



CARPENTER TAN HOLDINGS LIMITED

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

STOCK CODE

837

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2015

INTERIM REPORT

\*For identification purpose only

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## CORPORATE INFORMATION

### 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

Mr. Chau Kam Wing, Donald  
Mr. Yu Ming Yang  
Madam Huang Zuoan

### MEMBERS OF THE AUDIT COMMITTEE

Mr. Chau Kam Wing, Donald (*Chairman*)  
Mr. Yu Ming Yang  
Madam Huang Zuoan

### MEMBERS OF THE REMUNERATION COMMITTEE

Mr. Chau Kam Wing, Donald (*Chairman*)  
Mr. Yu Ming Yang  
Madam Huang Zuoan

### MEMBERS OF THE NOMINATION COMMITTEE

Mr. Chau Kam Wing, Donald (*Chairman*)  
Mr. Yu Ming Yang  
Madam Huang Zuoan

### COMPANY SECRETARY

Mr. Chan Hon Wan CA

### AUTHORISED REPRESENTATIVES

Mr. Geng Chang Sheng  
Mr. Chan Hon Wan CA

### REGISTERED OFFICE

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Hutchins Drive  
PO Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

### HEADQUARTERS

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Jiangsu Province  
The PRC

### PRINCIPAL PLACE OF BUSINESS IN

HONG KONG  
Room 1009, 10/F  
Commercial Centre  
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Kowloon Bay, Kowloon  
Hong Kong

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 609  
Grand Cayman KY1-1107  
Cayman Islands



## CORPORATE INFORMATION

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

### PRINCIPAL BANKERS

Agricultural Bank of China  
Wanzhou Fen Hang Ying Ye Bu  
222 Taibai Road  
Wanzhou  
Chongqing  
The PRC

### AUDITOR

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9 th Floor  
Leighton Centre  
77 Leighton Road  
Causeway Bay  
Hong Kong

### STOCK CODE

837

### COMPANY WEBSITE

[www.ctans.com](http://www.ctans.com)



## FINANCIAL HIGHLIGHTS

	Six months ended 30 June		% Change Increase/ (Decrease)
	2015 RMB'000	2014 RMB'000	
<b>Financial Highlights</b>			
Turnover	142,838	149,741	(4.6)%
Cost of sales	(49,366)	(49,851)	(1.0)%
Gross profit	93,472	99,890	(6.4)%
Profit before taxation	77,732	82,486	(5.8)%
Profit attributable to owners	63,240	66,572	(5.0)%
Basic earnings per share (RMB cents)	25.29	26.63	(5.0)%
	At 30 June 2015	At 31 December 2014	
<b>Liquidity and Gearing</b>			
Current ratio <sup>(1)</sup>	2.63	2.73	(3.7)%
Quick ratio <sup>(2)</sup>	2.34	2.32	0.9%
Asset - liability ratio <sup>(3)</sup>	23.7%	16.8%	6.9%

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) Asset - liability ratio is calculated as total bank borrowings divided by total assets and multiply by 100%.



## MANAGEMENT DISCUSSION AND ANALYSIS

### MARKET REVIEW

The global economy is still in its slow and weak recovery. It was forecasted by the United Nation that the growth rate of global economy in 2015 would be around 3.1%. It was forecasted by the World Trade Organisation that the volume of global trade in 2015 would be 4.0%. It was forecasted by the United Nations Conference on Trade and Development that the scale of global cross border investment in 2015 would increase from US\$16,000 billion in 2014 to US\$17,000 billion. The global economy will move into a “new normal state” of growth at slow speed. The retail industry will also move into its “new normal state” of growth at slow speed. According to the information recently updated by the National Bureau of Statistics, from January to June 2015, the total retail sales of consumer goods amounted to approximately RMB 14,157.7 billion, an increase of 10.4% when compared to the same period last year.

There were four main features demonstrated under the new normal state of the consumer goods market in China. First, the growth rate in the market sales of consumer goods would slowdown. The slowdown in the economy shall bring the slowdown in the growth of household income. Thus the growth in the consumption of goods would fall. On the other hand, new household consumption would be devoted on services consumption. Secondly, the government would not directly stimulate goods consumption. In future, the growth of consumer goods market shall not rely on forces driven externally. The forces generated internally from the market would be the only force that would drive the growth of consumer goods. Thirdly, the consumer goods market would tend to develop in a sound manner. During the past years, a considerable proportion of spending in the consumer goods market of China were represented by public funding that were marked as corrupt, extravagant, show off of wealth. Although such spending managed to stimulate growth in consumption, it was abnormal and not healthy. The Chinese government published a series of policies procuring the development of consumer goods market back to its healthy track. Lastly, the prospects of mass consumer good would be broad with huge potential. Since 2013, the pace in the growth of high-end merchandise and food and beverage consumption fell sharply. Consumers began to return to the mass and rational market. It is extremely likely that this development trend will continue, and mass consumption will sustain and become the new normal state for the development and the major “driving force” of the consumer goods market. Under the circumstances that the growth of economy in China may be slowdown to 7%, the growth of consumer goods market would fall slightly as a result. However, it would still be higher by about four percentage points than the GDP. Hence the nominal growth of total retail sales of consumer goods would not be less than 11%. Consumption will be further characterized by mass, rational, and Internet-based, whilst the increase in prices of consumer goods for the year would be stable and under control.

In wooden handicrafts industry where the Group operates, it is fragmented and mixed. There are not many well-known brands, especially those brands that are competitive. In the first half of 2015, the Group adopted the following strategies and focuses in operations upon the circumstances arising from the market: (1) launched a new image for its stores, and granted about RMB 3 million to the franchisees as renovation subsidy support, facilitating to enhance its brand image; (2) introduced various preferential policies for the franchisees, including support for demonstration store, support for stores at public transport interchange, RMB 0.1 subsidy for packing bag; (3) actively combated illegal sales on the Internet and safeguarded the interests of the physical stores.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

#### 1. Retail outlets

The Group has developed an extensive distribution and retail network in the PRC and abroad by operating the franchise programme and self-operated retail shops. As at 30 June 2015, the Group had 1,396 franchised shops in the PRC, and another 3 franchised shops in other countries and regions. The following table sets out the number of the Group's franchised outlets and self-operated retail shops:

	As at 30 June 2015		As at 31 December 2014	
	Franchised shops	Self-operated retail shops	Franchised shops	Self-operated retail shops
Hong Kong	—	4	—	4
PRC	1,396	—	1,449	—
Other countries and regions	3	—	3	—
<b>Total</b>	<b>1,399</b>	<b>4</b>	<b>1,452</b>	<b>4</b>

#### 2. Sales network

##### *The PRC market*

In 2015, the new store development visions and development strategies for China market include:

- (i) To continue consolidation at core business districts in first and second tier cities and increase the coverage at major business districts of these cities. Through the strong support of the demonstration store policy, the Group tended to expand and set up stores in the core business districts at provincial capital, municipalities directly under the Central Government and some major cities. Through the setting up requirements of multi-franchised shops and no distance restriction in the core business districts, it was ensured that two stores or more were deployed at core business districts. Through the renovation support policy for the new image of stores, the pace of expansion was accelerated.
- (ii) To strengthen the strategic cooperation on leading chain commercial property developers projects. Endeavours were used to expand at large integrated shopping centre that surpassed the limits in the development of supermarket system. The Group proactively followed up with the headquarter of leading chain commercial property developers, so as to explore prime commercial projects and identify new centres. The Group actively solicited franchisees with channel resources and adequate funding, and granted channel authorization whenever necessary. The stationing at leading chain supermarket system was cautiously handled.
- (iii) To further expand at the transportation interchange, in particular airports and express train station. The Group introduced franchisees of quality and provided policies to support their operations so as to enhance the coverage of channels.
- (iv) Selectively planned for the expansion only at the core business districts in county-level cities that are ranking top at various regions.



## MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2015, the setup, the total number of the stores, the main areas of operation and market feedback on four different styles of stores were analysed as follows:

(i) Gao Tie First Generation Stores\*

As of to-date, the Gao Tie First Generation Stores were still decorated in traditional style. The stores decorated between January and March were of styles in Gao Tie First Generation Stores. Those decorated after March, save as under special circumstances, shall not follow the traditional style. As of 30 June, there were 24 stores that were decorated in Gao Tie First Generation style, which were located at major cities in Jiangsu, Zhejiang, Beijing, Guangdong, Liaoning, Henan and Shanxi.

(ii) Gao Tie Second Generation Stores\*

As at 30 June 2015, there were 26 stores that were decorated in Gao Tie Second Generation Stores styles, which were located at first tier cities around Jiangsu, Anhui, Shannxi, Chongqing, Henan, Shanghai and Beijing. Such style is the key style for decoration in 2015. The feedback from a majority of franchise stores commented that such style appeared to be more modern and fits the overall style of Carpenter Tan. It can attract the consumers at large with significant increase in sales at certain stores, in particular the store at Chongqing Airport was remarkable.

(iii) JOSE scheme\*

As at 30 June 2015, there were 6 stores decorated under JOSE scheme, which were located at cities namely in Beijing, Hebei, Shandong and Guangdong. The sales performance of such style after decoration was not apparent.

(iv) Mi Qiu scheme\*

Since the scheme is more suitable for high-end shopping district, it has not yet applied in renovation.

\* Gao Tie, JOSE and Mi Qiu were names of designers.

### *Overseas market*

In June 2015, based on the overall strategies in exploring overseas market, the Group revised the solicitation policies for overseas franchisees, distributors and agents. The Group became more relied on the support of the overseas franchisees, agents and distributors. Applications of region sole agents were received from overseas countries and regions. After the warm up through the exhibition held in Hong Kong during the first half of 2015, we started negotiations about sole agency in United Kingdom, Switzerland, South Korea, France, Spain and were ready to enter into contracts.

As at 30 June 2015, regarding the development of overseas market by Carpenter Tan, there were 3 franchisees. 2 franchisees were located in Singapore and the remaining in Canada. There were 5 distributors, they were mainly located in United States, Germany, Switzerland and Russia.





## MANAGEMENT DISCUSSION AND ANALYSIS

### 3. Sales management

During the Reporting Period, the Group escalated the monitoring over supervisors. Supervisions were conducted at provincial capital cities, municipalities directly under the Central Government and some major cities at least once every three months, whilst other cities at least once every six months. This had reduced the occurrence of violation incidents. Regular inspections were conducted from POS online for the stores every week, so as to ensure the stores upload the POS information as scheduled. POS sales system and SAP ordering system were combined in order to conduct effective inventory in-out management. Information were regularly collected and kept on a month basis.

### 4. E-commerce

During the Reporting Period, the Group developed e-commerce through self-operation business model. The existing sales network includes: T mall PC flagship store, T mall wireless flagship store, Jingdong PC flagship store, Jingdong wireless flagship store, Jingdong micro shop, One Shop flagship store, Suning Tesco flagship store, Amazon flagship store, Dangdang flagship store, CCB Shan Rong E- Commerce flagship store.

The products of Carpenter Tan brand ranked number one online among similar products. Total number of product styles available for sale online was around 300 styles, which would be adjusted from time to time be according to the season and the popularity of sales. Wood comb products accounted for more than 80% of the all products.

By targeting at the shopping habits of the online consumers, the Group utilized the sales tools of T mall, and continued to launch activities with themes of love, family and friendship. The image of the Group as a whole was enhanced, and the primary visual identity used on all platforms of the e-commerce vendors were updated. The product details page was improved and integrated with the natural handmade concept of the brand. By highlighting differences in visual communication of the brand with competing products and other similar products, consumers were attracted and sales were enhanced. The Group adjusted its promotion concepts to maintain consistently online and offline. Expenditures on gifts were reduced. Projects with value-added services on sentimental side were emphasised.

### 5. Research and design

The Group has always placed attention to the research and development in the design of new products. Development work on new technologies were commenced focusing on improving efficiency, reducing the utilization of labor, enhancing security and saving material, optimizing processes, and reducing costs. Development was mainly focused in the automatic processing equipment for the tenon and mortise. There was also new breakthrough in the technology of combing wooden combs. As at 30 June 2015, the creative design centre of the Group had 17 design and development staff, of which there was 1 design director, 1 manager, 1 product specialist, 8 designers, 2 gravers, and 4 gravers apprentice. There were a total of 251 new product samples completed. Special products with wood combs combining silver materials were launched, which expanded the width and depth of the product line that better satisfy the market demand and enhanced the sales of the Company.



## MANAGEMENT DISCUSSION AND ANALYSIS

As to training, it is primarily the internal training provided by the design director once a week. The staff were arranged to visit well-known domestic and international gift show, and to follow up and learn cooperation projects with external teams. The Group entered into in-depth cooperation with professional magazine, institutions, design companies with influences in China. In Chongqing, the Group entered into in-depth cooperation with Sichuan Academy of Fine Arts, Yunma Design. During the Reporting Period, the Group entered into cooperation with Nanjing Institute of Arts and Fei Yu Design. Long-term cooperation relationships were established with internationally renowned design agencies, such as Tommy Li, design industry guru in Hong Kong, 28 Biaugust in Taiwan, Kokokumaru, the famous Japanese designer, JOSE workshop in Germany.

The development plans and objectives of the Group are to conduct modern interpretation and research on the fine traditions of China; research and design new product system that combining mixed materials with wood; and the development of new structures and new technologies.

### 6. Products

During the Reporting Period, the Group rationalized and optimized its product research and innovation system. Apart from continuing to input with the distinguished traditional Chinese culture and rejuvenation, the Group insisted on the handmade and the natural features of its products. Each comb is viewed as a carrier to deliver feelings, which enhanced the core competences of the products. The Group delivers services to modern consumers with stylish design, natural materials and exquisite craftsmanship.

#### *Progress of product development for online sales*

During the first half of 2015, there were 3 models of products launched online. At the same time the former young series of products were included in the product system of Carpenter Tan again, which is planned to be launched online and offline for sale.

#### *Progress of product development for physical stores sales*

Product development work is ranked the first priority for the Company this year. This year our design team found its track through the cooperation with external team. As at 30 June 2015, Carpenter Tan has launched a total of 452 products, comprising 111 lockets, 246 box sets, 24 mirrors, 59 accessories and a total of 12 sets of limited edition products and regional only products. Moreover, during the Reporting Period, the Group launched a total of 16 new products, including 10 box sets, 4 lockets, and 2 accessories.

