

譚木匠

2018

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. Tan Di Fu  
Mr. Tan Li Zi

### NON-EXECUTIVE DIRECTORS

Madam Tan Yinan  
Madam Huang Zuoan

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chau Kam Wing, Donald  
Mr. Yang Yang  
Madam Liu Liting

### MEMBERS OF THE AUDIT COMMITTEE

Mr. Chau Kam Wing, Donald (*Chairman*)  
Mr. Yang Yang  
Madam Liu Liting

### MEMBERS OF THE REMUNERATION COMMITTEE

Mr. Chau Kam Wing, Donald (*Chairman*)  
Mr. Yang Yang  
Madam Liu Liting

### MEMBERS OF THE NOMINATION COMMITTEE

Mr. Chau Kam Wing, Donald (*Chairman*)  
Mr. Yang Yang  
Madam Liu Liting

### COMPANY SECRETARY

Mr. Chan Hon Wan *CA*

### AUTHORISED REPRESENTATIVES

Mr. Chan Hon Wan *CA*  
Mr. Tan Li Zi

### REGISTERED OFFICE

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

### HEADQUARTERS

Building 10  
Shang Island  
No.7, Dongchangzhong Road  
Jurong City  
Jiangsu Province  
The PRC

## CORPORATE INFORMATION

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1009, 10th Floor  
Nan Fung Commercial Centre  
19 Lam Lok Street  
Kowloon Bay, Kowloon  
Hong Kong

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

### PRINCIPAL BANKS

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

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

### AUDITOR

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

### LEGAL ADVISORS TO THE COMPANY

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

### STOCK CODE

837

### COMPANY WEBSITE

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

A wooden calligraphy brush stands upright in a wooden holder. Behind the brush is a large, flowing yellow brushstroke that spans across the middle of the image. The background features a textured wall and a branch with yellow flowers and leaves. The overall scene is bathed in warm, golden light.

FINANCIAL HIGHLIGHTS

## FINANCIAL HIGHLIGHTS

	Six months ended 30 June		% Change Increase/ (Decrease)
	2018 RMB'000	2017 RMB'000	
<b>Financial Highlights</b>			
Revenue	157,578	157,520	0.1%
Cost of sales	(51,114)	(51,361)	(0.5)%
Gross profit	106,464	106,159	0.3%
Gross profit margin	67.6%	67.4%	0.2% point
Profit before taxation	78,753	74,678	5.5%
Profit attributable to owners of the Company	64,481	61,374	5.1%
Basic earnings per share (RMB cents)	25.9	24.7	4.9%
	At 30 June 2018	At 31 December 2017	
<b>Liquidity and Gearing</b>			
Current ratio <sup>(1)</sup>	7.28	7.16	1.69%
Quick ratio <sup>(2)</sup>	5.21	5.47	(4.75)%
Gearing ratio <sup>(3)</sup>	N/A <sup>(4)</sup>	N/A <sup>(4)</sup>	N/A <sup>(4)</sup>

Notes:

- (1) Current ratio is calculated as current assets divided by current liabilities.
- (2) Quick ratio is calculated as current assets less inventories divided by current liabilities.
- (3) Gearing ratio is calculated as total bank borrowings divided by total assets and multiplied by 100%.
- (4) As at 30 June 2018 and 31 December 2017, the Group did not have any interest-bearing bank borrowings. The calculation of gearing ratio is not meaningful.

# CHAIRMAN'S STATEMENT



以木立信



## 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 2018 (the "Reporting Period") to the shareholders for your review.

In the first half of 2018, the Company recorded a mediocre performance with a slight increase compared to the same period of last year. Despite the Company has not yet achieved satisfactory results, it has still proactively explored new growth points for itself, such as the research and expansion of overseas markets, experiential marketing initiatives and the development of O2O omni-channel.

In the meanwhile, the Company also endeavoured in the construction of brand culture. In this April, with an invitation from Nanjing University of the Arts to the Company, Carpenter Tan organised a campus activity in Nanjing University of the Arts for nearly 400 employees with disabilities. During a week of activity, the employees of Carpenter Tan had an in-depth exchange and study with the teachers and students of Nanjing University of the Arts, which was unanimously recognised and appreciated by the participants and also widely praised by the social medias.

At present, the Company emphasises on the development of brand concept. Carpenter Tan currently has more than 1,200 offline stores throughout the country. The sales of e-commerce exceeded RMB100 million, and the average price of products has also reached affordable luxury among similar products. However, it is embarrassed that there is still a long way to become a real affordable luxury brand for Carpenter Tan, for which the reason is that many colleagues still stuck their thinking in the concept of selling instead of the brand concept. Carpenter Tan will continue to step up efforts in brand establishment by improving the image of store and product packaging, strengthening the spreading of brand culture, as well as enhancing brand identity for employees to building up brand confidence.

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, 30 August 2018

# MANAGEMENT DISCUSSION AND ANALYSIS

## MANAGEMENT DISCUSSION AND ANALYSIS

### MANAGEMENT REVIEW

The overall operation during the reporting period generally met expectations. Through several years of accumulated improvements after reorganisation, the personnel allocation was basically in place, production capacity and logistics operations remained normal and went well, including some little breakthroughs in trying something new of online and offline sales based on its solid foundation, and concrete actions in overseas expansion, therefore, the overall performance met expectations in general. A cultural exchange activity between nearly 400 employees with disabilities of factory and Nanjing University of the Arts demonstrated the brand culture of Carpenter Tan of “Honesty, Work, Happiness”. Our team has moved towards mature from being unfamiliar among each other, the channel has become young from traditional one, and as for research and development, which has changed to be active from passive one. The brand of Carpenter Tan has been updated in all-around as looking back its image several years ago. Carpenter Tan has always not neither slacked off, nor pursue for quick success, while it takes every step of the process one by one, so as to continue being impressive of Carpenter Tan.

### BUSINESS REVIEW

#### 1. Offline Business

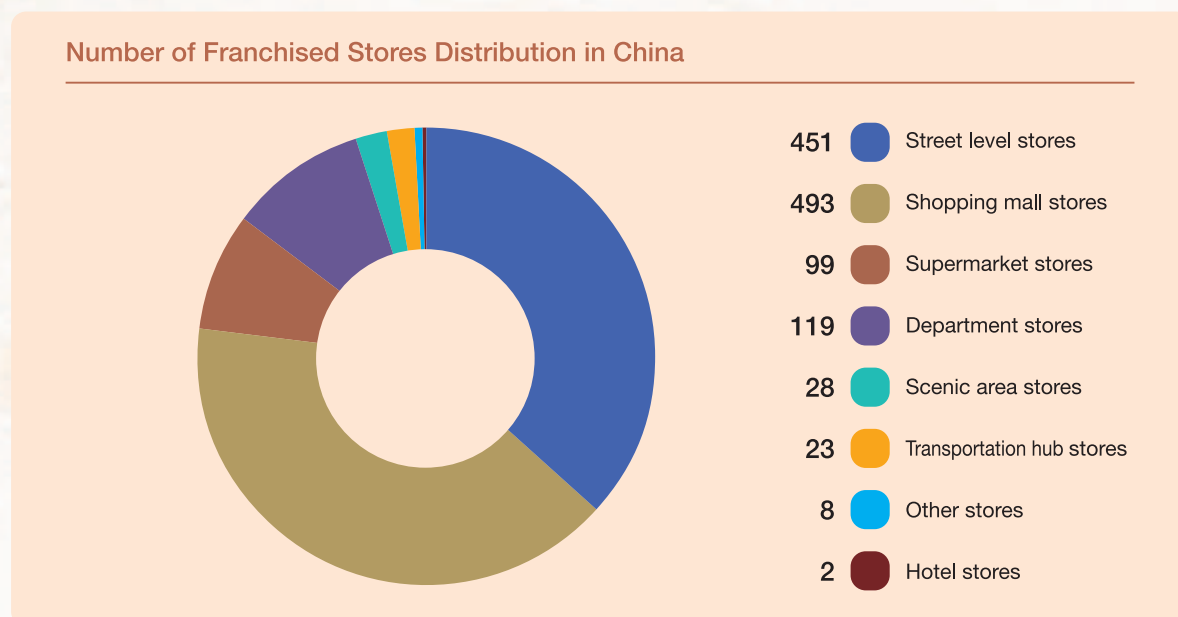
##### *Domestic Business*

The expectations have been delivered in the first half of 2018, in particular, our team performed well and has successfully completed the sales target. As at 30 June 2018, the total number of franchised stores in China decreased by 24 as compared to the same period of last year. However the quality of new store opening has been improved with a more successful expansion in shopping malls and important transportation hubs than last year. Carpenter Tan brand is no longer regarded as street level stores or supermarket stores by the shopping malls, which strengthened the confidence of sales team to be selective and also has the courage to refuse or give up for not good enough available shopping malls. As at 30 June 2018, Carpenter Tan had 1,223 franchised stores in China, 6 counters in other countries and regions and 3 directly self-operated stores in Hong Kong.

Regions	As at 30 June 2018		As at 30 June 2017	
	Franchised stores	Directly self-operated stores	Franchised stores	Directly self-operated stores
China	1,223	—	1,247	—
Hong Kong	—	3	—	3
Other countries and regions	6	—	6	—
Total	<u>1,229</u>	<u>3</u>	<u>1,253</u>	<u>3</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

The chart below shows the number of franchised stores distribution in China as at 30 June 2018.



