譚木匠控股有限公司*
CARPENTER TAN HOLDINGS LIMITED

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

譚木匠

2019 Interim Report

*For identification purpose only


醇木匠

Contents

CORPORATE INFORMATION

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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
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COMPANY SECRETARY

Mr. Chan Hon Wan *CA*

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STOCK CODE

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FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2019 RMB'000	2018 RMB'000	% Change Increase/ (Decrease)
Financial Highlights			
Revenue	**170,355**	157,578	8.1%
Cost of sales	**(63,923)**	(51,114)	25.1%
Gross profit	**106,432**	106,464	(0.0)%
Gross profit margin	**62.5%**	67.6%	(5.1)% point
Profit before taxation	**87,392**	78,753	11.0%
Profit attributable to owners of the Company	**73,046**	64,481	13.3%
Basic earnings per share (RMB cents)	**29.4**	25.9	13.5%
	At 30 June 2019	At 31 December 2018	
Liquidity and Gearing			
Current ratio[1]	**7.84**	7.96	(1.5)%
Quick ratio[2]	**5.56**	5.97	(6.9)%
Gearing ratio[3]	**N/A[4]**	N/A[4]	N/A[4]

Notes:

(1) Current ratio is calculated as current assets divided by current liabilities.

(2) Quick ratio is calculated as current assets less inventories divided by current liabilities.

(3) Gearing ratio is calculated as total bank borrowings divided by total assets and multiplied by 100%.

(4) As at 30 June 2019 and 31 December 2018, the Group did not have any interest-bearing bank borrowings. The calculation of gearing ratio is not meaningful.


我善治木

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 2019 (the "Reporting Period") to the shareholders.

Thank you for your interest in the Group. We developed steadily with all the businesses carried out in order. In general, the Group is in a steady development phase. During the Reporting Period, the Group held the "Comb Garden" brand promotion activities successively in the core commercial districts of Shanghai, Hefei, Shenzhen, etc. By delivering interactive brand engagement activities catered for younger customers, we provided an immersive experience with our brand where the customers could make a comb themselves, thus bringing them closer to the brand. The activities were well received, which convinced us that targeting younger customers is the right development strategy for us. Carpenter Tan will continue to attract young consumers through more and better brand promotion interactions.

In the second half of 2019, the Group will strive to seek breakthroughs and innovations amidst steady development, enabling the Carpenter Tan brand to prosper in the forthcoming future.

Mr. Tan Chuan Hua
Chairman of the Board

Hong Kong, 29 August 2019

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT REVIEW

The overall operation during the Reporting Period was in line with our expectations. I wish to thank all the craftsmen of Carpenter Tan for their efforts and each department of the Company for working together over the past half year. After the personnel changes in the first half of this year, Carpenter Tan has continued to make steady strides and maintained spirit and courage in the face of difficulties and challenges.

Year 2019 is the year of exploration of new core values for the Carpenter Tan brand. Since March, Carpenter Tan has carried out "Comb Garden" itinerant exhibitions in multiple cities to coincide with various festivals and emotional themes. With combs as a medium, we struck a chord with consumers through live experiences and emotional exchanges, facilitating users' interaction with the brand. This year, Carpenter Tan continues to work hard in strengthening its brand concept. The membership system was successfully launched, the new official website was put into use, and the sales application also entered the testing stage. The brand's focus has changed from idea development to practical implementation. Research and development of products has improved. Online and offline marketing continued to innovate on the basis of a solid foundation. Significant progress has been made in overseas expansion. The image and packaging of stores continues to be enhanced. While delivering on an emotional connection, we are proactively looking for new publicity channels and methods to edge into the young consumers and strengthen brand recognition.

The craftsmen at Carpenter Tan have never been arrogant or discouraged despite external ups and downs. We have maintained the ethos of "Honesty, Work, Happiness" in the face of market and economic changes, taking the Company steadily towards sound and sustainable development. Carpenter Tan continues to move ahead with "a little happiness" in 2019.

BUSINESS REVIEW

I. Offline Business

(I) Domestic Business

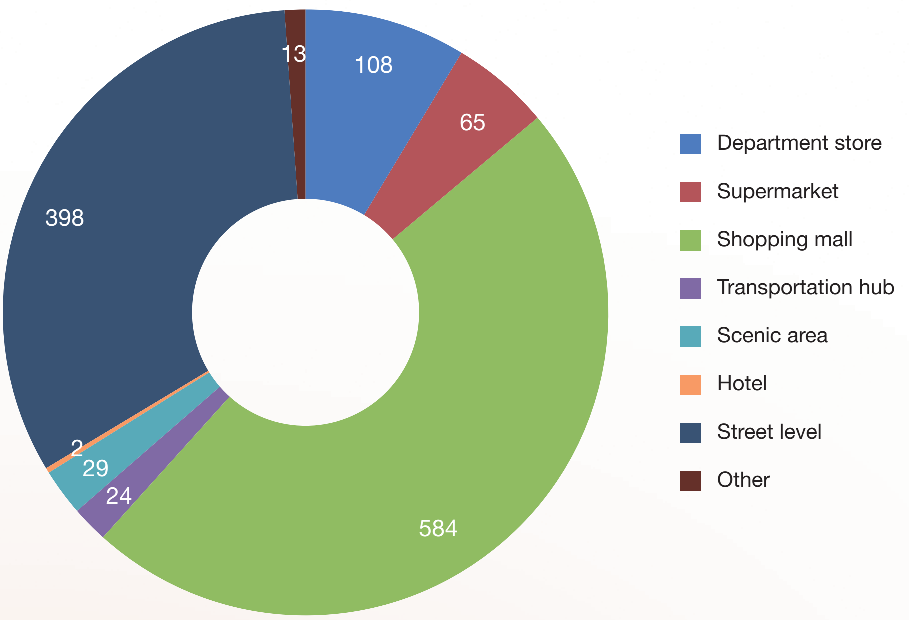
In the first half of 2019, the marketing department experienced personnel changes and restructuring. The former online marketing director Liu Kejia was promoted as vice president who is now responsible for the online and offline marketing departments. Employees left and joined the offline marketing department in the first half of the year. Nevertheless, the offline marketing department continued to present stable performance after experiencing personnel changes and restructuring. As at 30 June 2019, Carpenter Tan had 1,223 franchised stores in China, 3 franchised stores in other countries and regions (counters), 3 directly self-operated stores in Hong Kong and 1 franchised store in Taiwan (counter).

Franchised stores and overseas stores (counters):

	The number of stores as at 30 June			
	2019		2018	
Regions	**Franchised stores (unaudited) RMB'000**	**Directly self-operated stores (unaudited) RMB'000**	Franchised stores (unaudited) RMB'000	Directly self-operated stores (unaudited) RMB'000
Mainland China	**1,223**	**0**	1,223	0
Hong Kong	**0**	**3**	0	3
Other countries and regions (counter)	**4**	**0**	6	0
Total	**1,227**	**3**	1,229	3

The chart below shows the number of franchised stores distribution in China as at 30 June 2019.

Number of franchised stores distribution in China



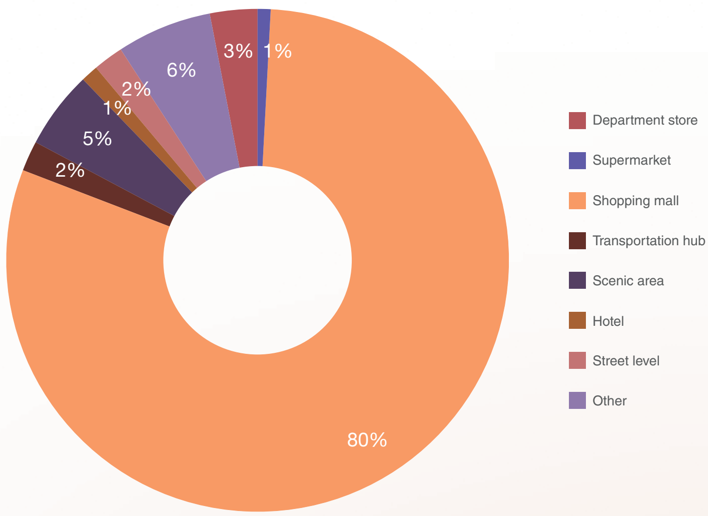
During the Reporting Period, the main tasks of the marketing departments include:

Focusing on the targets for expansion

The targets for expansion are clear. High-quality shopping malls and transportation hubs remain the main targets for expansion in this year. For the six months ended 30 June 2019, shopping mall stores accounted for 80% of new stores, and the ratio of the image stores of the third generation reached 75%. However, compared with channels expansion, operational performance of the stores still has much room to improve. The improvement of the opening and day-to-day management of stores will be the focus in the second half of 2019.