### 7. Marketing and promotion

Combined with features of online operation, the Group launched activities with different themes each month, such as Valentine's Day in February, Women's Day in March, the theme of Spring with flower blossom in April, Mother's Day in May, Children's Day, Father's Day and graduation season in June.

From January to June 2015, we held 39 participation promotion sessions of "Combing Dearest Mother" in the community and 1 session at campus. During the time when the promotion activities were held, extensive attention was drawn to the stores and the corporate image was enhanced. More people became aware of the Carpenter Tan brand. Meanwhile the sales volume increased as compared with the period without promotion.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 8. Branding and promotion

Carpenter Tan is a group very dedicated to brand communication. During the Reporting Period, the main activities with respect to brand promotion included:

- (i) Produced and published two micro movie: “Epic of Love: The Promise From Black Hair to Gray Hair” and “Epic of Family: Blessings From Companions to Sacrifice”. Through the promotion of new media such as Weibo and WeChat, there were a total of more than 2.6 million plays and more than one million times views. This had generated very good effect to to configure the brand of Carpenter Tan with sentimental images of “Family, Friendship, and Love”.
- (ii) The official website of Carpenter Tan was relaunched in mid-May. The new official website changed its traditional style and gives creative design concept to support the brand image.
- (iii) Since mid-May the Group held a design competition with awards on the official website, with an aim to collect good design ideas for products combining traditional and modern concepts. The Group also wished to give young designers more attention and opportunities. The official website of the Group is primarily devoted to develop design services, first-line marketing services, as well as internal communication with front-line service staff. The design competition was well received with very good responses.

### 9. Production

The Group implemented development on maintenance technology for wood materials and finished products, with an aim to balance the control over moisture content of the material after the drying process. This would gradually eliminated the effect on the wood materials under the natural environment over the changes of moisture content. Cracking and deformation of products were reduced, thereby reducing the return of goods from the market. At present, remarkable results were achieved in tests on high-grade material. Upon improving the maintenance equipment and technique, the technology would be promoted gradually.

As at 30 June 2015, the Wanzhou Factory of the Group had a total of 725 full-time production staff. There were 6 production workshops producing wood comb, angle comb, wooden mirror, wooden jewelry and home accessories. Lacquer, painting, paint ornaments and engraving were applied to enrich the artistic level of the products. Actual output and comparison with the corresponding period last year are set out as below:

#### Actual Production (Pieces)

	For six months ended 30 June	
	2015	2014
Combs	1,818,360	1,888,825
Mirrors	343,360	507,719



## MANAGEMENT DISCUSSION AND ANALYSIS

### 10. Awards and accreditation

During the Reporting Period, Carpenter Tan received the awards as follows:

- In March 2015, it was awarded the title “Warm Home” by Wanzhou District Union;
- In March 2015, it was awarded the title Advanced Base Level Trade Union Organisations in “Innovation and Excellence” Competition by Wanzhou District Union;
- In March 2015, the Open Gear Workshop Polishing Team was awarded “Chongqing May 1st Heroine Awards” by Chongqing City Union; and
- In June 2015, it was awarded the title “Workers Vanguard” by Chongqing City Union.

### SOCIAL RESPONSIBILITIES

While the Group has been actively expanding its business, it also regarded servicing the society as its responsibility, and has been sparing no effort to increase employment opportunities for people with disabilities. As at 30 June 2015, the Group provided a total of 318 jobs for people with disabilities, and strictly complied with the welfare conditions so that these people with disabilities can become relying on their own. Free shuttle bus were provided throughout the year for people with disabilities to work. The Group organised Disabled Day for employees to purchase Disabled Day souvenirs.

During the Reporting Period, the Group actively organized welfare activities held internally within the Group. Tree-planting activities, visits to and assisting nursing homes, mentally retarded institutions, as well as existing and retired employees of the Group were held. The Group organized employees to participate in voluntary blood donation activities. Through these caring activities, the Group demonstrated its care for the community with sincerity, love, intimacy and patience, and won the reputation of welfare enterprise.

The Group also cares about the health and growth of its employees. More than RMB 100,000 were invested to complete the renovation of the stadium renovation and the laying of rubber flooring, which enhanced the sports environment for the staff. 55 clubs, such as basketball, table tennis, badminton, photography and dance were set up. A staff bookstore was established, which enriched the interests and cultural life of staff after work.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### 1. Turnover

The Group recorded turnover of approximately RMB142,838,000 for the six months ended 30 June 2015, representing a decrease of RMB6,903,000 or 4.6% as compared to approximately RMB149,741,000 for the six months ended 30 June 2014. The decrease was mainly attributable to the slowdown in consumer goods market.

	For the six months ended 30 June			
	2015 (RMB'000)	%	2014 (RMB'000)	%
<b>Sales</b>				
– Combs	37,764	26.5	49,704	33.2
– Mirrors	615	0.4	1,005	0.7
– Box sets	103,719	72.6	93,802	62.6
– Other accessories*	610	0.4	5,010	3.3
Franchise fee income	130	0.1	220	0.2
	<u>142,838</u>	<u>100.0</u>	<u>149,741</u>	<u>100.0</u>

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

#### 2. Cost of Sales

The cost of sales of the Group was approximately RMB49,366,000 for the six months ended 30 June 2015, representing a decrease of approximately RMB485,000 or 1.0% as compared to approximately RMB49,851,000 for the six months ended 30 June 2014, the decrease in cost of sales is in line with the decrease in turnover and was partially off-set by the increase in unit cost of materials for the Reporting Period.

#### 3. Gross Profit and Gross Profit Margin

For the six months ended 30 June 2015, gross profit of the Group was approximately RMB93,472,000, representing a decrease of approximately RMB6,418,000 or 6.4% as compared to approximately RMB99,890,000 for the six months ended 30 June 2014. The gross profit margin decreased from approximately 66.7% in 2014 to 65.4% in 2015. 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 young customer base and increase sales volume.





## MANAGEMENT DISCUSSION AND ANALYSIS

### 4. Other Revenue and Other Net Income

Other revenue and other net income comprise of PRC VAT refunds, fair value change in investment and investment properties, bank interest income and rental income. Other revenue and net income was approximately RMB17,810,000 for the six months ended 30 June 2015, representing an increase of approximately RMB1,438,000 or 8.8% as compared to approximately RMB16,372,000 for the six months ended 30 June 2014. The increase was mainly due to an increase in fair value change in investment and 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 RMB18,163,000 for the six month ended 30 June 2015, representing an increase of approximately RMB2,877,000 or 18.8% as compared to RMB15,286,000 for the six months ended 30 June 2014. This increase was mainly a result of the increase in promotional expenses for the Reporting Period.

### 6. Administrative Expenses

The administrative expenses of the Group was approximately RMB10,216,000 for the six months ended 30 June 2015, representing a decrease of approximately RMB3,855,000 or 27.4% as compared to approximately RMB14,071,000 for the six months ended 30 June 2014. The decrease was primarily due to a decrease in salary and allowance.

### 7. Profit from Operations

For the six months ended 30 June 2015, profit from operations for the Group amounted to approximately RMB79,352,000, decreased by approximately RMB3,665,000 or 4.4% when compared to approximately RMB83,017,000 for the six months ended 30 June 2014. Decrease in profit from operations was mainly due to the decrease in gross profit of approximately RMB6,418,000 and decrease in operating expenses of approximately RMB226,000 which was partially off-set by the increase in other revenue and other net income of approximately RMB1,438,000 for the six months ended 30 June 2015.

