

\* For identification purpose only

譚木匠



**2016**  
Interim Report

**CARPENTER TAN HOLDINGS LIMITED**

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

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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. Liu Chang  
Mr. Tan Cao (resigned on 1 January 2016)  
Madam Tan Yinan (appointed on 1 January 2016)

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chau Kam Wing, Donald  
Madam Huang Zuoan  
Mr. Yu Ming Yang (resigned on 1 January 2016)  
Mr. Yang Yang (appointed on 1 January 2016)

### MEMBERS OF THE AUDIT COMMITTEE

Mr. Chau Kam Wing, Donald (*Chairman*)  
Madam Huang Zuoan  
Mr. Yu Ming Yang (resigned on 1 January 2016)  
Mr. Yang Yang (appointed on 1 January 2016)

### MEMBERS OF THE REMUNERATION COMMITTEE

Mr. Chau Kam Wing, Donald (*Chairman*)  
Madam Huang Zuoan  
Mr. Yu Ming Yang (resigned on 1 January 2016)  
Mr. Yang Yang (appointed on 1 January 2016)

### MEMBERS OF THE NOMINATION COMMITTEE

Mr. Chau Kam Wing, Donald (*Chairman*)  
Madam Huang Zuoan  
Mr. Yu Ming Yang (resigned on 1 January 2016)  
Mr. Yang Yang (appointed on 1 January 2016)

### COMPANY SECRETARY

Mr. Chan Hon Wan CA

### AUTHORISED REPRESENTATIVES

Mr. Geng Chang Sheng  
Mr. Chan Hon Wan CA

### REGISTERED OFFICE

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Grand Cayman KY1-1111  
Cayman Islands

### HEADQUARTERS

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Jiangsu Province  
The PRC

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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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  
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Hong Kong

### PRINCIPAL BANKERS

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222 Taibai Road  
Wanzhou  
Chongqing  
The PRC

China Construction Bank  
No. 14 Datong Street  
Yuzhong District,  
Chongqing  
The PRC

### AUDITOR

Crowe Horwath (HK) CPA Limited  
9th Floor  
Leighton Centre  
77 Leighton Road  
Causeway Bay  
Hong Kong

### LEGAL ADVISORS TO THE COMPANY

Hastings & Co  
5th Floor  
Gloucester Tower  
11 Pedder Street  
Central  
Hong Kong

### STOCK CODE

837

### COMPANY WEBSITE

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

## FINANCIAL HIGHLIGHTS

	Six months ended 30 June		% Change
	2016	2015	Increase/ (Decrease)
	RMB'000	RMB'000	
<b>Financial Highlights</b>			
Revenue	132,757	142,838	(7.1)%
Cost of sales	(43,899)	(49,366)	(11.1)%
Gross profit	88,858	93,472	(4.9)%
Gross profit margin	66.9%	65.4%	1.5% point
Profit before taxation	74,183	77,732	(4.6)%
Profit attributable to owners of the Company	57,926	63,240	(8.4)%
Basic earnings per share (RMB cents)	23.17	25.29	(8.4)%
	At 30 June	At 31 December	
	2016	2015	
<b>Liquidity and Gearing</b>			
Current ratio <sup>(1)</sup>	10.67	8.97	19.0%
Quick ratio <sup>(2)</sup>	8.79	7.54	16.6%
Gearing ratio <sup>(3)</sup>	N/A <sup>(4)</sup>	N/A <sup>(4)</sup>	N/A <sup>(4)</sup>

### 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 total bank borrowings divided by total assets and multiply by 100%.
- (4) As at 30 June 2016 and 31 December 2015, the Group did not have any interest-bearing bank borrowings. The calculation of gearing ratio is not meaningful.





### MARKET REVIEW

According to the information from the National Bureau of Statistics, from January to June 2016, the total retail sales of consumer goods amounted to approximately RMB 15,613.8 billion, an increase of 10.3% when compared to the same period last year. However, the operation of traditional business such as physical department store and supermarket remained challenging, and negative growth began to appear. Faced with the challenge, some of the traditional retail enterprises began to transform to modern shopping centers in order to explore new market share by improving consumer experience and meeting new demand under consumption upgrade.

Over the last decade, the wooden handicrafts market in China developed into the most thriving stage with the flourishing of various kinds of wooden handicrafts. The sales in wooden handicrafts market hit the peak in 2013. Since then, the market consumption of wooden handicrafts as ordinary goods, travel souvenirs and gifts has become more rational in recent years. While huge progress has been made in the last decade, some problems were also emerging during the continuous development. Some enterprises were getting difficult to survive due to poor management, out-dated business philosophy, weak supporting function and problems in sales and distribution channels. For Carpenter Tan Holdings Limited (the “Company”) and its subsidiaries (the “Group”), this is a good opportunity. The Company has always been adhering to the core mission of “Honesty, Work and Happiness” and values the quality of the brand. With our sizable product lines of wooden combs series, wooden mirrors series and wooden accessories series, we have built up our strength and competitiveness in the industry by strengthening new product research and development, changing marketing channel, updating our store image, designing new VI system suitable for the visual habits of younger generation, strengthening the brand promotion and enhancing the social image of our brand.

Given the slow recovery and weak growth in the global market, many world-renowned companies and brands tightened their budget, moved out from core business districts and closed their stores in shopping centers, which, in Carpenter Tan’s perspective, provided an opportunity for market development. The Company will buck the trend by opening new stores in the core business districts and shopping centers of various cities in order to secure favorable locations and win new market opportunities. As such, the Company believes that it will achieve sustainable development.

# 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 2016, the Group had 1,340 franchised shops in the PRC, and another 6 franchised shops and 3 self-operated retail shops in other countries and regions. The following table sets out the number of the Group's franchised shops and self-operated retail shops:

	As at 30 June 2016		As at 31 December 2015	
	Franchised shops	Self-operated retail shops	Franchised shops	Self-operated retail shops
PRC	1,340	—	1,376	—
Hong Kong	—	3	—	5
Other countries and regions	6	—	3	—
Total	<u>1,346</u>	<u>3</u>	<u>1,379</u>	<u>5</u>

### 2. Sales network

#### *The PRC offline market*

In 2016, the new store development visions and strategies for China market are to continue consolidation at core business districts in first and second tier cities, increase the coverage at major business districts of these cities and encourage to expand and set up stores in the core business districts at provincial capital, municipalities directly under the Central Government and some major cities. Meanwhile, we strengthened the strategic cooperation on leading chain commercial property developers projects, stepped up effort to expand at shopping centers, continuously analyzed the operation data of shopping centers and paid attention to the change in system planning of the shopping centers. We also expanded to county-level cities with developed economy and limited the location to be within the core area in the core business districts. In core cities such as provincial capital, we opened experience stores. In addition, colour painting experience area, combing experience area and area for maintenance, polishing and carving were set up in our stores so as to meet consumers' needs for customization and differentiation.

During the six months ended 30 June 2016 (the "Reporting Period"), the Group opened 53 franchised shops mainly in provincial capital, municipalities directly under the Central Government and prefecture-level cities and 33 of which were in shopping centers. The major sales channel was shopping center and the market feedback was encouraging. 89 stores were closed due to change in city planning, lease expiry or other reasons.



