

2017 Interim Report

譚木匠控股有限公司*

CARPENTER TAN HOLDINGS LIMITED

(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

STOCK CODE : 837



* For identification purpose only



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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Madam Tan Yinan
Madam Huang Zuoan (re-designated to a
non-executive Director on 28 February 2017)
Mr. Liu Chang (resigned on 28 February 2017)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chau Kam Wing, Donald
Madam Huang Zuoan (re-designated to a
non-executive Director on 28 February 2017)
Mr. Yang Yang
Madam Liu Liting (appointed on 31 May 2017)

MEMBERS OF THE AUDIT COMMITTEE

Mr. Chau Kam Wing, Donald (*Chairman*)
Madam Huang Zuoan (resigned on 28 February 2017)
Mr. Yang Yang
Madam Liu Liting (appointed on 31 May 2017)

MEMBERS OF THE REMUNERATION COMMITTEE

Mr. Chau Kam Wing, Donald (*Chairman*)
Madam Huang Zuoan (resigned on 28 February 2017)
Mr. Yang Yang
Madam Liu Liting (appointed on 31 May 2017)

MEMBERS OF THE NOMINATION COMMITTEE

Mr. Chau Kam Wing, Donald (*Chairman*)
Madam Huang Zuoan (resigned on 28 February 2017)
Mr. Yang Yang
Madam Liu Liting (appointed on 31 May 2017)

COMPANY SECRETARY

Mr. Chan Hon Wan *CA*

AUTHORISED REPRESENTATIVES

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

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CORPORATE INFORMATION

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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LEGAL ADVISORS TO THE COMPANY

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11 Pedder Street
Central
Hong Kong

STOCK CODE

837

COMPANY WEBSITE

www.ctans.com

FINANCIAL HIGHLIGHTS



FINANCIAL HIGHLIGHTS

	Six months ended 30 June		% Change Increase/ (Decrease)
	2017 RMB'000	2016 RMB'000	
Financial Highlights			
Revenue	157,520	132,757	18.7%
Cost of sales	(51,361)	(43,899)	17.0%
Gross profit	106,159	88,858	19.5%
Gross profit margin	67.4%	66.9%	0.5% point
Profit before taxation	74,678	74,183	0.7%
Profit attributable to owners of the Company	61,374	57,926	6.0%
Basic earnings per share (RMB cents)	24.7	23.2	6.5%
	At 30 June 2017	At 31 December 2016	
Liquidity and Gearing			
Current ratio ⁽¹⁾	7.43	9.97	(25.5)%
Quick ratio ⁽²⁾	6.14	8.18	(24.9)%
Gearing ratio ⁽³⁾	N/A ⁽⁴⁾	N/A ⁽⁴⁾	N/A ⁽⁴⁾

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 2017 and 31 December 2016, the Group did not have any interest-bearing bank borrowings. The calculation of gearing ratio is not meaningful.





CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Carpenter Tan Holdings Limited (the "Company"), I am pleased to present the unaudited interim report of the Company and its subsidiaries (together the "Group") for the six months ended 30 June 2017 (the "Reporting Period") to the shareholders for your review.

Half of the year 2017 has passed. In the first half of this year, Carpenter Tan has made a good start, the sales figures increased when compared to the same period of 2016. This little achievement owes a great deal to the efforts of all our colleagues. However, this is nothing to be proud of, for there are still a lot of things we need to do. In 2017, there are several major issues worth to mention for Carpenter Tan.

OVERSEAS MARKET

The first is the development of overseas markets. Carpenter Tan has explored the overseas market for several years, but has not yet achieved satisfactory results. The overseas business still being tepid. As the development of China becoming faster, capitals and brands actively going overseas, Carpenter Tan should also cherish the pride of a Chinese brand and actively exploit overseas markets. Therefore, Carpenter Tan will be more proactive in carrying out a series of overseas market activities, including the participation of various exhibitions, the negotiations with overseas business distributors, enhancing the brand advertising activities and so on.

OMNI-CHANNEL RETAIL

Omni-channel retail (O2O) has been explored by Carpenter Tan as a new business model adopted in the domestic market. The pattern of online business has matured while the offline stores are actively expanding into the shopping centers. The purpose of omni-channel retail is to break the barrier between online sales and offline sales, merging a variety of sales channels together, exploiting advantages of different channels in sales and communication, and to make the market share bigger.

CARPENTER VALLEY

At the end of last year, Carpenter Tan invested in the establishment of a new brand – Carpenter Valley. After the preliminary exploration and research, Carpenter Valley has gradually found a clear road to further go on. It will develop a greater number of small wooden products, exploring around design and life style, fitting the contemporary population. For the consumers, Carpenter Valley will appear as a competing match for Carpenter Tan.

CHAIRMAN'S STATEMENT

HEAD OFFICE IN JURONG

In addition, the completion of our head office in Jurong has enabled Carpenter Tan to launch a new office concept - administration upstairs while sample-making, production, selling and displaying downstairs. The new office mode requires every colleague to be more practical and attentive to the market. The sample-making center reduces significantly the time for development process of new products. Here, every designer would be able to turn his/her idea into reality. Carpenter Tan has accelerated the development process of new products to the market.

I wish to thank all my fellow directors in the Board, the management and all the staff sincerely for their devotion. I also wish to express my heartfelt gratitude to the long-term support of our shareholders and our customers. The Group will continue to uphold the practical and innovative principles in its business development, so as to achieve more outstanding results, and bring more desired returns for shareholders and investors in the future.

Mr. Tan Chuan Hua

Chairman of the Board

Hong Kong, 24 August 2017



中国台湾

俞达洪 王超 李亦文
唐宫平 彭华

MANAGEMENT
DISCUSSION AND
ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT REVIEW

For the first half of 2017, every step that the Company took was very practical and fast. We launched the working attitude of “intensive cultivation with details, continuous improvement”, and we also simplified the management structure. In this year, the Company’s subsidiary, Chongqing Carpenter Tan Handicrafts Company Limited will be merged with its subsidiary Chongqing Wanzhou District Zi Qiang Wood Works Company Limited, in order to streamline the organizational structure. At the same time, we entered into “the Codes of Professional Practices” with our franchisees and “the Honest Commitment Letter” with our employees, in order to create a healthy working relationship of “Simple, Transparent, Clear and Fair” for the operational environment of the Group, as well as enhancing the pre-setting functions of financial management for preventing various risks.

“To strengthen the market expansion and the operational management” is the core of the offline sales management. We served the physical and the market with the concept of “Expanding the market with the spirit of joint ventures with the franchisee and strengthening the market operational management with the sense of responsibility of direct owner”. During the Reporting Period, the quantity, quality and sales performance of franchisee stores have been improved significantly.

For the online sales, we achieved a good performance growth by enhancing the image of the official online stores. Meanwhile, we optimized the promotion channels and delivery methods. The logistics costs and operating costs were reduced significantly. At the same time, we began the trial operation of the new business model of O2O online and offline join operations.

After years of accumulating experience, we have formed a stable model of ordering, counters, franchisee stores and exclusive agents for the overseas markets. We actively participated in overseas exhibitions to attract outstanding partners to join Carpenter Tan.



MANAGEMENT DISCUSSION AND ANALYSIS

We improved the new product sample-making experience line at our head office in Jurong in order to accelerate the process of new products from design to putting into market. We continued to organize design contests and global miniature personality wood art exhibitions and cooperated with the social design websites to organize a global comb design competition, in order to promote the brand culture of Carpenter Tan.

There was a series of changes of Carpenter Tan after moving our head office from Chongqing to Jurong since 2014. At present, Carpenter Tan is a team with small, exquisite, young, proactive and simple working spirits.