### 8. Finance Costs

For the six months ended 30 June 2015, finance costs amounted to approximately RMB1,620,000 increased by approximately RMB1,089,000 when compared to approximately RMB531,000 for the six months ended 30 June 2014. The increase was mainly due to the increase in bank loan interest as a result of the increase in bank borrowings.



## MANAGEMENT DISCUSSION AND ANALYSIS

### 9. Profit Before Taxation

For the six months ended 30 June 2015, profit before taxation for the Group amounted to approximately RMB77,732,000, decreased by approximately RMB4,754,000 or 5.8% when compared to approximately RMB82,486,000 for the six months ended 30 June 2014. Decrease in profit before taxation was mainly due to the decrease in profit from operation of approximately RMB3,665,000 and the increase in finance cost of approximately RMB1,089,000 for the Reporting Period.

### 10. Income Tax Expenses

For the six months ended 30 June 2015, income tax expenses for the Group amounted to approximately RMB14,492,000, decreased by approximately RMB1,422,000 or 8.9% when compared to approximately RMB15,914,000 for the six months ended 30 June 2014. This decrease was mainly due to the decrease in profit before tax for the Reporting Period.

The effective tax rate for the Reporting Period was 18.6% which was close to 19.3% for the six months ended 30 June 2014. 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 2015 was approximately RMB63,240,000, representing a decrease of RMB3,332,000 or 5.0% as compared to approximately RMB66,572,000 in the corresponding period of 2014.

### 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 effective interest rate for floating rate loans was from 1.7% to 2.5%. 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 publication of this report.

As at 30 June 2015, the Group had cash and bank balances of RMB311,582,000 mainly generated from operations of the Group and funds raised by the Company in December 2009.



## MANAGEMENT DISCUSSION AND ANALYSIS

### 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 generated 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 approximately RMB67,850,000 representing an increase of net cash generated from operating activities of approximately RMB13,230,000 from approximately RMB54,620,000 for the six months ended 30 June 2014. The increase was primarily due to the increase in cash from operation.

#### *Net cash used in investing activities*

The Group's net cash outflow used in investing activities amounted to approximately RMB28,868,000 during the Reporting Period, representing a decrease of approximately RMB46,771,000 as compared with the cash outflow of approximately RMB75,639,000 for the six months ended 30 June 2014. The decrease is mainly due to the decrease in fixed bank deposits held at bank during the Reporting Period.

#### *Net cash generated from financing activities*

The Group's net cash inflow generated from financing activities amounted to approximately RMB11,347,000 during the Reporting Period, representing an increase of approximately RMB7,751,000 as compared with the net cash inflow generated from financing activities of approximately RMB3,596,000 for the six months ended 30 June 2014. The increase was primarily due to the increase in new bank loan raised during the Reporting Period.

### 14. Capital Structure

#### *Indebtedness*

All the borrowings of the Group as at 30 June 2015 was approximately RMB209,886,000, which will be due within one year. During the Reporting Period, the Group did not experience any difficulties in renewing its banking facilities with its lenders.

#### *Gearing ratio*

As at 30 June 2015, the Group's gearing ratio was 23.7% (31 December 2014: 16.8%), calculated as the total bank borrowings divided by total assets multiplied by 100%. The increase was mainly due to the increase in bank borrowings.



## MANAGEMENT DISCUSSION AND ANALYSIS

### *Pledge of assets*

As at 30 June 2015, the Group has pledged assets of bank deposits to the banks with the total carrying amount of approximately RMB219,577,000 (31 December 2014: RMB149,099,000).

### *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 RMB154,000 and RMB931,000 for the Reporting Period and the six months ended 30 June 2014 respectively.

### *Foreign exchange risk*

The major business of the Group has used RMB and HK\$ as the functional and operational currencies. The Group faces foreign exchange risk arising from RMB and HK\$. The Group has no major risks in changes in other currency exchange.

## 15. Contingent Liabilities, Legal and Potential Proceedings

As at 30 June 2015, 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 2015, the Group has not made any material acquisition and disposal.

## 17. Going Concern

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

## OUTLOOK

In the second half of 2015, as to the development of retail and high-end wood products market in China by the Group, as well as its long term and short term development strategies in future, on the Group level, with open design as a basis, the Group will enhance the brand personality and brand awareness; strengthen the development in offline market as well as the online market and explore overseas markets. On the management level, the Group will strengthen training and sales guidance for the franchisee store, so as to improve the sales results of the stores. On the product line level, products will be introduced that fit young consumer to attract customers and increase traffic at the store. At the same time, we will comply with the "austerity" consumption trend prevailing in China.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Offline marketing

The Group will accelerate the transformation of the sales channel, and speed up the opening of new stores at urban complexes and transportation interchanges. Emphasis will be placed on in-store experiences and after-sales services with customers. It is planned that 80 stores will be opened in China during the second half of the year, which will be mainly located in Guangdong, Jiangsu and Zhejiang region. During the second half of 2015, there will be two self-operated retail shops opening in Hong Kong, which will be located in Hong Kong MTR Station and The One shopping mall in Tsim Sha Tsui. The time of opening is expected to be around September and December 2015. As to overseas markets, the Group will enter into country agency agreement with Switzerland and South Korea. It is expected that a flagship store will be opened in Korea during the second half of 2015, and concessionary counters will be set up in Switzerland. During the second half of 2015 the Group will be mainly investigate and explore the Southeast Asian market. In August the Group will conduct site visit at Taiwan region and communicate with prospective investors; in September the Group will participate the Gift Exhibition in Mumbai, India, so as to explore the South Asia market channel.

### Online marketing

The Group will continue to highlight the sentimental concepts of its product, so as to enhance the brand culture. By leveraging on the product differentiation advantage in the industry, we will focus to pursue products of small size but magnificent, unique and sophisticated. This will determine and distinguish the Group's leading position in the industry. By following the sales pace of the online platform, the sentimental theme will be seized to conduct marketing and promotion in an interactive manner. Marketing tools such as through train, Diamond booth and Jingdong Business Class Cabin were utilized continuously as platform for promotion.

The Group will consolidate existing platform node, open and manage online stores and build its own portal websites. The trend on the online vendors will be closely monitored, and new online stores will be set up at new platform with potential. Competitors' action on the online platform will be analysed, so as to formulate the overall development strategy of the Group to set up online stores.

The Group will highlight the sentimental scenes for each marketing activity, so as to generate the sentimental consensus with the consumers. This will raise awareness and participation of the marketing activities. More resources will be sought for exploration through the marketing activities and promotion in a self-innovative way. By enhancing the store image, the store turnover rate is further improved. This will reduce customer enquiry rate and raise service quality. Hence, the brand equity and sales will increase. The Group will also optimize its investment on the existing marketing platform.

### Measures to enhance operation efficiency

The Group will strictly follow the "Seven Steps for Store Visits" to visit stores, which will strengthen the store management. The frequency to visit consolidated shopping centres will be strengthened. Business district survey will be refined and the business district planning will be improved. The pace of expansion will accelerate, and will ensure the promotion at community and colleges will be implemented.