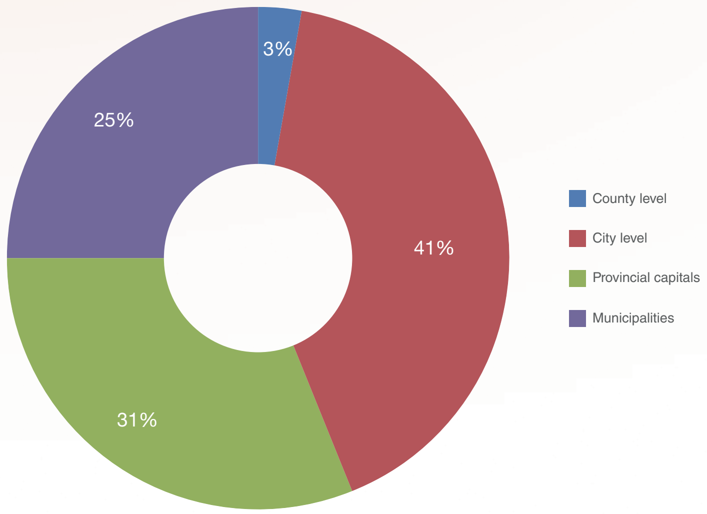
The chart below shows the new store expansion channels for the six months ended 30 June 2019.

Expansion channels of new stores in China market (ratio)



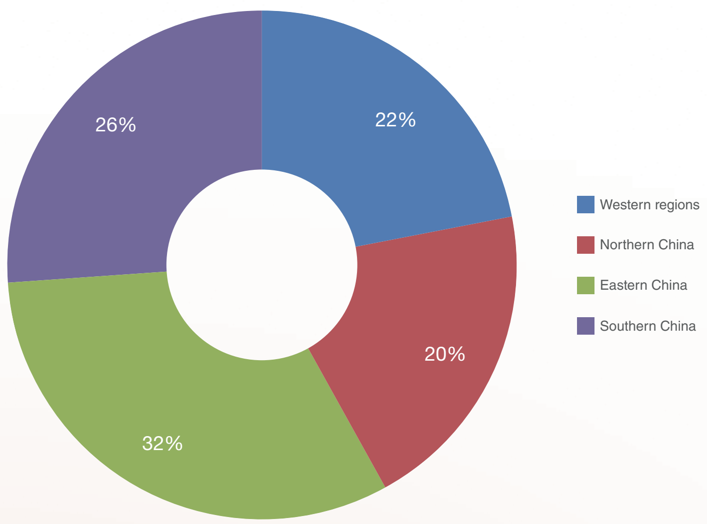
The chart below shows the administrative regions distribution of new stores for the six months ended 30 June 2019.

Administrative regions distribution of new stores



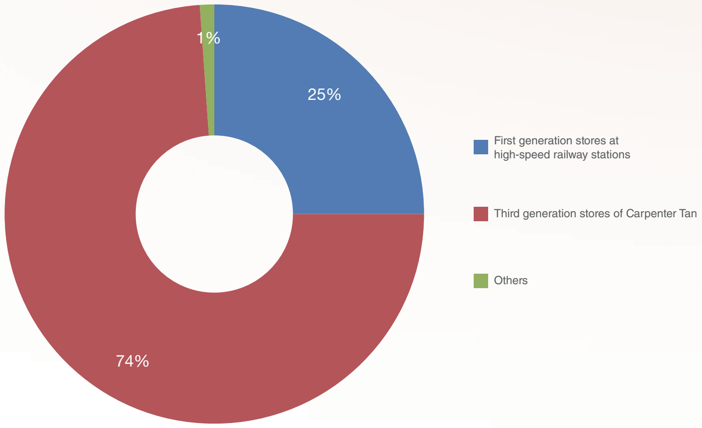
The chart below shows the regions distribution of new stores for the six months ended 30 June 2019.

Regions distribution of new stores



The chart below shows the ratio of the image stores of second generation and third generation as at 30 June 2019.

Ratio of the image stores



Raising awareness of brand image enhancement

In 2019, we launched the Carpenter Tan membership system with an aim to strengthen interaction between the Company and our members, to look after our customers and increase their loyalty. On top of enhancing our brand concept, we continued to enrich and promote our store image. In the first half of 2019, our first Maranda elegant image store commenced business at Wuhan's Horizon North Pavilion. Furthermore, during the second half of 2019, we will perfect our customer service system and enhance our employees' professional knowledge and quality, to provide more thoughtful and superior service to our customers.

Advancing experience-based marketing

We see that our experiential activities were often the focus of the area, whether at a mall or an exhibition. The wooden comb painting activity has been attracting fans since its launch in 2016. It became highly popular and increases consumer loyalty to the brand, but also takes the brand and its products to new customers.

Diversified training

Various training models took place in the first half of 2019 in the forms of regional routine training, the tailor-made courses for large store managers, storekeeper training camps and multi-level training for store assistants, store managers and storekeepers, with store attendance rate reaching 100%. To ensure that all the franchised stores nationwide promote the brand image at the same time as the Company, the improvement and transformation of training content will be one of the priority in the second half of 2019.

Emphasis on festival marketing

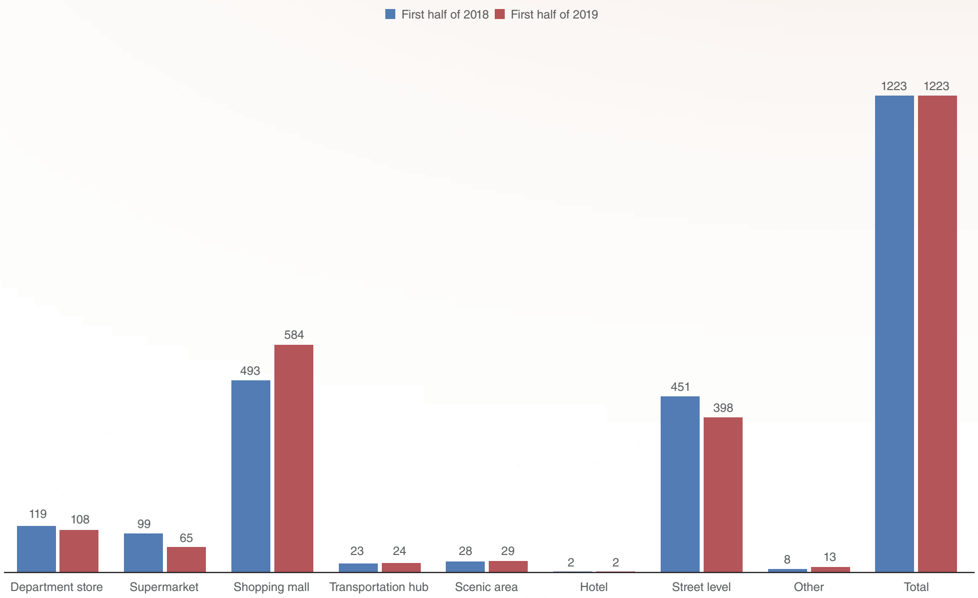
Carpenter Tan attaches great emphasis on "companionship" and spreading "good feelings". We plan our publicity and products to fit closely with the emotional element of festivals to offer personalized and value-added support services at specific festival times. We also formulated a stock replenishment process for the presale of new products at franchised stores, forecasting on customer needs and meeting market demand in advance.

Directly-operated outlets and group purchase business

In the first half of 2019, the Group continued to explore, clarify and summarize the most suitable operating model and methods for Carpenter Tan through managing the three directly-operated outlets in Jurong, Suzhou and Changzhou, providing guidance to franchised stores on standardized operation and management. Carpenter Tan has continued to spend increasing efforts on its group purchase business during the Reporting Period. The Company reached agreements on group purchases with Dr Plant and CNPC in the first half of the year, giving us the confidence to believe that the group purchase business will be a new growth driver of the Company.

