logistics costs and improve customer shopping experience; to participate in large-scale overseas exhibitions such as the Las Vegas Consumer Goods Fair and the Tokyo Gift Show; focusing on key markets such as North America and Southeast Asia, to increase social media promotion effort in order to bring traffic for our brands and increase sales in online and offline stores.

IV. Innovative Research And Development

During the Year Under Review, the creative R&D team focused on the research and development on the structure and function of the products, improved the combing function and use experience of the inserted combs, and continued to promote the optimization and iterative upgrade of the product system. In terms of product technique, we completed the development of new products of large lacquer technique, the verification of color lining mother-of-pearl inlay technique and the verification of cloisonné enamel technique. In terms of product design, we designed our own IP elements “Panda Tantan (熊貓譚譚)” and “Chinese Zodiac Longlong (生肖龍龍)”, and successfully created online popular products. In terms of material utilization, we paid attention to the systematic matching of new products’ materials, carried out complementary development and supplementary development of material usage specifications, and strived to maximize the utilization of materials.

During the Year Under Review, we completed the design and development of 11 projects for new products and launched 36 regular new products. 22 out of 25 products that have been trial-marketed and evaluated were transferred to regular products, representing a successful rate of product launch of 88%. Our self-developed new products in last year, namely Meng Xiong (萌熊), Wo Niu (蝸牛) and Yu Xiu (毓秀), entered top 50 in retail, among which, the individual retail sales of Meng Xiong (萌熊) exceeded RMB40 million.

During the Year Under Review, we continued to optimize our packaging system, among which, cotton cloth bags, Qixuan hairpin packaging and Qixuan hair care comb packaging underwent optimization and structure improvement, resulting in significant cost reduction. We improved the packaging structure of red sandalwood products and added folding materials to enhance the sense of value of high-end products. We also completed the design and development of large set packaging.

Innovative research and development outlook:

Continue to improve the overall gross profit margin of new products/products: continue to promote the development and optimization of functional products to increase the added value of products; enhance the design transformation capability, develop new resources and control product costs; continue to promote the development and innovation of independent products and make continuous breakthroughs.

Promote the design and development of product elimination plan and upgrade projects to increase the gross profit margin of old products effectively.

Continue to improve and optimize packaging to meet functional needs and reduce costs effectively.

Combine our own IP to keep building and launching popular products, and adjust the design and development frequency in real time according to the actual situation of the market, so as to give full play to the potential of popular products and prolong the life cycle and profit cycle.

V. Production Technology

During the Year Under Review, with the significant increase in market order demand, the main theme of the production organization was “increasing production capacity and ensuring supply” throughout the year. Under the principle of “making full use of our human resources”, the production organization team did not adopt human wave tactics, but gave priority to enhancing production efficiency by improving process technology, promoting the use of self-developed equipment and introducing equipment. At the same time, we adopted various methods such as one post with multiple skills and mutual cooperation between different factories, to assure the supply of market orders effectively.

With the completion of inspection and acceptance of the plant in the southern area of the new factory, the construction of production lines in the new factory has also accelerated. 5 drying kilns have been put in operation, and the installation and construction of complementary facilities such as dust removal systems, air compressor stations and grinding saw rooms have been completed. Currently, there are 7 drying kilns available for use in the factory. New large and small sport cars are also gradually improving the accuracy and quality of modified materials, which have effectively solved the bottleneck of material processing at the front end of the production.

The manufacturing and installation and commission of prototype equipment for automated polishing technology have been completed and the target value of four-unit simultaneous processing has been achieved. This technology will play an active role in reducing technical difficulties and labor intensity of the operation.

The automatic round corner processing technology of the comb shape has been upgraded and transformed, which effectively reduced labor intensity of employees and improve work efficiency.

The functional improvement process technology of redwood material has been completed and put in operation, which improved the weather resistance of redwood material products effectively, reduced the proportion of deformation and cracking of mixing wood structure products by 30%, and increased the input-output ratio of materials by 15% at the same time.

The improvement of the functional weight gain of lotus wood has been completed, so that the wood density can meet the material requirements for making combs and this becomes the technical reserve of the Company’s material strategy.

As of 31 December 2023, the Group’s effective patents included 15 invention patents, 60 utility model patents and 25 design patents.

The Company testing laboratory has passed the capability review and verification of China National Accreditation Service for Conformity Assessment (CNAS) to add comb surface roughness and paint film adhesion testing, and hence has been authorized to perform testing in 7 areas for comb products.