In the first half of 2018, offline sales team focused on the following aspects:

### *Clear targets for channels expansion*

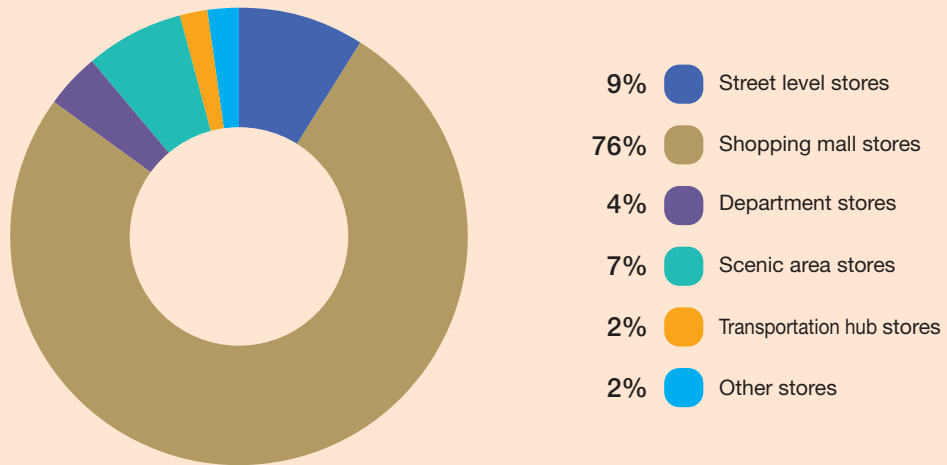
The high-quality shopping mall is the main target for expansion in recent years. Focusing on its development in shopping malls such as Wanda, CapitaLand, and Rainbow, the Company opened 493 stores in shopping malls, followed by its development in high-speed railway, airports and other transportation hubs, so as to form same-store with outstanding performance. The newly opened high-speed railway station in Shanghai Hongqiao achieved a breakthrough in same-store performance. The stores with poor shop image have been renovated and upgraded while expanding the stores. On 30 June 2018, the new image stores accounted for 58%.



## MANAGEMENT DISCUSSION AND ANALYSIS

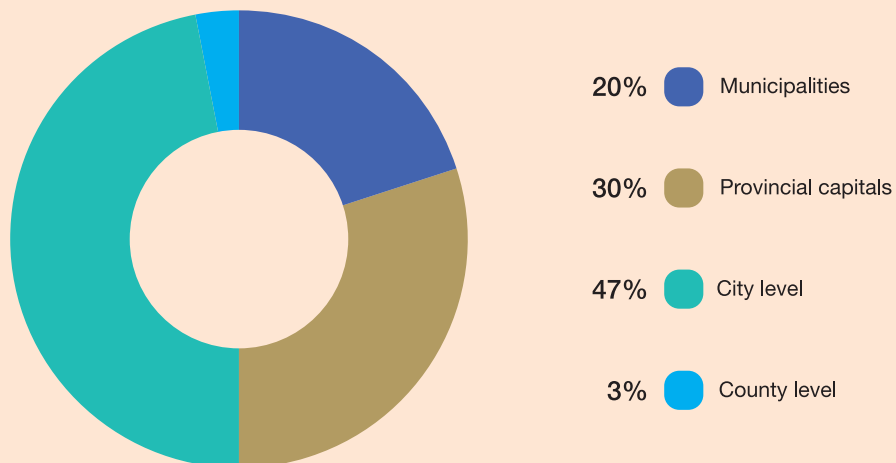
The chart below shows the new store expansion channels for the six months ended 30 June 2018.

Expansion Channels of New Stores in China Market (Ratio)



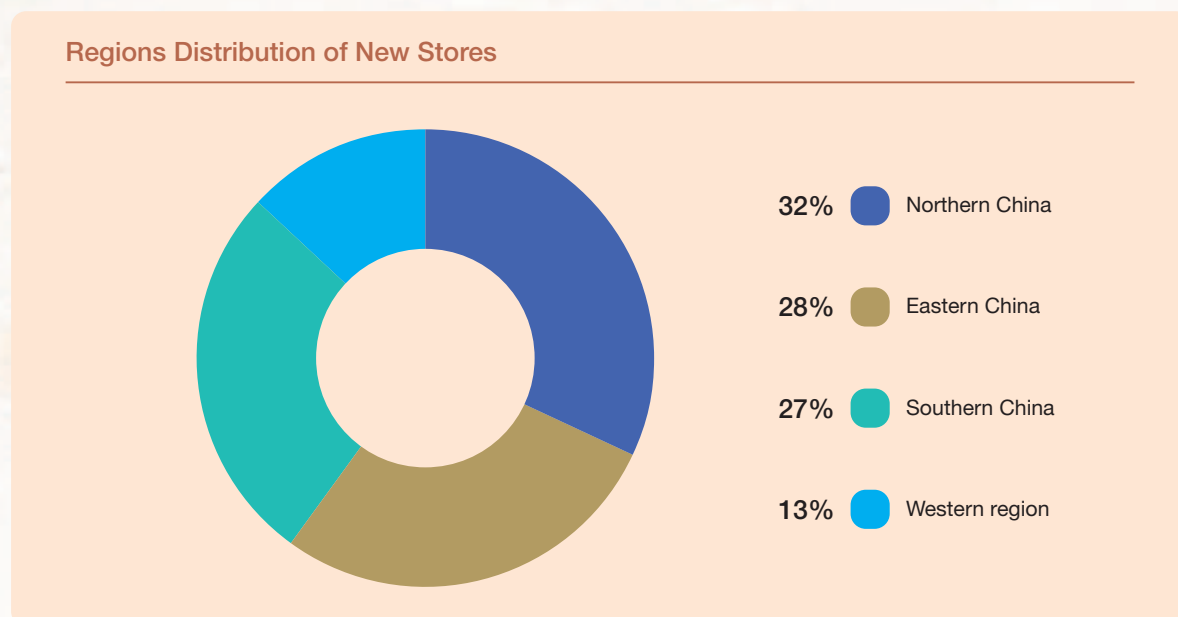
The chart below shows the administrative regions distribution of new stores for the six months ended 30 June 2018.

Administrative Regions Distribution of New Stores



## MANAGEMENT DISCUSSION AND ANALYSIS

The chart below shows the regions distribution of new stores for the six months ended 30 June 2018.



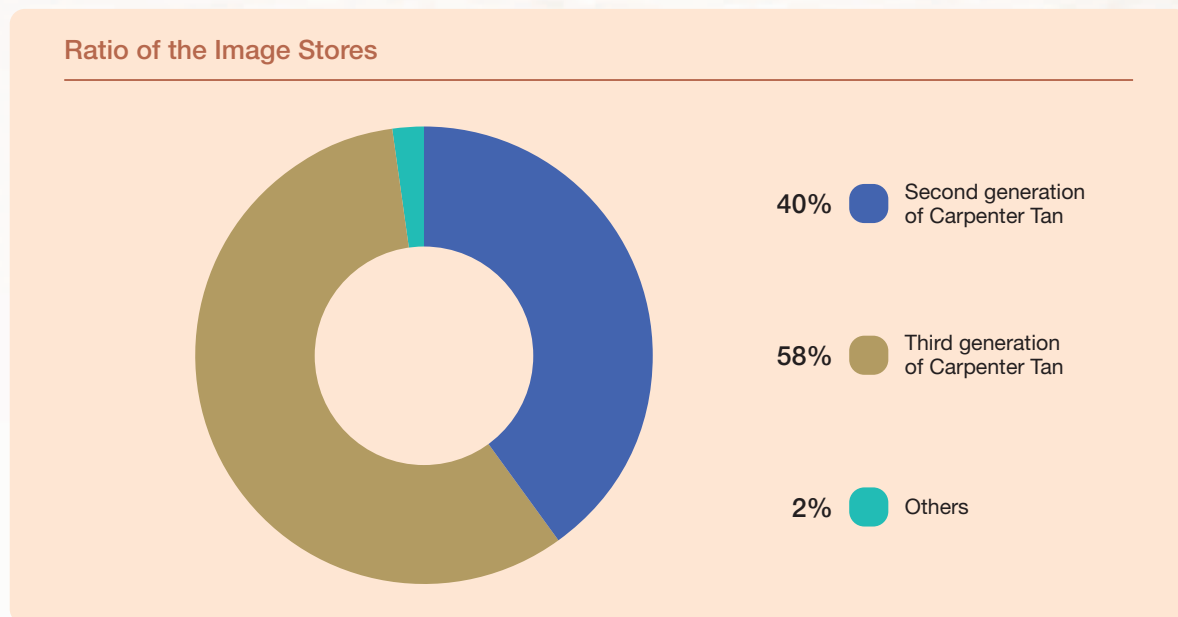
*Experiential marketing initiative is one of the major tasks in recent years*

With the launch of color-painting comb in stores since 2016, the bead stringing added in 2017 and the on-site activities focusing on the promotion of color-painting, carving, and wooden combs making, etc. in selected shopping malls based on the city, we gathered massive popularity, enhanced brand loyalty and received supports from shopping malls as well. As the first carving experience pilot store, Wanda Mall in Qingdao is highly accepted among customers in which they can participant in handmaking experience while visiting and enjoying, and learn the process in making a wooden comb, so as to also let more people know about Carpenter Tan.



## MANAGEMENT DISCUSSION AND ANALYSIS

The chart below shows the ratio of the image stores of second generation and third generation as at 30 June 2018.



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

### *Emphasis on festival marketing*

Carpenter Tan attaches emphasis on creating culture activities regarding family, friendship and love. Amidst today's era of emotional gift with focus on the sense of ritual, every festival represents an opportunity, from which we take advantage of every festival and new store opening. The region managers supervise the frontline sites to help important stores by developing practical plans and improving its implementation results. Through seizing the important days including the Valentine's Day, the Women's Day, the Mother's Day, 20 May and 18 June, a total of 58 large and medium-scaled brand promotion activities were held, and the festival sales contribution accounted for 23.2% of the total sales.