The chart below shows the sales channels as at 30 June 2019 as compared with the corresponding period of last year.

Comparison of sales channels with the corresponding period of last year



The sales in the first half of 2019 was up 1.8% from a year ago, delivering a slight increase in average same-store sales results. There is still a lot to be done for brand building. We need to go the extra mile to improve the quality of the stores, continue to promote the brand awareness, reinforce the terminal services for the market, and implement the penetration of brand culture. Looking ahead, we will still put the interests of the franchisees in the first place, make bold innovations and go out of our way, allow the continual operation of profitable stores with old images, and help the franchisees enhance internal images and brand awareness. In the mean time, we will open new image stores, regional popular stores and high-quality stores. We aim to make every comb with diligent efforts together with the franchisees and store assistants across China as well as all the craftsmen of Carpenter Tan.

(II) *Overseas Business*

We have been trying hard on overseas market expansion. After several years of exploration and experience accumulation, we have made certain progress in 2019 despite the difficulties. Currently, Carpenter Tan has 4 franchised stores in other countries and regions; and 3 directly self-operated stores in Hong Kong. In the past, we opened directly self-operated stores mostly inside the metro station or on the upper floor of a shopping mall in Hong Kong, which was thus not beneficial to the exposure of Carpenter Tan's brand. While in January 2019, we opened Hong Kong Store 76 at Telford Plaza. It is a store of Carpenter Tan at a mall in Hong Kong in a real sense, assuring us that we can achieve our ambition to expand the Hong Kong market. During the Reporting Period, the performance of our self-operated stores in Hong Kong was flat as compared to that of last year, indicating a long journey ahead. In the second half of 2019, we will take the chance to raise the passion for sales and strive for a better performance.

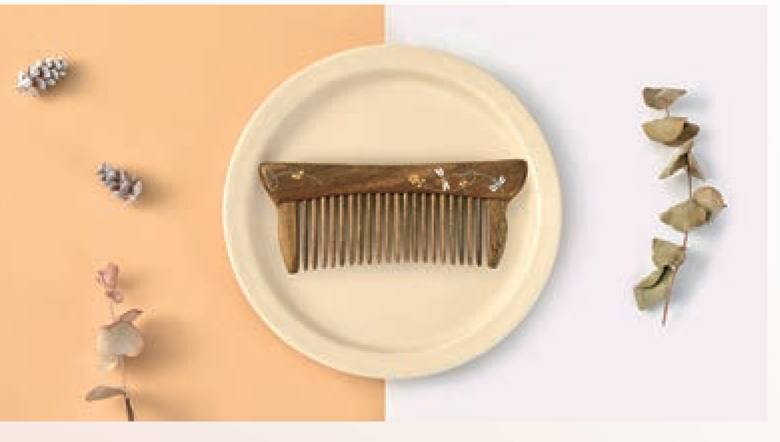
Through investigation into and expansion of the target markets, we have inked agreements for the overseas stores in Canada, Malaysia, Singapore, Taichung and Germany, of which those in Canada, Malaysia, Singapore and Taichung were officially open for business. Their performance is growing steadily and believed will be better. In the first half of 2019, we attended the international franchise & entrepreneurship exhibition in Taipei for the second time, having drawn great attention and collected effective information about more potential franchisees.

For the time being, we have insufficient overseas awareness, our franchisees are short of thorough knowledge of the brand, and we lack an independent planning system for overseas publicity materials. Consequently, we will continue to prepare for the opening and improve the operation and management of the overseas stores in the second half of 2019, affording more desirable ancillary and supporting brand culture, products and services for the overseas markets. Meanwhile, we will carry on boosting publicity through exhibitions and promotion platforms, proactively attending overseas high-quality model exhibitions of the industry with a good brand image and excellent experience to get greater brand exposure and have more friends at home and abroad know this small wooden comb from China.

II. Online Business

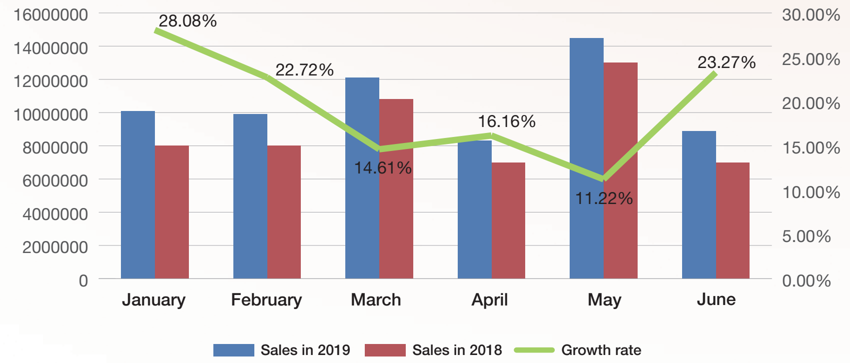
(I) Domestic Business

Carpenter Tan e-commerce has gathered a certain number of VIP customers since it entered the online platforms in 2012 under the principle of continuous online and offline same price policy. Colleagues in the e-commerce team have always been energetic. They worked in the most enthusiastic way despite the high-pressure working environment of online platforms. This is the work style of the craftsmen at Carpenter Tan. In the first half of 2019, our e-commerce team successfully completed the sales target with a sales increase of 18.3% over the same period of last year. Our sales were mainly derived from T Mall and Jingdong platforms. During the Reporting Period, total sales from T Mall was approximately RMB47.5 million, up 16.1% from the same period of last year. Total sales from Jingdong was RMB19.5 million, representing an increase of 18.9% over the same period of last year.

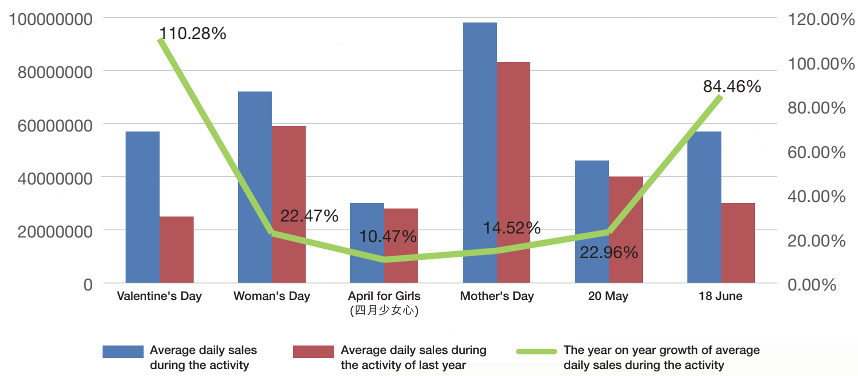


The chart below shows the monthly online sales for the six months ended 30 June 2019 as compared with the corresponding period of last year.

Monthly online sales for the first half of 2019 as compared with the corresponding period of last year



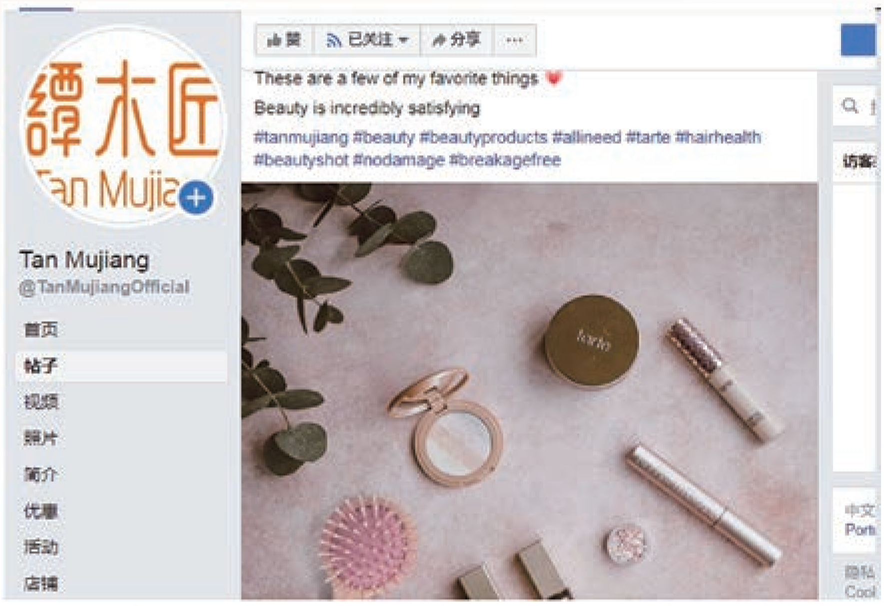
Performance on specific days for the first half of 2019