VI. Logistics And Distribution

During the Year Under Review, the logistics and distribution team paid close attention to the market needs and coordinated production capacity, timely released production and procurement plans to ensure that market orders and appropriate safety inventories were met. The total production, distribution and shipment amounted to 5.398 million units throughout the year. At the same time, we strengthened quality control. Apart from daily inspection, we increased the frequency of random inspections in warehouses, and identified and solved abnormalities in a timely manner to guarantee products are in good condition and ensure that the unqualified products will not be shipped out of the warehouses.

During the Year Under Review, a total of 30 maintenance stations, including logistics center maintenance stations, Jurong maintenance stations and maintenance stations at each specialty store, operated efficiently and completed 247,506 maintenance products in total throughout the year, which was recognized by our users. With the continuous promotion from the Company and specialty stores, an increasing number of customers have learned about the Company's maintenance policies through Xiaohongshu, Douyin, Weixin, Weibo and other channels, and the number of maintenance products continues to increase. Maintenance service is an important task of the Group. Under the mission of providing users with lifetime services and guarantee, the Group will continue to perform maintenance workflow optimization, maintenance system upgrade, maintenance personnel skill enhancement, after-sale services improvement and other works in the future.

VII. Brand Building

During the Year Under Review, on the occasion of the 30th anniversary of the establishment of the Company, low-key but grand celebrations were held in Wanzhou, Chongqing and Jurong, Jiangsu. The Time Travel Photo Exhibition was displayed at the ceremony, recording 30 years of ups and downs of Carpenter Tan and the stories of the employees and franchisees along the way.

During the celebration, the hearing impaired employees brought their dance performance "You Look So Good When You Smile". Following the rhythm of movements directed by sign language, they danced with music and exuded youthful passion in their silent world. The workplace exercise competition participated by 6 representative teams set off the climax of the anniversary celebration. The disabled employees sat on the benches and did the room exercises in sync. With the mini drama "Stay Motivated At The Year Of Thirty", Dozens of franchisees performed the hardship and sweetness in the co-development with Carpenter Tan.

Mr. Luo Hongping, chief executive officer of the Company, said that over the past 30 years, the Company has always adhered to the core values of honesty, labor and happiness and fulfilled the social responsibility of honesty, integrity and kindness. These are the vital elements for the Company to grow from small to large, from weak to strong, and to achieve mutual benefits and win-win results. No matter in the past, present and future, the Board, the management, all employees and franchisees of the Company will always uphold the core values established by the Company and perform social responsibilities.

All employees of the Group shall make continuous efforts to maintain a moral and upright atmosphere of the Group at all times; all franchisees shall work tirelessly for deep cultivation, value accumulation and dissemination of the brand, so as to enhance the brand image; the franchise system shall achieve sustainable and healthy development. While adhering to the priority of the quality of franchised store development, the franchisees shall consciously abide by the agreement of the franchise contract with heart and honesty, and shall not violate the requirements, contracts and the laws. The Company will perform well in market services and supervision in strict accordance with contractual agreements, policies and regulations and national laws; with the cultivation of and inheritance to the next generation of Tan, Carpenter Tan's career will be handed down through generations, and we will strive for greater success with young blood.

The founder, Mr. Tan Chuan Hua, recalled his simple original aspiration: to provide people like him with work, food, clothing and housing. His simple aspiration originated from the story of first two yuan. At the time, he wandered on the streets of Kunming penniless. Feeling hungry and cold, he once had the idea of reaching out to others to beg, but in the end, his reason and pride defeated hunger and he rejected the alms and compassion of others. He made his first two yuan by painting portraits for others. It was these two yuan that gave him hope to survive. He then ended his wandering life and returned to his hometown and this was the beginning of Carpenter Tan's entrepreneurial career.

He said that one needs confidence and pride, and so does a brand. If all the stores of the street are closed, but there is still one with lights on, it is Carpenter Tan. Before the pandemic, Carpenter Tan was looked down upon by others, but now, Carpenter Tan are welcomed by all shopping malls, because they see Carpenter Tan's tenacity and vitality, and this is confidence. Regardless of whether it is a person or a brand, it is necessary to have a big heart in order to go a long way. For Carpenter Tan's future expectations, he only hopes that Carpenter Tan will be a good company, to aim for a more ambitious goal and go on a longer journey.