BUSINESS REVIEW

1. Offline Business

For the offline business, after a series of enhancements in team structure, store image, distribution channel after the relocation of our head office to Jurong, as well as the holiday marketing program and experience marketing program, we achieved a sales growth of approximately 14.0% for the first half of 2017 as compared to the same period last year. We believe that it was not accidental. We achieved such results with the efforts of all our sales and marketing staff and also the active cooperation amongst all the departments of the Company.

The Group will continue to close the stores inside supermarkets and street level stores with weak profitability and poor shop image. On the other hand, we will expand the channels in shopping malls and transportation hubs. The region manager is held responsible for the expansion, through the effective communication with the franchisee, the efficiency and quality of the new opened stores have been improved significantly. For the first half of 2017, the average same-store sales for new stores recorded a year-on-year increment of approximately 16.7%.

We also sped up the renovation of new image stores, updated the shop design, set up screens, we have also been combining experience areas, color-painting experience areas and DIY beading experience areas, in order to increase the contact surface of customers and Carpenter tan's branding.

We seized the chances of every promotion activity, like shop grand opening, we would prepare well before hand. The marketing personnel was sent to the franchisee stores, helping and encouraging the staff to achieve festival sales through large-scale brand promotion activities. On-site guidance festival sales contributed approximately 23.5% of the total sales in the first half of the year.

Training is one of our major tasks in 2017 which we have developed 36 training programs throughout the year. Unlike the previous training program, our training team joined the franchisee teams for in-depth view exchange, completed 15 region training programs with the theme of "high efficient store management". To enhance the execution effect during the training, the execution skills of the store owners and staff were improved through different PK modes.

During the first half of 2017, we jointly carried out 39 large and medium-size brand promotion activities. On the day of events, we gathered a lot of popularities enhanced the reputation of Carpenter Tan and increased the contact surface of customers and Carpenter Tan's brands as well.

We carried out online and offline O2O operations and increased the degree of participation of franchisees in the online promotion, as well as the chances to serve offline customers;

MANAGEMENT DISCUSSION AND ANALYSIS

New craftsmanship products like the series of “Comb of the third generation: Toothed Comb”, “Metal Mirror” and DIY bracelets, as well as the creative products in the design contests, enabled the customers to know the technical strength and innovative capability of Carpenter Tan.

Through the global comb design contest, we displayed our brand image with all-round and multi-angles to let young customers to know and appreciate Carpenter Tan with ways of new media.

As at 30 June 2017, the total number of retail stores decreased by 93 as compared to the corresponding period of last year. However, with the good image of the shops, the new stores performed much better than the old stores and recorded an increase in same-store growth, which provided confidence to the franchisees. The average same-store sales for new stores increased by approximately 16.7% when compared to the first half of 2016.



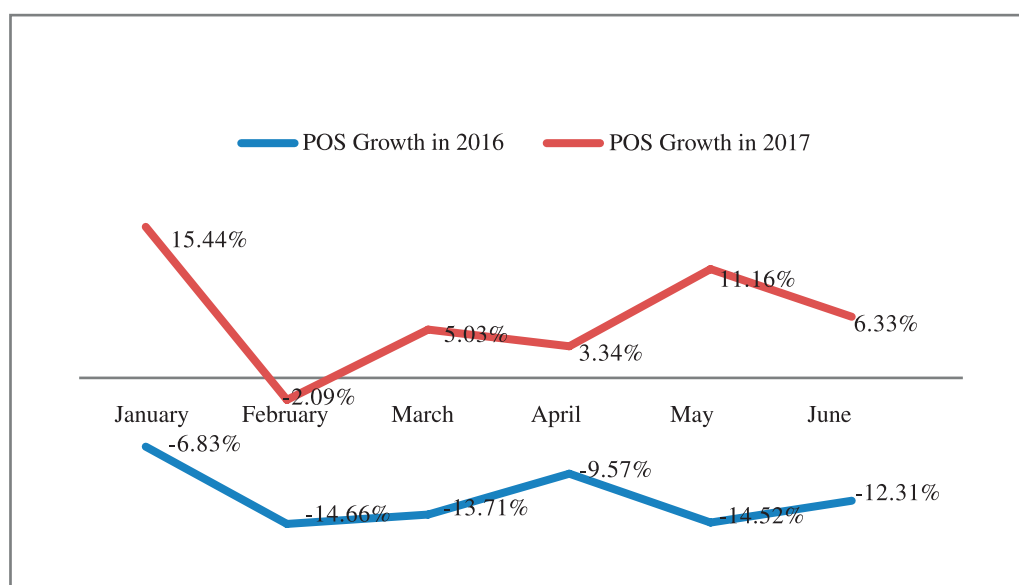
MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2017, Carpenter Tan had 1,253 franchised stores and 3 directly self-operated stores.

	As at 30 June 2017		As at 30 June 2016	
	Franchised stores	Directly self-operated stores	Franchised stores	Directly self-operated stores
China	1,247	0	1,340	0
Hong Kong	0	3	0	3
Other countries and regions	6	0	6	0
Total	1,253	3	1,346	3

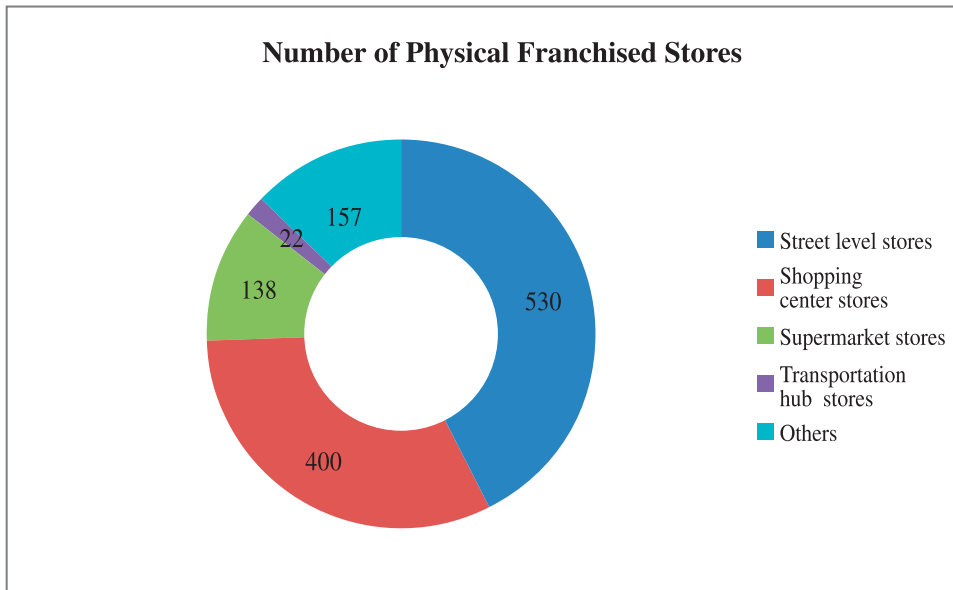
Note: 4 out of 6 other countries and regions stores are counters.

The chart below shows the POS growth for the six months ended June 2017 as compared with the corresponding period of last year.



