CARPENTER TAN HOLDINGS LIMITED

譚木匠控股有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock Code : 837)

2012 Interim Report

* For identification purpose only

CONTENTS

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

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

MEMBERS OF THE NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Chan Hon Wan *CA*

AUTHORISED REPRESENTATIVES

Mr. Geng Chang Sheng
Mr. Chan Hon Wan *CA*

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The PRC

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AUDITOR

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Hong Kong

STOCK CODE

837

COMPANY WEBSITE

www.ctans.com

	Six months ended 30 June 2012 RMB'000	2011 RMB'000	% Change Increase/ (Decrease)
Financial Highlights			
Turnover	**132,734**	114,214	16.2%
Cost of sales	**(44,322)**	(36,607)	21.1%
Gross profit	**88,412**	77,607	13.9%
Profit before taxation	**68,830**	59,478	15.7%
Profit attributable to owners	**67,549**	40,152	68.2%
Basic earnings per share (RMB cents)	**27.0**	16.1	67.7%
	At 30 June 2012	At 31 December 2011	
Liquidity and Gearing			
Current ratio(1)	**10.8**	8.1	32.1%
Quick ratio(2)	**8.8**	6.6	33.3%
Gearing ratio(3)	**N/A**	N/A	N/A

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. As the Group did not have any bank borrowings as at 30 June 2012 and 31 December 2011 respectively, the calculation of gearing ration is not applicable.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In 2012, the global economic situation remained uncertain. Affected by the slow recovery of global economy and intensifying debt crisis in European countries and the United States, economic growth in China continued to slow down and growth of retail sales of consumer goods declined. According to the second quarter 2012 statistics released by the National Bureau of Statistics of China, the total retail sales of consumer goods for the first half of 2012 reached RMB8,583.3 billion, representing an increase of 16.8% over the corresponding period of the previous year. The gross domestic product (GDP) for the first half of 2012 reached RMB22,709.8 billion, representing an increase of 7.8% over the corresponding period of the previous year. In response to the complicated and challenging domestic and international economic situations, the Central Party Committee and the State Council stressed to maintain sustainable and steady growth. With an aim to achieve steady and rapid economic growth while maintaining social stability, boosting consumption and domestic demand remain as the major theme of the national economic policy of the year. It is estimated that the retail sales will increase in the coming few months.

In the first half of 2012, the Group widened its sales channels effectively and was adamant in strengthening the management of its shops (both franchise shops and directly-operated outlets), which achieved significant progress and resulted in a steady growth in operation results. Based on the market situation and the sales network of "Carpenter Tan", the Group adopted measures to focus on the development of store-in-stores marketing channel, such as shopping malls, in the municipalities directly under the Central Government and provincial capitals, to extend the market coverage of the "Carpenter Tan" brand and to enhance its brand recognition and popularity in first tier cities. As at 30 June 2012, the Group opened 38 and 18 new franchise shops in provincial capitals and municipalities directly under the Central Government respectively. The Group also established 77 new franchise shops in second and third tier cities in close proximity to core pedestrian streets and shopping malls to enhance its competitiveness in core business circles.

BUSINESS REVIEW

1. Retail Outlets

The Group has developed an extensive and large-scale distribution network in the PRC and oversea. In addition, the Group has also established self-operated retail shops in Hong Kong. As at 30 June 2012, the Group had a total of 1,405 retail outlets, representing a net increase of 73 shops as compared to the end of 2011. The following table sets out the number of the Group's franchise shops and directly-operated outlets:

	As at 30 June 2012		As at 31 December 2011	
	Franchise shops	**Directly-operated outlets**	Franchise shops	Directly-operated outlets
Hong Kong	—	**6**	—	7
PRC	**1,389**	—	1,315	—
Other countries and regions	**10**	—	10	—
Total	**1,399**	**6**	1,325	7

2. Sales Network

The PRC market

As at 30 June 2012, the number of franchise shops of the Group increased steadily and an aggregate of 1,389 franchise shops were established in the PRC, representing a net increase of 74 shops as compared to the end of 2011. The network has a wide geographical coverage spanning 30 provinces in China.

During the Reporting Period, the Group has established modern shops (demo shops) in first-tier cities and coastal cities. As at 30 June 2012, the total number of modern shops reached 74, including 8 new shops, and they were mainly located in cities such as Beijing, Nanjing, Guangzhou, Shijiazhuang and Tianjin.

Overseas market

As the business scale kept growing, the Group established more overseas sales outlets during the Reporting Period. As at 30 June 2012, the Group established 16 sales outlets in overseas markets, including 6 directly-operated outlets in Hong Kong, and 10 franchise shops including 3 in Singapore, 1 in Malaysia, 1 in South Korea, 4 in the United States and 1 in Canada. In addition, the Group expanded its businesses by conducting sales through authorized and general distribution agents. The products under the brand name "Carpenter Tan" were sold in various overseas countries, including Germany, Britain, Australia, the United States, Canada and Taiwan.

3. Sales Management

The Group has placed great emphasis on the upgrade and management of its marketing system. The franchise shops and self-operated outlets are effectively managed and the overall operating efficiency has enhanced through regular inspection of franchise shops and systematic and strict management model. During the Reporting Period, the Group refined its Point of Sale ("POS") system and conducted random checks of the POS data uploaded by franchise shops from time to time to collect updated sales and inventory information of franchise shops. The sales of the franchise shops improved and the inventory of franchise shops remained at reasonable level as a result of the optimization of the POS system. The franchise shops were required to provide daily sales and inventory reports to the Company, which greatly strengthened the data monitoring in respect of the sales system, inventory and supply chain management of the Company. Furthermore, market researchers of the Group supervised the upload process of franchise shops to ensure a smooth upload. The adoption of information technology in management enhanced the transparency of franchise shops operation, facilitating the management to keep informed of and promptly respond to the market information. It also improved the communication between the Group and its franchise shops, the efficiency of employees and management effectiveness were also enhanced.