## MANAGEMENT DISCUSSION AND ANALYSIS

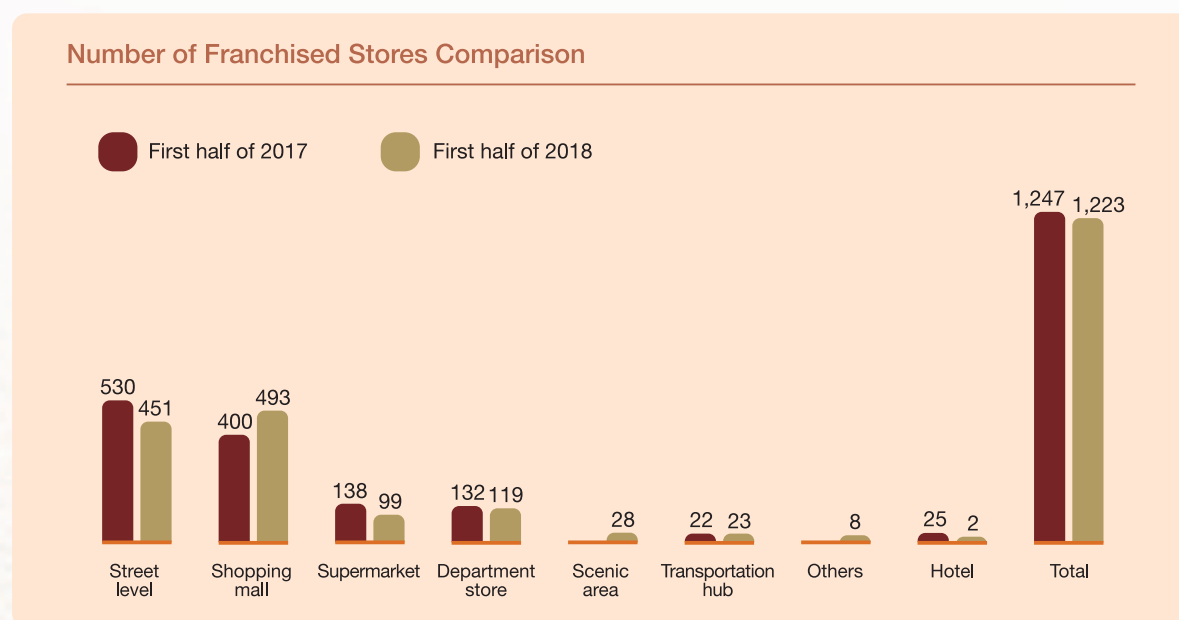
### *Focusing on training*

The Company has established a professional team to customise training programs by taking competition strategy of store versus store and evaluating with performance among the competition of franchisees, while endowing pleasure to teaching, so as to avoid becoming a mere formality for training. Trainings are conducted in 2018 based on the large regions distribution of eastern, southern, western, northern, central China and Hong Kong. In the first half of the year, we actually carried out 6 large region trainings (including one training in Hong Kong), 7 national live classrooms on YY platform, and 4 sales department trainings. The trainings for large store managers were carried out as scheduled, including the first phase of the practical operation for finding problems and proposing solutions, the second phase of the opening of large store manager class for more managers to share with, learn from and urge each other, and growing up together.

### *Trying new marketing carriers*

We launched China Mobile gift redemption by reward points, attracted customers through new channels, and improved our store-entering rate, which promoted the brand image of Carpenter Tan while increasing sales opportunities. We set up a group-purchase post for effective and accurate brand promotion, as well as dedicated staff to take charge of development, management and maintenance of potential customers. Moreover, we expanded Outlets channel, and our first Outlets store was successfully opened at Youaoutlets in May.

The chart below shows the sales channels as at 30 June 2018 as compared with the corresponding period of last year.





## MANAGEMENT DISCUSSION AND ANALYSIS

Although we recorded only a slight increase in overall results in the first half of 2018 as compared with the corresponding period of last year, our same-store results lagged far behind the expectation with varying store images. Carpenter Tan remained kind to our franchisees and allowed the continual operation of stores with old images. This indeed affected the image of Carpenter Tan to a certain extent, but we would not conduct renovation within a specified time in a simple and crude manner. We supplemented the old images by enhancing our internal images in terms of, such as, sanitation, green plants, after-sale services, care, etc. However, we continued to close down the stores with unfavorable regional image, inferior quality or poor profitability, which led to a continual decrease in the number of stores.

### *Overseas Business*

Carpenter Tan still has great difficulty in developing overseas business. Up to now, we still have not successfully expanded such business. However, through years of accumulation, we have devoted more human resources and actively attended high-quality trade fairs with a sound brand image for gaining experience since this year. Despite of the unremarkable effects, we have truly set foot on this path and accumulated many potential cooperators with cooperation intention, which lays a foundation for our overseas brand promotion. Overseas business is developed through two ways, namely direct operation in Hong Kong, and franchising and agency in other countries and regions.

Given the high human resource costs and store rents in Hong Kong, the Company has been operating under high risk to explore the source of income. Although we have not achieved it, we will keep working on this job till the day, which, we believe, is not too far, when we finally make profit. Currently, we still operate three stores in Hong Kong market, which are located either at a metro station or on the upper floor of a shopping mall, and thus not beneficial to the exposure and promotion of Carpenter Tan's brand. Our fourth store is expected to open at Telford Plaza in Kowloon Bay in the second half of the year, which, we hope, can bring about new changes.

For other countries and regions, in the first half of 2018, the Company attended two international gift fairs in Frankfurt, Germany, as well as one international franchise & entrepreneurship exhibition in Taipei in the unique forms of on-site color painting experiencing and DIY carpentry experiencing, at which we drew great attention and collected the information of a certain number of potential franchisees. Despite the fact that Carpenter Tan's products are sold in more than ten countries and regions with exclusive agents and counters in Singapore and Switzerland, we do not have a real independent franchised store abroad. Our first flagship store in Singapore is scheduled to open at Suntec City Mall, a popular shopping mall, in this August.



## MANAGEMENT DISCUSSION AND ANALYSIS

Although we have not achieved remarkable results in our overseas market, we have made up our mind and increased investments in market research, attending exhibitions, and expanding overseas resources, which provides enhanced confidence to our team and heralds an end to the belief that overseas market cannot be penetrated. In line with the online and offline breakthroughs achieved in overseas market, the Company will put in place the corresponding ancillary products, packaging, and publicity materials, etc.



### 2. Online Business

#### *Domestic Business*

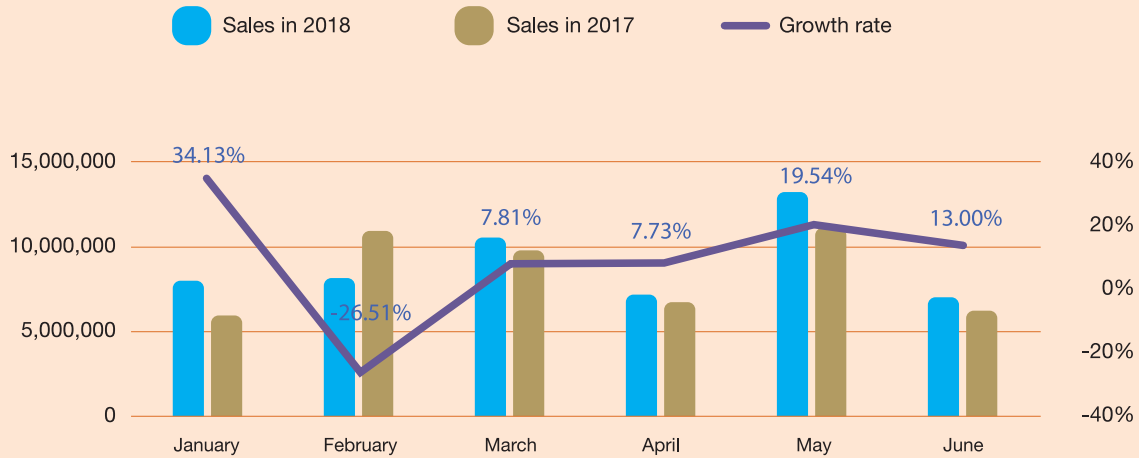
Since the relocation of our e-commerce business to Jurong in 2011, Carpenter Tan's performance has been in an upward trend. In the first half of 2018, we have successfully completed the sales target with a year-on-year sales increase of 7.8%. The price per transaction was RMB186, representing a year-on-year increase of RMB13. Our sales were mainly derived from T Mall and Jingdong platforms. Our sales basically recorded increases as compared with the corresponding period of last year except for a decrease in February caused by the coincidence of the Spring Festival and the Valentine's Day.



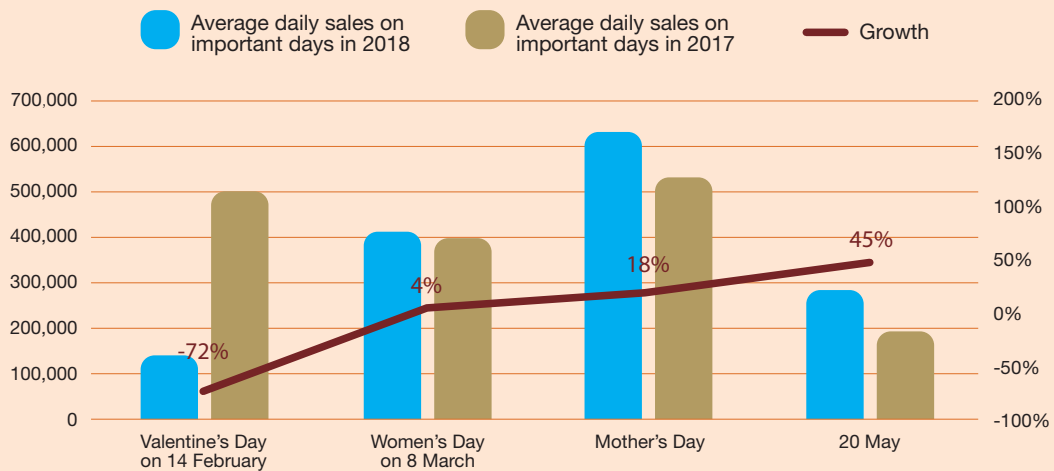
## MANAGEMENT DISCUSSION AND ANALYSIS

The chart below shows the monthly online sales for the six months ended 30 June 2018 as compared with the corresponding period of last year.