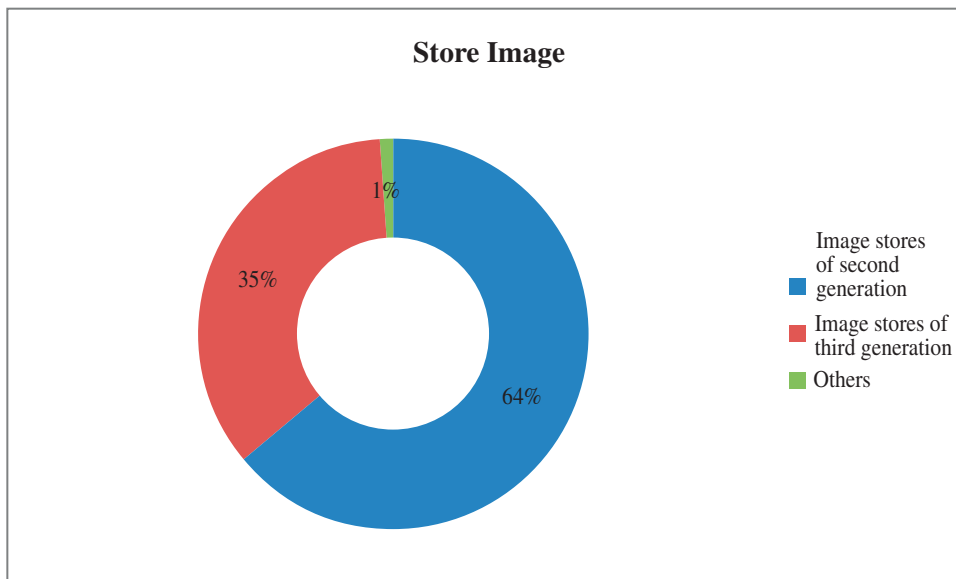
MANAGEMENT DISCUSSION AND ANALYSIS

The chart below shows the franchised stores distribution of Carpenter Tan as at 30 June 2017.



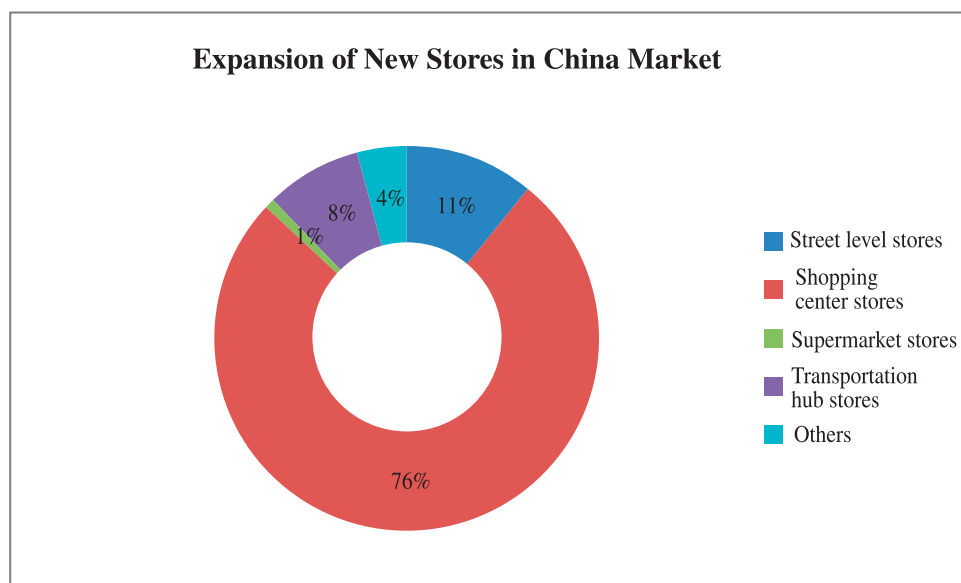
Note: Others mean Mi Qiu Design (米丘設計) stores.

The chart below shows the ratio of the image stores of second generation and third generation as at 30 June 2017.

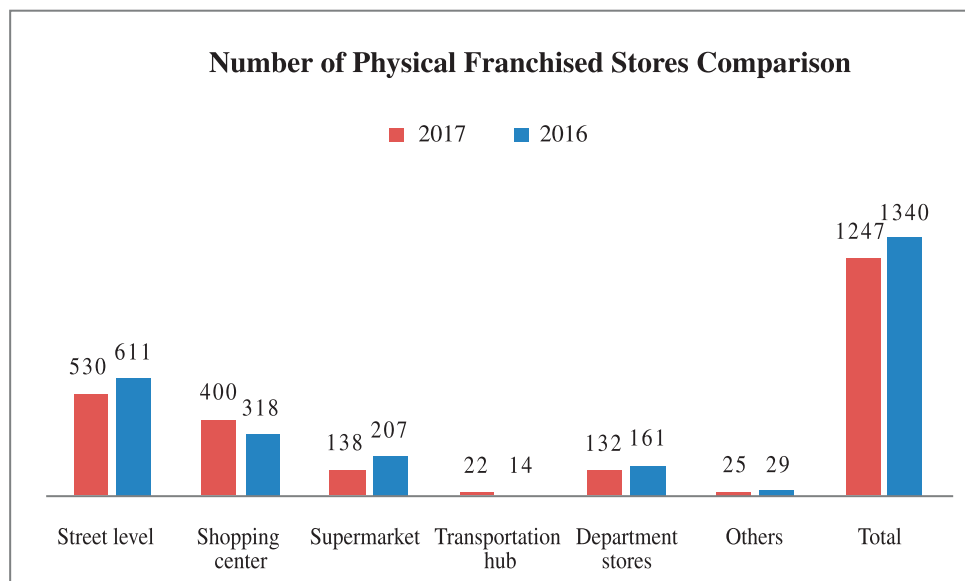


MANAGEMENT DISCUSSION AND ANALYSIS

The chart below shows the expansion channels of new stores for the six months ended 30 June 2017.



The chart below shows the sales channels as at 30 June 2017 as compared with the corresponding period of last year.



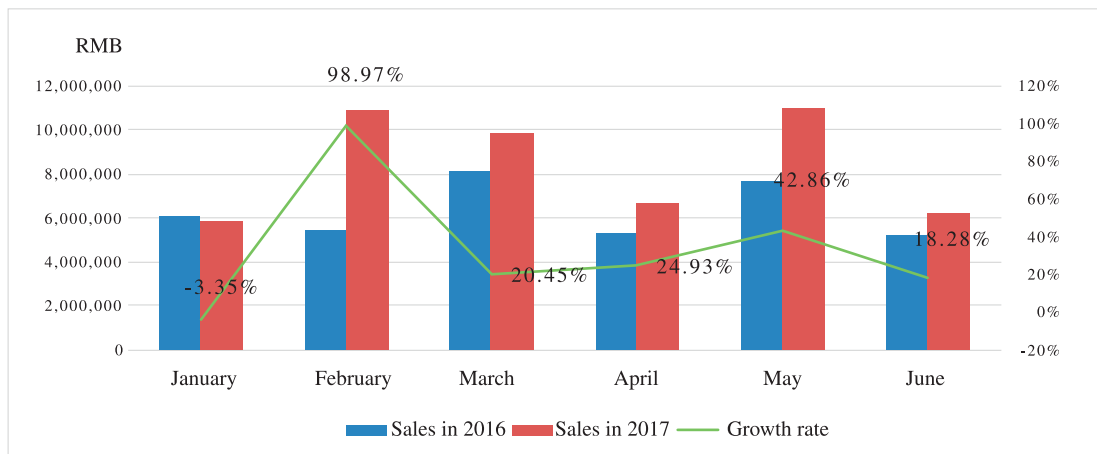
In the first half of 2017, we achieved a small success in the offline sales of Carpenter Tan, which is not yet worthy of pride though. We still have many issues and shortcomings. We need to enhance our abilities of expanding channels, match the market-end service with our brand philosophy of “Honesty, Work, Happiness”, strengthen the involvement of experience marketing program, send the O2O operation on the right tracks and strengthen the penetration of our brand culture. We have made an all-out effort and we believe that our potential is endless and we will achieve a better result in the second half of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Online Business

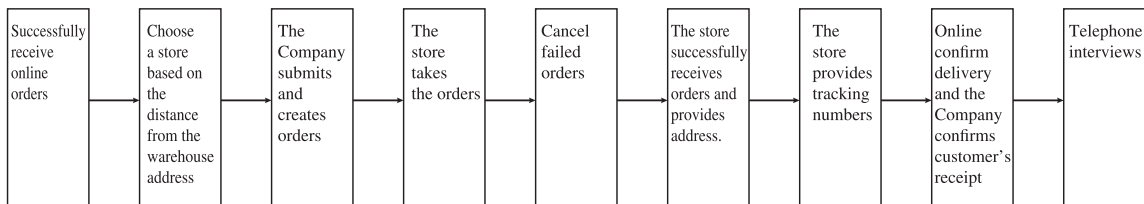
For the online business, Carpenter Tan still adhered to the principal of direct sales, same price for online and offline purchase. There is still an exciting growth momentum in the first half of 2017. Combining with “Five New Features” of the internet, we used big data to accurately analyze the consumers. For the six months ended 30 June 2017, we achieved sales of RMB43 million, representing a year-on-year increase of 33.3%. The price per transaction was RMB173, representing a year-on-year increase of RMB5. Among the above, sales from T Mall and Jingdong accounted for 76.6% and 23.4%, respectively. On the Taobao platform, the Carpenter Tan’s official store ranged top ten in “family/personal sanitary products” category and number one in the category of comb products.