In order to further refine the operating mechanism of its franchise shops, provincial managers and market supervisors arranged site inspection for the operations of franchise shops monthly in strict compliance with the ISO Management Manual and rectified problems in a timely manner to ensure the smooth operation of sales system. In addition, the Group organized online test for employees every month to understand the operation of franchise shops and mobility of employees promptly.

4. Products

As at 30 June 2012, the Group launched 470 products, comprising 214 box sets, 134 lockets, 69 accessories, 26 mirrors, 21 limited editions and 6 regional editions. In the first half of 2012, the Group launched 48 new products, comprising 26 box sets, 2 lockets, 4 mirrors, 9 accessories, 2 limited editions and 5 regional editions.

5. **Product Development and Design**

The Group attaches great importance to product development and design and has a technology centre in Wanzhou. As at 30 June 2012, the Group launched five new products and technologies. During the Reporting Period, the Group promoted the development and commenced trial production of the third generation of tooth comb, which is scheduled to launch in the second half of the year. Such new technology reduces quality defects and enhances utilization rate of raw materials. Besides, the Group has developed new materials for combs. Experiments for the improvement and inspection of new materials are in progress.

The Group has strived to optimize its craftsmanship to enhance production efficiency and product quality, which achieved remarkable results during the Reporting Period. The new methods increased the number of certified products processed each time. Production efficiency as well as wood utilization rate were enhanced.

The industry standard for combs drafted by the Group has passed the examination of the expert committee and will be submitted to the competent authority for approval and publication.

6. **Production**

As at 30 June 2012, the Wanzhou Factory of the Group had a total of 768 full-time production staff and the main products were combs and mirrors. Actual output and comparison with the corresponding period last year are set out below:

	For the six months ended 30 June	
	2012	2011
	Output	Output
	(Unit)	(Unit)
Combs	**2,735,215**	2,257,400
Mirrors and others	**278,507**	406,300

7. **Marketing and Promotion**

The Group attaches great importance to marketing and promotion. During the Reporting Period, the Group organized a series of promotion and advertising campaigns to enhance the visibility and awareness of the Group. The campaign mainly included shop promotion in weekends and public holidays as well as media promotion.

The Group launched a promotion activity for the Mother's Day named "The Movie Watched with My Mother (那些年和母親一起感動的電影)" in May 2012, where customers could get two movie tickets for free upon purchase of RMB688. Trial promotions were carried out in Chongqing and Chengdu.

In June 2012, all franchise shops electively launched promotion activities for the graduation month and Father's Day, and the headquarters provided posters as support. The Group also commenced nationwide promotion in Tuen Ng Festival to gift with rice dumpling-shaped sachet and amulets upon purchase of certain amounts.

8. Awards and Accreditation

During the Reporting Period, the Group was awarded the "2012-2013 Famous Export Brand of Chongqing (重慶市2012-2013出口知名品牌)", "Famous Brand (著名商標)", "Silver Award for Product Innovation (產品創新銀獎)", "Excellent Private Enterprise in Chongqing (重慶市優秀民營企業)" and "2012 Golden Phoenix – Gold Award for Innovated Product Design in Qingdao (2012年金鳳凰－青島賽區創新產品設計大獎金獎)".

9. Social Responsibility

The Group is committed to its social responsibilities. Apart from actively expanding business, the Group also makes contribution to society and cares for disabled persons. It has been providing job opportunities for disabled persons since its establishment. As at 30 June 2012, the Group has employed 354 disabled persons and the proportion of disabled persons to the total number of staff remained high.

The Group has established a corporate culture system based on the core value of "Honesty, Work and Happiness" and endeavored to serve the community. The Group has set up 6 teams with over 280 volunteers in total, which actively participated in community services during the Reporting Period, including visits to homes for the elderly, the Hope Schools, schools for the intellectually disabled, disabled staff in the factories and the haemophilia association. In March 2012, the Group coordinated staff to participate in voluntary tree planting organized by the people's governments of Yubei and Wanzhou of Chongqing. Over 1,000 trees were planted in the activity. The above charity works allowed the staff to experience the warmth of community and cherish their lives.

FINANCIAL REVIEW

1. Turnover

The Group recorded turnover of approximately RMB132,734,000 for the six months ended 30 June 2012, representing a growth of RMB18,520,000 or 16.2% as compared to approximately RMB114,214,000 for the six months ended 30 June 2011. 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 sales of products.

	For the six months ended 30 June			
	2012		2011	
	(RMB'000)	**%**	(RMB'000)	%
Sales				
– Combs	**41,359**	**31.2**	35,016	30.7
– Mirrors	**797**	**0.6**	786	0.7
– Box sets	**85,132**	**64.1**	73,022	63.9
– Other accessories*	**4,723**	**3.6**	4,595	4.0
Franchise fee income	**723**	**0.5**	795	0.7
	132,734	**100.0**	114,214	100.0

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

2. Cost of Sales

The cost of sales of the Group was approximately RMB44,322,000 for the six months ended 30 June 2012, representing an increase of approximately RMB7,715,000 or 21.1% as compared to approximately RMB36,607,000 for the six months ended 30 June 2011, which was slightly higher than the growth of turnover.