Monthly online sales for the first half of 2018 as compared with the first half of 2017



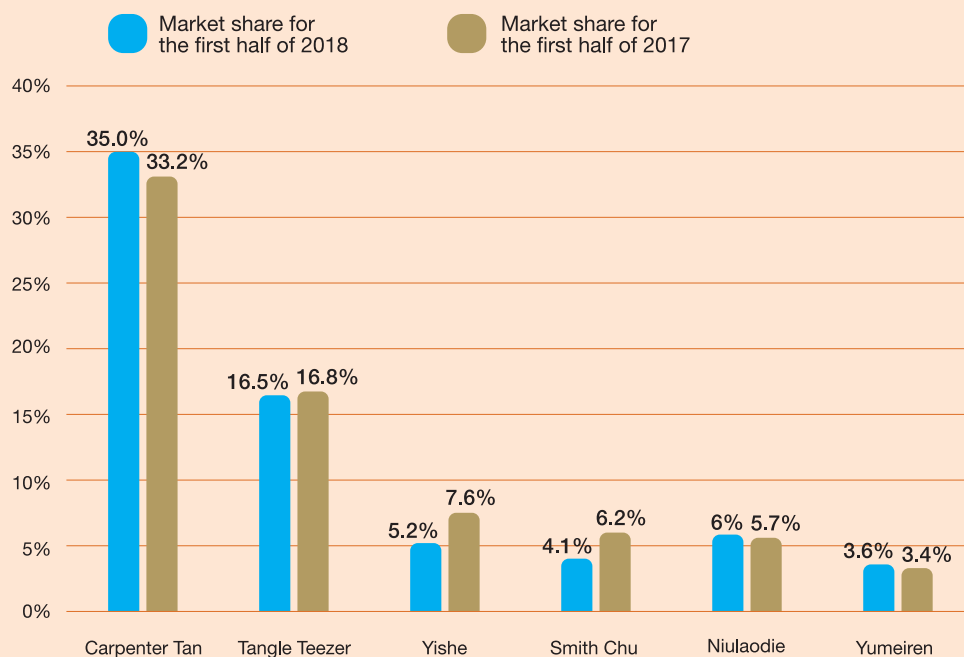
Performance on important days



Online team is the youngest team of Carpenter Tan. Despite of the monotonous form of work and heavy workload, our online team members remain highly enthusiastic, and continue to try innovating in channels and promotion methods. We have established cooperation with Xiaohongshu (小紅書), on which we launched ten products. Meanwhile, we obtained the certification of internal procurement platform of large groups to conduct batch procurement business and provide tailor-made services. We shot product videos to highlight our product process and cultural connotation. A total of 25 product videos have been uploaded with 90,000 viewers at a conversion rate of 7.25%, representing approximately RMB1.2 million of transaction volume. Moreover, creative emotional short videos were launched to make our brand and products impressive, thereby attracting customers and promoting Carpenter Tan.

## MANAGEMENT DISCUSSION AND ANALYSIS

Ranking of market share for comb category for the first half of 2018 and 2017



### Overseas Business

Through research and accumulation, Carpenter Tan's products have been launched on U.S. Amazon and Australia Ebay platforms, and we have established cooperation with local e-commerce companies in North America. Moreover, we plan to set up a physical DIY sales workshop in the U.S. to facilitate online sales and brand promotion. In spite of few orders, we have started and will forge ahead in an active manner.

In active response to the fashion trend, Carpenter Tan provides quality products and services to our online consumer groups. Carpenter Tan's brand enjoys an outstanding online position. Our team keeps trying new methods, but has limited and unopened mode of thinking and fails to make good use of new media, therefore we boast great room for improvement.

Carpenter Tan's products are not fast-moving consumer goods, and are durable at prices which are not low. Most of our online and offline customers are regular customers. We continue to promote life-long free maintenance services, and treasure timber resources and the handcraft efforts made by over 300 disabled staff. After our relocation to Jurong, we have re-built our team and developed smoothly. We have experienced great internal and external changes and achieved some results. However, there are still many problems, such as varying quality of team members, insufficient innovative awareness and capacity, absence of a true passage for breakthrough of channel resources, many problems in meticulous management of stores, and over emphasis on marketing technique and lack of genuine emotion in marketing.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 3. Research & Development and Design

In the first half of 2018, our new product development mainly focused on the upgrade of function and appearance for toothed products, and we launched products featuring IP, such as Jing Xiaowang and Tan Xiaowang, targeting on younger customer groups. We developed the lobular red sandalwood serial, a high-end and classic product type, to meet the needs of high-end consumers, and the multiflora hance fitness serial by combining the Mother's Day and the Father's Day.

In the first half of 2018, we improved the sample-making centre at our head office, and fully realised the localisation of sample-making of new products. Designers were required to make samples by themselves, and make adjustments during sample-making process to shorten the period of sample-making. To cooperate with the brand promotion of the Company, the sample-making centre designed and made miniature equipment for experiencing, to conduct "Wood Art Fairs" and other wooden comb-making experiencing activities, in Beijing, Zhenjiang and Nanjing successively, with over 2,000 participants and favorable responses.

Carpenter Tan has achieved significant results in integration of design resources in recent years. We have a new self-operated research & development centre, which will experience a long but steady process of development. Through years of development, our designer team has been experiencing a restructuring process, with injection of new vitality and loss of designers at the same time. No matter how hard it is, we will never give up. Currently, we have a stable team comprising ten designers who have basically settled down in Jurong.

We seek external cooperation with an open and inclusive mind. Nanjing University of the Arts is a close strategic partner of Carpenter Tan, and Biaugust team from Taiwan and Jose team from Germany are in long-term cooperation with the Company. We have often launched design competitions in various forms to collect original ideas from varied age groups and different nationalities.

Our research & development and design have undergone great changes in recent one year with improved market feedback, but still remain a weakness of the Company, especially in packaging, which, as some investors say, is like wearing a pair of straw sandals to match a business suit, making us shamed.



## MANAGEMENT DISCUSSION AND ANALYSIS

### 4. Production Technology

Carpenter Tan is capable of making the best comb as we have our own factory with core technologies, skilled workers as well as a creative team. We have 789 workers, 91% of whom are skilled workers. 360 workers are physically disabled or deaf and dumb. Despite of their disabilities, they created many perfect products. They were optimistic, positive, confident, and practiced “Honest, Work and Happiness”.

#### Production During the Reporting Period

	Production for the six months ended 30 June	
	2018 units	2017 units
Comb category	1,858,675	2,081,426
Mirrors and accessories*	383,067	793,552
Total	<u>2,241,742</u>	<u>2,874,978</u>

\* DIY bracelets with one bean were included in the data for the corresponding period of last year

#### *Advocating innovation and promoting process optimisation*

Factory is a carrier of fixed process management, but Carpenter Tan often advocates innovation and optimisation. To streamline the transportation process of raw materials, we integrated two comb-making workshops with raw material workshop in the first half of 2018, to optimise the process and promote the effective and timely use of raw materials, thereby improving the utilisation rate of materials and work efficiency.



## MANAGEMENT DISCUSSION AND ANALYSIS



### *Technical invention and technical improvement*

In 2018, our factory was committed to advancing the profound technical innovation and extensive technical improvement. It established a team comprising production technology backbones to conduct preliminary exploration for production process with low operating efficiency, great labor intensity and high risk. Technical development will be timely conducted once it is appropriate for initial development, and technical improvement will be carried out by a special team. In the first half of the year, we completed initial development for four projects, which mainly focused on teeth implanting, materials, painting art, and renovation of miniature production line.

### *Safe production and orderly management*

Safe production has been the priority of Carpenter Tan's factory. It is not only an attitude, but also lies in standardised management system, strict execution inspection, regular and irregular drills, rectification and notices. We insist on implementing a 6S governance model, to create a beautiful, clean and orderly production environment, so that our employees can work happily in such an environment and create good products.

### *On a long-distance invitation for artistic exposure; demonstrating team strength to promote brand effect*

When our disabled workers received the invitation from Nanjing University of the Arts in last November, the whole factory was extremely excited, especially the over 350 disabled workers as it was their first time to go on a long journey and take the high-speed train. To ensure a safe and smooth journey, the factory divided the workers to small groups after careful planning, and enhanced drills repeatedly, and therefore successfully completed such a 1,500 km-long journey. The workers cared for and helped each other, so none was left behind with no complaints. They viewed the advanced Chinese technologies along the way, and felt the cultural charm in Southern Yangtze River Area, experiencing the combination of art and work. Along the whole journey, workers of Carpenter Tan were highly disciplined and civilized, united and happy. Such a journey tested the quality of Carpenter Tan's workers, who were proven to be aspiring, and gained respect on the high-speed train and at Nanjing University of the Arts.

Carpenter Tan's factory, a special group, is strict like an army, but also warm like a family. Carpenters work with integrity and live a happy life. They treat the factory as a family, and other workers as their family members. Such cultural atmosphere is enviable and appreciative. Despite of their disabilities, they strive to create a healthy life with their sincerity.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 5. Logistics and Distribution

Carpenter Tan's logistics and distribution are under the charge of obscure workers, covering procurement of raw materials, packaging acceptance and inspection, production order plan, balance and quality management. In the first half of 2018, 55 workers completed the packaging and delivery of over 2 million products, as well as the after-sale maintenance for over 10,000 units. They were busiest on weekends and holidays. Corruption often arises from the process of procurement of raw materials, therefore we maintain a scientific and humanistic management on system formulation and supervision control to avoid corruption conducted by our employees due to our negligence in management. Further, procurement of raw materials also easily leads to complaints, so employees of this department provide timely replies to all kinds of questions and handle problems raised by BBS forum and franchised stores in the WeChat group for annual meeting on a daily basis. The Company attaches importance to the building of corporate culture and corporate character, featuring an atmosphere free of complaints. With a stable logistics team, strict control over product quality, and proficiency in working procedures, we emphasise on safety management to provide a sound assurance for the first line marketing. Our product quality standard is that it is difficult to detect a problem in the unqualified products by our internal general management staff.

### 6. Enterprise Culture

#### *Campus activity in the Nanjing University of the Arts*

In the balmy spring April 2018, a group of people in blue workwear suspenders, wearing plaid hats showed up at Nanjing University of the Arts which has a century of history, and the students called them by a friendly nickname "Super Mario". Most of these people experienced leaving Wanzhou, Chongqing, taking the motor train, attending college class for their very first time. In these 5 days, they took classes, gave exhibitions, performed shows, played basketballs and made combs together with teachers and students of Nanjing University of the Arts. At the University's invitation, about 400 of our employees with disabilities came to the university to take part in the large cultural exchange activity named "1 ingenious heart of Carpenter Tan, 1 warm tour to Nanjing University of the Arts (匠心譚木匠,溫暖南藝行)" and communicate and interact with the teachers and students.