The chart below shows the monthly online sales for the six months ended 30 June 2017 as compared with the corresponding period of last year.



Carpenter Tan has experienced 5 years of rapid expansion in online sales and secured an excellent position in the category of comb products. We have gathered a certain number of high-quality customers so far. The Company has been doing some online profit feedback activities in recent years, but the interaction between online and offline business is still not good enough. The Company officially launched the O2O business mode at the end of last year. After the trial operation in Shenzhen, Kunming and Chongqing, the franchisees are willing to participate and we received good feedbacks from the consumers. The diversification of information and communication has pushed us to innovate and change. The Group firmly promotes O2O business mode to aim for a win-win situation with all staff of Carpenter Tan’s active participation and collaboration.

O2O Business Mode Operation Procedures



MANAGEMENT DISCUSSION AND ANALYSIS

3. Overseas Markets

Hong Kong Market

The Hong Kong market has made some progress in the first half of 2017. However, with only three directly self-operated stores, we have no special growth in the performance. Besides, the operating costs of these stores are very high. The locations of the stores are in the mass transit railway stations and on the upper floors of a shopping mall. For exposure of Carpenter Tan's brand, the performance is not significant. But we will not give up this market. We shall find a business mode suitable for the development of Carpenter Tan in Hong Kong and we will keep trying with it. We are going to consider looking for a suitable location in the central business district or shopping malls in Hong Kong for setting up a flagship store for Carpenter Tan.

Other Countries and Regions

For the first half of 2017, the sales volume of overseas amounted to RMB2.5 million, which was a good start as compared to last year and against expectation. Gaining such a little success was due to: (i) China has a great influence globally; (ii) Carpenter Tan continuously adjusted its overseas strategies in recent years; and (iii) the strength of the team has been enhanced. Meanwhile, one of the major goals we set up at the beginning of the year was to develop overseas markets. At present, distributors from Korea and Japan have stabilized their purchases. The performance of Singapore store has been improved. The Swiss exclusive agent is on the right track. We also have a new distributor in Saudi Arabia. At present, Carpenter Tan has stores or products present in Korea, Japan, Singapore, United Arab Emirates, Saudi Arabia, Switzerland, United Kingdom, Germany, France and United States.

Currently, Carpenter Tan adopts various cooperation models such as exclusive overseas sales agents, distributors, franchisees and counters. We adopted various approaches to find the right direction of development. At present, the operating overseas stores are as follows:

Franchisee stores	Other Countries and Regions		
	Counters	Exclusive sales agents	Distributors
2	4	2	4

We are negotiating with the department stores in Zurich, United Kingdom, Germany. We have also included North American market into our development plans. The first retail store of Carpenter Tan in Europe will be opened in Tours, France before this Christmas. We are at the stage of store layout design. On 3 September this year, Carpenter Tan will bring the color paints experience to Europe for the first time. In terms of Japanese market, the Company has recruited a new local expansion agent in Japan this year. At present, we have a good progress in Japanese market. We have contacted with TOKYU HANDS and other famous department stores and we will carry out color paints events next. We are preparing for the exhibition in Tokyo in September. However, in terms of overseas expansion, the Company still needs to improve the supporting information, packaging and products in order to achieve a better performance.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Innovative Designs

We have an open style design center in Jurong, with a wide vision and an open mind. After three years training, we have established a stable own design team. Meanwhile, we have maintained a close relationship with our long-term cooperative teams, integrated the social design resources such as design contests by way of the internet and continued to develop new cooperative design teams. In 2017, the Company focused its innovative design center on serving the cooperative team and transforming the award-winning design of the social designers to products for sale. We also collaborated with the “store experience” system and got involved in the product research and user research in all forms, letting the designers “meet” with users and keeping the research and development of new products more “grounded”, which produced an outstanding result. The newly launched series of “Comb of the third generation: Toothed Comb”, “Metal Mirror” and DIY bracelets, as well as design contest creative products, enabled the customers to see the technical strength and innovative capability of Carpenter Tan. In March, the sample-making center at head office of Carpenter Tan in Jurong was officially launched, which shortens the time from design to product and enhances the accuracy of sample-making. The sample-making center also launched a marketing mode of “self-made wooden combs”, which encourages consumers or investors who come to the Company for research to experience making a comb.

During the Reporting Period, the innovative design center has made samples of 17 orders, among which the external team has completed 5 orders with 85 styles and the engraving room has completed 4 orders with 27 styles and another 8 orders with 54 styles had been launched into the market (excluding private customer-made and DIY beading projects). During the Reporting Period, the finished products included the major developed products of 7 new styles of Metal Mirror, 11 new styles of inlaid with Swarovski Brand Zircon and 10 new styles of Toothed Comb. The major developing projects are resin crafts, technology research of the combination crafts of resin and woods; and the metal mirror structure. Through self-examination, there are still some issues about the research and development center of Carpenter Tan that need to be improved. The aims of the products developed are still not clear, with no specific target consumer group and the timing and integrity of new products remains to be strengthened.



MANAGEMENT DISCUSSION AND ANALYSIS

5. Production Technology

The skilled production technical team of Carpenter Tan was formed by nearly 50% of disabled workers. They overcame their disabilities and helped each other to form a happy group which loves their work and strives for self-improvement and independent. Despite of their disabilities, they created many perfect products. It is their work, which is also their life. Technical innovation is the eternal topic of Carpenter Tan's production team. We continue to challenge the new height in the equipment update and processing methods of innovation. Technical experts help each others to update skills. The continuous technological innovations facilitate the five manufacturing factors, being people, machine, raw material, methods and environment to work in harmony.

Management innovation and enhanced skills to drive the efficiency

The Wanzhou factory of Carpenter Tan has a total of 756 production workers, among them there are 330 disabled workers and 93.1% of whom were stable and skilled workers. The factory focused on the production of combs, and also produced proper amount of mirrors and other accessories. Through management innovation and enhanced skills of staff, the efficiency has been improved and the costs have been obviously reduced. During the first half of 2017, the production growth rate has been significantly improved.

