Carpenter Tan Holdings Limited

譚木匠控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 837)

2010

INTERIM REPORT

* For identification purpose only

CONTENTS

EXECUTIVE DIRECTORS

Mr. Tan Chuan Hua *(Chairman)*
Mr. Geng Chang Sheng
Mr. Tan Di Fu

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Mr. Tan Cao
Mr. Liu Chang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Madam Du Xin Li
Mr. Yu Ming Yang
Mr. Chau Kam Wing, Donald

MEMBERS OF THE AUDIT COMMITTEE

Mr. Chau Kam Wing, Donald *(Chairman)*
Madam Du Xin Li
Mr. Yu Ming Yang

MEMBERS OF THE REMUNERATION COMMITTEE

Mr. Chau Kam Wing, Donald *(Chairman)*
Madam Du Xin Li
Mr. Yu Ming Yang

COMPANY SECRETARY

Mr. Chan Hon Wan CPA

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STOCK CODE

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COMPANY WEBSITE

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FINANCIAL HIGHLIGHTS

	Six months ended 30 June		% Change
	2010	2009	Increase/
	RMB'000	RMB'000	(Decrease)
Financial Highlights			
Turnover	**85,919**	65,217	31.7%
Cost of sales	**(30,767)**	(26,808)	14.8%
Gross profit	**55,152**	38,409	43.6%
Profit before taxation	**38,402**	26,645	44.1%
Profit attributable to owners	**29,224**	21,327	37.0%
Basic earnings per share (RMB cents)	**11.7**	11.4	2.6%
	At 30 June	At 31 December	
	2010	2009	
Liquidity and Gearing			
Current ratio[1]	**3.04**	3.35	(9.3)%
Quick ratio[2]	**2.46**	2.79	(11.8)%
Gearing ratio[3]	**0.19**	0.19	—%

Notes:

(1) Current ratio is calculated as current assets divided by current liabilities.

(2) Quick ratio is calculated as current assets less inventories divided by current liabilities.

(3) Gearing ratio is calculated as interest-bearing bank loans divided by shareholders' fund.

MARKET REVIEW

During the first half of the year, the recovery of Chinese economy from the global financial crisis continued and re-gained its development momentum. During the same period, China's GDP and consumer consumption increased by 11.1% and 18.2% respectively as compared with the corresponding period last year. Household income and expenses of both urban and rural areas further increased by 10.2% as compared with the corresponding period last year. With the rising consumer purchasing power, the environment of the retail industry has improved. In view of the improving operating environment, the Group expanded its business in a prudent manner. With the development of the domestic economy and the improvement in living standards, people are more conscious about their health and the quality of life. Solely engaged in business of combs and related products, the "Carpenter Tan" brand features products which are all made of natural materials with sophisticated craftsmanship to cater for the concept of the quality of life. With its products perfectly matching the consumption preference of Chinese white-collar consumers with high consumption power, the brand has a promising outlook in the domestic market.

BUSINESS REVIEW

Sales network

The Group has developed an extensive distribution network by operating the franchise programme in the PRC and abroad. As at 30 June 2010, the Group had 953 franchise shops in the PRC, representing an increase of 161 shops as compared with the corresponding period last year, with extensive geographical coverage of 31 provinces and autonomous regions and more than 300 cities as well as a number of overseas cities. The market penetration of its products has been phenomenal. In addition, the Group had three franchise shops in Singapore, one franchise shop in Korea and one franchise shop in the United States. The Group has also established four overseas self-operated retail shops under the name of Carpenter Tan in Hong Kong.

During the six months ended 30 June 2010, the Group established a number of demo shops in the central business districts of China's first tier cities. 21 demo shops were established by the Group's franchisees and the number is expected to increase to approximately 40 this year. In addition, the Group continued the operation of Carpenter Tan home accessories shops and Carpenter Tan handicraft stores.

In addition, the Group further explored the overseas market and successfully developed 8 new customers in Canada, Italy and Australia. It has also planned to open new stores in Thailand, Malaysia and Saudi Arabia to consolidate the Group's position and coverage in international market.

The Group has adopted three development strategies to strengthen the position of its brand in different level of markets in China . As for first tier cities, including municipalities directly under the Central Government, provincial capital cities and prefecture-level cities with advanced economic development such as Dalian and Qingdao, the Group expanded its sales networks by establishing more demo shops and stores in shopping malls. As for second tier prefecture-level cities, the Group promoted the Carpenter Tan brand and increases sales by establishing more franchise counters and franchise shops in cooperation with the existing franchisees. As for third tier county-level cities, the Group enhanced the promotion of its brand and expanded its market coverage in cooperation with its franchisees in the relevant markets.