3. Gross Profit and Gross Profit Margin

For the six months ended 30 June 2012, gross profit of the Group was approximately RMB88,412,000, representing an increase of approximately RMB10,805,000 or 13.9% as compared to approximately RMB77,607,000 for the six months ended 30 June 2011. The gross profit margin slightly decreased from approximately 67.9% in 2011 to 66.6% in 2012. The decrease in gross profit margin was mainly due to the adjustment of sales mix of the Group, during the Reporting Period to cope with the change in market situation, the Group launched various new middle pricing product lines in order to widen the customer base and increase sales volume.

4. **Other Revenue and Net Income**

Other revenue and net income comprise of PRC VAT refunds, bank interest income and rental income. Other revenue and net income was approximately RMB9,542,000 for the six months ended 30 June 2012, representing a slight increase of approximately RMB113,000 or 1.2% as compared to approximately RMB9,429,000 for the six months ended 30 June 2011. The increase was mainly due to an increase in bank interest income.

5. **Selling and Distribution Expenses**

The selling and distribution expenses, mainly including advertising and market expansion expenses, design fees, rental expenses, transportation fee, salaries and benefits, and travelling expenses, amounted to approximately RMB13,170,000 for the six month ended 30 June 2012, representing an increase of approximately RMB2,372,000 or 22.0% as compared to RMB10,798,000 for the six months ended 30 June 2011. This increase was mainly a result of the increase in advertising and market expansion expenses of RMB730,000, salaries and benefits of RMB261,000, travelling expenses of RMB165,000 and transportation fee of RMB163,000.

6. **Administrative Expenses**

The administrative expenses of the Group was approximately RMB12,178,000 for the six months ended 30 June 2012, representing a decrease of approximately RMB823,000 or 6.3% as compared to approximately RMB13,001,000 for the six months ended 30 June 2011. The decrease was primarily due to a decrease in salaries and benefits.

7. **Profit from Operations**

For the six months ended 30 June 2012, profit from operations for the Group amounted to approximately RMB68,830,000, increased by approximately RMB9,281,000 or 15.6% when compared to approximately RMB59,549,000 for the six months ended 30 June 2011. Increase in profit from operations was mainly due to an increase in turnover and gross profit for the six months ended 30 June 2012.

8. **Finance Costs**

For the six months ended 30 June 2012, finance costs amounted to nil, decreased by approximately RMB71,000 or 100% when compared to approximately RMB71,000 for the six months ended 30 June 2011. The decrease was mainly due to the decrease in bank loan interest as a result of the reduction in bank borrowings.

9. **Profit Before Taxation**

For the six months ended 30 June 2012, profit before taxation for the Group amounted to approximately RMB68,830,000, increased by approximately RMB9,352,000 or 15.7% when compared to approximately RMB59,478,000 for the six months ended 30 June 2011. Increase in profit before taxation was mainly due to an increase in turnover and gross profit for the Reporting Period.

10. **Income Tax Expenses**

For the six months ended 30 June 2012, income tax expenses for the Group amounted to approximately RMB1,281,000, decreased substantially by approximately RMB18,045,000 or 93.4% when compared to approximately RMB19,326,000 for the six months ended 30 June 2011. This decrease was mainly due to the fact that preferential tax policies granted to companies located in western part of China has been approved, the Group's subsidiaries wrote back the over provision for income tax made in 2011 of RMB13,277,000 which was calculated on the statutory income tax rate of 25%. The effective tax rate for the Reporting Period was 1.9% when compared to 32.5% for the six months ended 30 June 2011. Details of income tax expenses are set forth in note 7 to the unaudited interim financial report.

11. **Profit for the Period**

The profit for the six months ended 30 June 2012 was approximately RMB67,549,000, representing an increase of RMB27,397,000 or 68.2% as compared to approximately RMB40,152,000 in the corresponding period of 2011. The increase was primarily due to the growth of revenue as well as the write back of the over provision for income tax made in 2011.

12. **Liquidity and Capital Resources**

The Group has met its working capital needs mainly through cash generated from operations and various short-term bank borrowings when required. During the Reporting Period, the Group did not have any bank borrowings. 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 12 months from the date of this report.

As at 30 June 2012, the Group had cash and cash equivalents of RMB254,996,000 mainly generated from operations of the Group and funds raised by the Company.

13. Cash Flows

The Group's cash is primarily used to meet the demand of financing its working capital requirement, repay interest and principal due on its indebtedness and provide funds for capital expenditures and growth of the Group's operations.

Net cash generated from operating activities

The Group's cash inflow from operations primarily derives from payments for the sale of the Group's products. During the Reporting Period, the Group's net cash generated from operating activities amounted to RMB52,455,000, representing an increase of net cash generated from operating activities of RMB21,500,000 from RMB30,955,000 for the six months ended 30 June 2011. The increase was primarily due to the continued growth of the Group's operations.

Net cash used in investing activities

The Group's net cash outflow used in investing activities amounted to RMB1,013,000 during the Reporting Period, representing an increase of RMB131,000 as compared with the cash outflow of RMB882,000 for the six months ended 30 June 2011. The increase is mainly due to the increase in payment for purchasing fixed assets.