During the Year Under Review, the Group received the following recognitions: in April 2023, the Company submitted an application for and entered into the "Specialized and New "Small Giant" Enterprise Cultivation Database" of the Ministry of Industry and Information Technology's; in May 2023, the Group received the "Rehabilitation International Centennial Contribution Award" from Rehabilitation International in recognition of 100 representatives or organizations that have contributed to the rehabilitation works worldwide; in June 2023, the Company entered the "Chongqing Culture and Tourism Enterprise Brand Value List".

Public welfare and charity activities are a full reflection of the Company's corporate culture and the transmission and inheritance of the love of the Company and its employees. In accordance with the Company's Measures for the Administration of Public Welfare and Charity Activities, the Company will earnestly carry out charity activities both inside and outside the Company, with a sincere heart rather than a perfunctory effort. During the Year Under Review, employees from Jurong were organised to pick tea and plant *Atractylodes* at Carpenter's Valley, to plant trees at Chishan Lake, to carry out "Combing Love with Children" charity activity at the Spring City Experimental School in Maoshan Town, and to carry out "Sending Warmth in Winter" charity activity at Maoshan Nursing Home etc.

We would like to share two interesting stories as follows:

Customer treated me milk tea

Occasionally, “accidents” like this occur at work.

That day, the phone rang as usual, but there came an unusually anxious voice of a man. The reason was that when this customer sent the product to be repaired by express delivery, he accidentally chose the payment method as freight collect. The Company has a clear reminder that goods sent with freight collect will be rejected, but the goods was already sent, and he was worried that the parcel would be returned by the courier, so he asked if we could help pay for shipping fee. He offered to transfer the funds to me via WeChat, and let me help to pay the SF Express staff.

Long-term work experience had formed some standard solutions to problems, but situation like this never happened before. I hesitated whether it was appropriate for a service staff to accept cash from customer directly. But complying with the standards also meant violating the service objective of satisfying customers’ needs with the best effort. At that moment, I felt that I was in a difficult position. Then I thought about it. The customer was so anxious and I checked that the repair product was quite expensive. He would be very sad if it was lost during the return delivery. The Company has always advocated the corporate philosophy of “honest, labor and happiness”. I believe that honesty is not about being stubborn, rigid and inflexible in work. A standard procedure is only a reference for solving problems. As long as we have a clear conscience, being able to correctly and timely solve customers’ urgent needs should be the first priority. With this in mind, I immediately agreed. Then he added my WeChat account and sent me red packet at once. I opened the red packet and it was 40 yuan! Wasn’t it too much? The shipping fee of a small parcel was not this expensive. I sent him my question, and he replied, “Oh, let me treat you milk tea with the extra money!” Ha! The customer was too polite. I quickly declined, but he didn’t reply.

The next day, the courier delivered his freight-collect parcel with a fee of 20 yuan. I then returned the remaining 20 yuan to him via WeChat. But our Tan fan is so cute and upright that he didn’t collect the money, until it was returned by the system the next day. Alright! I left it here for now. After the product was repaired, I sent it to him together with a 20-yuan note.

Although the money wasn’t much, I could only accept the money for the delivery fee, but not the money for the milk tea. This is the principle! As an ordinary member of Carpenter Tan, I know that it is not easy for the Company to expand from a few stores to thousands of specialty stores, and to develop from a small workshop to a listed company. At the same time, I am also fully aware that only by remaining true to our original aspiration, keeping the bottom line and properly solving every small matter of our customers, can we establish our corporate image and quality in the eyes of our customers, and do our best part to build the century-old brand of Carpenter Tan. (Logistics Center: Zhang Bo)

Opportunities belong to those who are prepared

Zhu Xuelin used to be a material processing staff in our technology center. His hands were not as flexible as ours, but his brain was no duller than ordinary people. I was particularly impressed by his enthusiasm for work and his ability to understand the requirements of the job.

In the past two years, due to the adjustment of the Company's product structure, the workload of material processing was significantly reduced. He took the initiative to express to the department many times that he would like to learn more while he was young and was willing to follow the arrangements of job transfer. Last year, he was transferred to the greening team in the factory as he wished. Every time I meet him in the factory, he always chats with me about what is new in his new position. I am really happy to see him adapting to his new position so quickly.