Sales management

The Group has carried out effective management for its franchise shops. Different management approaches are adopted for different objectives, including individual sales target approach, sales evaluation and improvement approach for franchise shops and assessment and training approach for individual franchise shops. These approaches are proven to be effective.

The Group assigned annual sales targets to its marketing personnel who in turn assigned annual sales targets to franchisees and then to individual salespersons in their shops. This three-level sales management approach has effectively ensured the fulfillment of the annual sales targets.

Marketing personnel of the Group visited the franchise shops on a regular basis to conduct on-site evaluation of the operation system and identify areas for improvement with the operators. Practical measures for improvement and action plan were formulated with the operators. This management approach has effectively improved the management and services and significantly increased sales of the relevant franchise shops.

In addition, the Group increased the sales of franchise shops through a three-level comprehensive assessment system. Based on the analysis of market information collected by the marketing department, local sales manager of provincial level assessed the salespersons of their understanding of the product features and selling skills. The assessment results were centrally examined by the management of the marketing department. The selling skill and services of salespersons had been greatly improved through such examination.

Product research and development and design

The Group has established a technology centre to study the technology to maintain the size and color of wooden products. The technology centre has been recognised as a Municipal Technology Centre by the municipal government. As at 30 June 2010, the Group had a design and development team of 20 staff members who have extensive experience and expertise in the wooden product industry. In addition, the Group engaged external designers from Europe to enhance its product development and innovation capability on a contract basis. By incorporating Chinese traditional craftsmanship into modern designs, each product of the Group is a unique wooden accessory.

The Group has been committed to strengthening its research and development capacity. During the six months ended 30 June 2010, the Group invested more than RMB2 million in technology research and development.

In respect of the research and development of new products, as at 30 June 2010, 567 types of products have been successfully developed, among which 71 types of products have been launched in the market, comprising 5 types of hangers, 27 types of gift boxes, 4 types of mirrors and 35 types of accessories.

Production

As at 30 June 2010, the Wanzhou Factory of the Group had a total of 763 full-time production staff. The Group's existing production capacity is mainly designed for the production of combs and mirrors, which is expected to be able to meet the demand in the foreseeable future.

	For the six months ended 30 June	
	2010	2009
	Output (Unit)	Output (Unit)
Combs	**1,961,000**	1,507,000
Mirrors and others	**281,000**	171,000

Marketing and promotion

The Group believes that effective marketing efforts are crucial to the promotion of brand awareness and image. As at 30 June 2010, the sales and marketing department of the Group had 38 employees responsible for brand building and marketing activities. The investment in marketing projects amounted to RMB0.8 million.

During the six months ended 30 June 2010, the Group has launched various marketing campaigns, such as the marketing campaigns for Valentine's Day and the Chinese New Year with the theme of "It's All About Love（愛從頭開始）", the promotion campaign of "Show Appreciation with Delicate Combs on Mother's Day（感恩母愛－給媽媽梳梳頭母親節）" and the summer promotion of "Carpenter Tan's Free World Expo Tickets in Honour of Teachers"（感念師恩獲大獎和精彩世博免費遊）. These campaigns have further promoted the Carpenter Tan brand. The Group also launched in various media, including the advertisements at the demo shops throughout China and the online promotion activities, to promote the awareness of our brand.

Outlook

Carpenter Tan is highly recognised in the wooden accessory industry in China and is well preceived by customers. In the second half of the year, driven by strong economic growth in China and favourable government policies, domestic demands and consumption are expected to grow significantly. The Group will seize the opportunity from the market recovery and further strengthen its branding, product design capability and sales networks to consolidate the Group´s competitive edges. The Group will further expand its retail business by leveraging on its expertise.

In view of the favourable conditions of the domestic consumer market, the Group will further expand its distribution network in China and improve its retail business in the second half of 2010 through the franchise program. To tap into the high-end market, the Group will upgrade approximately 40 shops in the first-tier cities, namely Beijing, Shanghai and Guangzhou, to enlarge the customer base of the Group in the local consumer market.

In the second half of 2010, the Company will further expand into overseas markets and enlarge the overseas customer bases in Europe and the United States. The Group also intends to open shops in the Southeast Asia and Middle-East markets.

The Group will also improve its product design and development capacity to consolidate its market position. To cater for the market demand for high quality products, the Group will recruit more talents specialized in product design and research and development in order to design products with a sense of simplicity, elegance and high quality. The Group will enhance its brand promotion and launch innovative and modern products to the market. The Group will conduct various promotional events to promote China's sophisticated comb craftsmanship.