Net cash used in financing activities

The Group's net cash used in financing activities amounted to RMB46,800,000 during the Reporting Period, representing an increase of RMB13,668,000 as compared with RMB33,132,000 for the six months ended 30 June 2011. The increase was primarily due to the increase in dividends payment by the Company.

14. Capital Structure

Indebtedness

As at 30 June 2012 and during the Reporting Period, the Group did not have any bank borrowings.

Gearing ratio

As at 30 June 2012 and 31 December 2011, the Group did not have any bank borrowings. The calculation of gearing ratio was not meaningful.

Pledge of assets

As at 30 June 2012, the Group did not have any assets pledged to the banks (31 December 2011: nil).

Capital expenditure

The capital expenditures of the Group primarily included purchases of plant and equipment, leasehold improvements and motor vehicles. The Group's capital expenditures amounted to RMB1,020,000 and RMB955,000 for the Reporting Period and the six months ended 30 June 2011 respectively.

Foreign exchange risk

The major business of the Group has used RMB and HK$ as the transaction and bookkeeping currencies. The Group expects that RMB will maintain a stable development. The Group has no major risks in changes in other currency exchange.

15. Contingent Liabilities, Legal and Potential Proceedings

As at 30 June 2012, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

16. Major Acquisitions and Disposals

For the six months ended 30 June 2012, the Group has not made any material acquisition and disposal.

17. Ongoing 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.

OUTLOOK

Despite the current challenging global economic environment, it is expected that China's economy will maintain its growth at 8% with the support of national policies. According to the Twelfth Five-Year Plan, the Chinese government stressed to expand the domestic demand and promote cultural development. Benefitting from the policies of the Chinese government, the GDP of China maintained steady growth. The continuous increase in per capita income has boosted domestic consumption, driving the demand for the Chinese traditional crafts to grow. Consumption confidence is expected to be slightly revived in the second half of 2012. As a renowned brand of small wooden products, Carpenter Tan will continue to strengthen research and development in order to improve the quality of its products and production efficiency, grasp the opportunities in the market and leverage its advantages in the industry.

Looking forward to the second half of 2012, the Group will continue to expand its market and refine the management of franchise shops. It will further strengthen its penetration in the domestic market and extend its foreign market coverage. The Group will follow its objective of promoting Chinese culture and endeavour to develop "Carpenter Tan" as an international well-known brand. The Group will continuously put efforts in building its brand and strengthen research and development in order to improve the quality of its products and the production efficiency.

In addition, the Group will expand its sales network prudently and actively and plans to establish approximately 120 new franchise shops in the second half of the year. As the domestic purchasing power in China will continue to grow, the Group plans to open 20 modern shops (demo shops) and store-in-stores in key markets and well-known chain shopping malls in municipalities directly under the Central Government and provincial capitals, including Beijing, Shanghai, Guangzhou, Shenzhen, Tianjin, Hangzhou, Nanjing, Suzhou, Wuhan, Shenyuang, Chengdu and Dalian, in the second half of the year to consolidate the sales network of the Group.

For the development in overseas markets, the Group will focus on developing the general distribution and existing franchise shops in Singapore, the United States and Australia to improve their profitability. The Group will expand its customer bases in Europe and other new markets through participating in overseas exhibitions and the online platform. The Group intends to establish 2 new franchise shops through regional distributors in overseas markets in the second half of 2012 in order to further increase the share of its products in international market.

For system management, the Group will also improve its information management and POS system to strengthen the communication between the Group and franchise shops and the supervision of the franchise shops. Through upgrading and refining the functions of POS system, the Group will enhance the supervision and management of the operating data and improve the work efficiency of franchise shops, laying a solid foundation for the refined management of the shops. Besides, according to the development needs of all departments, the Group will organise different training programmes for its employees, including video training, online tests, seminars, exhibitions and outdoor training, to strengthen the training for employees and encourage employees to achieve self-improvement and upgrade their technological level and professional knowledge of the industry.

For commerce, the Group will continue to strengthen its e-commerce team in terms of products modification, logistics services, products promotion and advertisement so as to further develop the e-commerce market.

As a social conscience corporation, the Group is committed to shouldering its social responsibilities while expanding its businesses. It advocates the hiring of the disabled in order to increase their employment opportunities. Moreover, the Group promotes the concept of slow living in Hong Kong. It will organise a promotional campaign, "Slow Living in Hong Kong" (香港慢生活), in the second half of 2012, which includes a photography contest, "Enjoy Slow Living" (樂享慢生活).

Looking forward, with the relaxed austerity policies and the commencement of the "Twelfth Five Year Plan" of the PRC during the year, the Group will face increasing opportunities. As such, the Group will leverage its market insights and its reputation and leading position in the wooden decoration market of China to enhance its penetration in the domestic market through increasing the number of franchise shops and establishing new sales channels. The Group will continue to improve its product quality and management efficiency so as to provide customers with products of premium quality. To continue its pursuit of "becoming the wooden comb of the world" (做全世界的一把木梳), the Group will strive to bring better investment returns to the shareholders and investors.

For the above plans for future development, the Group will utilise the internal resources of the Group and/or the proceeds that the Company obtained from listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 December 2009.

HUMAN RESOURCES AND TRAINING

As at 30 June 2012, the Group had employed a total of 988 employees in the mainland China, Hong Kong and overseas, with a total staff cost of approximately RMB21,894,000 (2011: RMB21,147,000) for the Reporting Period.

In addition to 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 from 29 December 2009, being the date on which the shares of the Company first commenced trading on the Main Board of the Stock Exchange.