There are many creative ways to hold online activities. The marketing models are updated and iterated. The e-commerce team also vigorously caters to the market, constantly learning, exploring and innovating new creative ideas. This is also conducive for the brand to constantly promote the old and bring forth the new in marketing. During the Reporting Period, we planned the corresponding promotions inside and outside the online platforms fitting closely with the emotional element of festivals, formed a set of marketing programs matching the activity programs, and took them to our customers in a multi-dimensional manner. Throughout the first half of 2019, the sales growth during each event was visible. As the Valentine's Day in last year was near the Spring Festival, the sales declined sharply, and that was why the sales on the Valentine's Day in 2019 was up 110% from that in 2018, while the sales on the Valentine's Day in 2019 was up 9.7% from that in 2017. During the 18 June campaign, our promotion was made through multiple channels, including the internal website and external platforms. We made the topic of "Making a Comb by Yourself", which improved the interaction of consumers, increased the flow and conversion rate, with a sales growth of 84.0%. Since March, we have launched live broadcasting in line with promotion of the activities every month, demonstrating and introducing our products for customers, driving public traffic and increasing fans loyalty.

(II) Overseas Business

Through increasing expansion experience, Carpenter Tan's products have been launched on U.S. Amazon, Australia Ebay, UK Ebay, U.S. Shopify, U.S. Yamibuy, Japan Amazon, Korea NAVER, Singapore LAZADA and Malaysia Shopee platforms. We have also established cooperation with cross-border e-commerce companies in North America and promotion teams in the U.S. to regularly launch our products and promote our brand on Facebook and Instagram.



Compared with last year, this year's overseas online expansion performance is more courageous and stable. We frequently launched offline activities consistent with the tone of the brand, expanding the brand's local presence and gathering popularity. Our "Combing Hair for Mom" activity went overseas for the first time, through which we passed on the Chinese filial piety and family culture in Philadelphia, the United States. We took the wooden comb painting DIY activity to the University of Suwon, giving Korean college students the chance to experience the fun of comb painting. We also entered the international fashion circle and attended the Met Gala with Gemma Chan, a Hollywood actress. We also participated in the Cosmoprof North America at the end of July to enlarge the influence of Carpenter Tan brand.

In terms of channel promotion and traffic driving, the team's mindset is not open enough to possibility and the members lack of self-confidence. The current popular online media and KOL cooperation have not been well utilized. In the second half of 2019, we will enhance innovation awareness with the aid of overseas online media, increase the investment in promotion through online media, and proactively publish supporting content despite of the "language barriers".

III. Innovative Research and Development

As the most innovative team of Carpenter Tan, the innovative design center has grown for the past five years, and thus its staffing is basically in place with enhanced solidarity of members. In the first half of 2019, the innovative design center mainly explored the traditional culture, youth and innovation and functional categories for product design and development, focused on delivering a sense of product series, tried to develop popular products by virtue of IP, and completed the new structure design on the basis of embedded packaging.

During the Reporting Period, the Group's innovative design center completed the design and development for 12 products, submitted 65 design proposals, and made 59 samples, of which 58 samples were submitted for review, 38 samples launched in the market, 6 samples included in products for regular sales (except IP products), 1 sample failed in development and 1 sample carried forward from last year.

During the six months ended 30 June 2019, the Group continued to develop Mickey family series and Princess series under the IP product category of Disney. Among them, hot products in combination of Mulan and Chinese traditional crafts were researched and developed for the first time. It is expected that there is great potential for them to be the best sellers. In addition, we focused on functional research and development, upgraded and redefined bristle brush products, innovated and optimized the design for haircare combs with multi-material card wires. The 5,000 pieces of Jade Rabbit Scraping Plate in the first batch were sold out immediately after being launched. Four new patents were applied for in the first half of 2019, including three for utility model and one for invention.

In the Reporting Period, we still had many shortcomings, and thus we still need to balance design and production, enhance the communication between design, research and development; and other departments of the Company, and add product categories. In the second half of 2019, the innovative design center is expected to have more research and development ideas, not limited by the existing product styles and structures, and also expected to dare to make innovation and breakthroughs. We will consider deliver diversified, personalized and quality products. While reducing product styles and increasing the quantity, we will continue to improve the product system by adding new product categories and upgrading new techniques. Diversification and enrichment of product categories are a necessity for Carpenter Tan brand to be more competitive and the Company to open larger and better stores.

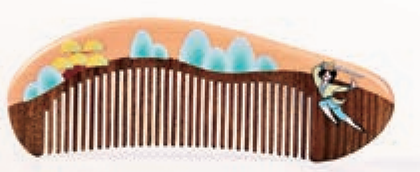
IV. Production Technology

The production technology has always been what the craftsmen at Carpenter Tan are proud of. We own an excellent and happy production team in our factory with an elegant environment in Wanzhou, Chongqing. Among the 731 employees of Carpenter Tan, nearly half of them are disabled of varying degrees. At Carpenter Tan, they meet each other, get acquainted and become bosom friends with each other; they find jobs, develop skills and build families. They make the most elaborated combs around the world with their own hands and have demonstrated their own value to the society, which is also what makes us feel proud of.

Production for the six months ended 30 June

	2019 Units	2018 Units
Comb category	**1,986,888**	1,858,675
Mirrors and accessories	**374,856**	383,067
Total	**2,361,744**	2,241,742

As a pioneer in the wooden comb industry, Carpenter Tan often advocates innovation and optimisation. We have carried out research and tackled challenges in innovation of equipment and processing methods all the year round. Through process enhancement, technical improvement and operation method optimisation, we promoted the timely and effective use of raw materials, achieved efficient operation, and made more breakthroughs in the processing technology. We pursued lean production to increase the utilization ratio of recovered materials, and also effectively controlled the cost to boost production. With respect to our factory, we proposed 23 short, medium and long-term technical development and innovation projects during the Reporting Period, including 10 short-term technical innovation projects, 9 of which have been started and mainly focused on new painting art, coloured painting and equipment improvement and replacement.



Safe production underpins the factory. In the first half of 2019, an integrated oil and smoke extraction system was established for the material processing room of the factory, and the rectification of ground cables and gas signs were put in place where "visual" inspections were allowed. At Carpenter Tan, safe production is not a slogan, but lies in habit and practice. We have made standardised management systems, regular sampling inspections and re-inspections, regular drills and safety knowledge popularization, to jointly build a safe and orderly production environment.

In Carpenter Tan's factory, we implement strict and sound rules and regulations, share warmth like a family, and adhere to the 6S management model to create a clean, neat and beautiful environment for the employees. In daily life, we care much for the employees with disabilities, and insist on setting the skills improvement objectives and implementing the one-on-one assistance plans to truly enhance the working and living skills of the disabled employees.

V. Logistics and Distribution

Offering strong backing for the marketing departments, the logistic centre has always upheld the working philosophy of "Being a good service provider behind the scenes". In the first half of 2019, the logistic centre rationally organized production and fast delivery to meet the marketing demand, strictly put in action the warehouse management in accordance with the "Plan Management Measures", and steadily pushed forward all the works. As a result, the customer order full fill rate reached 99.8%. In addition to the daily work, the colleagues of the logistic centre need to reply to all kinds of questions and handle problems raised by BBS forum and franchised stores in the WeChat group for annual meeting, send the information on the delivery status of the previous day to the WeChat group on a daily basis. The large quantity backordered on weekends and holidays led to polarization in working status in the logistic centre. In response to this working environment, the logistic centre adopted the approach of "one person in a position developing various capabilities" and got the entire personnel involved to complete the order processing. The Company attaches importance to the building of brand culture. Despite such heavy workload, employees of the logistics centre seldom make complaints. Instead, they are united and make tireless efforts without attracting attention to interpret the corporate philosophy of "Honesty, Work, Happiness" by practical actions.