### *Overseas market*

Overseas market experienced healthy growth as compared to the same period last year, and we engaged sole agent in French and distributors in Dubai and Saudi Arabia. The business of existing distributors began to grow, and the cooperation model became more matured. The Group will continue to participate in more overseas exhibitions, expand the scale of participation and present the brand image of Carpenter Tan in top-level overseas exhibitions in order to increase the international presence of Carpenter Tan's products and introduce Carpenter Tan to more professional buyers, brand owners and overseas investors. Meanwhile, we will also lower the investment requirement, remove unnecessary brand licensing fees and only keep the requirement of certain amount of credit deposit. In addition, we will improve our services and try our best to meet the special requirement of our major customers in respect of adjustment to products or packaging, so as to improve the competitiveness of Carpenter Tan with quality services.

### 3. Offline sales management

#### *Detailed management approach and result*

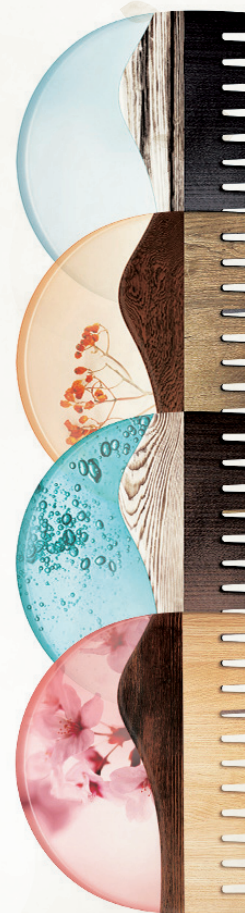
For market development, the Group will continue to strictly control the location of new stores and improve the quality of new stores instead of mindless pursuit of store numbers. During the Reporting Period, we opened 53 new stores. We explicitly set out the duty of regional manager, improved our market insight and formulated city analysis list, market development plan and daily follow-up list. We also visited the headquarters of shopping centers to discuss on market development. We formulated the schedule for store renovation and implemented renovation of stores in accordance with the schedule. We formulated the strategies for opening of experience store and planned to open new experience stores in core shopping centers. We designated supervising personnel to monitor the management of existing stores by marketing personnel so as to increase the work efficiency. Non-compliant stores, particularly those conducted online sales without authorization, were investigated and punished.

#### *Systematic monitoring on data of sales, inventory and supply chain management*

The Group implemented relevant measures on inventory checking and data management of stores so as to ensure the stores upload the Point of Sales ("POS") information as scheduled. Profitability analysis on all new stores was conducted based on POS information.

#### *Sales promotion*

The Group designed different promotion activities for different festivals and the promotions can be divided into unified promotion by the Company and promotion by stores. Our promotions focused on Valentine's Day, Mother's Day, Dragon Boat Festival, Mid-Autumn Festival and Christmas Day and we also designed creative promotional gifts. The Group would also participate in the large-scale promotional activities organized by shopping centers and carry out promotional activities at the atrium on the ground floor of the shopping centers in major festivals and holidays. Promotional activities included colour painting experience, Combing Dearest Mother and presentation of designers' work and products.





## MANAGEMENT DISCUSSION AND ANALYSIS

### *New breakthrough in sales mode*

During the Reporting Period, stacking of products was placed at the eye-catching spot at the entrance of each store to attract customers. Comb for Dearing Mother (媽媽梳), a special product with favorable price (RMB 99), was also placed at each store to increase the customer traffic and thus the same-store sales. We also gave full play to the advantage of physical stores by bringing new dynamics to the shopping experience of physical stores, interacting with consumers in various ways, organizing colour painting experience activities in physical stores and meeting consumers' need of customization. Experiential shopping had gradually developed into a recurring activity of our stores, which enabled our customers to enjoy and share happiness during the process and achieve self-realization while increasing the customer traffic and popularity of our stores, increasing sales opportunities and improving the operating results of our stores and the Company.



## 4. E-commerce

### *Sales network and model*

During the Reporting Period, the Group adopted B2C online shop model with sales network covering various major e-commerce platforms including T mall, Jingdong, Suning, Amazon, Yihaodian and Dangdang. The Group opened flagship stores on the above platforms and generated revenue mainly through trading which was a revenue model based on product sales. During the Reporting Period, e-commerce sales increased by 24% as compared to the same period last year.

### *Sales highlights*

While most of the competitors promoted sales by offering discounts, Carpenter Tan stuck to its unique style of sentimental marketing in romance, family love and friendship by giving sentimental value to our products in order to move our customers and promote the brand culture of the Group. By utilizing marketing tools of T mall such as through train and Diamond booth, we organized marketing and promotional activities for major festivals. We also purchased popular keywords and hot searches in the industry in order to increase customer traffic and thus the sales of our stores. We used multi-platform traffic guiding tools provided by third party service companies to promote our brand to internet users other than those on major platforms such as Taobao and Jingdong and delivered relevant information of our products and brand to target groups through precise positioning. The Group will continue to promote our products designed for younger generation and increase product sales by improving product packaging and updating promotion methods. Value-added services on sentimental side and product customization will also be provided.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Ranking of our brand among similar products online and market share of our wooden comb products*

During the Reporting Period, the daily ranking of our brand in “family/personal sanitary products” category ranged from second to sixth, and our ranking in payment received in the last 30 days maintained in the second or third place. We ranked first in “comb” category. For the six months ended 30 June 2016, there were 85,427 vendors in comb category of the Taobao platform. In the first half of 2016, the daily visitors of Carpenter Tan flagship store accounted for 6.66% of the whole platform, and daily sales accounted for 26.53% of the whole platform.

### *Our three largest competitors, their market shares and our countermeasure*

During the Reporting Period, our three largest competitors in comb category were Tangle Teezer, Yumeiren (虞美人), Onewoo Workshop (乙木工坊) and non-compliant stores of Carpenter Tan, with market share of 12%, 6%, 4% and 3%, respectively. In particular, Tangle Teezer’s products were mainly plastic combs which were not so similar to Carpenter Tan’s products, while the major products of Yumeiren and Onewoo Workshop were wood combs, which were similar to Carpenter Tan’s products. The Group’s countermeasure was to combat illegal sales. The sales of Carpenter Tan flagship store accounted for 88% of the total sales of Carpenter Tan, representing an increase of 8% as compared to the same period in 2015. However, as 12% of the sales was seized by non-compliant stores, we will continue to eliminate non-compliant online stores.

Meanwhile, the Group will increase the customer traffic. The traffic of our T mall flagship store accounted for 7% of the whole platform. Such low level of traffic was mainly due to our limited entry points of customers and inadequacy of our brand exposure. Therefore, we will step up our efforts in promotion outside the platform in order to increase our brand exposure. We will also maintain good communication with media platforms to increase the number of participants of its promotion events.

We will introduce more innovative interactions in order to increase customer stickiness. Riding on the development trend of the platform, we will cooperate with Taobao experts and internet celebrities whose image match our brand culture and carry out fans promotion on live streaming platforms. We will also expand to other categories. In the first half of 2016, comb category only accounted for 5% of the primary category of “family/personal sanitary products” with relatively low customer traffic. Therefore, in the second half of 2016, we will expand to more categories (especially “storage/sorting” category) to increase customer traffic. We will strengthen the promotion of mirrors. “Mirror/makeup mirror” was the second most searched product in our store after “comb”, which showed a great market potential. As such, we will increase the share of such product category by updating the product portfolio.