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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the six months ended 30 June 2012, 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 2012, 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	Approximate percentage of shareholding
Tan Chuan Hua (Note 1)	Interest in a controlled Corporation	169,700,000	67.88%
Geng Chang Sheng	Beneficial owner	1,326,597	0.53%
Tan Cao	Beneficial owner	3,450,584	1.38%

Note:

1. 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
Tan Chuan Hua	Lead Charm	Beneficial owner	51%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2012, 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
Tan Chuan Hua (note 1)	Interest in a controlled Corporation	169,700,000	Long	67.88%
Fan Cheng Qin (note 2)	Interest in a controlled Corporation	169,700,000	Long	67.88%
Lead Charm (note 3)	Beneficial owner	169,700,000	Long	67.88%

Notes:

1. Tan Chuan Hua is deemed to be interested in 169,700,000 Shares held by Lead Charm by virtue of his 51% interest in LeadCharm under Part XV of the SFO. Mr. Tan is a controlling shareholder within the meaning of the Listing Rules.

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

3. Lead Charm is a controlling shareholder within the meaning or otherwise by virtue of the Listing Rules.

SHARE OPTION SCHEME

The Company operates a share option scheme ("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 was conditionally approved by a written resolution of the shareholders of the Company dated 17 November 2009. Details of the Share Option Scheme are set out in the prospectus of the Company dated 15 December 2009.

As at 30 June 2012, no share option was granted based on the Share Option Scheme.

CAPITAL COMMITMENT

As at 30 June 2012, the Group had capital commitment amount to approximately RMB96,000 (31 December 2011: RMB140,000).

PUBLIC FLOAT

According to information disclosed publicly and as far as the directors of the Company (the "Directors") are aware, during the Reporting Period and up to the date of this report, at least 25% issued shares of the Company has been held by public shareholders.

DIVIDENDS

Pursuant to a resolution passed by the shareholders of the Company on 18 May 2012, the Company declared the audited distributable profits as at 31 December 2011 amounting to approximately HK$57,425,000 (equivalent to approximately to RMB 46,800,000) to the shareholders of the Company. The dividend was fully paid on 15 June 2012 by the internal cash resources of the Company.

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2012 (2011: Nil).

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

During the six months ended 30 June 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

USE OF NET PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 29 December 2009, after deducting the related issuance expenses, amounted to approximately HK$132,900,000 (equivalent to approximately RMB116,800,000). As at 30 June 2012, the Group had used net proceeds of approximately RMB38,200,000, of which RMB12,000,000 had been applied for enhancement of the Group's design and product development and enhancement for operational efficiency, RMB14,000,000 for enhancement for sales network and sales support services, construction of production base and RMB12,200,000 as working capital. The remaining net proceeds have been deposited into banks which are intended to be applied in accordance with the proposed application set forth in the Company's prospectus dated 15 December 2009 except for the proposed application of HK$24,000,000 for setting up high-end home accessories shops in the PRC and the application of HK$6,000,000 for setting up lifestyle handicraft stores.

As disclosed in the Company's 2011 annual report, due to the change in market environment and the Group's business strategy, the Group has decided to hold-up the business plan in developing the high-end home accessories shops and lifestyle handicraft stores. The Board is studying other alternative business development opportunities, which would generate better investment return to the Group's shareholders.

CORPORATE GOVERNANCE PRACTICES

The Stock Exchange made various amendments to the Code on Corporate Governance Practices (the "Old 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 renamed it the Corporate Governance Code (the "CG Code"). The CG Code took effect on 1 April 2012.

The Company complied with the code provisions as set out in the Old Code during the period from 1 January 2012 to 31 March 2012 and the code provisions as set out in the CG Code during the period from 1 April 2012 to 30 June 2012, other than code provision A.2.1 of the Old Code and code provision A.1.8, A.2.1 and A.6.7 of the CG Code at the relevant period.

According to the code provision A.1.8 of the CG Code, the Company should arrange appropriate insurance cover in respect of legal action against its directors and officers. During the period from 1 April 2012 to 30 June 2012, the Company did not take out directors and officers liability insurance to cover liabilities arising from legal action against its directors. Although the Company undertakes to maintain a high standard of corporate governance and comply with the code provisions, the Company decides to postpone its compliance with this code provision as the Board is currently considering quotes from different insurers and will choose the most cost-effective directors and officers liability insurance.

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

In addition, according to code provision A.6.7 of the CG Code, non-executive directors and independent non-executive directors should attend general meetings of company. At the Company's Annual General Meeting held on 18 May 2012, two non-executive Directors and two independent non-executive Directors were not in a position to attend the meeting due to their respective other commitment.

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 or her compliance with the Model Code for the six months ended 30 June 2012. 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 written guidelines. No incidence of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company during the period.

AUDIT COMMITTEE

The Company has established an audit committee on 17 November 2009 and has formulated its written terms of reference, which have from time to time been modified, in accordance with the prevailing provisions of the CG Code. The major purpose of the andit committee is to review and provide supervision over the Group's financial reporting process and internal controls.

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 the Company's unaudited condensed consolidated interim financial information for the six months ended 30 June 2012 with the management of the Group and the external independent auditors and agreed with the accounting treatment adopted by the Company.

DISCLOSURE OF INFORMATION

The interim report for the six months ended 30 June 2012 is also published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.ctans.com).