	Production Comparison for the six months ended 30 June	
	2017 units	2016 units
Comb category	2,081,426	1,664,196
Mirrors and other accessories	793,552	425,453
Total	<u>2,874,978</u>	<u>2,089,649</u>



MANAGEMENT DISCUSSION AND ANALYSIS

Technological innovation and improvement help to boost enterprise improvement

The endless technical innovation and non-stop technical inventions enable Carpenter Tan to lead the industry. In this year, we still have 5 competitive technical projects under development, that is automatic teeth implantation, comb molding machines, anti-mildew technology, wood modification and new painting technology developments. Through the introduction of “Innovation Star Awards” and “Factory Manager Rewards”, we have mobilized the enthusiasm of the whole production team to innovate. The staff look for issues on the whole process of production voluntarily. We organize the enhancement and there are still more than 20 technical innovations in progress. During the first quarter of the year, “Factory Manager Rewards” were awarded to raw material output rate improvement, gantry milling stable operation improvement, vibration grinding, wood beads polishing, flake machine improvement (which decreases the flaking length from 80mm to 50mm) and other projects. The digital control system of opening teeth machine was awarded “Innovation Star Awards”. We have 100% intellectual property rights of the Toothed Combs production line, which can produce 30,000 combs per month while being built and begins to take shape. The bidding project (automatic gear shaping machine) in development is being tested in an orderly manner. We have developed an inlay teeth automatic milling machine, which greatly improves the processing surface quality and increases the production efficiency by 100%. We have put two of these machines into operation and they are in a stable operation. We introduced the use of dual-axis milling machine, which increases efficiency by 60%. The digital control system of opening teeth machine was awarded “Innovation Star Awards”. We have put three of these systems into operation. We established horn products dehumidification system, which effectively prevent the mildew of storage materials, protect the quality of stored horn products and reduce the storage risk. Our self-developed automatic drilling machine has been put into operation, which almost doubled the efficiency.

Adhere to improvement and enhancement of the safety visualization

We adhere to improve and enhance the safety visualization. We have updated version of the safety visualization and regularly complied with 6S governance model of visualization. We have achieved safe and orderly production.

Copy right

As at 30 June 2017, we have 45 patents with validity, among which there are 29 utility model patents, 15 invention patents and 1 appearance patent.

6. “Honesty, Work, Happiness” - the Core Value of Carpenter Tan

Since 1995, we have established “Honesty, Work, Happiness” as the Company’s corporate philosophy, which remained the same for over 20 years. In 2015, we put forward “The goodness in oneself is the cure”, aiming to review the utilitarian and impetuous in one’s heart. We adhere to the “Combing Dearest Mother” campaign, using new media to promote the filial piety culture. The endless and earnest innovation and cultural promotion has made Carpenter Tan younger, more proactive and happier.

We jointly organized the design contest “Beauty of Ingenuity” with ZCOOL (a famous design website) completed at the end of June. During the past one year, we have held a total of 4 contests, attracting 4,108 designers to participate in and submit 4,474 pieces of work, with a page view of more than 2.3 million times.



MANAGEMENT DISCUSSION AND ANALYSIS

We will cooperate with Locker Technology Company Limited (洛客科技有限公司) next and build “Global Online Design Center for Carpenter Tan”, hoping to expand a new model for corporate innovative design.

Carpenter Valley Art Museum has been officially completed. In April, the “Ingenuity” Wood Art Exhibition has bought together works of 13 domestic and overseas outstanding wood artists and farmers art paintings of side comb miao (歪梳苗) from Guizhou. The planning and design of this exhibition, as well as the cold meal for more than 200 people, were all completed by the staff of Carpenter Tan on their own. This exhibition has attracted more than 1,000 guests to attend.

One of the focuses of brand promotion in the recent two years is telling stories of Carpenter Tan by videos. After the success launch of “The Story of A Comb”, we have filmed “The Secret of Head Office”, which is about the decoration ideas and environmental protection ideas of the Company, and “Voiceless World”, which is about the working and living situation of the disabled workers in the factory.

We are collecting love stories for “Love is no small matter” event. Combining by videos and pictures, we carry out brand marketing events via video websites, picture society and offline exhibitions. We use Weibo and WeChat to strengthen the promotion of new products and marketing campaigns, with 43 issues on WeChat, gaining a view number of about 150,000.

In addition, we carry out brand promotion events in various forms. We held a color-painting comb event in Nanjing University and invited students of Nanjing University to our Head Office in Jurong to take part in the events of making combs, which makes the brand and the college students to interact closely. We jointly held an event of “The Beauty of Made in China: Learning Camp of Famous Enterprise - Into Carpenter Tan” with Made-in-China.com (中國製造網). More than a dozen operators and persons in charge from all industry had a face to face learning exchange with Carpenter Tan.

However, in terms of new media, we still need to put more efforts on the brand promotion. The slow response of promotion is the challenge that traditional enterprises are facing.

7. Strict Governance is the Guarantee of Brand Quality

We believe that there is no small thing around us. Staff of Carpenter Tan is not the one who only knows how to make combs, but also knows how to do the cleaning, cooking, as well as farming. People don't understand these seemingly unregistered behaviors, but we insisted on such behaviors and our staff became more grounded and sincere without outrageous ambitions. If one doesn't start by sweeping his room, how can he sweep to victory globally? We implemented “Professional Ethics Regulations for the Franchisees of Carpenter Tan” with our franchisees and “Regulations on Occupational Conduct in Economic Business Activities” with our staff by signing commitment letters, in order to cultivate a fine character for the staff of Carpenter Tan. Our management always say: if we let our staff become lazy, we are jeopardizing the staff.

During the Reporting Period, our works have just begun and have long way to get to the end. With the money temptation from business and franchise cooperation, the anti-corrosion and anti-corruption ethic is facing with challenges. We face challenges in the transformation of domestic market channels, the starting of international markets, the fierce competition of thousands of stores in E-commerce industry, the innovation of research and development, new systems and sense of value. The project of Carpenter Valley is also a challenge. We must keep cautious at all time and not proud of ourselves. We shall insist on focusing on every detail, looking forward to the future. We still have a long way to go.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

1. Revenue

The Group recorded revenue of approximately RMB157,520,000 for the six months ended 30 June 2017, representing an increase of RMB24,763,000 or 18.7% as compared to approximately RMB132,757,000 for the six months ended 30 June 2016. The increase was mainly attributable to the Group's enhancements in team structure, store image and channel distribution for offline business, as well as the proactive online marketing for online business.

	For the six months ended 30 June			
	2017 (RMB'000)	%	2016 (RMB'000)	%
Sales				
– Combs	36,183	23.0	34,394	25.9
– Mirrors	577	0.4	411	0.3
– Box sets	119,236	75.7	96,568	72.8
– Other accessories*	1,316	0.8	1,241	0.9
Franchise fee income	208	0.1	143	0.1
	<u>157,520</u>	<u>100.0</u>	<u>132,757</u>	<u>100.0</u>

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



MANAGEMENT DISCUSSION AND ANALYSIS

2. Cost of Sales

The cost of sales of the Group was approximately RMB51,361,000 for the six months ended 30 June 2017, representing an increase of approximately RMB7,462,000 or 17.0% as compared to approximately RMB43,899,000 for the six months ended 30 June 2016, the increase in cost of sales is in line with the increase in revenue for the Reporting Period.

3. Gross Profit and Gross Profit Margin

For the six months ended 30 June 2017, gross profit of the Group was approximately RMB106,159,000, representing an increase of approximately RMB17,301,000 or 19.5% as compared to approximately RMB88,858,000 for the six months ended 30 June 2016. The gross profit margin increased from approximately 66.9% in 2016 to 67.4% in 2017. The increase in gross profit margin was mainly due to the change in sales mix for offline business and the increase in revenue for online 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 RMB11,080,000 for the six months ended 30 June 2017, representing a decrease of approximately RMB14,352,000 or 56.4% as compared to approximately RMB25,432,000 for the six months ended 30 June 2016. The decrease was mainly due to a decrease in investment income from derivative financial instrument of approximately RMB10,897,000 and PRC VAT refunds of approximately RMB3,264,000 while partially off-set by the increase in bank interest income of approximately RMB2,291,000.

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 RMB21,121,000 for the six month ended 30 June 2017, representing a slight decrease of approximately RMB173,000 or 0.8% as compared to RMB21,294,000 for the six months ended 30 June 2016. This decrease was mainly a result of the decrease in promotion expenses for the Reporting Period.

6. Administrative Expenses

The administrative expenses of the Group was approximately RMB12,385,000 for the six months ended 30 June 2017, representing an increase of approximately RMB409,000 or 3.4% as compared to approximately RMB11,976,000 for the six months ended 30 June 2016. The increase was primarily due to an increase in professional fee for the Reporting Period.