### *Sales promotion activities*

During the Reporting Period, we launched activities with focus on Valentine’s Day in February, Women’s Day in March, Mother’s Day in May and the “520” event in May. The activity in respect of Valentine’s Day was affected by Lunar New Year, other than that, our activities received satisfactory results and recorded significant growth as compared to the same period last year.



## MANAGEMENT DISCUSSION AND ANALYSIS

### 5. Product research and development

#### *The Company's product development direction during the Reporting Period*

During the Reporting Period, the Company's main direction in product development was to design the product and packaging in a younger and more fashionable way. The style mainly focused on Chinese characteristics with perfect match to international style. Chinese traditional culture was blended in with every aspect from logo and product to packaging and promotional material, and perfectly integrated with the new international style of simple, fashion and elegance, which paved a way for Carpenter Tan to develop into a China-based international brand. While consolidating the direction in development of wooden comb as our major product, we also expanded the product portfolio of metal frame wooden mirror and stepped up our efforts in developing the third generation wooden comb which was more ergonomic without hair damage, and such product has become our new market favorite.

Meanwhile, the Group also carried out development in private customization of high end carved products and accessories to cater to minority demand and acquire new market opportunities. The development of wood structure enabled the Company's design team to gradually improve its ability. The theme of our products was becoming younger and more fashionable. We also made progress in combination of mixed materials and improvement of traditional craftsmanship and production process of mirrors. New packaging was launched to the market gradually. We continued to recruit up-and-coming designers with strong ability and extensive experience and fully utilized the product design contest on our official website to attract more young freelance designers in preparation for designing products with younger style.

#### *Progress of product development for online sales, physical store sales and overseas sales*

During the Reporting Period, Carpenter Tan's design team became more smart and capable through optimization and integration, and its cooperation with external team was more frequent and collaborative. As at 30 June 2016, Carpenter Tan has launched a total of 525 products, comprising 123 lockets, 281 box sets, 26 mirrors, 66 accessories and a total of 29 sets of limited edition products and regional only products. 18 of such products came from the design works on our official website. Moreover, the Group launched a total of 57 new products, including 56 box sets, 14 lockets, 7 accessories and 2 mirrors. A total of 13 new products in 2 series were developed for overseas market.

#### *Personnel structure, number and training program of research and development staff*

As at 30 June 2016, the creative design centre of the Group had 13 design and development staff members of which there was 1 art director, 1 manager, 3 product specialists, 3 designers, 2 gravers, and 3 gravers apprentice. There were a total of 169 new product samples completed. Mixed materials combination between wood and resin, metal and stone was developed. Design, research and development of comb products with mixed material teeth were completed. We also developed and improved the structure and craftsmanship of mirrors.



## MANAGEMENT DISCUSSION AND ANALYSIS

### *External team of research, development and design and use of social resources*

In addition to the internal team, the Group has been cooperating with influential professional teams in China and carried out in-depth cooperation on a project-by-project basis. We cooperated with the School of Design of Nanjing University of the Art in respect of the development of product series for lovers and established the Carpenter Tan Product Design Center in Nanjing University of the Arts. The products developed in such cooperation have moved into the sample making stage. Chinese strokes comb (漢字筆畫梳) was jointly developed by us and Yunma Design and has been launched in the market. Based on such product, we will further develop the Chinese strokes products such as Chinese strokes comb series in order to promote and pass down our national treasure of Chinese characters to the future generation through the presentation of Carpenter Tan's products. Our cooperation with Feish Design was focused on the development of silver accessories. Although the design and transformation achieved so far was not very satisfactory, it showed great potential. The Group was improving the design and sample making of silver accessories and believed that silver accessories will become a new momentum.



The Group also built an international foothold by establishing long-term cooperation relationship with internationally renowned design agencies, such as Mr. Tommy Li, a design industry guru in Hong Kong, Biaugust in Taiwan, Mr. Yoshimaru Takahashi, a famous Japanese designer and JOSE workshop in Germany. With such cooperation, we have made progress in the development of Carpenter Tan's new logo, Japanese lacquerware products and clear and fashionable products. The Group set up a processing center in the product design center to provide sample making services to designers. In addition to serving the internal designers of the Company, external design teams and foreign designers were also invited to the processing center of the Company regularly to experience our sample making services which turn their design works into products. Thereby, the designers can touch and feel the real products and provide better design works to the Company.

## 6. Innovative technologies

### *New technologies developed during the reporting period*

We developed the new processing technology of teeth root polishing which can alter the shape of teeth root from sharp right angle to curve shape and thereby providing smooth combing experience without hair damage. We also developed the automatic straight-line mortise and tenon processing machine which can complete the processing of mortise and tenon structure of straight-line wood-binding comb automatically in one single equipment. The development of automatic comb trimming machine significantly enhanced the processing efficiency and safety and reduce the labor intensity. Such machine has realized mass production successfully. For development of wood moisture control technology, through two years of process testing, we have developed the technical solution for the control of moisture content of material after dehydration, which will make meaningful contribution to the utilization of material, improvement of product quality and reduction of product return due to quality problem.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Total number and features of new products and technologies launched*

During the Reporting Period, there were a total of 120 new product samples completed, including 85 combs, 4 mirrors and 31 accessories. 99,000 products in 43 models were launched to the market and 3 new processing technologies were promoted for wider application.

### *Personnel structure, number and training program of development staff*

Our production factory is equipped with a technology center and a processing equipment division. The technology center is mainly focused on material stabilization, development of new process and introduction and development of new equipment. The processing equipment division is mainly responsible for the improvement and enhancement of processing technology and equipment used in the production line and the maintenance and management of production line. This division is comprised of 20 staff and will introduce and train electronics engineers and processing technique engineers.

## 7. Production

### *Research progress of the technology center in Wanzhou Factory in respect of preservation, stabilization and modification of wood, development of new materials and combination of mixed materials*

For the research on moisture control of wood, the Group conducted process testing in recent two years by cross-validation of various processing techniques in different testing environments and have formulated a processing equipment solution for moisture control of wood, which would be implemented after obtaining approval from the Company. For the change in stacking and storage methods of materials, the same direction stacking method was replaced by cross stacking method in order to create a well-distributed ventilation environment for the control of moisture and relief of internal stress of the wood after dehydration and enhance the performance consistency of each piece of material.

The Group focused on the improvement of wood stabilization in order to reduce the deformation and cracking of products. Joint tests with Ximu Technology (惜木科技) were also carried out. We also conducted research on mixed materials combination during product development. Preliminary results were achieved on the combination of wood with metal materials such as silver, copper and stainless steel as well as the combination of wood with silver and copper, and such progress was applied to our products gradually. For the combination of wood with stainless steel, further exploration was required to address the problems of unsatisfactory glossiness as well as demixing and color changing of electroplating layer due to poor durability.

### *Production information and production volume of Carpenter Tan's production factory and products*

The Group's production factory located at Wanzhou has a site area of approximately 24,000 square meters and an annual production volume of 10 million products.