VI. Enterprise Culture

Comb Garden themed interactive exhibitions

Carpenter Tan's brand events during the Reporting Period started from an interactive exhibition with the theme of "Comb Garden", which was a large-scale brand promotion campaign launched jointly by the brand culture centre and the marketing departments. In the artistic event site built with wood materials, we set five sections, namely the "Warm Tree Hole", "Comb Forest", "Countless Hairlines", "Poetic Comb" and "Sales Space", during which we blended in the wooden comb making process.

As the main execution program to convey and shape Carpenter Tan's good feelings, the "Comb Garden" thematic exhibition matched with the time of every important festival running throughout the year, and focused on the main groups of different festivals for brand promotion. The combination of exhibition site experience with online feelings sharing contributed to the content of users and UGC, which represented as our brand's unique IP content.

The customers entering the event sites were in close contact with our brand in an immersive experience. Moreover, in the wooden comb making process, they were able to realise that a wooden comb does not come easily, and had the opportunity to experience the joy of carpenter's work, understand the beauty of Carpenter Tan's wooden combs integrating fashion and tradition, the exquisite craftsmanship, the stories of our brand culture and the corporate philosophy of "Honesty, Work, Happiness" of Carpenter Tan's employees, as well as to feel the beautiful sentiments delivered through a small wooden comb.

Between 22 March and 14 April, the first Comb Garden campaign of Carpenter Tan was launched at Wanda Plaza in Wujiaochang, Shanghai. With the slogan of "Coming to Comb Garden and Experiencing Beauty Together" and starting from the perspective of "Bosom Friends" and "Friendship", we selected the surrounding university campuses as the main targets for event promotion. From 1 May to 12 May, with the theme of "Coming to Comb Garden and Combing Mom's Hair", the Comb Garden entered the Cosmo City in Hefei and became a big hit in the mall.

For the propagation of the Comb Garden campaign, aside from the active promotion on our brand's official Weibo and WeChat and Douyin, we invited the local media, many active users of Weibo and Xiaohongshu and university campus groups to experience and interact at the event sites and share their feelings after experience. The two activities held in Shanghai and Hefei recorded a total of 71 million views, further expanding the influence of the event.

During the Qixi Festival, the Comb Garden will arrive at WongTee Plaza of CBD centre of Futian, Shenzhen to call on everyone to "Come to Comb Garden and Experience Love and Beauty of Carpenter Tan". During the National Day when the 70th anniversary of China will be celebrated, the Comb Garden will reach the mountain city Chongqing to trace the source of the Carpenter Tan brand. It is expected that both events will get a good response.

Official website revision

In March 2019, the official website of Carpenter Tan was revamped, through which the webpage became more attractive and more importantly, the sales function was added, which means Carpenter Tan has initially established its own online sales platform. On this basis, Carpenter Tan's official mall applet, developed under the leadership of Brand Culture Center, was officially launched in early August. The applet will be integrated with offline marketing network as an important tool for Carpenter Tan in its trial of new retail sales.

Membership system

In March 2019, Carpenter Tan's membership system was officially launched. We believe that the membership system is the link between the brand and its members, but not as a marketing tool. Therefore, we will give priority to establishing sound interaction with our members through the membership system.

Upholding "Honesty, Work, Happiness"

In this fast-paced era, many people desire to make a big fortune in a fast way, but some remain committed to making domestic brands more professional and finer, working hard in the niche market, and upholding the craftsmanship spirit. This is especially true for Carpenter Tan team. In this unique team, nearly half of people are the disabled. These disabled employees have no advantages over ordinary people, but they are practicing the brand culture of "Honesty, Work, Happiness" to embody their value to the society. In the future, Carpenter Tan will continue to move forward and spread the spirit of "Honesty, Work and Happiness".

VII. Human Resources and Comprehensive Solution

Carpenter Tan's factory has 731 employees, 604 front-line employees and 363 disabled employees. Our disabled colleagues have made the most beautiful comb in the world with their own hands, which also manifests the value and pride of the disabled. In the factory, we provide "one-yuan staff meal", free vehicles for the disabled, stadiums for many diversified sports, and well-equipped new dormitories. Since last year, Wanzhou factory has set up special staff training classes to enable employees to learn more knowledge and to provide more development space for front-line employees. Compared with other companies that encourage wolf spirit, Carpenter Tan encourages colleagues to create an atmosphere of mutual learning and progress. Carpenter Tan requires employees to put goodness first and stick to their inner peace. At present, the whole company should put more efforts in innovation. The existing policies and systems of the Company are relatively in good position, but the institutionalized operation may also restrict the attempt to try and create new things, so it needs continuous innovation and breakthroughs. Looking ahead, we will establish or improve the evaluation and reward mechanism in favour of innovation, and enhance effectiveness and timeliness. Carpenter Tan enhances staff's work skills, and teaches them how to behave, how to work, and tap more value of them, making them more confident. In 2019, the Company added "always keeping employees' interests in mind" into the employee care policy. In the first half of 2019, the salary of ordinary factory employees and disabled employees was raised by RMB100 and RMB150, respectively, and 11 disabled colleagues were fitted with artificial limbs.

After more than 20 years of development, the legacy left to Carpenter Tan by time are experience, lessons and growth. We are steadfast in the brand without arrogance. We pay attention to performance, rather than care solely for profit. With our sincerity, we spare efforts to produce high-quality combs, focus on after-sales details, and maintain good relations with customers, thus making friends from all over the world with combs. Only in this way can we get the final recognition of consumers.

FINANCIAL REVIEW

1. Revenue

The Group recorded revenue of approximately RMB170,355,000 for the six months ended 30 June 2019, representing an increase of approximately RMB12,777,000 or 8.1% as compared to approximately RMB157,578,000 for the six months ended 30 June 2018. 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			
	2019		2018	
	(RMB'000)	**%**	(RMB'000)	%
Sales				
– Combs	**37,956**	**22.3**	36,672	23.3
– Mirrors	**309**	**0.2**	324	0.2
– Box sets	**129,958**	**76.2**	119,339	75.7
– Other accessories*	**1,811**	**1.1**	1,057	0.7
Franchise fee income	**321**	**0.2**	186	0.1
	170,355	**100.0**	157,578	100.0

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

2. Cost of Sales

The cost of sales of the Group was approximately RMB63,923,000 for the six months ended 30 June 2019, representing an increase of approximately RMB12,809,000 or 25.1% as compared to approximately RMB51,114,000 for the six months ended 30 June 2018, the increase in cost of sales is mainly due to the increase in revenue and decrease in gross profit margin for the Reporting Period.

3. Gross Profit and Gross Profit Margin

For the six months ended 30 June 2019, gross profit of the Group was approximately RMB106,432,000, representing a slight decrease of approximately RMB32,000 or 0.0% as compared to approximately RMB106,464,000 for the six months ended 30 June 2018. The gross profit margin decreased from approximately 67.6% in 2018 to 62.5% in 2019. The decrease in gross profit margin was mainly due to the change in sales mix which lead to the decrease in proportion of revenue for the products with higher profit margin for the Reporting Period.

4. **Other Income**

Other net income comprise of PRC VAT concession refunds, investment interest income, change in fair value of financial asset at fair value through profit or loss, exchange gain, bank interest income and rental income. Other income was approximately RMB29,147,000 for the six months ended 30 June 2019, representing an increase of approximately RMB5,857,000 or 25.1% as compared to approximately RMB23,290,000 for the six months ended 30 June 2018. The increase was mainly due to an increase in PRC VAT concession refunds of approximately RMB3,689,000 and the increase in change in fair value of financial asset at fair value through profit or loss of approximately RMB11,454,000.

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 RMB25,737,000 for the six month ended 30 June 2019, representing an increase of approximately RMB3,051,000 or 13.4% as compared to RMB22,686,000 for the six months ended 30 June 2018. This increase was mainly a result of the increase in salaries and commission expenses of approximately RMB2,079,000 for the Reporting Period.

6. **Administrative Expenses**

The administrative expenses of the Group was approximately RMB16,248,000 for the six months ended 30 June 2019, representing a decrease of approximately RMB2,978,000 or 15.5% as compared to approximately RMB19,226,000 for the six months ended 30 June 2018. The decrease was primarily due to the decrease in staff relocation subsidies and severance payment of approximately RMB2,735,000 for the Reporting Period.