Unforgettable moments:

During the opening ceremony, the Party Secretary of Nanjing University of the Arts, Guan Xiang Qun shared a story about a Carpenter Tan's comb that he treasured up when he was traveling back in a decade ago. That comb makes him feels like fate in man's life. The reason why he made the invitation is that he wants the students of Nanjing University of the Arts to know how to "be a person with humanistic spirit and achieve ordinary goals with extraordinary love" by making close contact with the Carpenter Tan's employees.

Tan Chuan Hua, the Carpenter Tan's Founder, showed great thankfulness to the meticulous preparation of Nanjing University of the Arts. He emphasised that what's worth the Company to be proud of are those independent and self-reliant employees who made the most elaborated combs around the world. The Company's disabled employees provide their families with their diligence, even more, their efforts generate tens of millions of taxes per year and create profits for the shareholders. That's what makes them remarkable craftsmen.



## MANAGEMENT DISCUSSION AND ANALYSIS

The dean of Nanjing University of the Arts, Liu Wei Dong, gifted his Chinese handwritten calligraphy, “excellent craftsmanship on wood (我善治木)” to the Company, and the chairman of the Company, Tan Chuan Hua offer an exquisite artwork of comb in return.

The vice dean of Nanjing University of the Arts, Xie Jian Ming officiated the opening ceremony, and in order to deepen the partnership between the university and the Carpenter Tan, the vice dean entered into a strategic cooperation agreement with Carpenter Tan on behalf of the university. He also invited the disable employee representative, Wei Wei, to take a group photo and said “I’m not an idolater, but you lighten my heart for sure.”

Carpenter Tan and Nanjing University of the Arts jointly held a 5-day exhibition, “The Story of A Comb (一把梳子的故事)” to not just tell people about the development history and the enterprise culture for more than 20 years of Carpenter Tan, but also the persevering pursuit to designs and originalities in recent years. Inside the exhibition hall, each one those delicate combs made by ingenious workers, kept being attractive to the students. Just for intention to let the university students can experience the ingeniousness of wooden art, Carpenter Tan moved the assembly line into the university, and let the disabled employees to teach students how to make a comb. All the professors and students that joined the procedure of designing and hand-making a wooden comb, eventually made a unique comb for every one of them.

During the closing gala, the disabled employees of Carpenter Tan gave 11 well-organized performances with students of Nanjing University of the Arts in the university’s amphitheatre, and the audience’s applause and cheers last quite a long time afterwards. A singing and dancing performance, “Happy Bossa (快樂Bossa)” choreographed for Carpenter Tan was brought by 9 students from the university’s pop vocal major and 18 deaf-mute employees from Carpenter Tan, and only a day and a half were cost for it from rehearsal to go on-stage.

About 400 disabled staffs, over 40 volunteers and more than 50 teachers and students from the university, composed this journey across 1,500 kilometers. All the attendees put a happy ending to this cultural exchange activity with collective kindness and true love. Nothing but joy memories was left to the staffs because of the university’s thoughtful arrangements and services, and “Happy” is the sincerest emotion among them. The university’s motto “magnificence, discipline, depth, beauty (闊約深美)” and share the same humanistic feelings with the spirit of Carpenter Tan, “The goodness in oneself is the cure”, which makes the enterprise and the university bonded with each other under kindness, love and beauty.



## MANAGEMENT DISCUSSION AND ANALYSIS

### *Brand Culture*

With a purpose of enhancing its brand exposure, Carpenter Tan has attended various big events, covering multiples of fields for the first half of 2018, such as Beijing International Designer Festival, 2018 Culture Industry IUR Deeply-Emerged Development Summit, Suzhou Innovation Exhibition, Beauty of China's Manufacture Summit and The Third Session of "Craftsman Honour of the Nation" China's Handcraft Innovation Event, etc.

Unexpectedly, Douyin (抖音) has become a new popular channel and tool in the field of promotion and marketing. Making use of its official registered Douyin (抖音) account, Carpenter Tan has successfully held an online challenge event named "King of Head-brush Stay-home Dad" in May as an proactive attempt using Douyin (抖音) to promote its brand among the youngsters.

Meanwhile, we are now working on and planning for the following works:

- Upgrade Carpenter Tan's official website by transferring its brand culture and showcasing its rich products, making domestic and foreign customers have a grasp on our status of development on time and making them involved in interaction.
- Build up a Carpenter Tan VIP system to provide various value-added service for customers and to enhance their loyalty to our brand.
- After having held design contest for four years in a row, this year the design contest will be presented to designers and followers in a totally new way----"Collaborating across the border and Thinking out of the box". Furthermore, in the upcoming colorful October, Carpenter Tan once again plans to invite multiple domestic and overseas carpenter masters to exhibit their works in Nanjing, to explore the theme "Wonderful Woodcraft Makes Better Lives" and to give lessons about their unique skills.



## MANAGEMENT DISCUSSION AND ANALYSIS

### 7. Human Resources and Comprehensive Solution

Until now, Carpenter Tan has hired 964 employees, among which there are 796 workers at the production line and 360 disable workers. This year, we have made some additions into our employees-care project such as raising disable workers' subsidies by RMB100 per month, raising front-line workers' payment and reward, raising housing fund for all employees, and installing gas devices and washing machines, etc, for workers who live in the factory dormitories. We have also established a more reasonable performance appraisal system to improve our employees' initiative and positivity with a more appealing payment and reward. As for the issues such as factories' lacquer art room, cafeterias' oil and smoke exhaust, dust and dirty water purification, etc, we have adjusted their technology. As for the retirement problems causing by the change of social security policy that happened to more than 60 people who were the first batch of employees have been settled down, which indicates that all our employees' retirement problem have been solved. We're now exploring a new model featuring using nuclear and magnetic material anti-fake technology to fight against fake manufacturing-selling and illegal online selling. At the beginning of this year, we have made some substantial adjustments in aspects such as evaluation standard, reward durability, patent contribution, contribution evaluation and rewarding based on classification and assortment implication in the original "Rewards Rules for Technology Advancement" to enhance the timeliness of rewards and fully recognise the value of contributions. Deepening the cost of products audition, building a sensitive reflective relationship between factory production management, operation improvement activity and direct cost of products, we have drafted a scheme and put it in trial use. Wanzhou Land Project is moving forward and the Company is planning to construct a logistics warehousing sets and by so far, the Company has already completed preparatory works such as project approval record, project feasibility study and environmental evaluation, etc.; the Company has re-obtained land permit for project construction and on-site land measuring has been done and ownership has been transmitted.



## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### 1. Revenue

The Group recorded revenue of approximately RMB157,578,000 for the six months ended 30 June 2018, representing a slight increase of RMB58,000 or 0.1% as compared to approximately RMB157,520,000 for the six months ended 30 June 2017. 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 marketing strategy for online business.

	For the six months ended 30 June			
	2018 (RMB'000)	%	2017 (RMB'000)	%
Sales				
– Combs	36,672	23.3	36,183	23.0
– Mirrors	324	0.2	577	0.4
– Box sets	119,339	75.7	119,236	75.7
– Other accessories*	1,057	0.7	1,316	0.8
Franchise fee income	186	0.1	208	0.1
	<u>157,578</u>	<u>100.0</u>	<u>157,520</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 RMB51,114,000 for the six months ended 30 June 2018, representing a decrease of approximately RMB247,000 or 0.5% as compared to approximately RMB51,361,000 for the six months ended 30 June 2017, the decrease in cost of sales is mainly due to the increase in gross profit margin for the Reporting Period.

### 3. Gross Profit and Gross Profit Margin

For the six months ended 30 June 2018, gross profit of the Group was approximately RMB106,464,000, representing an increase of approximately RMB305,000 or 0.3% as compared to approximately RMB106,159,000 for the six months ended 30 June 2017. The gross profit margin increased slightly from approximately 67.4% in 2017 to 67.6% in 2018. 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 Income

Other income comprise of PRC VAT concession refunds, investment interest income, exchange gain, bank interest income and rental income. Other income was approximately RMB23,290,000 for the six months ended 30 June 2018, representing an increase of approximately RMB12,210,000 or 110.2% as compared to approximately RMB11,080,000 for the six months ended 30 June 2017. The increase was mainly due to an increase in PRC VAT concession refunds of approximately RMB6,480,000 and the increase in interest income from financial assets of approximately RMB6,208,000.

### 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 RMB22,686,000 for the six month ended 30 June 2018, representing an increase of approximately RMB1,565,000 or 7.4% as compared to RMB21,121,000 for the six months ended 30 June 2017. This increase was mainly a result of the increase in advertising and promotion expenses of approximately RMB2,275,000 for the Reporting Period.

### 6. Administrative Expenses

The administrative expenses of the Group was approximately RMB19,226,000 for the six months ended 30 June 2018, representing an increase of approximately RMB6,841,000 or 55.2% as compared to approximately RMB12,385,000 for the six months ended 30 June 2017. The increase was primarily due to the increase in staff relocation subsidies payment of approximately RMB2,705,000, staff costs of approximately RMB1,466,000 and depreciation of approximately RMB 1,431,000 for the Reporting Period.

### 7. Profit from Operations

For the six months ended 30 June 2018, profit from operations for the Group amounted to approximately RMB78,753,000, increased by approximately RMB4,075,000 or 5.5% when compared to approximately RMB74,678,000 for the six months ended 30 June 2017. Increase in profit from operations was mainly due to the increase in other income of approximately RMB12,210,000 while partially off-set by the increase in operating expenses of approximately RMB8,406,000 for the six months ended 30 June 2018.

### 8. Finance Costs

For the six months ended 30 June 2018 and 2017, there was no finance costs respectively as there was no bank borrowings during both periods.

## MANAGEMENT DISCUSSION AND ANALYSIS

### 9. Profit Before Taxation

For the six months ended 30 June 2018, profit before taxation for the Group amounted to approximately RMB78,753,000, increased by approximately RMB4,075,000 or 5.5% when compared to approximately RMB74,678,000 for the six months ended 30 June 2017. Increase in profit before taxation was mainly due to the increase in profit from operation of approximately RMB4,075,000 for the Reporting Period.