### 8. Branding culture

Brand promotion activities and related effect in the first half of 2016 was good, the Group continued to hold design competitions. We cooperated with “ZCOOL (站酷網)”, the most popular design platform in China, to carry out the assessment for the first “Touching Design with Creativity – Find Out the Most Touching Product of the Year (情懷之作, 創意之舉—尋找最具情懷的年度好作品)” annual design competition. After considering the votes casted by various designers and the scores given by the judges, three design works were awarded the annual prize of RMB100,000, which brought a perfect conclusion to the first annual competition.

The Group held the second “Beauty of Ingenuity (別具匠心的美好)” design competition which grabbed the attention and participation of various designers. While endeavoring to convert the design ideas into products and purchase orders, the Company also promoted the Carpenter Tan brand by utilizing these design platforms.

The Group produced a brand promotion video “Carpenter Tan – the Story of A Comb (譚木匠之一把梳子的故事)” which told a touching story of how the staff of Carpenter Tan put love in the comb with their hard work and integrity. The video was well praised since its launch.

The Group encouraged the staff to “come back to honesty (回歸誠實)”, collected the stories related honesty, work and happiness of Carpenter Tan’s staff and continuously disseminate such stories through Weibo and Wechat so as to consistently spread positive energy. Took advantage of the official launch of Carpenter Tan’s new logo and carried out promotion activities through various media channels. Produced training and promotion videos related to the “store management” of outstanding stores in order to provide franchisees with training on store management practices and share such content to the public without holding back of any information with an aim to facilitate the improvement of marketing practices in every industry. As such, Carpenter Tan once again made substantial progress in self-transcendence and performance of social responsibilities.

#### Awards and accreditation

During the Report Period, the Group has received many honors and awards:

- the Group was awarded the “Grade A Tax-paying Enterprise (A級納稅企業)” jointly awarded by SAT Wanzhou District Office and Wanzhou Local Taxation Bureau in 2015;
- the Group was awarded the Leading Enterprise of Forestry Industry of the City (市級林業龍頭企業) by Forestry Administration of Chongqing;
- the Group was awarded the Outstanding Organization Award by Chongqing Wanzhou Disabled Persons’ Federation;
- the Group was awarded the “Advanced Base Level Trade Union Organisations” in “Innovation and Excellence” Competition by Wanzhou District Union in Chongqing;
- the Group was awarded the Top Brand Product of Chongqing by Top Brand Product Association of Chongqing; and
- the Group was awarded the Advanced Base Level Party Organization awarded by Party Committee of Wanzhou District, Chongqing.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Human resources and training

In addition to team training and internal training, the Group has been focusing on engaging external professional institutions to provide training to our staff in respect of ISO9001:2015 quality system standards and ISO14001:2015 environmental management system standards in order to enable the Company to keep up with the change in the standards in such two systems and achieve continuous improvement.

The Group organized financial management staff to participate in financial management training provided by professional institutions. Through the combination of online learning and offline learning, our financial management staff can acquire latest information about the state's financial and taxation policies and improve their professional quality and financial control ability.

The Group organized our designers to participate in the "Design Shanghai" and "China Print East (Shanghai)" exhibitions in Shanghai in order to broaden their vision.

### 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 2016, Carpenter Tan provided a total of 324 jobs for people with disabilities, representing an increase of 6 jobs as compared to 318 jobs for the same period last year, and strictly complied with the welfare conditions so that these people with disabilities can become relying on their own.

In order to encouraged people with disabilities to learn actively, improve their skills and working attitude and strengthen their comprehensive competitiveness in the society, after considering the lower efficiency of and limitation of work choices available to staff with disabilities due to their physical or verbal disabilities, we formulated relevant administrative provisions which offered additional allowance (three levels based on the degree of disability: RMB270 per person per month, RMB250 per person per month and RMB230 per person per month) to our staff with disabilities so as to improve their employability, survival ability and social value.

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.

The Group consistently organizes tree planting activities in spring and autumn in order to encourage our staff to preserve and protect the environment. The Company also provides support to disadvantaged groups every month to help those in need and increase self-confidence and happiness.

### FINANCIAL REVIEW

#### 1. Revenue

The Group recorded revenue of approximately RMB132,757,000 for the six months ended 30 June 2016, representing a decrease of RMB10,081,000 or 7.1% as compared to approximately RMB142,838,000 for the six months ended 30 June 2015. The decrease was mainly attributable to the slowdown in consumer goods retail market while partially off-set by the increase in revenue for e-commerce business.

## MANAGEMENT DISCUSSION AND ANALYSIS

	For the six months ended 30 June			
	2016 (RMB'000)	%	2015 (RMB'000)	%
<b>Sales</b>				
– Combs	34,394	25.9	37,764	26.5
– Mirrors	411	0.3	615	0.4
– Box sets	96,568	72.8	103,719	72.6
– Other accessories*	1,241	0.9	610	0.4
Franchise fee income	143	0.1	130	0.1
	<u>132,757</u>	<u>100.0</u>	<u>142,838</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 RMB43,899,000 for the six months ended 30 June 2016, representing a decrease of approximately RMB5,467,000 or 11.1% as compared to approximately RMB49,366,000 for the six months ended 30 June 2015, the decrease in cost of sales is in line with the decrease in revenue for the Reporting Period.

### 3. Gross Profit and Gross Profit Margin

For the six months ended 30 June 2016, gross profit of the Group was approximately RMB88,858,000, representing a decrease of approximately RMB4,614,000 or 4.9% as compared to approximately RMB93,472,000 for the six months ended 30 June 2015. The gross profit margin increased from approximately 65.4% in 2015 to 66.9% in 2016. The increase in gross profit margin was mainly due to the increase in revenue for e-commerce business which has a higher profit margin for the Reporting Period.

### 4. Other Revenue and Other Net Income

Other revenue and other net income comprise of PRC VAT refunds, investment income, exchange gain, bank interest income and rental income. Other revenue and other net income was approximately RMB25,432,000 for the six months ended 30 June 2016, representing an increase of approximately RMB7,622,000 or 42.8% as compared to approximately RMB17,810,000 for the six months ended 30 June 2015. The increase was mainly due to an increase in investment income and exchange gain.

### 5. Selling and Distribution Expenses

The selling and distribution expenses, mainly including advertising, marketing and promotion expenses, rental expenses, salaries and benefits, transportation fee and travelling expenses, amounted to approximately RMB21,294,000 for the six month ended 30 June 2016, representing an increase of approximately RMB3,131,000 or 17.2% as compared to RMB18,163,000 for the six months ended 30 June 2015. This increase was mainly a result of the increase in marketing and promotion expenses and sales commission for the Reporting Period.



## MANAGEMENT DISCUSSION AND ANALYSIS

### 6. Administrative Expenses

The administrative expenses of the Group was approximately RMB11,976,000 for the six months ended 30 June 2016, representing an increase of approximately RMB1,760,000 or 17.2% as compared to approximately RMB10,216,000 for the six months ended 30 June 2015. The increase was primarily due to an increase in design and sample expenses.

### 7. Profit from Operations

For the six months ended 30 June 2016, profit from operations for the Group amounted to approximately RMB74,214,000, decreased by approximately RMB5,138,000 or 6.5% when compared to approximately RMB79,352,000 for the six months ended 30 June 2015. Decrease in profit from operations was mainly due to the decrease in gross profit of approximately RMB4,614,000 and increase in operating expenses of approximately RMB4,891,000 while partially off-set by the increase in other revenue and other net income of approximately RMB7,622,000 for the six months ended 30 June 2016.