Looking forward, the Group will continue the implementation of its defined development plans to consolidate the market position of the Group and develop Carpenter Tan into a time-honored brand of Chinese craftsmanship. The Group will consolidate its leading position in the retail market and high-end wooden products industry in China and to bring remarkable returns to shareholders.

Social responsibility

As a responsible enterprise, the Group always considers contribution to the community as its principal goal. The Group provides disabled persons with practical job training and employment opportunities, so that they can move from welfare-reliance to self-reliance.

As at 30 June 2010, the Group employed 362 disabled persons on a full-time basis under labour contracts for a term of no less than one year. The Group is in strict compliance with the criteria of social welfare enterprise

In addition, the Group actively participated in other charity events and episodes can be reviewed on our online blog. The Group is committed to contributing to the harmonious development of our society based on the corporate value of "Honesty, Work and Happiness".

FINANCIAL REVIEW

Turnover

The Group recorded turnover of approximately RMB85.9 million for the six months ended 30 June 2010, representing a growth of 31.7% as compared with that of the corresponding period last year. The growth was attributable to the enhanced competitiveness by grasping opportunities in the recovery of the China economy, which resulted in an increase in the number of franchise shops and purchase of products.

	For the six months ended 30 June			
	2010		2009	
	(RMB '000)	**%**	(RMB '000)	%
Sales				
– Combs	**28,041**	**32.6**	25,308	38.8
– Mirrors	**1,233**	**1.4**	1,137	1.8
– Box sets	**51,316**	**59.8**	34,369	52.7
– Other accessories*	**4,764**	**5.5**	3,665	5.6
Franchise fee income	**565**	**0.7**	738	1.1
	85,919	**100.0**	65,217	100.0

* Other accessories include small home accessories as well as furniture.

Cost of Sales

The cost of sales of the Group was approximately RMB30.8 million for the six months ended 30 June 2010, representing an increase of approximately 14.8% as compared to approximately RMB26.8 million of last year, which was basically consistent with the growth of turnover.

Gross Profit and Gross Profit Margin

For the six months ended 30 June 2010, gross profit of the Group was approximately RMB55.2 million, representing an increase of approximately 43.6% as compared with that of last year. The gross profit margin rose from approximately 58.9% in 2009 to 64.2% in 2010. The increase in gross profit margin was mainly due to the adjustment of sales mix of the Group and growing market demands for some products with a higher profit margin. Besides, the Group has committed to develop innovative products with high added values, and increased its investments in promotion and marketing to strengthen its long term competitive edges.

Other Revenue and Net Income

Other revenue and net income was approximately RMB10.3 million for the six months ended 30 June 2010, representing a decrease of approximately 7.0% as compared to that of approximately RMB11.1 million of last year. The decrease was mainly due to a decrease of change in fair value of investment properties from approximately RMB4.9 million for the six months ended 30 June 2009 to approximately RMB3.3 million in the corresponding period of 2010.

Selling and Distribution Expenses

The selling and distribution expenses, mainly including advertising and market expansion expenses, design fees, rental expenses, salaries and benefits, and travelling expenses, amounted to approximately RMB11.7 million for the six month ended 30 June 2010, representing an increase of approximately 25.8% as compared to that of RMB9.3 million in 2009. This increase was mainly a result of the growth of our business in 2010 and the increase in advertising and market expenses.

Administrative Expenses

The administrative expenses of the Group was approximately RMB11.2 million for the six months ended 30 June 2010, representing an increase of approximately 13.9% as compared to that of approximately RMB9.8 million of last year. The increase was primarily caused by the increased expenses related to the Company becoming a publicly listed company.

Profit for the Period

The profit for the six months ended 30 June 2010 was approximately RMB29.2 million, representing an increase of 37.0% as compared to that of approximately RMB21.3 million in the corresponding period of 2009. The increase was due to the growth of profit margin as well as turnover.

Contingent Liabilities

As at 30 June 2010, the Group did not have any significant contingent liabilities.

USE OF PROCEEDS

The application of the proceeds from the initial public offering of the Company does not materially change from the allocation stated in the prospectus of the Company dated 15 December 2009.

HUMAN RESOURCES AND TRAINING

As at 30 June 2010, the Group had employed a total of 947 employees in the mainland China, Hong Kong and overseas, with a total staff cost of approximately RMB15.5 million (2009: RMB11.8 million) for the period.

Besides providing employment opportunities for disabled persons, the Group is committed to seeking talents and retaining capable staff. Through various incentive schemes, forums and activities, the Group encourages all staff to participate in product design and development. In addition, the future success of the Group is mainly attributable to the effort of our executive Directors. Therefore, the Group entered into service agreements with all executive Directors with an initial term of three years.