### 10. Income Tax Expenses

For the six months ended 30 June 2018, income tax expenses for the Group amounted to approximately RMB14,272,000, increased by approximately RMB968,000 or 7.3% when compared to approximately RMB13,304,000 for the six months ended 30 June 2017. This increase was mainly due to the increase in profit before taxation.

The effective tax rate for the Reporting Period was 18.1% which was slightly higher than 17.8% for the six months ended 30 June 2017. Details of income tax expenses are set forth in note (8) to the unaudited financial report.

### 11. Profit for the Period

The profit for the six months ended 30 June 2018 was approximately RMB64,481,000, representing an increase of RMB3,107,000 or 5.1% as compared to approximately RMB61,374,000 in the corresponding period of 2017.

### 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 2018, the Group had cash and bank balances of RMB100,026,000 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 RMB29,106,000 representing a decrease of net cash generated from operating activities of approximately RMB26,949,000 from approximately RMB56,055,000 for the six months ended 30 June 2017. The decrease was primarily due to the increase in other receivables, deposits and prepayments of approximately RMB26,000,000.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Net cash used in investing activities*

The Group's net cash outflow used in investing activities amounted to approximately RMB152,753,000 during the Reporting Period, representing an increase of approximately RMB117,418,000 as compared with the cash outflow used in investing activities of approximately RMB35,335,000 for the six months ended 30 June 2017. The increase is mainly due to the increase in the net payment for purchase of financial assets of approximately RMB151,265,000 during the Reporting Period.

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

The Group's net cash inflow generated from financing activities amounted to approximately RMB13,260,000 during the Reporting Period, representing an increase of approximately RMB368,856,000 as compared with the net cash outflow used in financing activities of approximately RMB355,596,000 for the six months ended 30 June 2017. The increase was primarily due to the decrease in non-pledged bank deposits of RMB316,000,000 during the Reporting Period.

## 14. Capital Structure

### *Indebtedness*

As at 30 June 2018 and during the Reporting Period, the Group did not have any bank loan.

### *Gearing ratio*

As at 30 June 2018 and 31 December 2017, the Group did not have any bank loan. The calculation of gearing ratio was not meaningful.

### *Pledge of assets*

As at 30 June 2018, the Group did not have any assets pledged to the banks (31 December 2017: 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 RMB1,639,000 and RMB1,086,000 for the Reporting Period and the six months ended 30 June 2017 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.

## 15. Contingent Liabilities, Legal and Potential Proceedings

As at 30 June 2018, 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 2018, 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### OUTLOOK

In general, the Company performed well in the first half of 2018. Online and off-line sales, together with the process of research and development, basically met the expectations. The Company witnessed significant improvement in team quality. Comprehensive governing was in good order, complicated but not confused. All of these are the results of the joint efforts by all members. However, we are still facing many difficulties and challenges, such as the difficulties in the O2O online project, impact from the developments of other online peer competition, over-caution on the development of Carpenter Valley project. What's more, there is yet any achievement in overseas market and there remains a considerable amount of problems in the recruitment of professional talents. It is urgent for the Company to deal with all of these problems.

In the second half of 2018, the Company will find some breakthrough in product line management. We will try more channels for online brand promotion, spur on the expansion of off-line sales channels and physical management. The franchisees annual meeting will shift from spring to fall. Wood art exhibition will be continued and management option incentive mechanism will be introduced. The Company believes there will be satisfactory changes under such well-ordered proceedings. At the same time, the Group will continue to expand franchised stores in shopping malls of major cities, first-tier business districts, airports and high-speed railway stations, as our key business development aspects. We will close the stores in unfavorable locations, with poor shop images and profitability, and will speed up the renovations of new image stores. We will also set up combing experience areas, color-painting experience areas, DIY experiencing areas and etc. in the stores. The development and operation of O2O business mode will be accelerated by utilising marketing opportunities, adjusting overseas expansion strategy and participating in quality exhibitions in favorable locations, to overcome the limitation of "not presentable". Outstanding management personnel will be deployed to expand overseas business and investments will be made in developing products and packaging that meet the consumption habits of overseas customers when appropriate. Meanwhile, the Group will also explore new marketing channels other than its existing platforms, with an aim to demonstrate Carpenter Tan in all-round, multi-platform and extensive ways.

In addition, the Group will also enhance trainings for its design team to achieve better cooperation. Carpenter Tan will quantify the launch of new products and encourage technology renovation, striving for improvement every day. The Group has attached high emphasis to the progress of Carpenter Valley and endeavors to achieve breakthrough progress in the upcoming two years.

Carpenter Tan's vision is "becoming a comb of the world" by "making the best combs" for consumers. The Group has always been adhering to the corporate philosophy of "Honesty, Work, Happiness" and the traditional Chinese culture and strives to bring wonderful experience to consumers by trendy design, sophisticated craftsmanship and caring service. By thinking openly and encouraging innovation actively, the excellent performance of the Group brings investors enduring value in return for their trust and support on Carpenter Tan.

### HUMAN RESOURCES AND TRAINING

As at 30 June 2018, the Group had a total of 964 employees in Mainland China, Hong Kong and overseas. 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 2018, 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 2018, 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	68.23%

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 2018, 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	68.23%
Fan Cheng Qin (Note 2)	Interest in a controlled Corporation	169,700,000	Long	68.23%
Lead Charm (Note 3)	Beneficial owner	169,700,000	Long	68.23%

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 2016, 31 December 2016, 1 January 2017, 30 June 2017, 31 December 2017, 1 January 2018 and 30 June 2018, 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 2017, or the six months ended 30 June 2018.

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 26 March 2018 and 30 August 2018, being the dates of the 2017 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 2018, the Group had capital commitment contracted but not provided for acquisition of property, plant and equipment of approximately RMB420,000 (31 December 2017: RMB439,000).

### 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 17 May 2018, the Company declared a final dividend of HK30.72 cents per share for the year ended at 31 December 2017 amounting to approximately HK\$76,405,000 (equivalent to approximately RMB63,870,000) to the shareholders of the Company. In addition, the Company declared a special dividend of HK30.72 cents per share, amounting to approximately HK\$76,405,000 (equivalent to approximately RMB63,870,000) to the shareholders of the Company. The final dividend and special dividend were paid on 14 June 2018 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 2018 (2017: nil).

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

During the Reporting Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

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

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 29 December 2009, after deducting the related issuance expenses, amounted to approximately HK\$132,900,000 (equivalent to approximately RMB116,800,000). As at 30 June 2018, the Group had used net proceeds of approximately RMB54,200,000, of which RMB25,500,000 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 2018. 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 2018 with the management of the Group and agreed with the accounting treatment adopted by the Company.

### EVENTS AFTER THE REPORTING PERIOD

On 31 August 2018, the Company has granted to certain eligible participants, subject to their acceptance, a total of 900,000 share options to subscribe for a total of 900,000 ordinary shares of HK\$0.01 each in the capital of the Company under the share option scheme adopted by the Company on 29 December 2009. For details, please refer to the announcements of the Company dated 31 August 2018 and 5 September 2018.

### DISCLOSURE OF INFORMATION

The interim report for the six months ended 30 June 2018 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, 30 August 2018

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2018 - UNAUDITED

	Note	Six months ended 30 June	
		2018 (unaudited) RMB'000	2017 (unaudited) RMB'000
Revenue	6	157,578	157,520
Cost of sales		<u>(51,114)</u>	<u>(51,361)</u>
<b>Gross profit</b>		<b>106,464</b>	<b>106,159</b>
Other income	6	23,290	11,080
Selling and distribution expenses		(22,686)	(21,121)
Administrative expenses		(19,226)	(12,385)
Other operating expenses		<u>(9,089)</u>	<u>(9,055)</u>
<b>Profit before taxation</b>	7	<b>78,753</b>	<b>74,678</b>
Income tax	8	<u>(14,272)</u>	<u>(13,304)</u>
<b>Profit for the period</b>		<b><u>64,481</u></b>	<b><u>61,374</u></b>
<b>Attributable to</b>			
Owners of the Company		<u>64,481</u>	<u>61,374</u>
<b>Earnings per share</b>			
Basic and diluted	9	<u><b>RMB25.9 cents</b></u>	<u><b>RMB24.7 cents</b></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 2018 - UNAUDITED

	Six months ended 30 June	
	2018 (unaudited) RMB'000	2017 (unaudited) RMB'000
Profit for the period	64,481	61,374
Other comprehensive income for the period		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of functional currency to presentation currency	<u>(4,337)</u>	<u>(1,765)</u>
Total comprehensive income for the period	<u>60,144</u>	<u>59,609</u>
Attributable to		
Owners of the Company	<u>60,144</u>	<u>59,609</u>

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



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Note	30 June 2018 (unaudited) RMB'000	31 December 2017 (audited) RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	10(a)	57,987	59,194
Prepaid lease payments	11	15,736	15,917
Investment properties	10(b)	97,900	97,900
Non-pledged fixed bank deposits	14	—	141,000
Financial assets at fair value through profit or loss	13	140,965	—
		<u>312,588</u>	<u>314,011</u>
<b>Current assets</b>			
Prepaid lease payments	11	737	737
Inventories		129,373	125,112
Trade receivables	12	3,027	2,286
Financial assets at fair value through profit or loss	13	183,400	—
Available-for-sale financial assets	13	—	173,100
Other receivables, deposits and prepayments		37,845	11,845
Cash and bank balances	14	100,026	214,750
		<u>454,408</u>	<u>527,830</u>
<b>Current liabilities</b>			
Trade payables	15	5,223	4,975
Other payables and accruals		32,427	40,470
Income tax payable		24,753	28,226
		<u>(62,403)</u>	<u>(73,671)</u>
<b>Net current assets</b>		<u>392,005</u>	<u>454,159</u>
<b>Total assets less current liabilities</b>		<u>704,593</u>	<u>768,170</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities		35,316	31,297
Deferred income		704	704
		<u>(36,020)</u>	<u>(32,001)</u>
<b>NET ASSETS</b>		<u>668,573</u>	<u>736,169</u>
<b>Capital and reserves</b>			
Share capital	17	2,189	2,189
Reserves		666,384	733,980
<b>TOTAL EQUITY</b>		<u>668,573</u>	<u>736,169</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 2018 - UNAUDITED