### 8. Finance Costs

For the six months ended 30 June 2016, finance costs amounted to approximately RMB31,000 decreased by approximately RMB1,589,000 when compared to approximately RMB1,620,000 for the six months ended 30 June 2015. The decrease was mainly due to the decrease in bank loan interest as a result of the decrease in bank borrowings.

### 9. Profit Before Taxation

For the six months ended 30 June 2016, profit before taxation for the Group amounted to approximately RMB74,183,000, decreased by approximately RMB3,549,000 or 4.6% when compared to approximately RMB77,732,000 for the six months ended 30 June 2015. Decrease in profit before taxation was mainly due to the decrease in profit from operation of approximately RMB5,138,000 while partially off-set by the decrease in finance cost of approximately RMB1,589,000 for the Reporting Period.

### 10. Income Tax Expenses

For the six months ended 30 June 2016, income tax expenses for the Group amounted to approximately RMB16,257,000, increased by approximately RMB1,765,000 or 12.2% when compared to approximately RMB14,492,000 for the six months ended 30 June 2015. This increase was mainly due to the increase in profit before tax for a subsidiary which operated the e-commerce business and was not entitled to the concessionary tax rate of 15% for the Reporting Period.

The effective tax rate for the Reporting Period was 21.9% which was higher than 18.6% for the six months ended 30 June 2015. Details of income tax expenses are set forth in note (8) to the unaudited interim financial report.

### 11. Profit for the Period

The profit for the six months ended 30 June 2016 was approximately RMB57,926,000, representing a decrease of RMB5,314,000 or 8.4% as compared to approximately RMB63,240,000 in the corresponding period of 2015.

### 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 publication of this report.

As at 30 June 2016, the Group had cash and bank balances of RMB268,507,000 mainly generated from operations of the Group and funds raised by the Company in December 2009.

### 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 RMB56,575,000 representing a decrease of net cash generated from operating activities of approximately RMB11,275,000 from approximately RMB67,850,000 for the six months ended 30 June 2015. The decrease was primarily due to the decrease in cash generated from operation.

#### *Net cash generated from/(used in) investing activities*

The Group's net cash inflow generated from investing activities amounted to approximately RMB81,784,000 during the Reporting Period, representing an increase of approximately RMB110,652,000 as compared with the cash outflow used in investing activities of approximately RMB28,868,000 for the six months ended 30 June 2015. The increase is mainly due to the decrease in pledged bank deposits held at bank during the Reporting Period.

#### *Net cash (used in)/generated from financing activities*

The Group's net cash outflow used in financing activities amounted to approximately RMB59,950,000 during the Reporting Period, representing a decrease of approximately RMB71,297,000 as compared with the net cash inflow generated from financing activities of approximately RMB11,347,000 for the six months ended 30 June 2015. The decrease was primarily due to the decrease in new bank loan raised during the Reporting Period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 14. Capital Structure

#### *Indebtedness*

As at 30 June 2016 and during the Reporting Period, the Group did not have any bank borrowings.

#### *Gearing ratio*

As at 30 June 2016 and 31 December 2015, the Group did not have any bank borrowings. The calculation of gearing ratio was not meaningful.

#### *Pledge of assets*

As at 30 June 2016, the Group did not have any assets pledged to the banks (31 December 2015: RMB233,053,000).

#### *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 RMB1,077,000 and RMB154,000 for the Reporting Period and the six months ended 30 June 2015 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 2016, 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 2016, 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

The following outlines Carpenter Tan's outlook for the development of retail and high-end wood products market in China as well as the Company's long term and short term development strategies in future.

The Company considered that there remained huge potential in the retail sales growth of China market and high-end wood products market, therefore the Company was confident that it can achieve great performance in the retail and high-end wood products market in China.

Carpenter Tan focuses on "becoming a comb of the world" and adopts the market strategy of "based on the market in mainland China and explore the global market through the platform in Hong Kong". As to the development of domestic market, the Company will mainly focus on entering the shopping centers in core business districts in order to improve the market share, sales results and brand awareness. As to the development of international market, the Company's strategy is to optimize the site-selection of Hong Kong stores and leverage on the advantage of MTR so as to achieve great performance in Hong Kong stores, develop the revenue model and copy to markets in Southeast Asia, Europe and America. For product development, with combs and mirrors as major products, the Company will provide private customization services of high-end wooden handicrafts, open large stores in core business districts, provide experiential consumption in stores, offer products with high-end materials which are suitable for different climates, re-launch traditional and classic products and conduct other operational activities in order to enhance our brand awareness, product appeal, sales growth and market share.

Meanwhile, the Company will deeply explore its corporate culture and brand value in order to enhance the brand value of Carpenter Tan and ensure better resources for brand marketing. Based on the fashionable and young image of Carpenter Tan's logo, the Company will achieve sublimation from "excellent craftsmanship on wood (我善治木)" to "excellent craftsmanship on essence (我善治本)" and re-establish a whole new brand image. Starting from the small work of "The Story of A Comb (一把梳子的故事)" and focusing on Carpenter Tan's culture accumulated and developed through 23 years of development, the Company will produce videos related to the management and product display of our stores, franchisees' feeling and experience on opening and operation of stores as well as our craftsmanship spirit in production in order to explain the brand value of Carpenter Tan. The Company will also continue to participate in public welfare activities such as caring assistance and social donation and organize family activities such as Combing Dearest Mother and Daughter-in-law Combing Mother-in-law so as to create commercial value and social value of Carpenter Tan bit by bit.

#### 1. Market outlook

##### *Physical stores in China*

Overall development strategies for physical stores in China for the second half of 2016 are to improve the management and open of stores, set up colour painting experience area, combing experience area and area for maintenance and carving in large stores. Expand the product portfolio, step up the effort in promotion of the third generation of implanted teeth comb, increase the product models and sales volume of mirrors. Continue to change the store image, improve and optimize the product packaging, cloth bags and tote bags to show the value of our products. Satisfy customers' special requirement on product customization, offer pre-order of private customization of products such as carved combs and small-size wooden products. Convert outstanding design works in Comb Design Competition into products and launch to the market with hunger marketing approach, require physical stores to promote the second Comb Design Competition.

## MANAGEMENT DISCUSSION AND ANALYSIS

It is planned that 100 stores will be opened mainly in shopping centers in provincial capitals, municipalities directly under the Central Government and prefecture-level cities in the second half of 2016.

The Group will establish daily settlement system and supervision system and formulate assessment method for information circulation and measure on supervision and reporting management so as to improve the execution through systems.

### *Overseas*

Based on Asia market, the Group will gradually expand to markets in developed countries such as European countries and America mainly through cooperation with dealers in order to reduce the concern of our partners and enhance our brand influence. As to Hong Kong market, in addition to operation of three existing stores, the Company will look for a suitable location to open a new Carpenter Tan store.

### *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. We will expand the existing market share of our brand by introducing new products, and extend the product line into other traffic areas of the platform to achieve transformation.