The attitude, behaviour, belief and value of the staff of the Company are highly influenced by our corporate culture. Based on our corporate value of “Honesty, Work and Happiness”, the Group always educates its staff and franchisees about the importance of honesty to customers and encourages its employees to progress and pursue excellence through sharing and on-the-job training. As a result, the staff will feel happy as the customers are satisfied.

MATERIAL ACQUISITION AND DISPOSAL OF THE GROUP

For the six months ended 30 June 2010, the Group did not have any material acquisition and disposal.

DIVIDEND

The Board does not recommend the payment of any dividend for the six months ended 30 June 2010.

LIQUIDITY AND FINANCIAL RESOURCES

The Group principally relied on its internal resources to fund its operations. Bank loans will be raised occasionally to meet the different demands of its business. As at 30 June 2010, the Group had raised bank loans of RMB50.0 million (31 December 2009: RMB50.0 million) and held approximately RMB202.8 million (31 December 2009: RMB194.8 million) cash reserves. The gearing ratio (total bank loans to shareholders' equity) is at the level of 18.9% (31 December 2009: 19.3%).

For the six months ended 30 June 2010, the net cash inflow of the Group amounted to approximately RMB9.2 million (2009: net cash outflow of approximately RMB9.0 million).

The Group's principal operations are transacted and recorded in RMB and Hong Kong dollars. The Group expects that RMB will appreciate in a stable pattern in the future. The Group has no significant exposure to other foreign exchange fluctuations.

PLEDGE OF ASSETS

As at 30 June 2010, the Group did not have any assets pledged to the banks (31 December 2009: nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities since the Listing Date.

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REVIEW REPORT TO THE BOARD OF DIRECTORS OF CARPENTER TAN HOLDINGS LIMITED

(Incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 13 to 29 which comprises the condensed consolidated statement of financial position of Carpenter Tan Holdings Limited (the "Company") and its subsidiaries (together the "Group") as at 30 June 2010 and the related condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 ("HKAS 34"), Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors of the Company are responsible for the preparation and presentation of the interim financial report in accordance with HKAS 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standards on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the HKICPA. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2010 is not prepared, in all material respects, in accordance with HKAS 34.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 27 August 2010

Betty P.C. Tse
Practising Certificate Number P03024

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2010 - UNAUDITED

	Note	Six months ended 30 June 2010 (unaudited) RMB'000	2009 (audited) RMB'000
Turnover	5	**85,919**	65,217
Cost of sales		**(30,767)**	(26,808)
Gross profit		**55,152**	38,409
Other revenue and net income		**10,314**	11,087
Selling and distribution costs		**(11,653)**	(9,264)
Administrative expenses		**(11,214)**	(9,849)
Other operating expenses		**(2,745)**	(2,423)
Profit from operations		**39,854**	27,960
Finance costs	6(a)	**(1,452)**	(1,315)
Profit before taxation	6	**38,402**	26,645
Income tax	7	**(9,178)**	(5,318)
Profit for the period		**29,224**	21,327
Attributable to			
Owners of the Company		**29,224**	21,327
Earnings per share	8		
Basic and diluted		**RMB11.7 cents**	RMB11.4 cents

	Six months ended 30 June	
	2010	2009
	(unaudited)	(audited)
	RMB'000	RMB'000
Profit for the period	**29,224**	21,327
Other comprehensive income for the period (after tax)		
Exchange differences on translation of financial statements of foreign operations	**(1,216)**	104
Tax expenses	**—**	—
Exchange differences on translation of financial statements of foreign operations (net of tax)	**(1,216)**	104
Total comprehensive income for the period	**28,008**	21,431
Attributable to		
Owners of the Company	**28,008**	21,431

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2010

	Note	30 June 2010 (unaudited) RMB'000	31 December 2009 (audited) RMB'000
Non-current assets			
Property, plant and equipment	9(a)	**35,066**	35,779
Prepaid lease payments		**20,183**	20,430
Investment properties	9(b)	**37,910**	34,650
Intangible assets		**469**	500
		93,628	91,359
Current assets			
Prepaid lease payments		**494**	495
Inventories		**52,082**	42,041
Amounts due from related parties		**—**	14
Trade receivables	10	**859**	427
Other receivables, deposits and prepayments		**14,324**	13,960
Cash and cash equivalents		**202,830**	194,797
		270,589	251,734
Current liabilities			
Bank loans, unsecured		**50,000**	50,000
Trade payables	11	**4,392**	3,245
Other payables and accruals		**14,114**	19,489
Income tax payables		**2,525**	2,329
Dividends payables		**17,791**	—
		(88,822)	(75,063)
Net current assets		**181,767**	176,671
Total assets less current liabilities		**275,395**	268,030