7. **Profit from Operations**

For the six months ended 30 June 2019, profit from operations for the Group amounted to approximately RMB87,720,000, increased by approximately RMB8,967,000 or 11.4% when compared to approximately RMB78,753,000 for the six months ended 30 June 2018. Increase in profit from operations was mainly due to the increase in other income of approximately RMB5,857,000, decrease in administrative expenses of approximately RMB2,978,000 and decrease in other operating expenses of approximately RMB3,215,000 while partially off-set by the increase in selling and distribution expenses of approximately RMB3,051,000 for the six months ended 30 June 2019.

8. **Finance Expenses**

For the six months ended 30 June 2019 and 2018, there was no interest expenses, respectively as there was no bank borrowings during both periods. The finance expenses of approximately RMB 328,000 for the Reporting Period is related to finance expenses from the lease liabilities as the Group started to apply the new HKFRS 16 from 1 January 2019. The details are set out in note 3 to the unaudited interim financial report.

9. Profit Before Taxation

For the six months ended 30 June 2019, profit before taxation for the Group amounted to approximately RMB87,392,000, increased by approximately RMB8,639,000 or 11.0% when compared to approximately RMB78,753,000 for the six months ended 30 June 2018. Increase in profit before taxation was mainly due to the increase in profit from operation of approximately RMB8,967,000 for the Reporting Period.

10. Income Tax Expenses

For the six months ended 30 June 2019, income tax expenses for the Group amounted to approximately RMB14,346,000, increased by approximately RMB74,000 or 0.5% when compared to approximately RMB14,272,000 for the six months ended 30 June 2018. This increase was mainly due to the increase in profit before taxation.

The effective tax rate for the Reporting Period was 16.4% which was slightly lower than 18.1% for the six months ended 30 June 2018. Details of income tax expenses are set forth in note 8 to the unaudited interim financial report.

11. Profit for the Period

The profit for the six months ended 30 June 2019 was approximately RMB73,046,000, representing an increase of approximately RMB8,565,000 or 13.3% as compared to approximately RMB64,481,000 in the corresponding period of 2018.

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 2019, the Group had cash and bank balances of RMB39,459,000 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 RMB39,745,000 representing an increase of net cash generated from operating activities of approximately RMB10,639,000 from approximately RMB29,106,000 for the six months ended 30 June 2018. The increase was primarily due to the increase in cash generated from operations of approximately RMB20,092,000 during the Reporting Period.

Net cash generated from/(used in) investing activities

The Group's net cash generated from investing activities amounted to approximately RMB65,268,000 during the Reporting Period, representing an increase of approximately RMB218,021,000 as compared with the net cash used in investing activities of approximately RMB152,753,000 for the six months ended 30 June 2018. The increase is mainly due to the increase in proceeds from matured financial assets at fair value through profit or loss of approximately RMB93,704,000 and the decrease in payment for purchase of financial assets at fair value through profit or loss of approximately RMB125,425,000 during the Reporting Period.

Net cash (used in)/ generated from financing activities

The Group's net cash used in financing activities amounted to approximately RMB116,412,000 during the Reporting Period, representing a decrease of approximately RMB129,672,000 as compared with the net cash generated from financing activities of approximately RMB13,260,000 for the six months ended 30 June 2018. The decrease was primarily due to the decrease in non-pledged bank deposits of approximately RMB141,000,000 during the Reporting Period.

14. Capital Structure

Indebtedness

As at 30 June 2019 and during the Reporting Period, the Group did not have any bank loan.

Gearing ratio

As at 30 June 2019 and 31 December 2018, the Group did not have any bank loan. The calculation of gearing ratio was not meaningful.

Pledge of assets

As at 30 June 2019, the Group did not have any assets pledged to the banks (as at 31 December 2018: 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 RMB1,869,000 and RMB1,639,000 for the Reporting Period and the six months ended 30 June 2018 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 2019, 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 2019, the Group has not made any significant acquisition and disposal.

17. Going Concern

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

OUTLOOK

In the second half of 2019, many tasks lie ahead. We need to make good practices in internal management, improve our corporate image, products, packaging, and brand awareness. Besides, we have to develop products with an open mind, continue to adjust stores with poor image, and actively develop an omni-channel marketing network covering online, offline, domestic and overseas channels. While considering diversification, individuation, exquisiteness, category reduction and quantity increase, we should constantly improve the product system by adding new varieties and upgrading new processes. We should be pragmatic in brand communication, get closer to young consumers, and keep abreast with the changes in the market.

We believe that actions speak louder than words in building an excellent brand. To this end, the Company has been adhering to the brand culture of “Honesty, Work, Happiness”, putting honesty and goodness in the first place, staying true to the commitment of making good combs, and developing a long-term plan for being a global comb brand, in a bid to get the final recognition of consumers.

HUMAN RESOURCES AND TRAINING

As at 30 June 2019, the Group had a total of 969 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the six months ended 30 June 2019, 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 2019, 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	167,700,000	67.43%
Tan Lizi (Note 2)	Beneficial owner	300,000	0.12%

Note:

1. Tan Chuan Hua is deemed to be interested in 167,700,000 Shares held by Lead Charm Investments Limited ("Lead Charm") by virtue of his 51% interest in Lead Charm under Part XV of the SFO.

2. Interest in options granted pursuant to the Share Option Scheme.

Interests in the shares of associated corporations:

Name of Directors	Name of associated corporations	Capacity/ Nature of interest	Approximate percentage of shareholding in associated corporations
Tan Chuan Hua	Lead Charm	Beneficial owner	51%

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2019, 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	167,700,000	Long	67.43%
Fan Cheng Qin (Note 2)	Interest in a controlled Corporation	167,700,000	Long	67.43%
Lead Charm (Note 3)	Beneficial owner	167,700,000	Long	67.43%

Notes:

1. Tan Chuan Hua is deemed to be interested in 167,700,000 Shares held by Lead Charm by virtue of his 51% interest in Lead Charm 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 167,700,000 Shares held by Lead Charm by virtue of her 49% Interest in Lead Charm 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.

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.

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 28 March 2019 and 29 August 2019, being the dates of the 2018 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.

As at 30 June 2019, the Company had granted to certain eligible participants (the "Grantees"), a total of 700,000 share options to subscribe for a total of 700,000 ordinary shares of HK$0.01 each in the capital of the Company under the Share Option Scheme which were accepted by such Grantees. A summary of share options granted under the Share Option Scheme of the Company during the six months ended 30 June 2019 is as follows:

					Number of Share Options					
Grantees	Position held with the Group	Date of grant	Option period (Note 1)	Exercise price per share (Note 2)	Outstanding as at 1 January 2019	Granted during the period	Cancelled during the period	Lapsed during the period	Outstanding as at 30 June 2019	Approximate percentage of the Company' s total issued share capital
Mr. Tan Lizi	Executive Director	31 August 2018	31 August 2018 to 30 August 2023	4.896	300,000	–	–	–	300,000	0.12%
Ms. Liu Kejia	Sales Controller (online sales)	31 August 2018	31 August 2018 to 30 August 2023	4.896	200,000	–	–	–	200,000	0.08%
Mr. Luo Hongping	Administration Controller	31 August 2018	31 August 2018 to 30 August 2023	4.896	200,000	–	–	–	200,000	0.08%
					700,000	–	–	–	700,000	0.28%

Note 1: The vesting and exercise of certain Share Option are subject to the terms of the Share Option Scheme and the performance target(s) and terms set out in the respective letters of grant.

Note 2: The closing price of the Share on the date of grant of Share Options on 31 August 2018 was HK$4.83.

CAPITAL COMMITMENT

As at 30 June 2019, the Group had capital commitment contracted but not provided for acquisition of property, plant and equipment of approximately RMB954,000 (as at 31 December 2018: RMB1,535,000).

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.

OTHER INFORMATION

DIVIDENDS

Pursuant to a resolution passed by the shareholders of the Company on 22 May 2019, the Company declared a final dividend of HK25.86 cents per share for the year ended at 31 December 2018 amounting to approximately HK$64,317,000 (equivalent to approximately RMB56,359,000) to the shareholders of the Company. In addition, the Company declared a special dividend of HK25.86 cents per share, amounting to approximately HK$64,317,000 (equivalent to approximately RMB56,359,000) to the shareholders of the Company. The final dividend and special dividend were paid on 25 June 2019 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 2019 (2018: 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 2019, 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.