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

Hong Kong, 31 August 2012

CCIF

CCIF CPA LIMITED

34/F The Lee Gardens
33 Hysan Avenue
Causeway Bay Hong Kong

REVIEW REPORT TO THE BOARD OF DIRECTORS OF CARPENTER TAN HOLDINGS LIMITED
譚木匠控股有限公司
(Incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 24 to 38 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 2012 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-month 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 2012 is not prepared, in all material respects, in accordance with HKAS 34.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 31 August 2012

Betty P.C. Tse
Practising Certificate Number P03024

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2012 - UNAUDITED

	Note	Six months ended 30 June 2012 (unaudited) RMB'000	2011 (unaudited) RMB'000
Turnover	5	**132,734**	114,214
Cost of sales		**(44,322)**	(36,607)
Gross profit		**88,412**	77,607
Other revenue		**9,542**	9,429
Selling and distribution expenses		**(13,170)**	(10,798)
Administrative expenses		**(12,178)**	(13,001)
Other operating expenses		**(3,776)**	(3,688)
Profit from operations		**68,830**	59,549
Finance costs	6(a)	—	(71)
Profit before taxation	6	**68,830**	59,478
Income tax	7	**(1,281)**	(19,326)
Profit for the period		**67,549**	40,152
Attributable to			
Owners of the Company		**67,549**	40,152
Earnings per share	8		
Basic and diluted		**RMB27.0 cents**	RMB16.1 cents

The accompanying notes form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2012 - UNAUDITED

	Six months ended 30 June	
	2012	2011
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Profit for the period	**67,549**	40,152
Other comprehensive income for the period (after tax)		
Exchange differences on translation of financial statements of foreign operations	**(433)**	(95)
Income tax related to components of other comprehensive income	—	—
Other comprehensive income for the period	**(433)**	(95)
Total comprehensive income for the period	**67,116**	40,057
Attributable to		
Owners of the Company	**67,116**	40,057

The accompanying notes form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2012 - UNAUDITED

	Note	30 June 2012 (unaudited) RMB'000	31 December 2011 (audited) RMB'000
Non-current assets			
Property, plant and equipment	9(a)	**32,024**	32,449
Prepaid lease payments	10	**19,104**	19,363
Investment properties	9(b)	**42,800**	42,800
Intangible assets	11	**—**	—
		93,928	94,612
Current assets			
Prepaid lease payments	10	**518**	518
Inventories		**60,994**	60,697
Trade receivables	12	**1,464**	1,262
Other receivables, deposits and prepayments		**16,533**	7,576
Cash and cash equivalents		**254,996**	250,790
		334,505	320,843
Current liabilities			
Trade payables	13	**3,921**	2,005
Other payables and accruals		**20,727**	19,309
Income tax payable		**6,404**	18,197
		(31,052)	(39,511)
Net current assets		**303,453**	281,332
Total assets less current liabilities		**397,381**	375,944
Non-current liabilities			
Deferred tax liabilities		**15,103**	13,964
Deferred income		**899**	917
		(16,002)	(14,881)
NET ASSETS		**381,379**	361,063
Capital and reserves			
Share capital	15	**2,200**	2,200
Share premium and reserves		**379,179**	358,863
TOTAL EQUITY		**381,379**	361,063

The accompanying notes form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 30 JUNE 2012 - UNAUDITED

		Attributable to owners of the Company								
	Note	Share capital RMB'000	Share premium RMB'000	Capital reserves RMB'000	Statutory reserves RMB'000	Other reserves RMB'000	Property revaluation reserves RMB'000	Currency translation reserves RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2011 (audited)		2,200	114,674	2,767	79,106	17,738	1,723	(619)	83,720	301,309
Dividends	14	—	—	—	—	—	—	—	(33,062)	(33,062)
Transfer to reserve		—	—	—	4,952	—	—	—	(4,952)	—
Total comprehensive income for the period		—	—	—	—	—	—	(95)	40,152	40,057
At 30 June 2011 (unaudited)		2,200	114,674	2,767	84,058	17,738	1,723	(714)	85,858	308,304
At 1 January 2012 (audited)		2,200	114,674	2,767	97,385	17,738	1,723	(1,373)	125,949	361,063
Dividends	14	—	—	—	—	—	—	—	(46,800)	(46,800)
Transfer to reserve		—	—	—	4,829	—	—	—	(4,829)	—
Total comprehensive income for the period		—	—	—	—	—	—	(433)	67,549	67,116
At 30 June 2012 (unaudited)		2,200	114,674	2,767	102,214	17,738	1,723	(1,806)	141,869	381,379

The accompanying notes form part of this interim financial report.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2012 - UNAUDITED

	Six months ended 30 June	
	2012	2011
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Net cash generated from operating activities	52,455	30,955
Net cash used in investing activities	(1,013)	(882)
Net cash used in financing activities	(46,800)	(33,132)
Net increase/(decrease) in cash and cash equivalents	4,642	(3,059)
Cash and cash equivalents at 1 January	250,790	181,298
Effect of foreign exchange rate changes, net	(436)	(95)
Cash and cash equivalents at 30 June	254,996	178,144

The accompanying notes form part of this interim financial report.

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 2011 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"), which term collectively includes HKASs and Interpretations issued by the HKICPA.

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.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties which are stated at fair value.

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 2011, except as described below.