When I met him last time, he has already become a factory fire facility operator. It turned out that those days back in the greening team, he did not choose to loaf around, but voluntarily participated in the training of fire facility operators in Chongqing and successfully obtained the vocational qualification certificate. He frankly told me that in fact, the Company has already provided many job opportunities for disabled employees. But due to physical reasons, there are really some jobs that he is not capable of. However, if he encounters a position that he can be qualified for with hard work, and he does not give it a try but only blames others for his disability, he would be very sorry for the Company, and even more sorry for himself.

I am sincerely happy for his growth, and at the same time, I am filled with complicated emotions. Over the years, the Company has been adhering to the philosophy of training employees to be diligent and capable, and has provided us with many promotion channels. But if we don't work hard to accumulate knowledge and experience, and just want to sit back and wait for miracles to happen, we will only end up gaining nothing. Opportunities belong to those who are prepared. As long as we stay motivated and persevering, we all can complete the magnificent transformation and see a brighter self. (Technology Center: Liao Heng)

VIII. Human Resources And Comprehensive Governance

The Group has strengthened its internal governance. Throughout the year, there have been 6 cases involving a total of 8 individuals who violated the Company's code of conduct and management system. 4 departments were commended and 4 departments were criticized by way of public notices. We deeply embodied the Company's existing values, further established a clean and upright corporate atmosphere, observed incorruptibility and code of conduct, and maintained a "simple, clean, transparent" cooperation relationship inside and outside the Company.

During the Year Under Review, with the rapid recovery of the market, there was bottleneck pressure in meeting the production demands and ensuring the supply of orders. In response, the Company has been consistently implementing measures such as optimizing manpower and promoting multi-skilling, while also strengthening the conversion of production operations and capabilities through autonomous technological research and development as well as introduction of external technology, resulting in proactive and effective improvements and safeguards. Although order production and supply are currently operating at a high level of pressure, the Company firmly believes that with the application of more technological achievements and the optimization of product process structure, the bottleneck in production operations will be overcome, thus ensuring market supply.

Continuing to adhere to the principle of tightening the personnel usage, the Company adopted the method of reducing the number of employees and increasing efficiency and would not fill the vacancy for retired and resigned positions other than marketing, product development and technology research and development. This approach has yielded significant results. Focusing on employee development channels, promotion grades, employment conditions, salary incentives and other aspects, the Company re-established the remuneration and performance system of manpower so that employees had a direction and goal to strive for. The Company put in place incentives for stimulation, forming a good competition and incentive mechanism and atmosphere. These efforts promoted the harmonious coexistence and mutual development of employees and the Company, fostering a shared growth.

The Group 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 in place. While fulfilling the national labor, safety, environmental protection and other compliance requirements, the Company held safety production and operation risk work meetings every quarter to summarize, rectify and prevent process problems in a timely manner. 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 labor safety, environmental protection and occupational health accidents. During the production, sales and use of the products, there were no cases of toxic side effects or allergic reactions.

The Group was committed to promoting the employment of the disabled. This year, the Company set up a special development fund to support the disabled and held the first sports meeting for disabled employees. Efforts have been made to improve and enhance the conditions of venues and equipment for the rehabilitation of the disabled, which involved the construction of a community for disabled individuals and the comprehensive implementation of renovations to make production workshops more accessible and equipped with user-friendly and barrier-free restroom facilities. The Company further improved the production and living facilities of the disabled employees who lived in the factory, fully reflecting the humanistic care of the Company. This year, the Company was also rewarded in the "Rehabilitation International Centennial Celebration" held in China by the International Disability Alliance. Ms. Zhang Haidi, the then chairman of the China Disabled Persons' Federation, cordially encouraged Carpenter Tan, "honor belongs to the past. In the future, we have to work together for better cause of the disabled."

The Group actively responded to the national call for low-carbon, environmental protection, and energy-saving policies. While promoting the construction of the new factory in Wanzhou and upgrading the existing plants, the Company successfully implemented the construction of solar photovoltaic power generation. At present, it has been put into operation, and the Company firmly believes that this proactive response to the national policy and the development strategy that benefits both the country and the people will drive the Company towards a more sustainable and positive development path.

The Group has intensified its efforts in the construction of the new factory in Wanzhou, as well as in the technological upgrades and research and development of process equipment. With the completion and operation of the southern area of the new factory in Wanzhou, longstanding bottlenecks in material processing and drying have been resolved. This has enabled the establishment and implementation of an optimized craftsmanship that involved processing of raw timber using saws instead of planers, leading gradual and effective enhancement in material utilization and product quality. The construction of phase one of the northern area of the new factory in Wanzhou is being accelerated, with plans to relocate the logistics center by the end of 2024. This move aims to fundamentally address the long-standing “three-in-one” risk issue associated with the current location of the department. Significant progress has been made in craftsmanship improvement, autonomous technological research and development, and the introduction of external technologies. While effectively reducing the difficulty of required skills and the intensity of operations, the Company has seen an improvement in production efficiency, a further enhancement of market supply capabilities, and a gradual realization of perfect integration of advanced processing technology and manual craftsmanship.