	Note	30 June 2010 (unaudited) RMB'000	31 December 2009 (audited) RMB'000
Non-current liabilities			
Deferred tax liabilities		**8,389**	6,142
Long-term payable		**1,922**	1,851
Deferred income		**968**	979
		(11,279)	(8,972)
NET ASSETS		**264,116**	259,058
Capital and reserves			
Share capital	13	**2,200**	2,200
Reserves		**261,916**	256,858
TOTAL EQUITY		**264,116**	259,058

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2010 - UNAUDITED

		Attributable to owners of the Company								
	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Other reserve RMB'000	Property revaluation reserve RMB'000	Currency translation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2009		47	—	2,767	57,974	17,738	1,723	(379)	30,756	110,626
Dividends	12	—	—	—	—	—	—	—	(15,000)	(15,000)
Transfer to reserve		—	—	—	3,400	—	—	—	(3,400)	—
Total comprehensive income for the period		—	—	—	—	—	—	104	21,327	21,431
At 30 June 2009 (audited)		47	—	2,767	61,374	17,738	1,723	(275)	33,683	117,057
At 1 January 2010		**2,200**	**114,674**	**2,767**	**65,454**	**17,738**	**1,723**	**304**	**54,198**	**259,058**
Dividends	12	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(22,950)**	**(22,950)**
Transfer to reserve		**—**	**—**	**—**	**4,055**	**—**	**—**	**—**	**(4,055)**	**—**
Total comprehensive income for the period		**—**	**—**	**—**	**—**	**—**	**—**	**(1,216)**	**29,224**	**28,008**
At 30 June 2010 (unaudited)		**2,200**	**114,674**	**2,767**	**69,509**	**17,738**	**1,723**	**(912)**	**56,417**	**264,116**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2010 - UNAUDITED

	Note	Six months ended 30 June	
		2010	2009
		(unaudited)	(audited)
		RMB'000	RMB'000
Net cash generated from/(used in) operating activities		**10,390**	(18,297)
Net cash used in investing activities		**(1,143)**	(729)
Net cash generated from financing activities		**—**	10,000
Net increase/(decrease) in cash and cash equivalents		**9,247**	(9,026)
Cash and cash equivalents at 1 January		**194,797**	50,883
Effect of foreign exchange rate changes		**(1,214)**	44
Cash and cash equivalents at end of period		**202,830**	41,901

1. BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of the events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2009 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by the Company's audit committee and the Company's external auditor in accordance with Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2009 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for the financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2009 are available from the Company's registered office. The auditor has expressed an unqualified opinion on those financial statements in their report dated 17 April 2010.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except as otherwise set out in the accounting policies.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and separate financial statements
HKAS 39 (Amendment)	Eligible hedged items
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions
HKFRS 3 (Revised)	Business combinations
HK(IFRIC) — INT 17	Distributions of non-cash assets to owners

The Group applies HKFRS 3 (Revised) "Business Combinations" prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

2. PRINCIPAL ACCOUNTING POLICIES – *continued*

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related party disclosures[4]
HKAS 32 (Amendment)	Classification of rights issues[2]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[3]
HKFRS 9	Financial Instruments[5]
HK(IFRIC) — INT 14 (Amendment)	Prepayments of a minimum funding requirement[4]
HK(IFRIC) — INT 19	Extinguishing financial liabilities with equity instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 January 2013

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT REPORTING

Over 90% of the Group's turnover, results and assets are derived from a single business segment which is manufacture and sales of wooden handicrafts and accessories. No business segment information is presented accordingly.

The Group's turnover and results from operations are mainly derived from activities in the PRC. The principal assets of the Group are located in the PRC. Accordingly, no analysis by geographical segment is provided.

Major customers

No analysis of the Group's turnover 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 revenues.

4. SEASONALITY OF OPERATIONS

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

5. TURNOVER

Turnover represents the net invoiced value of goods sold to customers, less value added tax and sales tax, returns and allowances, and franchise fee income. An analysis of the Group's turnover for the year is as follows:

	Six months ended 30 June	
	2010	2009
	(unaudited)	(audited)
	RMB'000	RMB'000
Sales of goods	**85,354**	64,479
Franchise fee income	**565**	738
	85,919	65,217

6. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2010	2009
	(unaudited)	(audited)
	RMB'000	RMB'000
a) Finance costs		
- Interest on bank and other borrowings	**1,315**	1,118
- Imputed interest expense on long-term payable	**137**	197
Total interest expense on financial liabilities not at fair value profit or loss	**1,452**	1,315
b) Other items		
Auditor's remuneration	**263**	52
Amortisation of prepaid lease payments	**248**	248
Amortisation of intangible assets	**31**	16
Cost of inventories	**30,767**	26,808
Depreciation	**1,932**	1,591
Impairment on trade and other receivables	**—**	36
Loss on disposal of property, plant and equipment	**51**	279
Operating lease rentals in respect of land and buildings	**3,469**	3,797
Staff costs (including directors' emoluments)	**15,543**	11,830