7. Profit from Operations

For the six months ended 30 June 2017, profit from operations for the Group amounted to approximately RMB74,678,000, increased by approximately RMB464,000 or 0.6% when compared to approximately RMB74,214,000 for the six months ended 30 June 2016. Increase in profit from operations was mainly due to the increase in gross profit of approximately RMB17,301,000 while partially off-set by the decrease in other revenue and other net income of approximately RMB14,352,000 and an increase in other operating expenses of approximately RMB2,249,000 for the six months ended 30 June 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

8. Finance Costs

For the six months ended 30 June 2017, finance costs amounted to approximately RMB0 decreased by approximately RMB31,000 when compared to approximately RMB31,000 for the six months ended 30 June 2016. 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 2017, profit before taxation for the Group amounted to approximately RMB74,678,000, increased by approximately RMB495,000 or 0.7% when compared to approximately RMB74,183,000 for the six months ended 30 June 2016. Increase in profit before taxation was mainly due to the increase in profit from operation of approximately RMB464,000 and the decrease in finance cost of approximately RMB31,000 for the Reporting Period.

10. Income Tax Expenses

For the six months ended 30 June 2017, income tax expenses for the Group amounted to approximately RMB13,304,000, decreased by approximately RMB2,953,000 or 18.2% when compared to approximately RMB16,257,000 for the six months ended 30 June 2016. This decrease was mainly due to the increase in share of profit before tax for a subsidiary which operated the manufacturing business and was entitled to the concessionary tax rate of 15% for the Reporting Period.

The effective tax rate for the Reporting Period was 17.8% which was lower than 21.9% for the six months ended 30 June 2016. Details of income tax expenses are set forth in note (8) to the unaudited financial report.



MANAGEMENT DISCUSSION AND ANALYSIS

11. Profit for the Period

The profit for the six months ended 30 June 2017 was approximately RMB61,374,000, representing an increase of RMB3,448,000 or 6.0% as compared to approximately RMB57,926,000 in the corresponding period of 2016.

12. Liquidity and Capital Resources

The Group has met its working capital needs mainly through cash generated from operations and various long-short-term bank loan when required. During the Reporting Period, the Group did not have any bank loan. Taking into account the cash flow generated from operation and the bank loan 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 2017, the Group had cash and bank balances of RMB446,149,000 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 RMB56,055,000 representing a decrease of net cash generated from operating activities of approximately RMB520,000 from approximately RMB56,575,000 for the six months ended 30 June 2016. The decrease was primarily due to the increase in income tax paid (net) of approximately RMB3,150,000 and decrease in interest received of approximately RMB946,000 while partially off-set by the increase in cash generated from operations of approximately RMB3,545,000.



MANAGEMENT DISCUSSION AND ANALYSIS

Net cash (used in)/generated from investing activities

The Group's net cash outflow used in investing activities amounted to approximately RMB35,335,000 during the Reporting Period, representing a decrease of approximately RMB117,119,000 as compared with the cash inflow generated from investing activities of approximately RMB81,784,000 for the six months ended 30 June 2016. The decrease is mainly due to the decrease in pledged bank deposits held at bank of approximately RMB233,053,000 in last year and increase in investment in financial assets of approximately RMB34,000,000 during the Reporting Period.

Net cash used in financing activities

The Group's net cash outflow used in financing activities amounted to approximately RMB355,596,000 during the Reporting Period, representing an increase of approximately RMB295,646,000 as compared with the net cash outflow used in financing activities of approximately RMB59,950,000 for the six months ended 30 June 2016. The increase was primarily due to the increase in non-pledged bank deposits of RMB316,000,000 during the Reporting Period.

14. Capital Structure

Indebtedness

As at 30 June 2017 and during the Reporting Period, the Group did not have any bank loan.

Gearing ratio

As at 30 June 2017 and 31 December 2016, the Group did not have any bank loan. The calculation of gearing ratio was not meaningful.

Pledge of assets

As at 30 June 2017, the Group did not have any assets pledged to the banks (31 December 2016: nil).

Capital expenditure

The capital expenditures of the Group primarily included purchases of plant and equipment, leasehold improvements and motor vehicles. The Group's capital expenditures amounted to RMB1,086,000 and RMB1,077,000 for the Reporting Period and the six months ended 30 June 2016 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 for other currency exchange.

MANAGEMENT DISCUSSION AND ANALYSIS

15. Contingent Liabilities, Legal and Potential Proceedings

As at 30 June 2017, 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 2017, the Group has not made any significant 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

We will adhere to the corporate culture of “Honesty, Work, Happiness” and create a large research and development environment with an open mind, in order to expand the online and offline, domestic and foreign channels marketing and take advantages of the tide. We should have a more pragmatic brand communication, which is closer to the target consumer. We will improve staff salaries and benefits, establish a good value and build a good Group which Carpenter Tan can be proud of.

HUMAN RESOURCES AND TRAINING

As of 30 June 2017, the Group had a total of 903 employees in Mainland China, Hong Kong and overseas, with a total labor cost of approximately RMB20,372,000 (2016: approximately RMB23,338,000) during the Reporting Period.

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



OTHER INFORMATION

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the six months ended 30 June 2017, 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 2017, 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%

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 2017, 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, 30 June 2016, 1 January 2017 and 30 June 2017 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 2016, or the six months ended 30 June 2017.

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 10% of the Shares in issue from time to time. As at 30 March 2017 and 24 August 2017, being the dates of the 2016 annual report of the Company and this interim report respectively, the number of Shares available for issue in respect thereof were 24,871,400 Shares and 24,871,400 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 2017, the Group did not have any capital commitment (31 December 2016: RMB883,000).

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 31 May 2017, the Company declared the audited distributable profits as at 31 December 2016 amounting to approximately HK\$63,725,000 (equivalent to approximately to RMB57,000,000) to the shareholders of the Company. The dividend was paid on 30 June 2017 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 2017 (2016: nil).

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

During the Reporting Period, the Company repurchased 262,000 shares of the Company. These shares together with 1,024,000 shares of the Company which were repurchased during the year ended 31 December 2016 were cancelled on 5 June 2017.

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 2017, the Group had used net proceeds of approximately RMB50,700,000, of which RMB22,000,000 had been applied for enhancement of the Group's design and product development and enhancement for operational efficiency, RMB16,500,000 for enhancement for sales network and sales support services, construction of production base and RMB12,200,000 as working capital. The remaining net proceeds have been deposited with banks.

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

OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

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

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

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

MODEL CODES FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “Model Code”) as its own code governing securities transactions of the Directors. Each of the Directors has confirmed his or her compliance with the Model Code for the six months ended 30 June 2017. 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 Liu Liting 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, the results announcement and this interim report of the Company for the six months ended 30 June 2017 with the management of the Group and agreed with the accounting treatment adopted by the Company.

CHANGE OF DIRECTORS

With effect from 28 February 2017, Mr. Liu Chang tendered his resignation to the Board of the Company as a non-executive Director of the Company and Madam Huang Zuoan was re-designated from an independent non-executive Director to a non-executive Director of the Company.

With effect from 31 May 2017, Madam Liu Liting was appointed as an independent non-executive Director of the Company.

EVENTS AFTER THE REPORTING PERIOD

There is no material events after the Reporting Period as at the date of this report.