Attributable to owners of the Company									
Note	Share capital	Share premium	Capital reserve	Statutory reserves	Other reserves	Property revaluation reserve	Currency translation reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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)
Total comprehensive income for the period	—	—	—	—	—	—	(1,765)	61,374	59,609
Dividends	16	—	—	—	—	—	—	(57,000)	(57,000)
Share repurchased and cancelled		(11)	(4,171)	—	4,182	—	—	—	—
Share repurchase		—	—	—	(905)	—	—	—	(905)
Transaction cost attributable to share repurchase		—	—	—	(5)	—	—	—	(5)
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>(17,301)</u>	<u>673,335</u>
At 1 January 2018 (audited)		<u>2,189</u>	<u>110,503</u>	<u>2,767</u>	<u>144,168</u>	<u>17,738</u>	<u>12,245</u>	<u>(13,630)</u>	<u>736,169</u>
Profit for the period		—	—	—	—	—	—	64,481	64,481
Exchange differences arising on translation of functional currency to presentation currency		—	—	—	—	—	(4,337)	—	(4,337)
Total comprehensive income for the period		—	—	—	—	—	(4,337)	64,481	60,144
Dividends	16	—	—	—	—	—	—	(127,740)	(127,740)
At 30 June 2018 (unaudited)		<u>2,189</u>	<u>110,503</u>	<u>2,767</u>	<u>144,168</u>	<u>17,738</u>	<u>12,245</u>	<u>(17,967)</u>	<u>668,573</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 2018 - UNAUDITED

	Six months ended 30 June	
	2018 (unaudited) RMB'000	2017 (unaudited) RMB'000
<b>Operating activities</b>		
Cash generated from operations	39,279	69,839
Interest received	6,982	583
Income tax paid, net	(13,726)	(14,367)
Withholding tax paid	(3,429)	—
<b>Net cash generated from operating activities</b>	<b>29,106</b>	<b>56,055</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(841)	(1,086)
Purchase of available-for-sale financial assets	—	(34,000)
Proceeds from disposal of property, plant and equipment	151	7
Purchase of construction in progress	(798)	—
Payment for purchase of financial assets at fair value through profit or loss	(477,565)	—
Proceeds from matured financial assets at fair value through profit or loss	326,300	—
Prepayment of acquisition of properties	—	(256)
<b>Net cash used in investing activities</b>	<b>(152,753)</b>	<b>(35,335)</b>
<b>Financing activities</b>		
Payment for repurchase of shares	—	(910)
Dividend paid	(127,740)	(38,686)
Increase in non-pledged bank deposits with original maturity over three months	—	(316,000)
Decrease in non-pledged bank deposits with original maturity over one year	141,000	—
<b>Net cash generated from/(used in) financing activities</b>	<b>13,260</b>	<b>(355,596)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(110,387)</b>	<b>(334,876)</b>
<b>Cash and cash equivalents at 1 January</b>	<b>214,750</b>	<b>423,222</b>
<b>Effect of foreign exchange rate changes, net</b>	<b>(4,337)</b>	<b>1,803</b>
<b>Cash and cash equivalents at 30 June</b>	<b>100,026</b>	<b>90,149</b>

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 2018

### 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 2017 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.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

### 3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and financial assets at fair value through profit or loss.

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 2017, except as described below.

#### New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period. Of these, the following are relevant to the Group's interim condensed consolidated financial information.

- HKFRS 9 Financial Instruments, and
- HKFRS 15 Revenue from Contracts with Customers

The impact of the adoption of these standards and the new accounting policy are disclosed below. The other standards did not have material impact on the Group's accounting policies and did not require any adjustments.

The below explains the impact of adoption of HKFRS 9 Financial Instruments ("HKFRS 9") and HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") on the Group's interim condensed consolidated financial information and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to these applied in prior period.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

#### New and amended standards adopted by the Group *(Continued)*

##### *(i) Accounting policies applied from 1 January 2018*

###### *(i) HKFRS 9, Financial Instruments*

###### Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale ("AFS") financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;
- FVOCI - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or
- FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment including interest are recognised in profit or loss.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

#### New and amended standards adopted by the Group *(Continued)*

##### *(i) Accounting policies applied from 1 January 2018 (Continued)*

###### *(i) HKFRS 9, Financial Instruments (Continued)*

The principal guaranteed wealth management products of the Group with carrying amount of RMB 173,100,000 at 1 January 2018 were reclassified from AFS to financial assets at FVPL as it does not meet the HKFRS 9 criteria for classification as at amortised cost or at FVOCI.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The measurement categories for all financial liabilities remain the same, and the carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

###### *(ii) HKFRS 15, Revenue from Contracts with Customers*

HKFRS 15 supersedes HKAS 11 “Construction Contracts”, HKAS 18 “Revenue” and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgement and take into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

#### New and amended standards adopted by the Group *(Continued)*

(i) *Accounting policies applied from 1 January 2018 (Continued)*

(ii) HKFRS 15, Revenue from Contracts with Customers *(Continued)*

The Group applied HKFRS 15 and adopted the modified retrospective method.

The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that revenue from sale of goods should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

(ii) *Impact of adoption*

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue arising from design, manufacture and distribution of small size wooden handicrafts and accessories.

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the interim condensed consolidated financial information as described below. In accordance with the transitional provisions in HKFRS 9, HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated condensed consolidated statement of financial position as at 31 December 2017, but are recognised in the opening balances on 1 January 2018.



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

#### New and amended standards adopted by the Group *(Continued)*

##### *(ii) Impact of adoption (Continued)*

#### Classification and measurement of financial instruments

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories.

	31 December 2017 as originally presented RMB'000	Unaudited Reclassify from available- for-sale to financial asset at fair value through profit or loss RMB'000	1 January 2018 as restated RMB'000
<b>Available-for-sale financial assets</b>			
– Principal Guaranteed Wealth Management Products	173,100	(173,100)	—
<b>Financial assets at fair value through profit or loss</b>			
– Principal Guaranteed Wealth Management Products	—	173,100	173,100

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

#### Impairment of financial assets

The Group has two types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- trade receivables
- other financial assets carried at amortised cost

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets.

While cash and cash equivalents and short-term bank deposits are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

#### New and amended standards adopted by the Group *(Continued)*

##### *(ii) Impact of adoption (Continued)*

##### Classification and measurement of financial instruments *(Continued)*

##### Impairment of financial assets *(Continued)*

##### *(a) Trade receivables*

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected losses for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. Future cash flows for each group receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions as well as forward looking information.

Management has closely monitored the credit qualities and the collectability of the trade receivables. Trade receivables in dispute are assessed individually for impairment allowance and determined whether specific provisions are required. The adoption of the simplified expected credit loss approach under HKFRS 9 has not resulted in any additional impairment loss for trade receivables as at 1 January 2018.

##### *(b) Other financial assets carried at amortised cost*

For other financial assets carried at amortised cost, including other financial assets at amortised cost in the interim condensed consolidated statement of financial position, the expected credit loss is based on the 12-month expected credit loss. It is the portion of lifetime expected credit loss that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss. Management has closely monitored the credit qualities and the collectability of the other financial assets at amortised cost and considers that the expected credit loss is immaterial.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

### 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 segment which is manufacture and sales of wooden handicrafts and accessories. No 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 2018

### 6. REVENUE AND OTHER 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 and other income for the period is as follows:

	Six months ended 30 June	
	2018 (unaudited) RMB'000	2017 (unaudited) RMB'000
<b>Revenue</b>		
Sales of goods	157,392	157,312
Franchise fee income	186	208
	<u>157,578</u>	<u>157,520</u>
<b>Other income</b>		
Government grants (note (i))	502	—
Government grants released from deferred income	—	172
Interest income from financial assets	10,028	3,820
PRC VAT concession refunds (note 8(i) and (vii))	8,370	1,890
Rental income from investment properties	3,901	3,302
Gain on sales of raw materials	7	—
Net foreign exchange gain	3	—
Reversal of write-down of inventories	105	250
Others	374	1,646
	<u>23,290</u>	<u>11,080</u>
	<u><u>180,868</u></u>	<u><u>168,600</u></u>

#### Note

- (i) Since 2016, the Group successfully applied for funding support from the International Marketing Developing Funds of Small- and-Medium-Sized Enterprises and Industrial Development Funds (the "Funds"), set up by Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China and Chongqing Provincial Human Resources and Social Security Department respectively. The purposes of the Funds are to encourage the involvement in overseas marketing by granting financial assistance to commercial entities who have involved in certain marketing activities outside the PRC; and to promote a stable employment environment and prevent unemployment risks by granting financial assistance to commercial entities whose structure, lay off rate, contributions to unemployment insurance meet certain criteria.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

### 7. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2018 (unaudited) RMB'000	2017 (unaudited) RMB'000
Amortisation of prepaid lease payments	181	368
Cost of inventories (note (i))	51,114	51,361
Write-down of inventories	7,121	160
Reversal of write-down of inventories (note (ii))	(105)	(250)
Depreciation	1,919	1,536
Impairment loss on trade and other receivables	—	184
Net loss on disposal of property, plant and equipment	30	116
Minimum lease payment in respect of land and buildings	2,163	2,571
Staff costs (including directors' emoluments)	32,887	26,167
Provision for sales returns	3,329	1,982
Gross rental income from investment properties	(3,901)	(3,302)
Less: Direct outgoings incurred for investment properties that generated rental income during the period	602	350
Net rental income	<u>(3,299)</u>	<u>(2,952)</u>

Notes:

- i) Cost of inventories includes approximately RMB18,169,000 (2017: RMB17,368,000) relating to staff costs and depreciation, 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 or slow-moving inventories that had been written down in previous years.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

### 8. INCOME TAX

	Six months ended 30 June	
	2018 (unaudited) RMB'000	2017 (unaudited) RMB'000
<b>Current tax</b>		
PRC Enterprise Income Tax (notes 8(i), (ii), (iii) and (vii))	10,025	10,123
Hong Kong profits tax (note 8(v))	—	—
Withholding tax on dividends (note 8(vi))	—	—
– Provision for the period	—	5,844
	<b>10,025</b>	<b>15,967</b>
<b>Under provision in prior years, net</b>		
PRC Enterprise Income Tax	228	38
<b>Deferred tax</b>		
Transfer to current tax upon distribution of dividends	—	(5,844)
Provision for the period (note 8(vi))	4,019	3,143
	<b>14,272</b>	<b>13,304</b>
<b>Total</b>	<b>14,272</b>	<b>13,304</b>

Notes:

- i) Chongqing Wanzhou District Zi Qiang Wood Works Co., Ltd (“Zi Qiang Wood Works”), a wholly-owned subsidiary of the Company, is a registered social welfare enterprise since 29 April 2004. Pursuant to the notice on preferential tax policies to social welfare enterprise issued by the State Administration of Taxation of the PRC (the “SAT”), Ministry of Finance of the PRC that, with effect from 1 October 2006, Zi Qiang Wood Works is entitled to income tax concessions on a double deduction of salaries paid to its employees with disabilities, and VAT refund which is equivalent to the number of employees with disabilities multiplied by a specified annual cap amount as determined by the SAT.