In the current interim period, the Group has adopted and applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA:

- Amendments to HKFRS 7, Disclosures – Transfer of Financial Assets
- Amendments to HKAS 12, Deferred Tax – Recovery of Underlying Assets

Except as described below, the application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES - continued

Amendments to HKAS 12 Deferred tax: Recovery of underlying assets

Under the amendments to HKAS 12 "Deferred tax–Recovery of underlying assets", investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment properties" are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group's investment properties portfolio and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, and that the presumption set out in the amendments to HKAS 12 is rebutted. Previously, the Group recognised deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use. As a result, the application of the amendments to HKAS 12 in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 cycle[2]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statement, Joint Arrangements and Disclosure of Interests in Other Entities: Transition guidance[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[1]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investment in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[4]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 January 2014

Save as disclosed in the annual report for the year ended 31 December 2011, the directors of the Company anticipate that the application of the other new and revised standards and amendments issued but not yet effective will have no material impact on the results and financial position of the Group.

3. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports which provide information about the components of the Group. The information is reported to and reviewed by the board of directors, which is the chief operating decision-maker ("CODM") of the Group, for the purpose of resources allocation and performance assessment.

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. Activities outside the PRC are insignificant. 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 revenue.

4. SEASONALITY OF OPERATIONS

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

5. 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 period is as follows:

	Six months ended 30 June	
	2012	2011
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Sales of goods	**132,012**	113,419
Franchise fee income	**722**	795
	132,734	114,214

6. PROFIT BEFORE TAXATION

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

		Six months ended 30 June	
		2012	2011
		(unaudited)	(unaudited)
		RMB'000	RMB'000
a)	Finance costs		
	- Imputed interest expense on long-term payable	**—**	71
	Total interest expense on financial liabilities not at fair value through profit or loss	**—**	71
b)	Other items		
	Auditor's remuneration	**266**	276
	Amortisation of prepaid lease payments	**259**	248
	Cost of inventories (notes 6(i))	**44,322**	36,607
	Depreciation	**1,432**	1,449
	Impairment on trade and other receivables	**24**	27
	Loss/(gain) on disposal of property, plant and equipment	**9**	(38)
	Operating lease rentals in respect of land and buildings	**2,536**	2,397
	Staff costs (including directors' emoluments)	**21,894**	21,147

Notes:

(i) Cost of inventories includes approximately RMB15,265,000 (2011: RMB11,477,000) relating to staff costs, depreciation and operating lease rentals, which are included in the respective total amounts disclosed separately above.

7. INCOME TAX

	Six months ended 30 June	
	2012	2011
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Current tax		
PRC enterprise income tax (notes 7(i), (ii), (iii) and (iv))	**10,979**	17,152
Hong Kong profits tax (note 7(vi))	**—**	—
Withholding tax on dividends	**2,440**	1,745
	13,419	18,897
(Over)/underprovision in prior years, net		
PRC enterprise income tax	**(13,277)**	111
Deferred tax		
Distribution of dividends	**(2,440)**	(1,745)
Current period	**3,579**	2,063
Total	**1,281**	19,326

Notes:

i) Chongqing City Wanzhou Qu Ziqiang Muye Company Limited ("Ziqiang Muye") and Chongqing Carpenter Tan Handicrafts Company Limited ("Carpenter Tan"), wholly-owned subsidiaries, obtained approval from the Wanzhou Bureau of the State Administration of Taxation ("WBSAT") for a concessionary Enterprise Income Tax rate of 15% for five years from 1 January 2006 to 31 December 2010 and for two years from 1 January 2009 to 31 December 2010 respectively according to the preferential tax policies granted to companies located in western part of the PRC and involved in national encouraged business activities.

ii) Due to the expiry of preferential tax policies from 1 January 2011, the provision for PRC income tax for Ziqiang Muye and Carpenter Tan for the year ended 31 December 2011 was calculated on the statutory Enterprise Income Tax rate of 25% on their assessable profits because as at the approval date of the consolidated financial statements for the year ended 31 December 2011, the Group was uncertain whether Ziqiang Muye and Carpenter Tan will be eligible for income tax rate of 15% under the new preferential tax policies granted to companies located in western part of the PRC in accordance with Caishui (2011) No. 58, as the list of national encouraged business activities in the western region eligible for Caishui (2011) No. 58 was not yet announced by then.

iii) On 6 April 2012, State Administration of Taxation of The People's Republic of China issued notice No. 12 which specified that prior to the announcement of the list of national encouraged business activities in the western region, enterprises can tentatively apply for the concessionary Enterprise Income Tax rate of 15% from 2011 in accordance with Caishui (2011) No. 58, provided that these enterprises fall under the categories of several other published lists of encouraged business activities. Such concession will be revoked if the enterprises subsequently do not fall under the list of national encouraged business activities in the western region when it is announced.

On 29 May 2012, both Ziqiang Muye and Carpenter Tan obtained the approval from WBSAT under notice No. 12 to enjoy concessionary Enterprise Income Tax rate of 15% from 1 January 2011 to 31 December 2020.

As such, the directors of the Company considered that Ziqiang Muye and Carpenter Tan should continue to enjoy the preferential tax rate of 15% from 1 January 2011, and decided to write back the over provision for income tax for the year ended 31 December 2011 which was calculated on the statutory income tax rate of 25%.

7. INCOME TAX - continued

Notes: - continued

iv) 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% (2011: 25%), except for Ziqiang Muye and Carpenter Tan which were eligible for the income tax concessions according to the preferential tax policies, as stated in note 7(i), (ii) and (iii) above.

v) 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.

vi) No provision for Hong Kong profits tax has been made for the period ended 30 June 2012 and 2011 as the subsidiaries did not have assessable profits subject to Hong Kong profits tax for the above periods.