7. INCOME TAX

	Six months ended 30 June	
	2010	2009
	(unaudited)	(audited)
	RMB'000	RMB'000
Current tax — Hong Kong Profits Tax	**—**	—
Current tax — the PRC	**6,931**	2,982
Deferred taxation	**2,247**	2,336
	9,178	5,318

7. INCOME TAX – *continued*

Notes:

(i) Pursuant to the notice of the State Administration of Taxation (the "SAT"), Ministry of Finance of the PRC on preferential tax policies to social welfare enterprise and the legal opinion issued by the Company's legal advisers in the PRC, Chongqing City Wan Zhou Qu Ziqiang Muye Company Limited ("Ziqiang Muye"), a subsidiary of the Company was registered as a social welfare enterprise in the PRC on 29 April 2004 and was entitled to the tax concessions for the refund of the entire income tax and value added tax ("VAT") paid since its incorporation on 26 February 2004 up to 30 September 2006. According to the preferential tax policies on social welfare enterprise issued by the SAT effective from 1 October 2006, Ziqiang Muye is entitled to income tax concession on a double deduction of salaries paid to its employees with disabilities, and VAT concession on tax refund which is equivalent to the number of employees with disabilities multiplied by a specified annual cap amount as determined by the SAT. In addition, on 2 November 2006, Ziqiang Muye obtained the SAT's approval for a concessionary income tax rate reduction from 33% to 15% for the five years from 1 January 2006 to 31 December 2010 according to the preferential tax policies granted to companies located in western part of the PRC and the national encouraged business activities.

The Group recognised the VAT and income tax refund in the Group's consolidated income statement on an accrual basis.

(ii) On 19 May 2010, Chongqing Carpenter Tan Handicrafts Company Limited ("Carpenter Tan") obtained the SAT's approval for a concessionary income tax rate reduction from 25% to 15% for two years for 1 January 2009 to 31 December 2010 according to the preferential tax policies granted to companies located in western part of the PRC and the national encouraged business activities.

(iii) The provision for PRC income tax is calculated on the assessable profit of the Group's subsidiaries incorporated in the PRC at a statutory income tax rate of 25% (2009: 25%) except for Ziqiang Muye and Carpenter Tan. Ziqiang Muye and Carpenter Tan following the income tax concessions as stated in note 7(i) and 7(ii) above according to the tax preferential policies, respectively.

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

(v) No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2010 and 2009 as the subsidiaries did not have assessable profits subject to Hong Kong profits tax for above periods.

(vi) Under the Corporate 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 a 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. Deferred tax liabilities of RMB1,432,000 (2009: RMB1,101,000) in respect of the withholding income tax on dividends has been recognised by the Group during the six months ended 30 June 2010.

8. EARNINGS PER SHARE

a) Basic earnings per share

The calculation of basic earnings per share is based on the net profit attributable to owners of the Company and the weighted average number of ordinary shares in issue during the year, calculated as follows:

i) Profit attributable to owners of the Company

	Six months ended 30 June	
	2010	2009
	(unaudited)	(audited)
	RMB'000	RMB'000
Earnings used in calculating basic and diluted earnings per share (profit attributable to owners of the Company)	**29,224**	21,327

ii) Weighted average number of ordinary shares

	Six months ended 30 June	
	2010	2009
	(unaudited)	(audited)
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**250,000,000**	187,500,000

In determining the weighted average number of ordinary shares in issue, a total of 187,500,000 ordinary shares were deemed to be in issue on 1 January 2009, comprising 5,000,000 ordinary shares in issue as at 1 January 2009 and 182,500,000 ordinary shares issued on 29 December 2009 pursuant to the capitalisation issue.

b) Diluted earnings per share

There were no dilutive potential shares in issue during the year, the diluted earnings per share is the same as the basic earnings per share during the six months ended 30 June 2010 and 2009.

9. FIXED ASSETS

a) Acquisitions and disposals

During the six months ended 30 June 2010, the Group acquired items of property, plant and equipment with a total cost of RMB1,466,000 (2009: RMB827,000). Items of property, plant and equipment with a total carrying amount of RMB247,000 were disposed of during the six months ended 30 June 2010 (2009: RMB798,000), resulting in a loss on disposal of RMB51,000 (2009: RMB279,000).

b) Valuation

The Group's investment properties are carried at fair value. For the purpose of this report, an update valuation as at 30 June 2010 was carried out by DTZ Debenham Tie Leung Limited, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited has, among its staff members of the Hong Kong Institute of Surveyors, who possess appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market transaction prices for similar properties in the same location and net rental income allowing for reversionary income potential. As a result of the update, a net gain of RMB3,260,000 (2009: RMB4,940,000), and deferred tax of RMB815,000 (2009: RMB1,235,000) thereon, have been recognised in these financial statements for the period.