## MANAGEMENT DISCUSSION AND ANALYSIS

The Group will focus on consolidating the channel data, information and management over the strategic cooperation. Marketing staff will be assisted to follow up projects with major chain commercial property developers. The Group will identify quality platform to promote franchising so as to introduce more new franchisees.

In terms of training, the Group will strengthen the “Seven Steps for Store Visits”, inventory system and product maintenance through regular internal training, exercises and assessment. Centralized training for different regions will be planned, organized and coordinated. Training for new franchisees will be organized twice a year. Continuing qualification system will conduct regular appraisal four times a year. In terms of promotion, the Group will steer the regular planning for the annual promotion initiatives, with clear concept, definite node, and effective implementation. Promotions at the communities and colleges will be organized and coordinated at major cities in various regions.

In terms of decoration and design, the Group will launch a pilot store on the new image so as to adjust and execute, and create the decoration items in modules. When participating exhibition overseas, the Group handles design, transportation and decoration all by its own. In terms of products, attention will be placed on the types of products and the change in types. Reasonable recommendations will be proposed timely to increase the sales at the stores. The processes for the launch of new products will be optimized, which will provide the market with more popular products. The filing and management of ongoing critical information will provide strong data support to sales analysis. In terms of after sales services, there will be dedicated staff to follow up the issues with the customers, stores and complaints within 24 hours. “Customer Satisfaction Survey” and “Franchisee Satisfaction Survey” will be conducted continuously to provide basis for enhancing the services at the stores.

### Directions in research and development

As a renowned brand in wood comb, the Group strived to make its products “handicrafts that can used as household accessories” as well as “household accessories that are as fine as handicrafts”. Modern consumers are indulged with stylish design, natural materials, and exquisite craftsmanship. In the second half of 2015, comb will still be the primary product of the Company. The style of products tends to be younger. More combinations of wood with other materials will be developed. Packaging will also be replaced gradually. The Group will continue to recruit outstanding new designers for preparing to launch more products targeting younger customers. A small sample making centre (Handicraft Hall) was set up at the newly renovated headquarter office in Jurong, Jiangsu. The work efficiency was enhanced, the development cycles was reduce, and the practical ability of the designers were improved. The Group will continue to cooperate with external teams so that the design vision will be broader.

### Production coordination

Regarding the strategies in increasing production capacity and progress in expanding production line, production capacity is increased mainly through development of equipment and technology, and enhancement of efficiency in manual operation. Simple expansion was not used to expand production for increasing capacity. Expanding production line was not adopted for increasing capacity. On the contrary, it has to be done through development of expertise and equipment technology, so as to optimize and integrate the production process. In developing the concept for new expertise, the development of expertise will be implemented in accordance with the value subsisting in the plant and the innovative measures. Based on external studies, internal change and innovative model will be introduced to implement the development of new expertise, so as to enhance the competitiveness of the Company.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Human resources strategy and incubation plans

The Group advocated the essence of “labour”, which extended the quality of breeding and skills training for the team. At the management level, there is orderly hierarchy to execute the duties assigned for each post. Only good packages can retain good technicians. The Group recruits talents from external sources and set-off underperformed staff. Training is conducted internally to consolidate the cultivation of talents. Cooperation was entered into with universities to introduce young and fresh talent. To sum up, in order to cultivate talent that fit for Carpenter Tan, we are not interested at those graduated from ivy leagues with distinguished results, but whether those fit with the life motto and value basis of the Company, and whether they agree with and practice the mission of “honesty, labour, happiness”. The staff recruited in this way will not likely grow in a bad manner.

### Visions for the brand promotion work for the second half of 2015

During the second half of 2015, the Group will still promote the brand with the themes of “Do you feel moved?” and “Care for Design, Care for Creativity” activities. It is planned to hold the welfare activity of “Combing Dearest Mother” for the third session. The design competition with awards will continue to run and the promotion efforts will increase in the second half of the year. Carpenter Tan and Nanjing Institute of Arts had entered into long term cooperation agreement. How to promote the brand in college and academic community will also become an important direction of our brand building.

The design competition with awards that we launched on the Group’s website was a milestone of the Group for this year. At first it was intended to provide a platform for the 80s and 90s staying at home that are design enthusiasts an opportunity to realize value, Although it was just started, the work participated was not ideal. With the Group offering three cash prizes of RMB 10,000 each month, and the commitment of three additional prizes at RMB100,000 for the year, together with the reputation of the Group, it is believed that this is an interesting thing with social value, corporate value and personal values. There must be some good ideas born, and there will be non-professionals finding opportunities to realize their ideal.

## HUMAN RESOURCES AND TRAINING

As of 30 June 2015, the Group had a total of 909 employees in Mainland China, Hong Kong and overseas, with a total labor cost of approximately RMB20,779,000 (2014: approximately RMB24,625,000) during the Reporting Period.

In addition to providing job opportunities to the disabled, the Group has attached high emphasis to the self-upgrade of its staff. By holding various themed exhibitions, workshops, seminars and staff training, the working skills and marketing strategies, techniques and methods of the staff as well as their sense of belonging to the Group were further enhanced. During the Reporting Period, in order to develop team spirits, courtesy, production management and accounting practice of the staff, the Group provided the staff various on-job training in various forms such as face to face teaching and examination to consolidate and spread the corporate culture of Carpenter Tan.

## OTHER INFORMATION

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the six months ended 30 June 2015, 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 2015, 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	84	0.00%

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%

## OTHER INFORMATION

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2015, 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

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

As at 1 January 2014, 31 December 2014, 1 January 2015, and 30 June 2015, there were no outstanding options granted under the Share Option Scheme. There were also no options granted to or exercised by any Director or chief executive of the Company or employee of the Group or any other Eligible Persons (as defined herein below), nor any options cancelled or lapsed under the Share Option Scheme during the year ended 31 December 2014, or the six months ended 30 June 2015.

The major terms of the Share Option Scheme are as follows:

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

## OTHER INFORMATION

2. “Eligible Persons” include (i) employees or persons being seconded to work for any member of the Group (the “Executive”); (ii) directors (including independent non-executive directors) of any member of the Group; (iii) shareholders of any member of the Group; (iv) suppliers, customers, consultants, business or joint venture partners, franchisees, contractors, agents or representatives of any member of the Group; (v) persons or entities that provide research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group; and (vi) an associate of any of the foregoing persons.
3. The total number of Shares which may be issued upon exercise of all options which may be granted under the Share Option Scheme and any other schemes of the Group must not in aggregate exceed 25,000,000 Shares, being 10% of the total number of shares in issue as at the date on which the Shares first commenced trading on the Stock Exchange. The 10% limit may be refreshed with approval by ordinary resolution of the Shareholders. The Company may seek separate approval by the Shareholders in general meeting for granting options beyond the 10% limit provided that the options in excess of the 10% limit are granted only to the Eligible Persons specified by the Company before such approval is obtained.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Group shall not exceed 30% of the Shares in issue from time to time. As at 30 March 2015 and 28 August 2015, being the dates of the 2014 annual report of the Company and this interim report respectively, the number of Shares available for issue in respect thereof were 25,000,000 Shares and 25,000,000 Shares, representing approximately 10% and 10% of the then issued shares of the Company respectively.