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 2019. 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.

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 2019 with the management of the Group and agreed with the accounting treatment adopted by the Company.

OTHER INFORMATION

EVENTS AFTER THE REPORTING PERIOD

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

DISCLOSURE OF INFORMATION

The interim report for the six months ended 30 June 2019 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, 29 August 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Note	Six months ended 30 June 2019 (unaudited) RMB'000	2018 (unaudited) RMB'000 (note)
Revenue	6	**170,355**	157,578
Cost of sales		**(63,923)**	(51,114)
Gross profit		**106,432**	106,464
Other income	6	**29,147**	23,290
Selling and distribution expenses		**(25,737)**	(22,686)
Administrative expenses		**(16,248)**	(19,226)
Other operating expenses		**(5,874)**	(9,089)
Profit from operations		**87,720**	78,753
Finance expense		**(328)**	–
Profit before taxation	7	**87,392**	78,753
Income tax	8	**(14,346)**	(14,272)
Profit for the period		**73,046**	64,481
Attributable to			
Owners of the Company		**73,046**	64,481
Earnings per share			
Basic and diluted	9	**RMB29.4 cents**	RMB25.9 cents

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

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 2019

	Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Profit for the period	**73,046**	64,481
Other comprehensive income for the period		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of functional currency to presentation currency	**3,284**	(4,337)
Total comprehensive income for the period	**76,330**	60,144
Attributable to		
Owners of the Company	**76,330**	60,144

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	Note	30 June 2019 (unaudited) RMB'000	31 December 2018 (audited) RMB'000 (note)
Non-current assets			
Property, plant and equipment	10(a)	60,752	60,883
Prepaid lease payments		—	15,180
Investment properties	10(b)	100,120	100,120
Right-of-use assets		31,605	—
Financial assets at fair value through profit or loss	12	55,000	65,000
		247,477	241,183
Current assets			
Prepaid lease payments		—	737
Inventories		156,846	145,626
Trade receivables	11	7,673	2,351
Financial assets at fair value through profit or loss	12	324,070	370,480
Other receivables, deposits and prepayments		9,493	15,560
Cash and bank balances	13	39,459	46,203
		537,541	580,957
Current liabilities			
Trade payables	14	3,711	3,617
Other payables and accruals		31,624	42,166
Lease liabilities		4,935	—
Income tax payable		28,394	27,164
		(68,664)	(72,947)
Net current assets		468,877	508,010
Total assets less current liabilities		716,354	749,193
Non-current liabilities			
Lease liabilities		9,845	—
Deferred tax liabilities		24,968	31,267
Deferred income		671	668
		(35,484)	(31,935)
NET ASSETS		680,870	717,258
Capital and reserves			
Share capital	16	2,189	2,189
Reserves		678,681	715,069
TOTAL EQUITY		680,870	717,258

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Attributable to owners of the Company									
	Note	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Other reserves RMB'000	Property revaluation reserve RMB'000	Equity settled share-based payment reserve RMB'000	Currency translation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2018 (audited)		2,189	110,503	2,767	144,168	17,738	12,245	–	(13,630)	460,189	736,169
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	15	–	–	–	–	–	–	–	–	(127,740)	(127,740)
At 30 June 2018 (unaudited)		2,189	110,503	2,767	144,168	17,738	12,245	–	(17,967)	396,930	668,573
At 31 December 2018 (audited) (note)		2,189	110,503	2,767	146,040	17,542	12,245	47	(19,162)	445,087	717,258
Profit for the period		–	–	–	–	–	–	–	–	73,046	73,046
Exchange differences arising on translation of functional currency to presentation currency		–	–	–	–	–	–	–	3,284	–	3,284
Total comprehensive income for the period		–	–	–	–	–	–	–	3,284	73,046	76,330
Dividends	15	–	–	–	–	–	–	–	–	(112,718)	(112,718)
At 30 June 2019 (unaudited)		2,189	110,503	2,767	146,040	17,542	12,245	47	(15,878)	405,415	680,870

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Six months ended 30 June	
	2019 (unaudited) RMB'000	2018 (unaudited) RMB'000 (note)
Operating activities		
Cash generated from operations	**59,371**	39,279
Interest received	**117**	6,982
Finance cost	**(328)**	—
Income tax paid, net	**(19,415)**	(13,726)
Withholding tax paid	**—**	(3,429)
Net cash generated from operating activities	**39,745**	29,106
Investing activities		
Purchase of property, plant and equipment	**(1,848)**	(841)
Proceeds from disposal of property, plant and equipment	**66**	151
Purchase of construction in progress	**(814)**	(798)
Payment for purchase of financial assets at fair value through profit or loss	**(352,140)**	(477,565)
Proceeds from matured financial assets at fair value through profit or loss	**420,004**	326,300
Prepayment of acquisition of properties	**—**	—
Net cash generated from/(used in) investing activities	**65,268**	(152,753)
Financing activities		
Dividend paid	**(112,718)**	(127,740)
Decrease in non-pledged bank deposits with original maturity over one year	**—**	141,000
Capital element of lease rentals paid	**(3,366)**	—
Interest element of lease rentals paid	**(328)**	—
Net cash (used in)/generated from financing activities	**(116,412)**	13,260
Net decrease in cash and cash equivalents	**(11,399)**	(110,387)
Cash and cash equivalents at 1 January	**46,203**	214,750
Effect of foreign exchange rate changes, net	**4,655**	(4,337)
Cash and cash equivalents at 30 June	**39,459**	100,026

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

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

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 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which term collectively includes HKASs and Interpretations issued by the HKICPA.

The interim financial report is unaudited, but has been reviewed by the Company's audit committee.

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018, except as described below.

New and amended standards adopted by the Group

The HKICPA has issued a new HKFRS, HKFRS 16, Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim condensed financial information. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16 replaces HKAS 17 "Leases", and the related interpretations, HK(IFRIC) 4 "Determining whether an Arrangement contains a Lease", HK(SIC) 15 "Operating Leases – Incentives", and HK(SIC) 27 "Evaluating the Substance of Transactions involving the Legal Form of a Lease". It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all the economic benefits from that use.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

(i) New definition of a lease (Continued)

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment and prepaid lease payments.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

(ii) Lessee accounting and transitional impact (Continued)

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of use asset has been reduced to zero.

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was around 4%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics; and

(iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

(ii) Lessee accounting and transitional impact (Continued)

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019.

	1 January 2019 RMB'000
Operating lease commitments at 31 December 2018	20,825
Less: commitments relating to leases exempt from capitalisation:	
– Short-term lease and other leases with remaining lease term ending on or before 31 December 2019	(254)
Less: total future interest expenses	(2,097)
Total lease liabilities recognised at 1 January 2019	18,474

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

(ii) Lessee accounting and transitional impact (Continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018	Capitalisation of operating lease (unaudited)	Reclassification of prepaid lease payments (unaudited)	Carrying amount at 1 January 2019 (unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:				
Right-of-use assets	—	18,474	15,917	34,391
Prepaid lease payment (non-current)	15,180	—	(15,180)	—
Total non-current assets	241,183	18,474	737	260,394
Prepaid lease payment (current)	737	—	(737)	—
Total current assets	580,957	—	(737)	580,220
Lease liabilities (current)	—	(5,456)	—	(5,456)
Current liabilities	(72,947)	(5,456)	—	(78,403)
Net current assets	508,010	(5,456)	(737)	501,817
Total assets less current liabilities	749,193	13,018	—	762,211
Lease liabilities (non-current)	—	(13,018)	—	(13,018)
Total non-current liabilities	(31,935)	(13,018)	—	(44,953)
Net assets	717,258	—	—	717,258

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

(iii) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss and other comprehensive income, as compared to the results if HKAS 17 had been applied during the year.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated statement of cash flows.