After three years of the pandemic, people’s awareness of health and wellness has significantly increased. The Company slightly underestimated the growing demand for market health and wellness concept products after the pandemic. In the first quarter of the year, there was a slight lag in ensuring the production and supply of regular orders and group-purchase products. During the first quarter of the year, there was a slight delay in implementing production and supply assurance measures for regular orders and group-purchase products. However, the Company responded swiftly, made timely adjustments, and quickly improved production capacity to ensure a steady supply. Nevertheless, the Company is currently operating under high pressure and at a demanding level. It is crucial to make tangible improvements in 2024 to effectively address this situation.

In terms of market regulation, a total of 79 cases of non-compliant business practices were identified throughout the year. 74 cases were confirmed with solid evidence and under litigation, and 19 cases have been closed, resulting a recoverable amount of compensation amounted to RMB198,000. In 2021 and 2022, a total of 18 litigations were settled by court through mediation (ruling, compulsory execution), resulting in the recoverable compensation amount of RMB313,000.

During the Year Under Review, in response to the counterfeiting of the Company’s appearance-patented product “Meng Xiong” (萌熊), the Company carried out patent protection. Three cases were confirmed with solid evidence and under litigation, with one case scheduled for trial in February 2024.

In respect of trademark management, the Group held a total of 776 valid trademarks for the year ended 31 December 2023. Among them, Carpenter Tan (including Chong Tan (重譚) and Xiang Tan (香譚)) owned 395 registered trademarks in China, as well as 129 registered trademarks in Hong Kong, Macau, Taiwan, and overseas. Mujianggu owned 233 registered trademarks in China, and 19 registered trademarks in Hong Kong, Macau, Taiwan, and overseas.

FINANCIAL REVIEW

1. Revenue

The Group recorded a revenue of approximately RMB499,688,000 for the year ended 31 December 2023, representing an increase of approximately RMB151,686,000 or 43.6% as compared to that of approximately RMB348,002,000 for the year ended 31 December 2022. 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 2022. The revenue of offline business amounted to approximately RMB282,441,000, representing an increase of approximately RMB104,199,000 or 58.5% against last year of approximately RMB178,242,000. The revenue of online business amounted to approximately RMB211,468,000, representing an increase of approximately RMB45,059,000 or 27.1% against last year of approximately RMB166,409,000. The revenue of directly-operated outlets amounted to approximately RMB4,661,000, representing an increase of approximately RMB1,494,000 or 47.2% against last year of approximately RMB3,167,000. As at 31 December 2023, the Group had 1,166 franchised stores and 4 directly-operated outlets, respectively, while as at 31 December 2022, the Group had 1,092 franchised stores and 3 directly-operated outlets, respectively. The franchise fee income was approximately RMB1,118,000, which represents an increase of approximately RMB934,000 or 507.6% when compared to that of approximately RMB184,000 of last year.

	For the year ended 31 December			
	2023		2022	
	RMB'000	%	RMB'000	%
Revenue				
– Combs	46,072	9.2	41,150	11.8
– Mirrors	552	0.1	317	0.1
– Box sets	447,459	89.6	302,692	86.9
– Other accessories*	4,487	0.9	3,659	1.1
Franchise fee income	1,118	0.2	184	0.1
Total	<u>499,688</u>	<u>100.0</u>	<u>348,002</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 RMB198,811,000 for the year ended 31 December 2023, representing an increase of approximately RMB56,057,000 or 39.3% as compared to that of approximately RMB142,754,000 for the year ended 31 December 2022. 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 2023, the gross profit of the Group was approximately RMB300,877,000, representing an increase of approximately RMB95,629,000 or 46.6% as compared to that of approximately RMB205,248,000 for the year ended 31 December 2022. The gross profit margin increased from 59.0% in 2022 to 60.2% in 2023. The increase 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 RMB41,210,000 for the year ended 31 December 2023, representing an increase of approximately RMB5,846,000 or 16.5% as compared to the gain of approximately RMB35,364,000 for the year ended 31 December 2022. Other income and other net gain/(loss) was mainly comprised of PRC VAT refunds of approximately RMB26,865,000, rental income of approximately RMB4,860,000, interest income of approximately RMB8,805,000, change in fair value of financial assets at fair value through profit or loss of approximately RMB883,000 and fair value change loss of investment properties of approximately RMB5,550,000, respectively (2022: 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 negative fair value change of investment properties of approximately RMB2,020,000, respectively).