4. The maximum number of Shares issued and to be issued upon exercise of the options granted to any one Eligible Person (including exercised and outstanding options) in any 12-month period shall not exceed 1% of the Shares in issue from time to time.
5. The exercise period of any option granted under the Share Option Scheme shall be determined by the Board, but such period shall not exceed ten years from the date of grant of the relevant option.
6. The Share Option Scheme does not specify any minimum holding period but the Board may fix any minimum period for which an option must be held before it can be exercised.
7. The acceptance of an offer of the grant of an option must be made within the period as stated in the offer document provided that no such offer shall be open for acceptance after the Share Option Scheme has been terminated with a non-refundable payment of HK\$1.00 from the grantee.
8. The subscription price shall be determined by the Board but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotation sheets on the date of grant, which must be a business day (“Offer Date”); (ii) the average closing price of a Share as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of a Share.
9. Subject to early termination by an ordinary resolution in general meeting of Shareholders, the Share Option Scheme shall be valid and effective for a period of ten years commencing on 29 December 2009. Upon the expiry or termination of the Share Option Scheme, no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect in all other aspects with respect to options granted thereunder.





## OTHER INFORMATION

### CAPITAL COMMITMENT

As at 30 June 2015, the Group had no capital commitment (31 December 2014: nil).

### PUBLIC FLOAT

According to information disclosed publicly and as far as the Directors of the Company 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 27 May 2015, the Company declared the audited distributable profits as at 31 December 2014 amounting to approximately HK\$80,700,000 (equivalent to approximately to RMB64,425,000) to the shareholders of the Company. The dividend was fully paid on 26 June 2015 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 2015 (2014: nil).

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

During the Reporting Period, 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 2015, the Group had used net proceeds of approximately RMB45,700,000, of which RMB17,000,000 had been applied for enhancement of the Group's design and product development and enhancement for operational efficiency, RMB16,500,000 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 with banks.

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



## OTHER INFORMATION

### CORPORATE GOVERNANCE PRACTICES

The Board strives to uphold the principles of corporate governance set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange (the “Listing Rules”), and adopted various measures to enhance the internal control system, the Directors’ continuing professional training and other areas of practice of the Company. While the Board strives to maintain a high level of corporate governance, it also works hard to create value and achieve maximum return for its shareholders. The Board will continue to conduct review and improve the quality of corporate governance practices with reference to local and international standards.

During the Reporting Period, the Company complied with the code provisions as set out in the CG Code, other than code provision A.2.1 of the CG Code.

According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. 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.

### 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 2015. The Company has also adopted written guidelines on no less exacting terms than the Model Code for the relevant employees. The senior management, who, because of their office in the Company, is likely to be in possession of unpublished inside information, has been requested to comply with the written guidelines. No incidence of non-compliance of the employees’ written guidelines by the relevant employees was noted by the Company during the period.



## OTHER INFORMATION

### 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 primary duties of the audit committee are (among other things) to provide an independent review and supervision of financial reporting, and examine the effectiveness of the internal controls of the Group and to ensure the external auditor are independent and the audit process is effective. The audit committee examines all matters relating to the accounting principles and policies adopted by the Group, auditing functions, internal controls, risk management and financial reporting. The audit committee also serves as a channel of communication between the Board and the external auditor.

The audit committee currently comprises the three independent non-executive Directors, namely, Mr. Yu Ming Yang, Madam Huang Zuoan and Mr. Chau Kam Wing, Donald. 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 2015 with the management of the Group and agreed with the accounting treatment adopted by the Company.

### DISCLOSURE OF INFORMATION

The interim report for the six months ended 30 June 2015 will be duly despatched to shareholders of the Company and 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, 28 August 2015

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

FOR THE SIX MONTHS ENDED 30 JUNE 2015 - UNAUDITED

	Note	Six months ended 30 June	
		2015 (unaudited) RMB'000	2014 (unaudited) RMB'000
Turnover	5	142,838	149,741
Cost of sales		(49,366)	(49,851)
<b>Gross profit</b>		<b>93,472</b>	<b>99,890</b>
Other revenue and other net income	5	17,810	16,372
Selling and distribution expenses		(18,163)	(15,286)
Administrative expenses		(10,216)	(14,071)
Other operating expenses		(3,551)	(3,888)
<b>Profit from operations</b>		<b>79,352</b>	<b>83,017</b>
Finance costs	6(a)	(1,620)	(531)
<b>Profit before taxation</b>	6	<b>77,732</b>	<b>82,486</b>
Income tax	7	(14,492)	(15,914)
<b>Profit for the period</b>		<b>63,240</b>	<b>66,572</b>
<b>Attributable to</b>			
Owners of the Company		63,240	66,572
<b>Earnings per share</b>			
Basic and diluted	8	RMB25.3 cents	RMB26.6 cents

The accompanying notes form part of this interim financial report.

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

FOR THE SIX MONTHS ENDED 30 JUNE 2015 - UNAUDITED

	Six months ended 30 June	
	2015 (unaudited) RMB'000	2014 (unaudited) RMB'000
Profit for the period	63,240	66,572
Other comprehensive income for the period (after tax)		
<i>Item that will not be reclassified subsequently to profit or loss:</i>		
Surplus on revaluation of leasehold land and buildings held for own use	—	14,394
Deferred tax charge arising from revaluation surplus on leasehold land and buildings held for own use	—	(3,872)
Surplus on revaluation of leasehold land and buildings held for own use, net of tax	—	10,522
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of functional currency to presentation currency	2,374	(1,268)
<b>Total comprehensive income for the period</b>	<b>65,614</b>	<b>75,826</b>
Attributable to		
Owners of the Company	65,614	75,826

The accompanying notes form part of this interim financial report.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2015

	Note	30 June 2015 (unaudited) RMB'000	31 December 2014 (audited) RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	9(a)	22,536	23,776
Prepaid lease payments	10	13,103	13,284
Investment properties	9(b)	85,920	85,920
Intangible assets	11	—	—
Derivative financial instruments		—	1,144
Fixed deposit held at bank		—	127,756
Prepayment of acquisition of properties		33,556	33,556
		<u>155,115</u>	<u>285,436</u>
<b>Current assets</b>			
Prepaid lease payments	10	362	362
Inventories		80,272	77,783
Derivative financial instruments		11,737	542
Trade receivables	13	636	2,027
Other receivables, deposits and prepayments		20,028	23,331
Structured bank deposit	12	86,000	—
Pledged bank deposits	14	219,577	149,099
Cash and bank balances		311,582	258,825
		<u>730,194</u>	<u>511,969</u>
<b>Current liabilities</b>			
Bank loans, secured	14	209,886	134,114
Trade payables	15	4,116	4,126
Other payables and accruals		48,402	29,934
Income tax payable		15,398	19,071
		<u>(277,802)</u>	<u>(187,245)</u>
<b>Net current assets</b>		<u>452,392</u>	<u>324,724</u>
<b>Total assets less current liabilities</b>		<u>607,507</u>	<u>610,160</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities		26,783	30,606
Deferred income		793	812
		<u>(27,576)</u>	<u>(31,418)</u>
<b>NET ASSETS</b>		<u>579,931</u>	<u>578,742</u>
<b>Capital and reserves</b>			
Share capital	17	2,200	2,200
Share premium and reserves		577,731	576,542
<b>TOTAL EQUITY</b>		<u>579,931</u>	<u>578,742</u>