10. TRADE RECEIVABLES

Ageing analysis of trade receivables (net of allowance for doubtful debts) is as follows:

	At 30 June 2010 (unaudited) RMB'000	At 31 December 2009 (audited) RMB'000
Current	**748**	327
31 to 60 days past due	**31**	20
61 to 90 days past due	**40**	17
91 to 180 days past due	**16**	55
181 to 365 days past due	**16**	4
More than 1 year past due	**8**	4
Trade receivables, net of allowance for bad debts	**859**	427

Credit terms within 30 days are generally granted to those customers with high credibility.

11. TRADE PAYABLES

The credit terms granted by the suppliers are generally 30 days. Ageing analysis of trade payables is as follows:

	At 30 June 2010 (unaudited) RMB'000	At 31 December 2009 (audited) RMB'000
0 to 30 days	**3,354**	2,251
31 to 60 days past due	**343**	601
61 to 90 days past due	**287**	181
91 to 180 days past due	**287**	64
181 to 365 days past due	**14**	76
More than 1 year past due	**107**	72
	4,392	3,245

12. DIVIDENDS

i) Dividends payable to owners of the Company attributable to the interim period:

	At 30 June 2010 (unaudited) RMB'000	At 30 June 2009 (audited) RMB'000
Interim dividend declared and paid after the interim period of Nil (2009: RMB3 per ordinary share)	**—**	15,000

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010.

ii) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period:

	At 30 June 2010 (unaudited) RMB'000	At 30 June 2009 (audited) RMB'000
Final dividend in respect of the financial year ended 31 December 2009, approved and paid during the current interim period, of RMB9.18 cents per ordinary share (2009: Nil)	**22,950**	—

13. SHARE CAPITAL

	Number of shares	HK$'000	Amount equivalent to RMB$'000
Ordinary shares of HK$0.01			
Authorised:			
At 1 January 2009 and 30 June 2009	38,000,000	380	354
Increase in authorised share capital on 17 November 2009	9,962,000,000	99,620	87,572
At 1 January 2010 and 30 June 2010	**10,000,000,000**	**100,000**	**87,926**
Issued and fully paid:			
At 1 January 2009 and 30 June 2009	5,000,000	50	47
Capitalisation issue on 29 December 2009	182,500,000	1,825	1,604
Shares issued under the placing and public offering on 29 December 2009	62,500,000	625	549
At 1 January 2010 and 30 June 2010	**250,000,000**	**2,500**	**2,200**

14. CAPITAL COMMITMENTS

As at 30 June 2010, capital commitments not provided for in the financial statements were as follows:

	At 30 June 2010 (unaudited) RMB'000	At 31 December 2009 (audited) RMB'000
Contracted but not provided for in respect of		
- property, plant and equipment	**79**	52
- prepaid lease payments	**—**	43
	79	95

15. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2010 and 31 December 2009.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the six months ended 30 June 2010, none of the Directors was interested in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2010, the interests and short positions of the Directors in the share, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ('SFO")) as recorded in the register maintained by the Company under section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers ("Model Code") were as below:

Interests in shares of the Company

Name of Director	Capacity/Nature of interest	Number of securities (Note 1)	Approximate percentage of shareholding
Mr. Tan Chuan Hua (Note 1)	Interest in a controlled corporation	169,700,000	67.88%

Note:

1. Mr. Tan Chuan Hua is deemed to be interested in 169,700,000 Shares held by Lead Charm Investments Limited ("Lead Charm") by virtue of his 51% interest in Lead Charm under Part XV of the SFO.

Interests in the shares of associated corporations

Name of Directors	Name of associated corporations	Capacity/ Nature of interest	Approximate percentage of shareholding in associated corporations
Mr. Tan Chuan Hua	Lead Charm	Beneficial owner	51%
Mr. Tan Cao	Fame Good Investmnets Limited ("Fame Good")	Beneficial owner	24.81%
Mr. Geng Chang Sheng	Fame Good	Beneficial owner	7.44%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2010, the interests and long positions of every persons in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital, as recorded in the register maintained and kept by the Company under section 336 of the SFO were as below:

Interests in the Shares of the Company

Name	Capacity/ Nature of interest	Number of shares	Position	Approximate percentage of shareholding
Madam Fan Cheng Qin (note 1)	Interest in a controlled Corporation	169,700,000	Long	67.88%
Lead Charm (note 2)	Beneficial owner	169,700,000	Long	67.88%
Fame Good (note 2)	Beneficial owner	17,800,000	Long	7.12%

Notes:

1. Madam Fan Cheng Qin is deemed to be interested in 169,700,000 Shares held by Lead Charm by virtue of her 49% interest in Lead Charm under Part XV of the SFO. Fan Cheng Qin is a controlling shareholder within the meaning of the Listing Rules.