5. Selling and distribution expenses

The selling and distribution expenses of the Group amounted to approximately RMB85,502,000 for the year ended 31 December 2023, representing an increase of approximately RMB15,742,000 or 22.6% as compared to that of approximately RMB69,760,000 for the year ended 31 December 2022. The selling and distribution expenses mainly included advertising and promotion expenses of approximately RMB29,962,000, delivery charges of approximately RMB11,289,000, depreciation of right-of-use assets of approximately RMB2,948,000, salaries and allowances of approximately RMB13,221,000 and travelling expenses of approximately RMB1,910,000, respectively (2022: 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).

6. Administrative expenses

The administrative expenses of the Group were approximately RMB40,469,000 for the year ended 31 December 2023, representing an increase of approximately RMB8,494,000 or 26.6% as compared to that of approximately RMB31,975,000 for the year ended 31 December 2022. The administrative expenses were mainly comprised of salaries and allowances of approximately RMB22,330,000, legal and professional fee of approximately RMB1,166,000, design and sample expenses of approximately RMB961,000, consultancy fee of approximately RMB521,000 and audit and review fee of approximately RMB1,067,000, respectively (2022: 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).

7. Other operating expenses

Other operating expenses of the Group were approximately RMB5,844,000 for the year ended 31 December 2023, representing an increase of approximately RMB957,000 or 19.6% as compared to that of approximately RMB4,887,000 for the year ended 31 December 2022.

8. Finance costs

The finance costs of the Group were approximately RMB581,000 for the year ended 31 December 2023, representing a decrease of approximately RMB46,000 or 7.3% as compared to that of approximately RMB627,000 for the year ended 31 December 2022. The finance costs were interest on lease liabilities.

9. Income tax

For the year ended 31 December 2023, the income tax expenses of the Group amounted to approximately RMB35,917,000, representing an increase of approximately RMB9,812,000 or 37.6% when compared to approximately RMB26,105,000 for the year ended 31 December 2022. The increase was mainly due to the increase in profit before taxation 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 17.1% when compared to 19.6% for the year ended 31 December 2022.

10. Profit for the year

As a result of the foregoing, the profit for the year ended 31 December 2023 was approximately RMB173,774,000, representing an increase of approximately RMB66,516,000 or 62.0% as compared to that of approximately RMB107,258,000 for the year ended 31 December 2022. The increase was mainly due to the increase in gross profit 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 2023 was approximately RMB173,734,000, representing an increase of approximately RMB66,484,000 or 62.0% as compared to that of approximately RMB107,250,000 for the year ended 31 December 2022.

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 2023, the book value of property, plant and equipment amounted to approximately RMB105,925,000, representing an increase of approximately RMB14,555,000 or 15.9% as compared with the previous year of approximately RMB91,370,000. The increase was mainly attributable to the increase in addition of construction in progress for the year ended 31 December 2023.

2. Inventories

The Group's inventories as at 31 December 2023 increased by approximately RMB3,706,000 or 1.5% from approximately RMB244,430,000 as at 31 December 2022 to approximately RMB248,136,000 as at 31 December 2023, primarily due to the increase in raw materials level. Raw materials increased by approximately RMB251,000 or 0.1% from approximately RMB188,900,000 in last year to approximately RMB189,151,000 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 2023, the Group's trade receivables amounted to approximately RMB6,808,000 which increased by approximately RMB1,459,000 or 27.3% as compared to that of approximately RMB5,349,000 as at 31 December 2022. The ageing analysis of trade receivables is set out in Note 13 to the Financial Statements in this announcement.

4. Other receivables, deposits and prepayments

The Group's other receivables, deposits and prepayments (non-current plus current portion) increased by approximately RMB1,289,000 or 15.5% from approximately RMB8,306,000 as at 31 December 2022 to approximately RMB9,595,000 as at 31 December 2023. The increase in other receivables, deposits and prepayments was mainly due to an increase in prepayments when compared to that of last year.