The accompanying notes form part of this interim financial report.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2015 - 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 2014 (audited)		2,200	114,674	2,767	128,846	17,738	1,723	(113)	236,631	504,466
Dividends	16	—	—	—	—	—	—	(62,925)	(62,925)	—
Transfer to reserve		—	—	—	3,659	—	—	(3,659)	—	—
Total comprehensive income for the period		—	—	—	—	10,522	(1,268)	66,572	75,826	—
At 30 June 2014 (unaudited)		<u>2,200</u>	<u>114,674</u>	<u>2,767</u>	<u>132,505</u>	<u>17,738</u>	<u>12,245</u>	<u>(1,381)</u>	<u>236,619</u>	<u>517,367</u>
At 1 January 2015 (audited)		2,200	114,674	2,767	136,119	17,738	12,245	(2,196)	295,195	578,742
Dividends	16	—	—	—	—	—	—	(64,425)	(64,425)	—
Transfer to reserve		—	—	—	11	—	—	(11)	—	—
Total comprehensive income for the period		—	—	—	—	—	2,374	63,240	65,614	—
At 30 June 2015 (unaudited)		<u>2,200</u>	<u>114,674</u>	<u>2,767</u>	<u>136,130</u>	<u>17,738</u>	<u>12,245</u>	<u>178</u>	<u>293,999</u>	<u>579,931</u>

The accompanying notes form part of this interim financial report.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2015 - UNAUDITED

	Six months ended 30 June	
	2015 (unaudited) RMB'000	2014 (unaudited) RMB'000
<b>Operating activities</b>		
Cash generated from operations	79,578	59,055
Interest received	11,716	6,245
Interest paid	(1,453)	(824)
Income tax paid, net	(21,991)	(9,856)
<b>Net cash generated from operating activities</b>	<b>67,850</b>	<b>54,620</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(154)	(931)
Proceeds from disposal of property, plant and equipment	8	292
Purchase of structured bank deposit	(86,000)	—
Decrease in fixed deposit held at bank	127,756	—
Increase in pledged bank deposits	(70,478)	(75,000)
<b>Net cash used in investing activities</b>	<b>(28,868)</b>	<b>(75,639)</b>
<b>Financing activities</b>		
Dividend paid	(64,425)	(62,925)
New bank loan raised	75,772	66,521
<b>Net cash generated from financing activities</b>	<b>11,347</b>	<b>3,596</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>50,329</b>	<b>(17,423)</b>
Cash and cash equivalents at 1 January	258,825	355,245
Effect of foreign exchange rate changes, net	2,428	(1,245)
<b>Cash and cash equivalents at 30 June</b>	<b>311,582</b>	<b>336,577</b>

The accompanying notes form part of this interim financial report.



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2015

### 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 judgements, 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 2014 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.

### 2. PRINCIPAL ACCOUNTING POLICIES

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

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 2014, except as described below.

In the current interim period, the Group has adopted and applied, for the first time, the following amendments to HKFRSs issued by the HKICPA:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle

The application of the above revised 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.

Save as disclosed in the annual report for the year ended 31 December 2014, 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.



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2015

### 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.

Management considers the business from a product perspective and assesses its performance based on revenues derived from a board range of sales of wooden handicrafts and accessories. 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 People’s Republic of China (the “PRC”). Activities outside the PRC are insignificant. The principal assets of the Group are located in the PRC. Accordingly, no geographical information is provided.

#### Major customers

No analysis of the Group’s 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).

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2015

### 5. TURNOVER, OTHER REVENUE AND OTHER NET INCOME

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, other revenue and other net income for the period is as follows:

	Six months ended 30 June	
	2015 (unaudited) RMB'000	2014 (unaudited) RMB'000
Sales of goods	142,708	149,521
Franchise fee income	130	220
Turnover	<u>142,838</u>	<u>149,741</u>
Government grants released from deferred income	18	18
Interest income from financial assets not at fair value through profit or loss-bank interest income	7,339	5,853
PRC VAT refunds	—	5,536
Rental income from investment properties	3,401	2,376
Fair value gain on derivative financial instruments	10,593	—
Change in fair value of investment properties	—	2,120
Income from derivative financial instruments	797	—
Net exchange loss	(5,377)	—
Others	1,039	469
Other revenue and other net income	<u>17,810</u>	<u>16,372</u>
	<u><u>160,648</u></u>	<u><u>166,113</u></u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2015

### 6. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2015 (unaudited) RMB'000	2014 (unaudited) RMB'000
a) Finance costs		
– Interest on bank loans	1,620	531
Total interest expense on financial liabilities not at fair value through profit or loss	<u>1,620</u>	<u>531</u>
b) Other items		
Amortisation of prepaid lease payments	181	220
Cost of inventories (note (i))	49,366	49,851
Depreciation	1,278	1,531
Impairment on trade and other receivables	47	30
Loss on disposal of property, plant and equipment	55	88
Operating lease rentals in respect of land and buildings	2,227	2,651
Staff costs (including directors' emoluments)	20,779	24,625
Write-down of inventories	<u>1,372</u>	<u>1,616</u>

Notes:

- i) Cost of inventories includes approximately RMB12,797,000 (2014: RMB14,238,000) relating to staff costs, depreciation and operating lease rentals, which are included in the respective total amounts disclosed separately above.



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2015

## 7. INCOME TAX

	Six months ended 30 June	
	2015 (unaudited) RMB'000	2014 (unaudited) RMB'000
<b>Current tax</b>		
PRC Enterprise Income Tax (notes 7(i), (ii) and (iii))	11,395	11,684
Hong Kong profits tax (note 7(v))	—	—
Withholding tax on dividends		
– Provision for the period	8,593	—
	<u>19,988</u>	<u>11,684</u>
<b>Overprovision in prior years, net</b>		
PRC Enterprise Income Tax	(1,673)	—
<b>Deferred tax</b>		
Transfer to current tax upon distribution of dividends	(8,593)	—
Provision for the period	4,770	4,230
	<u>4,770</u>	<u>4,230</u>
<b>Total</b>	<u>14,492</u>	<u>15,914</u>

## Notes:

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

On 29 May 2012, both Zi Qiang Wood Works and Carpenter Tan 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.

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% (2014: 25%), except for Zi Qiang Wood Works and Carpenter Tan which are eligible for the income tax concessions according to the preferential tax policies, as stated in note 7(i) and (ii) above.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2015

### 7. INCOME TAX (Continued)

Notes: (Continued)

- 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 period ended 30 June 2015 and 2014 as the Group did not have assessable profits subject to Hong Kong profits tax for these periods.
- vi) Under the Enterprise Income Tax Law of the PRC, with effect from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or place of business in the PRC will be subject to withholding income tax at the rate of 10% on various types of passive income such as dividends derived from sources in the PRC. Pursuant to the double tax arrangement between the PRC and Hong Kong effective on 1 January 2007, the withholding income tax rate may be reduced to 5% if the investment by the Hong Kong investor in the investee entities in the PRC is not less than 25%. On 22 February 2008, the SAT approved Caishui (2008) No. 1, pursuant to which dividend distributions out of retained earnings of foreign investment enterprises prior to 31 December 2007 will be exempted from withholding income tax.