The Group will consolidate existing platform node, open and manage online stores. The Group will also build our 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. The Group will organize marketing activities and promotion in a self-innovative way, actively participate in the marketing activities of the platform and carry out promotion with free resources. The Group will also increase the proportion of paid traffic outside the platform and enhance our brand awareness among non-regular users through traffic driving on various platforms. We will improve the UI of our store in order to further improve the store turnover rate, reduce customer enquiry rate, raise service quality and thereby increasing the brand equity and sales. The Group will optimize the use of existing marketing tools such as through train, Diamond booth and Jingdong Business Class Cabin. The Group will also continue to combat non-compliant stores.

### 2. Research and development

The Company's direction and plan of product research and development in the second half of 2016 is to develop the products in a young, fashionable and international way and implement classic products re-launch plan. Expand the mirror product portfolio and increase its sales contribution. Implement the product portfolio expansion plan for the third generation of implanted teeth comb. Develop mixed materials products. Deepen the cooperation with external design team and convert the ideas into sales orders. The Group will satisfy the design requirement of private customization of high-end carved accessories.

Training program for research, development and design staff is to focus on construction and training of internal team and fully explore the potential of our staff to improve their skills and execution. Continue to recruit for our internal design team with focus on up-and-coming designers with strong ability and extensive experience. The Group will also strengthen the coordination and cooperation among different departments and cultivate market senses of our design team. The Group will strengthen the communication and interaction with franchisees and implement monthly marketing experience plan to enable our research and development team to fully understand the market trend.

Resources integration plan is to continue to strengthen the cooperation with colleges and increase cooperation resources. The Group will leverage on external freelance designers, up-and-coming designers or design teams and actively explore highly efficient cooperation model. Our internal designers will focus on quality instead of quantity of product designs and think from various aspects.

The Group will convert the design works on our official website into products and conduct research and development on product series expansion. We will also continue to identify outstanding designs among those not awarded ones to conduct conversion design and actively look for resources from outstanding external designers. We will also be well prepared for the second design competition.

### 3. Production coordination

The Group has been always focusing on enhancing production efficiency through technical improvement in order to improve the working environment and lower the labor intensity of our staff. Automatic mortise and tenon processing machine, automatic trimming machine and fast bonding machine are all new equipment technologies developed by us which replace the original processing methods and achieve significant improvement.

For equipment technologies, the Group will develop automatic drilling and teeth implanting technology, automatic comb shaping machine and third generation automatic comb teeth milling technology in order to improve production efficiency and safety, lower the labor intensity of our staff and improve the working environment.

The Group will gradually implement process standardization in order to enhance production efficiency and reduce production cost. We will promote precise processing to save resources. For processing techniques, we will develop technical solution for wood moisture control, carry out test on intelligent colour painting methods, develop new adhesives and continue to implement wood weight adding alternatives in order to test the techniques and make initial preparation for material safety strategy, reduction of labor cost and enhancement of production efficiency and strive to complete the projects on schedule.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 4. Human resources strategy and incubation plans

The Group will implement the human resources optimization strategy combining internal cultivation with external introduction. In addition to creating career development pathway for internal staff, we will also recruit outstanding talents from external sources in order to create a healthy competition mechanism, facilitate the team improvement and enhance the competitiveness of the Company. For incentive mechanism, the Group will gradually establish assessment mechanism in respect of working performance, dedication, practicing of corporate culture and mutual support and interaction with other colleagues in the same department and other departments, in order to cultivate and establish work ethic for our staff. The Group will ensure that our staff can learn, grow and feel love in Carpenter Tan so that they can better adapt to new jobs after leaving Carpenter Tan and will not complain about or do harm to Carpenter Tan. In the second half of 2016, our human resources reserves will be focus on product research and development, marketing and technology development so as to provide human resources with guarantee for continuous development of the Company. For technology development, we will recruit processing technique engineers and automatic control software engineers for back up, and hire instructional support technicians internally for experiential processing methods. For product design and development, we will hire external and internal product designers, drafting engineers for design conversion and product management professionals responsible for all-round management from input of design information to product launch. For marketing, we will recruit professionals specialized in market development and supervision.

### 5. Visions for the brand promotion work for the second half of 2016

With regard to the brand promotion work for the second half of 2016, the Group will continue to explore the promotion value of design competition events, expand the influence range and carry out the events in a deeper and more energetic way. The Group will also convert the awarded design works in the competition into products through conversion design, processing and production, and acquire market share in a fast and effective manner with innovative marketing approaches which also benefit the designers. We will make good use of the important communication tool of video. Through our efforts in the first half of 2016, we have developed an effective model of “strengthening self-innovation + production by professional team”. In the second half of 2016, we will gradually produce and launch various brand promotion videos including “Artisan Spirit of Carpenter Tan”, “Sharing of Carpenter Tan’s Marketing Experience” and “New Office Building of Carpenter Tan and Promotion of Lifestyle”. In 2016, Carpenter Tan will implement several major innovations in its marketing strategy. Based on the Group’s marketing strategy, we will carry out brand promotion activities in time. The Group will continue to hold the “Combing Dearest Mother” welfare activities.

## HUMAN RESOURCES AND TRAINING

As of 30 June 2016, the Group had a total of 915 employees in Mainland China, Hong Kong and overseas, with a total labor cost of approximately RMB23,338,000 (2015: approximately RMB20,779,000) 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.

**DIRECTORS' INTERESTS IN COMPETING BUSINESS**

During the six months ended 30 June 2016, 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 2016, the interests and short positions of the Directors and the chief executive of the Company in the share, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, were as follows::

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 2016, 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, 31 December 2015, 1 January 2016, and 30 June 2016 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 2015, or the six months ended 30 June 2016.

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 2016, the Group had no capital commitment (31 December 2015: RMB172,000).

### 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 26 May 2016, the Company declared the audited distributable profits as at 31 December 2015 amounting to approximately HK\$73,050,000 (equivalent to approximately to RMB59,950,000) to the shareholders of the Company. The dividend was fully paid on 27 June 2016 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 2016 (2015: nil).

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

During the Reporting Period, the Company repurchased 70,000 shares of the Company. As at 30 June 2016, these shares had not yet been cancelled.

### 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 2016, 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.

### 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 2016. 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 Reporting 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. Yang 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 2016 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 2016 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, 31 August 2016

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2016 - UNAUDITED

	Note	Six months ended 30 June	
		2016 (unaudited) RMB'000	2015 (unaudited) RMB'000
Revenue	6	132,757	142,838
Cost of sales		<u>(43,899)</u>	<u>(49,366)</u>
<b>Gross profit</b>		<b>88,858</b>	<b>93,472</b>
Other revenue and other net income	6	25,432	17,810
Selling and distribution expenses		(21,294)	(18,163)
Administrative expenses		(11,976)	(10,216)
Other operating expenses		<u>(6,806)</u>	<u>(3,551)</u>
<b>Profit from operations</b>		<b>74,214</b>	<b>79,352</b>
Finance costs	7(a)	<u>(31)</u>	<u>(1,620)</u>
<b>Profit before taxation</b>	7	<b>74,183</b>	<b>77,732</b>
Income tax	8	<u>(16,257)</u>	<u>(14,492)</u>
<b>Profit for the period</b>		<b><u>57,926</u></b>	<b><u>63,240</u></b>
<b>Attributable to</b>			
Owners of the Company		<u>57,926</u>	<u>63,240</u>
<b>Earnings per share</b>			
Basic and diluted	9	<u><b>RMB23.2 cents</b></u>	<u><b>RMB25.3 cents</b></u>