5. Trade payables

As at 31 December 2023, the Group's trade payables amounted to approximately RMB6,856,000 which increased by approximately RMB2,092,000 or 43.9% as compared to that of approximately RMB4,764,000 as at 31 December 2022. 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 increased by approximately RMB5,676,000 or 12.7% from approximately RMB44,759,000 as at 31 December 2022 to approximately RMB50,435,000 as at 31 December 2023. The increase was primarily due to an increase in trade deposits received during the Year Under Review.

CAPITAL STRUCTURE

1. Indebtedness

As at 31 December 2023, the Group did not have any interest-bearing bank borrowings (31 December 2022: RMB nil).

2. Gearing ratio

As at 31 December 2023 and 2022, 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 2023, the Group did not have any pledged assets to the bank (31 December 2022: 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 RMB21,056,000 and approximately RMB18,286,000 for the year ended 31 December 2023 and the year ended 31 December 2022, 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 2023, 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 2023, the Group had cash and bank balances of approximately RMB67,381,000 (31 December 2022: approximately RMB27,160,000), which was mainly generated from operations of the Group and funds raised by the Company in 2009.

CAPITAL COMMITMENT

As at 31 December 2023, the Group had capital commitment amounted to approximately RMB44,433,000 (31 December 2022: approximately RMB16,279,000).

MATERIAL ACQUISITION AND DISPOSAL BY THE GROUP

For the year ended 31 December 2023, the Group had not made any material acquisition and disposal.

FUTURE OUTLOOK

I. Marketing Works

1. We will establish and carry out marketing works based on the business structures of three segments: domestic offline market (marketing department), domestic online market (e-commerce department), and overseas business department (overseas online and offline business).
2. Domestic offline market: to stabilize and expand the foundation and market size of the domestic market; to continuously improve the quality of established stores and new store openings, targeting prime locations in favorable commercial areas and shopping malls; to execute effective offline marketing and promotional activities for the “Comb Passion Garden”, offering a captivating experience of the art of combing; to continuously support the establishment of brand image stores in new first-tier cities; to continue implementing market development policy support for the revitalization of the Northeast Region; to consistently engage in brand image maintenance and development with a focus on cleanliness and clarity; to focus on the training and succession of the second generation of Tan family within the franchise system.
3. Domestic e-commerce: to enhance the overall service quality and value-added services of the stores; to optimize the storefront layout and product detail pages; to continuously collaborate with top-tier influencers to secure opportunities for exposure and sales-driven activities, consistently promoting the brand; to expand marketing activities targeted towards our members, ensuring the maintenance and sustaining long-term interactive engagement of online members; to carry out effective product categorization, inventory control, and further strengthen on-site management; to vigilantly monitor and detect illegal online sales and counterfeit information on online platforms, promptly contacting platforms to remove links, and liaising with administrative and risk control center to pursue litigation for safeguarding rights.
4. International market: to prioritize the development of offline market from the perspective of sustainable and healthy brand cultivation and development, while concurrently conducting pilot works for online overseas agency business; the Company provides full support for business expansion, ensuring human resource stability, implementing compensation and performance incentives, and adhering to the principles of learning from mistakes, taking bold initiatives, having work planning and implementation measures, but not setting sales profit performance targets and budgets for the time being. We will conduct effective offline brand image building in overseas markets, persistently and boldly exploring, implementing, adjusting, and making necessary corrections to identify a successful model suitable for the Company’s international business.
5. To carry out effective brand promotion for “Comb Passion Garden” through pop-up events and other activities; to promote the establishment of the flagship store image designed by Tommy Li, the launch of products and packaging, as well as marketing and promotional campaigns.

II. Product Development

To carry out annual scheduled release of new products, new packaging, as well as graphic material design and support; to develop highly processed products such as filigree enamel and mother-of-pearl inlay, followed by small-scale market sales, and to achieve mass production and launch of new lacquer craftsmanship products; to put into practice and leverage the achievements from the collaborative team of Tommy Li; to develop independent IP and create popular products both online and offline.

III. Technological Research And Development

To intensify our efforts in technology research and development, unwaveringly adhering to the principle of “perfectly integrating advanced processing techniques with traditional craftsmanship” so as to maintain the artisan culture of our brand and the craftsmanship attribute of our products; to strengthen innovation in craftsmanship, the transformation and utilization of technological advancements, ensuring their effective implementation; to improve the assessment and reward framework for accomplishments and tangible contributions in craftsmanship innovation, technological research and development, and to comprehensively promote the work of technological innovation.