The Group enjoyed the reduced 5% tax rate prior to 31 December 2013. In 2014, the Group applied again for the reduced rate and was requested to meet certain additional review procedures that were not required in previous years. Due to uncertainty as to whether the Group is able to enjoy the reduced rate, the withholding tax is provided for at 10% (2014: 5%).

### 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 and is calculated as follows:

- i) *Profit attributable to owners of the Company*

	Six months ended 30 June	
	2015 (unaudited) RMB'000	2014 (unaudited) RMB'000
Earnings used in calculating basic and diluted earnings per share (profit attributable to owners of the Company)	<u>63,240</u>	<u>66,572</u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2015

### 8. BASIC AND DILUTED EARNINGS PER SHARE *(Continued)*

#### a) Basic earnings per share *(Continued)*

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

	Six months ended 30 June	
	2015 (unaudited) '000	2014 (unaudited) '000
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	<u>250,000</u>	<u>250,000</u>

#### 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 2015 and 2014.

### 9. FIXED ASSETS

#### a) Acquisitions and disposals

During the six months ended 30 June 2015, the Group acquired items of property, plant and equipment with a cost of RMB154,000 (2014: RMB931,000). Items of property, plant and equipment with a total carrying amount of RMB121,000 (2014: RMB380,000) were disposed of during the six months ended 30 June 2015, resulting in a loss on disposal of RMB55,000 (2014: loss on disposal of RMB88,000).

#### b) Valuation

The Group's investment properties were not revalued as at 30 June 2015 by independent valuers. The directors were aware of the possible change in the conditions of the property market. The directors considered that the carrying amount of the Group's investment properties did not differ significantly from the fair values as at 31 December 2014 carried out by independent qualified professional valuers. Consequently, no change in fair value of investment properties has been recognized in the current period. During the period, the Group neither acquired nor disposed any investment properties.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2015

### 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 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 RMB6,887,000 as at 30 June 2015 (as at year ended 31 December 2014: RMB6,967,000). The Group originally intended to erect a production complex on the Land but no construction activity has 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 municipal government due to town planning and Carpenter Tan will be compensated through an 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. Since the Group has not commenced the development of the Land, there is no material adverse effect on the business operation and financial position of the Group.

### 11. INTANGIBLE ASSETS

	Trademark RMB'000
<b>Cost</b>	
At 1 January 2014, 31 December 2014 and 30 June 2015	1,037
<b>Accumulated amortisation and accumulated impairment</b>	
At 1 January 2014, 31 December 2014 and 30 June 2015	<u>(1,037)</u>
<b>Carrying amount</b>	
At 30 June 2015	<u>—</u>
At 31 December 2014	<u>—</u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2015

### 12. STRUCTURED BANK DEPOSIT

	At 30 June 2015 (unaudited) RMB'000	At 31 December 2014 (audited) RMB'000
Structured bank deposit (Note)	<u>86,000</u>	<u>—</u>

Note: As at 30 June 2015, the Group's structured bank deposit is principal-protected and placed with a licensed bank in the PRC. This deposit is denominated in RMB with 6 months maturity period from the date of inception and has an annual rate of return up to 4.1%. The bank has an option to terminate the deposit at two prescribed dates before the maturity date for reason specified in the terms and conditions of the underlying contract. The structured bank deposit is classified as financial asset designated as at fair value through profit or loss as at 30 June 2015. The fair value is based on cash flow discounted using the expected return based on management judgement.

### 13. 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 2015 (unaudited) RMB'000	At 31 December 2014 (audited) RMB'000
0 to 30 days	635	1,942
31 to 60 days	1	8
61 to 90 days	—	18
91 to 180 days	—	20
181 to 365 days	—	17
Over 1 year	—	22
Trade receivables, net of allowance for doubtful debts	<u>636</u>	<u>2,027</u>

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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2015

### 14. BANK LOANS, SECURED

As at 30 June 2015, the Group had bank loans of RMB209,886,000 (as at year ended 31 December 2014: RMB134,114,000). The loans are secured by standby documentary credit facilities of the Group. The standby documentary credit is supported by bank deposits amounting to RMB219,577,000 (as at year ended 31 December 2014: RMB149,099,000).

### 15. 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 2015 (unaudited) RMB'000	At 31 December 2014 (audited) RMB'000
0 to 30 days	2,942	2,540
31 to 60 days	116	412
61 to 90 days	367	173
91 to 180 days	137	630
181 to 365 days	345	177
Over 1 year	209	194
	<u>4,116</u>	<u>4,126</u>



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2015

### 16. DIVIDENDS

- i) The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: RMBNil).
- ii) Dividends payable to owners attributable to the previous financial year, approved and paid during the interim period:

	At 30 June	
	2015 (unaudited) RMB'000	2014 (unaudited) RMB'000
Final dividend in respect of the financial year ended 31 December 2014, approved and paid during the current interim period, of RMB25.77 cents per ordinary share (2014: in respect of the financial year ended 31 December 2013, RMB25.17 cents)	<u>64,425</u>	<u>62,925</u>

### 17. SHARE CAPITAL

	Number of shares	Amount HK\$'000	Amount equivalent to RMB\$'000
Ordinary shares of HK\$0.01			
Authorised:			
As at 31 December 2014 and 30 June 2015	<u>10,000,000,000</u>	<u>100,000</u>	<u>87,926</u>
Issued and fully paid:			
As at 31 December 2014 and 30 June 2015	<u>250,000,000</u>	<u>2,500</u>	<u>2,200</u>



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2015

### 18. FINANCIAL INSTRUMENTS

#### Fair value

Other than derivative financial instruments, the directors of the Company consider that the carrying amounts of other financial assets and financial liabilities, recorded at amortised cost, in the consolidated financial statements approximate their fair values.

#### Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, that is, unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs, that is, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2015

## 18. FINANCIAL INSTRUMENTS (Continued)

## Fair value hierarchy (Continued)

Fair value at 30 June 2015 RMB'000	Fair value measurements as at 30 June 2015 categorised into			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
<b>Group</b>				
<b>Recurring fair value measurement</b>				
<b>Assets</b>				
Structured bank deposit	86,000	—	86,000	—
Derivative financial instruments:				
– Currency swaps	11,537	—	11,537	—
– Forward foreign exchange contracts	200	—	200	—

Fair value at 31 December 2014 RMB'000	Fair value measurements as at 31 December 2014 categorised into			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
<b>Group</b>				
<b>Recurring fair value measurement</b>				
<b>Assets</b>				
Derivative financial instruments:				
– Currency swaps	1,660	—	1,660	—
– Forward foreign exchange contracts	26	—	26	—



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2015

### 18. FINANCIAL INSTRUMENTS *(Continued)*

During the period ended 30 June 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of the fair value hierarchy as at the end of the reporting period in which they occur.

#### Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of currency swaps and forward foreign exchange contracts in Level 2 is determined by discounting the contractual forward price and deducting the current spot rate. The discount rate used is derived from the relevant government bond yield as at the end of the reporting period plus an adequate constant credit spread.

The fair value of structured bank deposit in Level 2 is determined by the present value of an investment by the discounted sum of all cash flows to be received in future. The discount rate used is derived from the relevant government bond yield as at the end of the reporting period.

### 19. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 June 2015 and 31 December 2014.