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 2016 - UNAUDITED

	Six months ended 30 June	
	2016 (unaudited) RMB'000	2015 (unaudited) RMB'000
Profit for the period	57,926	63,240
Other comprehensive income for the period (after tax)		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of functional currency to presentation currency	<u>(4,016)</u>	<u>2,374</u>
Total comprehensive income for the period	<u>53,910</u>	<u>65,614</u>
Attributable to		
Owners of the Company	<u>53,910</u>	<u>65,614</u>

The accompanying notes form part of this interim financial report.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Note	30 June 2016 (unaudited) RMB'000	31 December 2015 (audited) RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	10(a)	57,961	57,509
Prepaid lease payments	11	14,357	12,922
Investment properties	10(b)	89,550	89,550
		<b>161,868</b>	<b>159,981</b>
<b>Current assets</b>			
Prepaid lease payments	11	362	362
Inventories		93,666	87,442
Structured bank deposits	12	148,400	—
Trade receivables	13	1,486	2,377
Other receivables, deposits and prepayments		18,817	29,368
Pledged bank deposits		—	233,053
Cash and cash equivalents		268,507	194,114
		<b>531,238</b>	<b>546,716</b>
<b>Current liabilities</b>			
Trade payables	14	3,522	3,943
Other payables and accruals		19,680	26,316
Derivative financial instruments	17	—	5,516
Income tax payable		26,577	25,161
		<b>(49,779)</b>	<b>(60,936)</b>
<b>Net current assets</b>		<b>481,459</b>	<b>485,780</b>
<b>Total assets less current liabilities</b>		<b>643,327</b>	<b>645,761</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		25,172	21,548
Deferred income		758	776
		<b>(25,930)</b>	<b>(22,324)</b>
<b>NET ASSETS</b>		<b>617,397</b>	<b>623,437</b>
<b>Capital and reserves</b>			
Share capital	16	2,200	2,200
Reserves		615,197	621,237
<b>TOTAL EQUITY</b>		<b>617,397</b>	<b>623,437</b>

The accompanying notes form part of this interim financial report.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2016 - UNAUDITED

Attributable to owners of the Company									
Note	Share capital	Share premium	Capital reserves	Statutory reserves	Other reserves	Property revaluation reserves	Currency translation reserves	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015 (audited)	2,200	114,674	2,767	136,119	17,738	12,245	(2,196)	295,195	578,742
Profit for the year	—	—	—	—	—	—	—	119,906	119,906
Exchange differences arising on translation of functional currency to presentation currency	—	—	—	—	—	—	(10,786)	—	(10,786)
Total comprehensive income for the year	—	—	—	—	—	—	(10,786)	119,906	109,120
Dividends	15	—	—	—	—	—	—	(64,425)	(64,425)
Transfer to reserve	—	—	—	4,781	—	—	—	(4,781)	—
At 31 December 2015 (audited)	<u>2,200</u>	<u>114,674</u>	<u>2,767</u>	<u>140,900</u>	<u>17,738</u>	<u>12,245</u>	<u>(12,982)</u>	<u>345,895</u>	<u>623,437</u>
At 1 January 2016 (audited)	2,200	114,674	2,767	140,900	17,738	12,245	(12,982)	345,895	623,437
Profit for the period	—	—	—	—	—	—	—	57,926	57,926
Exchange differences arising on translation of functional currency to presentation currency	—	—	—	—	—	—	(4,016)	—	(4,016)
Total comprehensive income for the period	—	—	—	—	—	—	(4,016)	57,926	53,910
Dividends	15	—	—	—	—	—	—	(59,950)	(59,950)
At 30 June 2016 (unaudited)	<u>2,200</u>	<u>114,674</u>	<u>2,767</u>	<u>140,900</u>	<u>17,738</u>	<u>12,245</u>	<u>(16,998)</u>	<u>343,871</u>	<u>617,397</u>

The accompanying notes form part of this interim financial report.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2016 - UNAUDITED

	Six months ended 30 June	
	2016 (unaudited) RMB'000	2015 (unaudited) RMB'000
<b>Operating activities</b>		
Cash generated from operations	66,294	79,578
Interest received	1,529	11,716
Interest paid	(31)	(1,453)
Income tax paid, net	(11,217)	(21,991)
<b>Net cash generated from operating activities</b>	<b>56,575</b>	<b>67,850</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(1,077)	(154)
Proceeds from disposal of property, plant and equipment	5	8
Purchase of structured bank deposits	(148,400)	(86,000)
Purchase of prepaid lease payments	(1,797)	—
Decrease in fixed deposit held at bank	—	127,756
Decrease/(increase) in pledged bank deposits	233,053	(70,478)
<b>Net cash generated from/(used in) investing activities</b>	<b>81,784</b>	<b>(28,868)</b>
<b>Financing activities</b>		
Dividend paid	(59,950)	(64,425)
New bank loan raised	—	75,772
<b>Net cash (used in)/generated from financing activities</b>	<b>(59,950)</b>	<b>11,347</b>
<b>Net increase in cash and cash equivalents</b>	<b>78,409</b>	<b>50,329</b>
Cash and cash equivalents at 1 January	194,114	258,825
Effect of foreign exchange rate changes, net	(4,016)	2,428
<b>Cash and cash equivalents at 30 June</b>	<b>268,507</b>	<b>311,582</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 2016

## 1. GENERAL INFORMATION

Carpenter Tan Holdings Limited was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (Chapter 22, Law 3 of 1961, as consolidated and revised) of the Cayman Islands and its shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the Company's registered office and the principal place of business are Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands and Block 11, Shangdao 1912, 7 Dongcheng Zhong Road, Jurong City, Jiangsu Province, the People's Republic of China (the "PRC") respectively.

## 2. BASIS OF PREPARATION

The unaudited 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 unaudited interim financial report in conformity with HKAS 34 requires the 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 unaudited 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 2015 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.

## 3. 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 2015, 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 2012-2014 Cycle

Amendments to HKAS1

Presentation of financial statements: Disclosure initiative

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2016

### 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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 2015, 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.

### 4. 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 broad range of sales of wooden handicrafts and accessories. Over 90% of the Group’s revenue 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 revenue 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 revenue and contribution from operations by major customers has been presented as there are no transactions with a single external customer equal to or greater than 10% of the Group’s total revenue.