The Group recognised the VAT refund in the Group’s unaudited condensed consolidated statement of profit or loss on an accrual basis. The amounts of the VAT refunded to the Group during the period are detailed in note 6.

- ii) On 6 April 2012, the SAT issued notice No. 12 which specified that enterprises 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 Chongqing Carpenter Tan Handicrafts Co., Ltd (“Carpenter Tan”), wholly-owned subsidiaries, obtained the approval from Wanzhou Bureau of the State Administration of Taxation 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 profits of the Group’s subsidiaries incorporated in the PRC at a statutory income tax rate of 25% (2017: 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(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 2018 and 2017 as the subsidiaries did not have assessable profits subject to Hong Kong profits tax for these periods.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

### 8. INCOME TAX (Continued)

Notes: (Continued)

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

The Group enjoyed the reduced 5% tax rate prior to 31 December 2013. In 2014, the Group applied again for the reduced rate and was requested to meet certain additional review procedures that were not required in previous years.

As at the date of the condensed consolidated financial statements, the relevant formalities for the reduced tax rate have 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 previous years at 5%.

- vii) Carpenter Tan, a wholly-owned subsidiary of the Company, is a registered social welfare enterprise since 24 November 2016. Pursuant to the notice on preferential tax policies to social welfare enterprise issued by the SAT, Ministry of Finance of the PRC that, with effect from 1 October 2006, Carpenter Tan is entitled to income tax concessions on a double deduction of salaries paid to its employees with disabilities, and VAT refund which is equivalent to the number of employees with disabilities multiplied by a specified annual cap amount as determined by the SAT.

The Group recognised the VAT refund in the Group's consolidated statement of profit or loss on an accrual basis. The amounts of the VAT refunded to the Group during the period are detailed in note 6.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

### 9. BASIC AND DILUTED EARNINGS PER SHARE

#### a) Basic earnings per share

The calculation of basic earnings per share is based on the following profit attributable to owners of the Company and the weighted average number of ordinary shares outstanding:

##### i) Profit attributable to owners of the Company

	Six months ended 30 June	
	2018 (unaudited) RMB'000	2017 (unaudited) RMB'000
Earnings used in calculating basic and diluted earnings per share	<u>64,481</u>	<u>61,374</u>

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

	Number of shares Six months ended 30 June	
	2018 (unaudited) '000	2017 (unaudited) '000
Weighted average number of ordinary shares for the purposes of calculating basic and diluted earnings per share	<u>248,714</u>	<u>248,714</u>

#### b) Diluted earnings per share

There were no dilutive potential ordinary 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 2018 and 2017.



## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

### 10. FIXED ASSETS

#### a) Acquisitions and disposals

During the six months ended 30 June 2018, the Group acquired items of property, plant and equipment with a cost of RMB1,639,000 (31 December 2017: RMB3,352,000). Items of property, plant and equipment with a total carrying amount of RMB181,000 (31 December 2017: RMB251,000) were disposed of during the six months ended 30 June 2018.

#### b) Valuation

The Group's investment properties were not revalued as at 30 June 2018 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 2017 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 rights of a piece of land in Chongqing City Wanzhou District (the "Land") having a carrying amount of RMB6,404,000 as at 30 June 2018 (31 December 2017: RMB6,485,000). 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 the Group will be compensated through an exchange with another piece of land. On 24 August 2017, the government officially announced that the Company could start to use the land as industrial purpose. The management has started to plan for a production complex on the land since 1 September 2017. 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 on the Land, there is no material adverse effect on the business operation and financial position of the Group.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

### 12. TRADE RECEIVABLES

Ageing analysis of trade receivables (net of allowance for doubtful debts) based on invoice date, which approximates the respective revenue recognition date, as of the end of the reporting period as follows:

	At 30 June 2018 (unaudited) RMB'000	At 31 December 2017 (audited) RMB'000
0 to 30 days	2,869	2,224
31 to 60 days	24	7
61 to 90 days	12	5
91 to 180 days	15	7
181 to 365 days	93	35
Over 1 year	14	8
Trade receivables, net of allowance for doubtful debts	<u>3,027</u>	<u>2,286</u>

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

### 13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (“FVPL”) AND AVAILABLE-FOR-SALE FINANCIAL ASSETS (“AFS”)

	At 30 June 2018 (unaudited) RMB'000	At 31 December 2017 (audited) RMB'000
Principal Guaranteed Wealth Management Products, at fair value (Note)	<u>183,400</u>	<u>173,100</u>

Note: The amount represents investment in principal guaranteed wealth management products issued by licensed banks in the PRC with expected return ranging from 3.10% to 4.80% per annum (31 December 2017: 4.0% to 4.5% per annum). Financial assets of RMB183,400,000 (31 December 2017: RMB173,100,000) is with maturity of within one year. The amount of RMB140,965,000 (31 December 2017: RMB Nil) is with maturity of more than one year.

The financial assets were re-classified from AFS to FVPL following the adoption of HKFRS 9 on 1 January 2018. Please refer to Note 3(a) (iii) for the impact of adoption.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

### 14. CASH AND BANK BALANCES

	At 30 June 2018 (unaudited) RMB'000	At 31 December 2017 (audited) RMB'000
Cash and bank balances in the consolidated statement of financial position and consolidated statement of cash flows	100,026	214,750
Non-pledged fixed bank deposits with original maturity over one year	—	141,000

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

As at 30 June 2018, the balances that were placed with banks in the PRC including non-pledged fixed bank deposit amounted to approximately RMB90,243,000 (31 December 2017: RMB345,250,000). 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 presented based on invoice date as of the end of the reporting period as follows:

	At 30 June 2018 (unaudited) RMB'000	At 31 December 2017 (audited) RMB'000
0 to 30 days	3,144	3,688
31 to 60 days	863	456
61 to 90 days	197	313
91 to 180 days	736	225
181 to 365 days	24	18
Over 1 year	259	275
	5,223	4,975

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

### 16. DIVIDENDS

- i) The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB nil).
- ii) Dividends payable to owners of the Company attributable to the previous financial year, approved and paid during the interim period:

	Six months ended 30 June	
	2018 (unaudited) RMB'000	2017 (unaudited) RMB'000
Final dividend in respect of the financial year ended 31 December 2017, approved and paid during the current interim period, of HK30.72 cents, equivalent to RMB25.68 cents per ordinary share (2017: in respect of the financial year ended 31 December 2016, approved and paid during the period ended 30 June 2017, of RMB22.80 cents per ordinary share)	<u>63,870</u>	<u>57,000</u>
Special dividend of HK30.72 cents, equivalent to RMB25.68 cents per ordinary share (2017: nil), approved and paid during the current interim period	<u>63,870</u>	<u>—</u>

### 17. SHARE CAPITAL

	Number of shares	Amount HK\$	Amount equivalent to RMB
Ordinary shares of HK\$0.01			
Authorised:			
At 1 January 2017, 31 December 2017, 1 January 2018 and 30 June 2018	<u>10,000,000,000</u>	<u>100,000,000</u>	<u>87,926,000</u>
Issued and fully paid:			
At 1 January 2017	250,000,000	2,500,000	2,200,000
Share repurchased and cancelled	<u>(1,286,000)</u>	<u>(12,860)</u>	<u>(10,840)</u>
At 30 June 2017, 31 December 2017, 1 January 2018 and 30 June 2018	<u>248,714,000</u>	<u>2,487,140</u>	<u>2,189,160</u>

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

### 18. FINANCIAL INSTRUMENTS

#### Fair value

##### *Fair value hierarchy*

The directors 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.

	Fair value measurements as at 30 June 2018 categorised into			
	Fair value at 30 June 2018 (unaudited) RMB'000	Level 1 (unaudited) RMB'000	Level 2 (unaudited) RMB'000	Level 3 (unaudited) RMB'000
<b>Recurring fair value measurement</b>				
<b>Assets</b>				
Financial assets at fair value through profit or loss	324,365	—	—	324,365

	Fair value measurements as at 31 December 2017 categorised into			
	Fair value at 31 December 2017 (audited) RMB'000	Level 1 (audited) RMB'000	Level 2 (audited) RMB'000	Level 3 (audited) RMB'000
<b>Recurring fair value measurement</b>				
<b>Assets</b>				
Available-for-sale investments	173,100	—	—	173,100

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2018

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

*Fair value (Continued)*

*Fair value hierarchy (Continued)*

During the period ended 30 June 2018 and 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.

#### Information about Level 3 fair value measurements

The fair value of the Group's financial assets in Level 3 is determined by discounting the contractual price of financial assets. The discount rate used is derived from the expected return.

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

	Six months ended 30 June 2018 (unaudited) RMB'000	Year ended 31 December 2017 (audited) RMB'000
At the beginning of the period/year	173,100	—
Additions	477,565	231,100
Maturity	(326,300)	(58,000)
At the end of the period/year	<u>324,365</u>	<u>173,100</u>

### 19. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 June 2018 and 31 December 2017.