IV. Upholding Core Values

We firmly uphold the core values of “honesty, hard work, and joy” and actively embody the work ethic of “honesty, integrity and joyful labor; no selfishness, being honest in public affairs; fostering a positive work environment with kindness and humility.”

V. Encouraging Innovation

We will continue to encourage bold innovation and embrace a culture of learning from mistakes, effectively implement measures to encourage innovation and cultivate a favorable atmosphere for innovation. Following the Company’s approach to fostering an atmosphere for innovation, we will actively drive innovative initiatives and generate substantial innovative contributions. We will also take strict measures to address low-level mistakes, subjective errors, and any misconduct of a negative nature.

VI. Brand Building

We will first excel our craftsmanship before narrating the Tan Carpenter Story. Our focus will be on the cultivation, establishment and communication of brand culture. We will develop the new module of “Comb Passion Garden” and participate in brand promotion activities such as wooden art weeks, wooden art exhibitions, and design competitions in colleges.

VII. Human Resources Focus

We will consistently adhere to the three strategic principles in personnel management, not compromising on our rigorous approach. We will persistently promote employment opportunities for individuals with disabilities and remain unwavering in our pursuit of tax incentives.

VIII. Market Rectification

We will closely monitor, strictly crack down on counterfeit and inferior products, and rigorously investigate violations in online sales. Our efforts will be dedicated to cultivating the Company’s credibility and further strengthening the confidence of the franchise system in itself and in the Company. It is our goal to create a respected company and brand reputation while ensuring customer experience and emotional resonance. Regarding market rights protection, it is crucial to maintain proactive and effective communication with the marketing department, and work together to carry out collaborative works such as gathering evidence, notarization, reporting and handling, ensuring control and mutual confidentiality with advisory lawyers.

IX. Other Areas Of Focus

Carpenter Tan is applying for National-level Intangible Cultural Heritage and National-level Cultural Industry Demonstration Base for the craftsmanship of comb making. We are also working on establishing international standards for “Wooden Comb” (“Haircomb”) and plan to release the English version of industry standards for “Haircomb” in real-time. Additionally, we are conducting preliminary work for the health and wellness planning of Mujianggu. Furthermore, we are undertaking preliminary work to establish a creative district along the riverbanks in new factory in Wanzhou.

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\$38.64 cents per share for the year ended 31 December 2023 to the Shareholders whose names appear on the register of members of the Company on Thursday, 6 June 2024, amounting to approximately HK\$96,103,000 (equivalent to approximately RMB87,000,000) in total, subject to the approval of the Shareholders at the Company's forthcoming annual general meeting to be held on Thursday, 23 May 2024. The dividend payout ratio is 50.0% of the profit for the year attributable to owners of the Company.

There is no arrangement under which a Shareholder has waived or agreed to waive any dividends, the above-mentioned final dividend is expected to be paid on or before Sunday, 30 June 2024.

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 Friday, 17 May 2024 to Thursday, 23 May 2024 (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 Thursday, 16 May 2024.

To qualify for the proposed final dividend

The register of members of the Company will be closed from Friday, 31 May 2024 to Thursday, 6 June 2024 (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 Thursday, 30 May 2024.

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 RMB24,682,000 as at 31 December 2023. 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 2023, 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 2023, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

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 2023, 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 certain eligible participants, have been lapsed. A summary of share options granted under the Share Option Scheme of the Company during the year ended 31 December 2023 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 2023	Approximate percentage of the Company's total issued share capital
					Outstanding as at 1 January 2023	Granted during the year	Cancelled during the year	Lapsed during the year		
Ms. Liu Kejia	Sales Controller	31 August 2018	31 August 2018 to 30 August 2023	4.896	200,000	-	-	(200,000)	-	-
Mr. Luo Hongping	Administration Controller	31 August 2018	31 August 2018 to 30 August 2023	4.896	200,000	-	-	(200,000)	-	-
					<u>400,000</u>	<u>-</u>	<u>-</u>	<u>(400,000)</u>	<u>-</u>	<u>-</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 2023 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 2023, 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 Tiannan 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 2022, the unaudited consolidated interim financial statements of the Group for the six months ended 30 June 2023 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 27 March 2024 attended by all the members of the Audit Committee, the Audit Committee, 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 2023, and the 2023 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 2023 results 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 2023 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 2023 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, 27 March 2024

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*