### 5. 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 2016

### 6. REVENUE, OTHER REVENUE AND OTHER NET INCOME

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

	Six months ended 30 June	
	2016 (unaudited) RMB'000	2015 (unaudited) RMB'000
<b>Revenue</b>		
Sales of goods	132,614	142,708
Franchise fee income	143	130
	<u>132,757</u>	<u>142,838</u>
<b>Other revenue and other net income</b>		
Government grants released from deferred income	18	18
Interest income from financial assets not at fair value through profit or loss - bank interest income	1,529	7,339
PRC VAT refunds	5,154	—
Rental income from investment properties	2,485	3,401
Fair value gain on derivative financial instruments	5,516	10,593
Income from derivative financial instruments	5,381	797
Net exchange gain/(loss)	1,034	(5,377)
Others	4,315	1,039
	<u>25,432</u>	<u>17,810</u>
	<u><u>163,504</u></u>	<u><u>160,648</u></u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2016

### 7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2016 (unaudited) RMB'000	2015 (unaudited) RMB'000
a) Finance costs		
– Interest on bank loans	–	1,620
– Other finance costs	31	–
Total interest expense on financial liabilities not at fair value through profit or loss	31	1,620
b) Other items		
Amortisation of prepaid lease payments	298	181
Cost of inventories (note (i))	43,899	49,366
Depreciation	1,763	1,278
Impairment on trade and other receivables	19	47
Loss on disposal of property, plant and equipment	3	55
Operating lease rentals in respect of land and buildings	2,308	2,227
Staff costs (including directors' emoluments)	23,338	20,779
Write-down of inventories	365	1,372

Notes:

- i) Cost of inventories includes approximately RMB14,710,000 (2015: RMB12,797,000) 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 2016

### 8. INCOME TAX

	Six months ended 30 June	
	2016 (unaudited) RMB'000	2015 (unaudited) RMB'000
<b>Current tax</b>		
PRC Enterprise Income Tax (notes 8(i), (ii) and (iii))	11,526	11,395
Hong Kong profits tax (note 8(v))	—	—
Withholding tax on dividends		
– Provision for the period	13,217	8,593
	<u>24,743</u>	<u>19,988</u>
<b>Under/(over) provision in prior years, net</b>		
PRC Enterprise Income Tax	1,108	(1,673)
<b>Deferred tax</b>		
Transfer to current tax upon distribution of dividends	(13,217)	(8,593)
Provision for the period	3,623	4,770
	<u>3,623</u>	<u>4,770</u>
<b>Total</b>	<u><u>16,257</u></u>	<u><u>14,492</u></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% (2015: 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 8(i) and (ii) above.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2016

### 8. 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 2016 and 2015 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%, resulting in an additional provision of RMB15,930,000 and RMB3,680,000 for deferred tax liabilities on the undistributed profits of the PRC subsidiaries as at 31 December 2013 and current tax liabilities on the dividend declared by a PRC subsidiary in 2013 but not yet remitted before 31 December 2013.

In around the end of 2014, the Group reversed partly the provision for deferred liabilities of RMB8,662,000 in relation to the undistributed profits of the PRC subsidiaries that are not expected to be distributed in the foreseeable future.

In 2015, the management had verbally agreed with the PRC tax authority to use 5% withholding tax rate on the dividend declared by the PRC subsidiary while the relevant formalities have not yet been completed. The management realised that no written representation obtained from the PRC tax authority may trigger the surcharge at 0.05% per day of the withholding tax liabilities. However, the management assessed that the risk of surcharge is minimal since the Group had already paid for the withholding tax liabilities on dividend in 2013 and 2014 at 5% and they are willing to bear a further 5% of the withholding tax liabilities. Thus, 10% of the withholding tax on the dividend has been provided in 2015.



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2016

### 9. 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	
	2016 (unaudited) RMB'000	2015 (unaudited) RMB'000
Earnings used in calculating basic and diluted earnings per share (profit attributable to owners of the Company)	<u>57,926</u>	<u>63,240</u>

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

	Six months ended 30 June	
	2016 (unaudited) '000	2015 (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 2016 and 2015.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2016

### 10. FIXED ASSETS

#### a) Acquisitions and disposals

During the six months ended 30 June 2016, the Group acquired items of property, plant and equipment with a cost of RMB1,077,000 (2015: RMB154,000). Items of property, plant and equipment with a total carrying amount of RMB13,000 (2015: RMB121,000) were disposed of during the six months ended 30 June 2016, resulting in a loss on disposal of RMB3,000 (2015: loss on disposal of RMB55,000).

#### b) Valuation

The Group's investment properties were not revalued as at 30 June 2016 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 2015 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.

### 11. 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 RMB6,726,000 as at 30 June 2016 (as at year ended 31 December 2015: RMB6,806,000). 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 Group 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.

In 2014, certain pieces of land of the Group previously held for own use were leased out to independent third parties under operating leases. Upon the change of use, the lands were revalued at their fair values and a surplus on revaluation of RMB13,601,000 was recognised in the Group's property revaluation reserve. The lands were then reclassified as investment properties. The fair values were arrived at on the basis of the valuation carried out by DTZ Debenham Tie Leung Limited. The fair values were determined by using Income Capitalisation Approach, by capitalising the rent derived from the existing tenancies with taking into account reversionary income potential. During the period, no land was reclassified as investment properties.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2016

### 12. STRUCTURED BANK DEPOSITS

	At 30 June 2016 (unaudited) RMB'000	At 31 December 2015 (audited) RMB'000
Structured bank deposits (Note)	<u>148,400</u>	<u>—</u>

Note: As at 30 June 2016, the Group's structured bank deposit is principal-protected and placed with a licensed bank in the PRC. This deposit is denominated in RMB and has an annual rate of return up to 2.9%. The structured bank deposit is classified as financial asset measured at amortized cost.

### 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 2016 (unaudited) RMB'000	At 31 December 2015 (audited) RMB'000
0 to 30 days	911	2,240
31 to 60 days	400	11
61 to 90 days	97	4
91 to 180 days	45	24
181 to 365 days	21	25
Over 1 year	<u>12</u>	<u>73</u>
Trade receivables, net of allowance for doubtful debts	<u>1,486</u>	<u>2,377</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 2016

### 14. 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 2016 (unaudited) RMB'000	At 31 December 2015 (audited) RMB'000
0 to 30 days	2,554	2,339
31 to 60 days	130	749
61 to 90 days	164	95
91 to 180 days	219	250
181 to 365 days	172	181
Over 1 year	283	329
	<b>3,522</b>	<b>3,943</b>

### 15. DIVIDENDS

- i) The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: RMB Nil).
- ii) Dividends payable to owners attributable to the previous financial year, approved and paid during the interim period:

Final dividend in respect of the financial year ended 31 December 2015, approved and paid during the current interim period, of RMB23.98 cents per ordinary share (2015: in respect of the financial year ended 31 December 2014, RMB25.77 cents)

At 30 June	
2016 (unaudited) RMB'000	2015 (unaudited) RMB'000
<b>59,950</b>	<b>64,425</b>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2016

### 16. SHARE CAPITAL

	Number of shares	Amount HK\$'000	Amount equivalent to RMB\$'000
Ordinary shares issued and fully paid:			
As at 31 December 2015 and 30 June 2016	<u>250,000,000</u>	<u>2,500</u>	<u>2,200</u>

### 17. FINANCIAL INSTRUMENTS

#### Fair value

##### *Fair value hierarchy*

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 to their fair values.

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 2016

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

Fair value *(Continued)*

Fair value hierarchy *(Continued)*

Fair value at 30 June 2016 RMB'000	Fair value measurements as at 30 June 2016 categorised into		
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
<b>Recurring fair value measurement</b>			
<b>Assets</b>			
Derivative financial instruments:			
– Currency swaps	—	—	—
– Forward foreign exchange contracts	—	—	—

Fair value at 31 December 2015 RMB'000	Fair value measurements as at 31 December 2015 categorised into		
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
<b>Recurring fair value measurement</b>			
<b>Assets</b>			
Derivative financial instruments:			
– Currency swaps	5,402	—	5,402
– Forward foreign exchange contracts	114	—	114



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2016

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

During the period ended 30 June 2016, 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.

### 18. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 June 2016 and 31 December 2015.