2. Lead Charm and Fame Good are both controlling shareholders within the meaning or otherwise by virtue of the Listing Rules.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants, including directors, eligible employees, consultants, suppliers, customers, any shareholder of each member of the Group or associated company or any of their respective associates, who contribute to the success of the Group. The Share Option Scheme conditionally approved by a written resolution of the shareholders of the Company dated 17 November 2009.

The Board may offer to make a grant subject to such conditions (including but not limited to terms and condition in relation to vesting, exercise or otherwise) as the Board may think fit, provided that such conditions shall not be inconsistent with any other terms and conditions of the Share Option Scheme. The Board may, at its absolute discretion, fix any minimum period for which an Option must be held, any performance targets that must be achieved and/or any other conditions that must be fulfilled before the Options can be exercised upon the grant of an option to an Eligible Person. Any grant of options to a connected person must be approved by the Independent Non-executive Directors (excluding the Independent Non-executive Director who or whose associates is the grantee of the option).

The subscription price for the Shares under the Share Option Scheme shall be such price as the Board may in its absolute discretion determine at the time of grant of the option but the subscription price shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day ("Offer Date"); (ii) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of a Share, provided that for the purpose of calculating the subscription price, where the Company has been listed for less than five business days the issue price shall be used as the closing price for any business day falling within the period before listing.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Group shall not exceed 30% of the Shares in issue from time to time. The Board shall be entitled to cancel any option granted but not exercised in whole or in part by giving notice in writing to the grantee stating that such option is thereby cancelled with effect from the date specified in such notice. Any Options cancelled cannot be re-granted.

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the Effective date. Upon the expiry of the Share Option Scheme, no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other aspects to the extent necessary to give effect to the exercise of any options granted or exercised prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

The Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon termination of the Share Option Scheme as aforesaid, no further options shall be offered but the provision of the Share Option Scheme shall remain in force and effect in all respects to the extent necessary to give effect to the exercise of Options granted prior to such termination. All options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

As at 30 June 2010, no option has been granted under the Share Option Scheme.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all the applicable code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the six months ended 30 June 2010, except for the deviation from provision A.2.1 of the CG Code.

The CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Tan Chuan Hua holds both the positions of the Chairman of the Board and the Chief Executive Officer. The Board believes that vesting the role of both positions in Mr. Tan provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies. The Board also considers that this structure 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 on the Board. The Board believes that the structure outlined above is beneficial to the Company and its business operation as a whole.

MODEL CODES FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers 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 compliance with the Model Code for the six months ended 30 June 2010. 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 price sensitive information, has been requested to comply with the provisions of the Model Code and the Company's code of conduct regarding securities transactions by Directors. No incidence of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company during the year under review.

AUDIT COMMITTEE

The Company has established an audit committee on 17 November 2009 with written terms of reference in compliance with the Code of Corporate Governance Practices as set out in appendix 14 to the Listing Rules.

The Audit Committee currently comprises the three independent non-executive Directors, namely, Mr. Chau Kam Wing, Donald, Madam Du Xin Li and Mr. Yu Ming Yang. Mr. Chau is the Chairman of the Audit Committee, and he possesses recognised professional qualifications in accounting as required by the Listing Rules.

The Audit Committee has reviewed with the management of the Company and the external independent auditors, the Group's unaudited consolidated financial statements, the accounting principles and practices adopted and discussed auditing, internal controls, and financial reporting matters.

COMPLIANCE ADVISER

Pursuant to the compliance adviser agreement dated 14 December 2009 entered into between the Company and First Shanghai Capital Limited ("First Shanghai"), First Shanghai has been appointed as the compliance adviser as required under the Listing Rules for the period from the Listing Date to the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of the Company's financial results for the year ending 31 December 2010. First Shanghai will receive a fee for acting as the Company's compliance adviser during the period.

As notified by First Shanghai, save as disclosed above, neither First Shanghai nor its respective directors, employees or associates (as defined in the Listing Rules) had any interest in the shares of the Company, or had any options or rights to subscribe for or to nominate persons to subscribe for the shares of the Company as at 30 June 2010.

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

Chongqing, the PRC, 27 August 2010