DISCLOSURE OF INFORMATION

The interim report for the six months ended 30 June 2017 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, 24 August 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2017 - UNAUDITED

	Note	Six months ended 30 June	
		2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
Revenue	6	157,520	132,757
Cost of sales		<u>(51,361)</u>	<u>(43,899)</u>
Gross profit		106,159	88,858
Other revenue and other net income	6	11,080	25,432
Selling and distribution expenses		(21,121)	(21,294)
Administrative expenses		(12,385)	(11,976)
Other operating expenses		<u>(9,055)</u>	<u>(6,806)</u>
Profit from operations		74,678	74,214
Finance costs	7(a)	<u>—</u>	<u>(31)</u>
Profit before taxation	7	74,678	74,183
Income tax	8	<u>(13,304)</u>	<u>(16,257)</u>
Profit for the period		<u>61,374</u>	<u>57,926</u>
Attributable to			
Owners of the Company		<u>61,374</u>	<u>57,926</u>
Earnings per share			
Basic and diluted	9	<u>RMB24.7 cents</u>	<u>RMB23.2 cents</u>

The accompanying notes form part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017 - UNAUDITED

	Six months ended 30 June	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
Profit for the period	61,374	57,926
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>(1,765)</u>	<u>(4,016)</u>
Total comprehensive income for the period	<u>59,609</u>	<u>53,910</u>
Attributable to		
Owners of the Company	<u>59,609</u>	<u>53,910</u>

The accompanying notes form part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Note	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Non-current assets			
Property, plant and equipment	10(a)	59,456	59,812
Prepaid lease payments	11	16,286	16,654
Investment properties	10(b)	92,450	92,450
		<u>168,192</u>	<u>168,916</u>
Current assets			
Prepaid lease payments	11	737	737
Inventories		105,029	104,363
Trade receivables	12	1,537	2,933
Available-for-sale financial assets	13	34,000	—
Other receivables, deposits and prepayments		20,004	9,507
Cash and bank balances	14	446,149	463,222
		<u>607,456</u>	<u>580,762</u>
Current liabilities			
Trade payables	15	5,651	4,797
Other payables and accruals		47,130	26,135
Income tax payable		28,949	27,313
		<u>(81,730)</u>	<u>(58,245)</u>
Net current assets		<u>525,726</u>	<u>522,517</u>
Total assets less current liabilities		<u>693,918</u>	<u>691,433</u>
Non-current liabilities			
Deferred tax liabilities		16,330	19,029
Deferred income		723	740
		<u>(17,053)</u>	<u>(19,769)</u>
NET ASSETS		<u>676,865</u>	<u>671,664</u>
Capital and reserves			
Share capital	17	2,189	2,200
Reserves		674,676	669,464
TOTAL EQUITY		<u>676,865</u>	<u>671,664</u>

The accompanying notes form part of these condensed consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017 - 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 2016 (audited)	2,200	114,674	2,767	140,900	17,738	12,245	(12,982)	345,895	623,437
Profit for the year	—	—	—	—	—	—	—	114,003	114,003
Exchange differences arising on translation of functional currency to presentation currency	—	—	—	—	—	—	(2,554)	—	(2,554)
Share repurchase	—	—	—	—	(3,261)	—	—	—	(3,261)
Transaction cost attributable to share repurchase	—	—	—	—	(11)	—	—	—	(11)
Total comprehensive income for the year	—	—	—	—	(3,272)	—	(2,554)	114,003	108,177
Dividends	16	—	—	—	—	—	—	(59,950)	(59,950)
Transfer to reserve	—	—	—	1,433	—	—	—	(1,433)	—
At 31 December 2016 (audited)	<u>2,200</u>	<u>114,674</u>	<u>2,767</u>	<u>142,333</u>	<u>14,466</u>	<u>12,245</u>	<u>(15,536)</u>	<u>398,515</u>	<u>671,664</u>
At 1 January 2017 (audited)	2,200	114,674	2,767	142,333	14,466	12,245	(15,536)	398,515	671,664
Profit for the period	—	—	—	—	—	—	—	61,374	61,374
Exchange differences arising on translation of functional currency to presentation currency	—	—	—	—	—	—	1,765	—	1,765
Share repurchased and cancelled	(11)	(4,171)	—	—	4,182	—	—	—	—
Share repurchase	—	—	—	—	(905)	—	—	—	(905)
Transaction cost attributable to share repurchase	—	—	—	—	(5)	—	—	—	(5)
Total comprehensive income for the period	(11)	(4,171)	—	—	3,272	—	1,765	61,374	62,229
Dividends	16	—	—	—	—	—	—	(57,000)	(57,000)
Transfer to reserve	—	—	(28)	727	—	—	—	(727)	(28)
At 30 June 2017 (unaudited)	<u>2,189</u>	<u>110,503</u>	<u>2,739</u>	<u>143,060</u>	<u>17,738</u>	<u>12,245</u>	<u>(13,771)</u>	<u>402,162</u>	<u>676,865</u>

The accompanying notes form part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017 - UNAUDITED

	Six months ended 30 June	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
Operating activities		
Cash generated from operations	69,839	66,294
Interest received	583	1,529
Interest paid	—	(31)
Income tax paid, net	<u>(14,367)</u>	<u>(11,217)</u>
Net cash generated from operating activities	56,055	56,575
Investing activities		
Purchase of property, plant and equipment	(1,086)	(1,077)
Purchase of available-for-sale financial assets	(34,000)	—
Proceeds from disposal of property, plant and equipment	7	5
Purchase of structured bank deposits	—	(148,400)
Purchase of prepaid lease payments	—	(1,797)
Prepayment of acquisition of properties	(256)	—
Decrease in pledged bank deposits	—	233,053
Net cash (used in)/generated from investing activities	(35,335)	81,784
Financing activities		
Payment for repurchase of shares	(910)	—
Dividend paid	(38,686)	(59,950)
Increase in non-pledged deposits	(316,000)	—
Net cash used in financing activities	(355,596)	(59,950)
Net (decrease)/increase in cash and cash equivalents	(334,876)	78,409
Cash and cash equivalents at 1 January	423,222	194,114
Effect of foreign exchange rate changes, net	1,803	(4,016)
Cash and cash equivalents at 30 June	<u>90,149</u>	<u>268,507</u>

The accompanying notes form part of these condensed consolidated financial statements.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2017

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 2016 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 2016, 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 HKAS 7
Amendments to HKAS 12

Disclosure Initiative
Recognition of Deferred Tax Assets for Unrealised Losses

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2017

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 2016, 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 2017

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	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
Revenue		
Sales of goods	157,312	132,614
Franchise fee income	208	143
	<u>157,520</u>	<u>132,757</u>
Other revenue and other net income		
Government grants released from deferred income	172	18
Interest income from financial assets not at fair value through profit or loss - bank interest income	3,820	1,529
PRC VAT refunds	1,890	5,154
Rental income from investment properties	3,302	2,485
Fair value gain on derivative financial instruments	—	5,516
Income from derivative financial instruments	—	5,381
Net exchange gain	—	1,034
Others	1,646	4,315
Reversal of write-down of inventories	250	—
	<u>11,080</u>	<u>25,432</u>
	<u><u>168,600</u></u>	<u><u>158,189</u></u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2017

7. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
a) Finance costs		
– Other finance costs	–	31
Total interest expense on financial liabilities not at fair value through profit or loss	–	31
b) Other items		
Amortisation of prepaid lease payments	368	298
Cost of inventories (note (i))	49,561	43,899
Depreciation	1,536	1,763
Impairment on trade and other receivables	184	19
Loss on disposal of property, plant and equipment	116	3
Operating lease rentals in respect of land and buildings	2,571	2,308
Staff costs (including directors' emoluments)	20,372	23,338
Write-down of inventories	160	365
Reversal of write-down of inventories (note (ii))	(250)	–

Notes:

- i) Cost of inventories includes approximately RMB11,569,000 (2016: RMB14,710,000) relating to staff costs, depreciation and operating lease rentals, which are included in the respective total amounts disclosed separately above.
- ii) Reversal of write-down of inventories relates to the utilisation and sales of the obsolete inventories that had been written down in previous years.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2017

8. INCOME TAX

	Six months ended 30 June	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
Current tax		
PRC Enterprise Income Tax (notes 8(i), (ii) and (iii))	10,123	11,526
Hong Kong profits tax (note 8(v))	—	—
Withholding tax on dividends		
– Provision for the period	5,844	13,217
	<u>15,967</u>	<u>24,743</u>
Under provision in prior years, net		
PRC Enterprise Income Tax	38	1,108
Deferred tax		
Transfer to current tax upon distribution of dividends	(5,844)	(13,217)
Provision for the period	3,143	3,623
	<u>3,143</u>	<u>3,623</u>
Total	<u><u>13,304</u></u>	<u><u>16,257</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% (2016: 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.
- 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 2017 and 2016 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2017

8. INCOME TAX *(Continued)*

Notes: *(Continued)*

vi) *(Continued)*

The Group enjoyed the reduced 5% tax rate prior to 31 December 2013. In 2014, the Group applied again for the reduced rate and was requested to meet certain additional review procedures that were not required in previous years. As at the date of the financial statements, the relevant formalities for the reduced tax rate had not yet been completed. 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, 2014 and 2016 at 5%. Besides, there is 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 with regard to the related undistributed profits of the PRC subsidiaries that are not expected to be distributed in the foreseeable future.