8. BASIC AND DILUTED 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 period, calculated as follows:

i) Profit attributable to owners of the Company

	Six months ended 30 June	
	2012	2011
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Earnings used in calculating basic and diluted earnings per share (profit attributable to owners of the Company)	**67,549**	40,152

ii) Weighted average number of ordinary shares

	Six months ended 30 June	
	2012	2011
	(unaudited)	(unaudited)
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**250,000,000**	250,000,000

b) Diluted earnings per share

There were no dilutive potential shares in issue during the period, the diluted earnings per share is the same as the basic earnings per share during the six months ended 30 June 2012 and 2011.

9. FIXED ASSETS

a) Acquisitions and disposals

During the six months ended 30 June 2012, the Group acquired items of property, plant and equipment with a total cost of RMB1,020,000 (2011: RMB955,000). Items of property, plant and equipment with a total carrying amount of RMB16,000 (2011: RMB33,000) were disposed of during the six months ended 30 June 2012, resulting in a loss on disposal of RMB9,000 (2011: gain on disposal of RMB38,000).

b) Valuation

The fair value of the Group's investment properties as at 30 June 2012 was arrived at on the basis of a valuation carried out on that day by DTZ Debenham Tie Leung Limited, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited has among its employee members of the Hong Kong Institute of Surveyors who have appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same location and net rental income allowing for reversionary income potential. The fair value of the investment properties was RMB42,800,000 as at 30 June 2012 (as at year ended 31 December 2011: RMB42,800,000). No fair value gain and deferred tax thereon have been recognised in these financial statements for the period (2011: RMBNil).

10. PREPAID LEASE PAYMENTS

On 11 May 2011, 萬州經濟技術開發區土地儲備中心 issued a resumption notice to Carpenter Tan for the resumption of the land use right of a piece of land in Chongqing City Wanzhou District (the "Land") having a carrying amount of RMB7,369,000 as at 30 June 2012 (as at year ended 31 December 2011: RMB7,450,000). The Group originally intended to erect a production complex on the Land but no construction activity has been commenced up to the date of this report.

On 8 February 2012, Carpenter Tan received another notice from 萬州經濟技術開發區管理委員會, informing the company that the Land will be resumed by the government and Carpenter Tan will be compensated through exchange with another piece of land. The Group is still negotiating with the relevant local authorities for the terms of resumption and agreement has not been reached up to the date of this report. The management expects that the fair value of the land exchanged as compensation will not be lower than the carrying amount of the land resumed. Since the Group has not commenced the development of the production complex on the Land, there is no material adverse effect on the business operation and financial position to the Group.

11. INTANGIBLE ASSETS

	Licence RMB'000	Trademark RMB'000	Total RMB'000
Cost			
At 1 January 2011	500	1,037	1,537
Eliminated on derecognition	(500)	—	(500)
At 31 December 2011 and 30 June 2012	—	1,037	1,037
Accumulated amortisation and accumulated impairment			
At 1 January 2011	500	1,037	1,537
Eliminated on derecognition	(500)	—	(500)
At 31 December 2011 and 30 June 2012	—	1,037	1,037
Carrying amount			
At 30 June 2012	—	—	—
At 31 December 2011	—	—	—

12. TRADE RECEIVABLES

Ageing analysis of trade receivables (net of allowance for doubtful debts) is presented based on invoice date as of the end of the reporting period as follows:

	At 30 June 2012 (unaudited) RMB'000	At 31 December 2011 (audited) RMB'000
0 to 30 days	**1,112**	1,118
31 to 60 days	**286**	19
61 to 90 days	**6**	38
91 to 180 days	**29**	23
181 to 365 days	**26**	32
Over 1 year	**5**	32
Trade receivables, net of allowance for doubtful debts	**1,464**	**1,262**

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.

13. TRADE PAYABLES

The credit terms granted by the suppliers are generally 30 days. Ageing analysis of trade payables is presented based on invoice date as of the end of the reporting period as follows:

	At 30 June 2012 (unaudited) RMB'000	At 31 December 2011 (audited) RMB'000
0 to 30 days	**3,178**	1,693
31 to 60 days	**419**	164
61 to 90 days	**90**	1
91 to 180 days	**47**	49
181 to 365 days	**103**	20
Over 1 year	**84**	78
	3,921	2,005

14. DIVIDENDS

i) The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: RMBNil).

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

	At 30 June 2012 (unaudited) RMB'000	At 30 June 2011 (unaudited) RMB'000
Final dividend in respect of the financial year ended 31 December 2011, approved and paid during the current interim period, of RMB18.72 cents per ordinary share (2011: in respect of the financial year ended 31 December 2010, RMB13.22 cents)	**46,800**	33,062

15. SHARE CAPITAL

	Number of shares	HK$'000	Amount equivalent to RMB$'000
Ordinary shares of HK$0.01			
Authorised:			
As at 31 December 2011 and 30 June 2012	10,000,000,000	100,000	87,926
Issued and fully paid:			
As at 31 December 2011 and 30 June 2012	250,000,000	2,500	2,200

16. CAPITAL COMMITMENTS

At 30 June 2012, capital commitments not provided for in the financial statements were as follows:

	At 30 June 2012 (unaudited) RMB'000	At 31 December 2011 (audited) RMB'000
Contracted but not provided for in respect of		
- property, plant and equipment	**96**	140

17. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 June 2012 and 31 December 2011.