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	
	2017	2016
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Earnings used in calculating basic and diluted earnings per share (profit attributable to owners of the Company)	61,374	57,926

ii) *Weighted average number of ordinary shares*

	Six months ended 30 June	
	2017	2016
	(unaudited)	(unaudited)
	'000	'000
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	248,714	250,000

b) Diluted earnings per share

There were no dilutive potential shares in issue during the period. The diluted earnings per share is the same as the basic earnings per share during the six months ended 30 June 2017 and 2016.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2017

10. FIXED ASSETS

a) Acquisitions and disposals

During the six months ended 30 June 2017, the Group acquired items of property, plant and equipment with a cost of RMB1,086,000 (2016: RMB1,077,000). Items of property, plant and equipment with a total carrying amount of RMB123,000 (2016: RMB13,000) were disposed of during the six months ended 30 June 2017, resulting in a loss on disposal of RMB116,000 (2016: loss on disposal of RMB3,000).

b) Valuation

The Group's investment properties were not revalued as at 30 June 2017 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 2016 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 Reporting 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 RMB6,565,000 as at 30 June 2017 (as at year ended 31 December 2016: RMB6,645,000). 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 Reporting Period, no land was reclassified as investment properties.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2017

12. TRADE RECEIVABLES

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

	At 30 June 2017 (unaudited) RMB'000	At 31 December 2016 (audited) RMB'000
0 to 30 days	1,443	2,305
31 to 60 days	34	585
61 to 90 days	28	24
91 to 180 days	21	6
181 to 365 days	3	8
Over 1 year	8	5
	1,537	2,933
Trade receivables, net of allowance for doubtful debts	1,537	2,933

Customers are generally required to make payments for orders prior to delivery of goods. Credit terms within 30 days are granted to those customers with high credibility.

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	At 30 June 2017 (unaudited) RMB'000	At 31 December 2016 (audited) RMB'000
Bank wealth management products (Note)	34,000	—
	34,000	—

Note: As at 30 June 2017, the Group's bank wealth management products are principal-protected and placed with a licensed bank in the PRC. These products are denominated in RMB within 6 months maturity period from the date of inception and has an annual rate of return up to 3.6%. The bank has an option to terminate the products at two prescribed dates before the maturity date for reason specified in the terms and conditions of the underlying contract. Bank wealth management products are classified as available-for-sale financial asset as at 30 June 2017. The fair value is based on cash flow discounted using the expected return based on management judgement.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2017

14. CASH AND BANK BALANCES

	At 30 June 2017 (unaudited) RMB'000	At 31 December 2016 (audited) RMB'000
Cash and bank balances in the consolidated statement of financial position	446,149	463,222
Less: Non-pledged bank deposits with original maturity over three months and within one year when acquired	<u>(356,000)</u>	<u>(40,000)</u>
Cash and cash equivalents in the consolidated cash flow statement	<u>90,149</u>	<u>423,222</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

As at 30 June 2017, the balances that were placed with banks in the PRC amounted to approximately RMB416,343,000 (2016: RMB441,066,000). Remittance of funds out of the PRC is subject to the exchange controls imposed by the PRC government.

15. TRADE PAYABLES

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

	At 30 June 2017 (unaudited) RMB'000	At 31 December 2016 (audited) RMB'000
0 to 30 days	3,790	2,670
31 to 60 days	775	1,000
61 to 90 days	216	176
91 to 180 days	398	385
181 to 365 days	145	181
Over 1 year	<u>327</u>	<u>385</u>
	<u>5,651</u>	<u>4,797</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2017

16. DIVIDENDS

- i) The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB nil).
- ii) Dividends payable to owners attributable to the previous financial year, approved and paid during the interim period (2016: approved and paid during the interim period):

	At 30 June	
	2017 (unaudited) RMB'000	2016 (unaudited) RMB'000
Final dividend in respect of the financial year ended 31 December 2016, approved and paid during the current interim period, of RMB22.80 cents per ordinary share (2016: in respect of the financial year ended 31 December 2015, approved and paid during the period ended 30 June 2016, RMB23.98 cents)	57,000	59,950

17. SHARE CAPITAL

	Number of shares	Amount HK\$	Amount equivalent to RMB
Ordinary shares of HK\$0.01 issued and fully paid:			
As at 31 December 2016	250,000,000	2,500,000	2,200,000
Share repurchased and cancelled	(1,286,000)	(12,860)	(11,000)
As at 30 June 2017	248,714,000	2,487,140	2,189,000

During the period ended 30 June 2017 and the year ended 31 December 2016, the Company repurchased its own shares on the Stock Exchange as follows:

Month of repurchase	No. of ordinary shares repurchased	Price per share		Aggregate consideration paid RMB'000
		Highest RMB	Lowest RMB	
January 2016	70,000	3.82	3.75	256
July 2016	754,000	3.34	3.11	2,348
September 2016	200,000	3.47	3.41	668
January 2017	262,000	4.04	3.89	910
	1,286,000			4,182

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2017

17. SHARE CAPITAL *(Continued)*

During the period ended 30 June 2017 and the year ended 31 December 2016, 1,286,000 ordinary shares were repurchased and all of these shares were cancelled during the period.

In accordance with section 135 of the Hong Kong Companies Ordinance, the ordinary shares of the Company do not have a par value.

The repurchase was governed by section 257 of the Hong Kong Companies Ordinance. The total amount paid on the repurchased share of RMB4,182,000 was paid wholly out of retained profits.

The owners of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

18. FINANCIAL INSTRUMENTS

Fair value

Fair value hierarchy

Other than available-for-sale financial assets, 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 2017

18. FINANCIAL INSTRUMENTS *(Continued)*

Fair value *(Continued)*

Fair value hierarchy (Continued)

	Fair value measurements as at 30 June 2017 categorised into			
	Fair value at 30 June 2017 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement Assets				
Available-for-sale financial assets:				
– Bank wealth management products	34,000	—	—	34,000

	Fair value measurements as at 31 December 2016 categorised into			
	Fair value at 31 December 2016 RMB'000	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Recurring fair value measurement Assets				
Derivative financial instruments:				
– Currency swaps	—	—	—	—
– Forward foreign exchange contracts	—	—	—	—

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2017

18. FINANCIAL INSTRUMENTS *(Continued)*

During the period ended 30 June 2017, 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.

If one or more of the significant inputs is not based on observable market data, the instrument is including in Level 3.

Information about Level 3 fair value measurements

The fair value of the bank wealth management products was valued based on their costs plus expected return.

The movement during the period in the balance of Level 3 fair value measurements is as follows:

	At 30 June 2017 RMB \$'000
Bank wealth management products:	
At 1 January	—
Payment for purchases	<u>34,000</u>
At 30 June	<u><u>34,000</u></u>

19. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 June 2017 and 31 December 2016.