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial result, segment results and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

(iii) Impact on the financial result, segment results and cash flows of the Group (Continued)

	Six months ended 30 June 2019				
	Amounts reported under HKFRS 16 (A) RMB'000	Add back: HKFRS 16 depreciation and interest expense (B) RMB'000	Deduct: Estimated amounts related to operating lease as if under HKAS 17 (note 1) (C) RMB'000	Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B-C) RMB'000	Compared to amounts reported for 2018 under HKAS 17 RMB'000
Financial result for six months ended 30 June 2019 impacted by the adoption of HKFRS 16:					
Profit from operations	87,720	2,606	(3,197)	87,129	78,753
Finance costs	(328)	328	—	—	—
Profit before taxation	87,392	2,934	(3,197)	87,129	78,753
Profit for the year	73,046	2,934	(3,197)	72,783	64,481

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

(iii) Impact on the financial result, segment results and cash flows of the Group (Continued)

	Six months ended 30 June 2019			
	Amounts reported under HKFRS 16 (A) RMB'000	Estimated amounts related to operating leases as if under HKAS 17 (notes 1 & 2) (B) RMB'000	Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B) RMB'000	Compared to amounts reported for 2018 under HKAS 17 RMB'000
Line items in the consolidated cash flow statement for six months ended 30 June 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	59,371	(3,694)	55,677	39,279
Net cash generated from operating activities	39,745	(3,694)	36,051	29,106
Capital element of lease rentals paid	(3,366)	3,366	—	—
Interest element of lease rentals	(328)	328	—	—
Net cash generated from/(used in) financing activities	(116,412)	3,694	(112,718)	13,260

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

(iv) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payments (unaudited) RMB'000	Total minimum lease payments (unaudited) RMB'000	Present value of the minimum lease payments (unaudited) RMB'000	Total minimum lease payments (unaudited) RMB'000
Within 1 year	4,935	5,276	5,456	6,067
After 1 year but within 2 years	4,342	6,944	5,171	5,597
After 2 years but within 5 years	2,780	4,974	4,653	5,299
After 5 years	2,903	4,811	3,194	3,608
	10,025	16,729	13,018	14,504
Less: total future interest expenses		(1,769)		(2,097)
Present value of lease liabilities		14,960		18,474

(v) Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("leasehold investment properties"). The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

(vi) Lessor accounting

Under HKFRS 16, when the Group acts as an intermediate lessor in a sublease arrangement, the Group is required to classify the sublease as a finance lease or an operating lease by reference to the right-of-use asset arising from the head lease, instead of by reference to the underlying asset. The adoption of HKFRS 16 does not have a significant impact on the Group's financial statements in this regard.

a) Critical accounting judgements and sources of estimation uncertainty in applying the above accounting policies

(i) Classification of interest in leasehold land and buildings held for own use

In accordance with HKAS 16, Property, plant and equipment, the Group chooses to apply either the cost model or the revaluation model as its accounting policy for items of property, plant and equipment held for own use on a class-by-class basis. In applying this policy, the Group has concluded that its registered ownership interests in leasehold properties and the right to use other properties leased under tenancy agreements are two separate groupings of assets which differ significantly in their nature and use. Accordingly, they are regarded by the Group as separate classes of asset for subsequent measurement policies in accordance with the above accounting policies.

(ii) Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

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).

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	
	2019 (unaudited) RMB'000	2018 (unaudited) RMB'000
Revenue		
Sales of goods	**170,034**	157,392
Franchise fee income	**321**	186
	170,355	157,578
Other income		
Government grants (note (i))	**595**	502
Interest income from financial assets	**117**	10,028
Change in fair value of financial asset at fair value through profit or loss	**11,454**	—
PRC VAT concession refunds (note 8(i) and (vii))	**12,059**	8,370
Rental income from investment properties	**3,849**	3,901
Gain on sales of raw materials	**7**	7
Net foreign exchange gain	**69**	3
Reversal of write-down of inventories	**—**	105
Reversal of loss allowance on trade receivables	**1**	—
Others	**996**	374
	29,147	23,290
	199,502	180,868

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.

7. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2019 (unaudited) RMB'000	2018 (unaudited) RMB'000 (note (iii))
Amortisation of prepaid lease payments	—	181
Cost of inventories (note (i))	63,923	51,114
Write-down of inventories	52	7,121
Reversal of write-down of inventories (note (ii))	—	(105)
Depreciation		
– property, plant and equipment	1,517	1,919
– right-of-use assets	2,606	—
Impairment loss on trade and other receivables	26	—
Net loss on disposal of property, plant and equipment	21	30
Minimum lease payment in respect of land and buildings	—	2,163
Staff costs (including directors' emoluments)	32,487	32,887
Provision for sales returns	1,778	3,329
Gross rental income from investment properties	(3,849)	(3,901)
Less: Direct outgoings incurred for investment properties that generated rental income during the period	468	602
Net rental income	3,381	(3,299)

Notes:

i) Cost of inventories includes approximately RMB20,192,000 (2018: RMB18,169,000) 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.

iii) The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

8. INCOME TAX

	Six months ended 30 June	
	2019 (unaudited) RMB'000	2018 (unaudited) RMB'000
Current tax		
PRC Enterprise Income Tax (notes 8(i), (ii), (iii) and (vii))	14,228	10,025
Hong Kong profits tax (note 8(v))	—	—
Withholding tax on dividends (note 8(vi))		
– Provision for the period	6,417	—
	20,645	10,025
Under provision in prior years, net		
PRC Enterprise Income Tax	—	228
Deferred tax		
Transfer to current tax upon distribution of dividends	(6,417)	—
Provision for the period (note 8(vi))	118	4,019
Total	14,346	14,272

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. At the beginning of 2018, Zi Qiang Wood Works was dormant and had transferred its staff to a fellow subsidiary, Chongqing Carpenter Tan Handicrafts Co., Ltd ("Carpenter Tan"), which also registered as social welfare enterprise since 24 November 2016 (note vii). Since no salary were paid by Zi Qiang Wood Works to its employees with disabilities, thus Zi Qiang Wood Works was no longer entitled to all the income tax concessions mentioned above.

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.

8. INCOME TAX *(Continued)*

Notes: (Continued)

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% (2018: 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 2019 and 2018 as the subsidiaries did not have assessable profits subject to Hong Kong profits tax for these periods.

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

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

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.

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	
	2019	2018
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Earnings used in calculating basic and diluted earnings per share	**73,046**	64,481

ii) Weighted average number of ordinary shares

	Number of shares Six months ended 30 June	
	2019	2018
	(unaudited)	(unaudited)
	'000	'000
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	**248,714**	248,714
Effect of deemed issue of share under the Company's share option scheme for nil consideration	**—**	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share (note)	**248,714**	248,714

Note: The potential ordinary shares arising from the assumed conversion of the share options are anti-dilutive for the six months ended 30 June 2019 and so, have been treated as anti-dilutive for the purpose of calculating diluted earnings per share. There were no potential ordinary shares in issue for the six months ended 30 June 2019.

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 2019 and 2018.

10. FIXED ASSETS

a) Acquisitions and disposals

During the six months ended 30 June 2019, the Group acquired items of property, plant and equipment with a cost of RMB1,869,000 (31 December 2018: RMB6,163,000). Items of property, plant and equipment with a total carrying amount of RMB87,000 (31 December 2018: RMB145,000) were disposed of during the six months ended 30 June 2019.

b) Valuation

The Group's investment properties were not revalued as at 30 June 2019 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 2018 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. 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 2019 (unaudited) RMB'000	At 31 December 2018 (audited) RMB'000
0 to 30 days	4,023	2,217
31 to 60 days	384	43
61 to 90 days	2,400	4
91 to 180 days	658	2
181 to 365 days	150	7
Over 1 year	58	78
Trade receivables, net of allowance for doubtful debts	7,673	2,351

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.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVPL")

	At 30 June 2019 (unaudited) RMB'000	At 31 December 2018 (audited) RMB'000
Principal Guaranteed Wealth Management Products, at fair value (Note)	379,070	435,480

Note: The amount represents investment in principal guaranteed wealth management products issued by licensed banks in the PRC with expected return ranging from 1.7% to 4.4% per annum (31 December 2018: 2.1% to 4.8% per annum). Financial assets of RMB324,070,000 (31 December 2018: RMB370,480,000) is with maturity of within one year. The amount of RMB55,000,000 (31 December 2018: RMB65,000,000) is with maturity of more than one year.

13. CASH AND BANK BALANCES

	At 30 June 2019 (unaudited) RMB'000	At 31 December 2018 (audited) RMB'000
Cash and bank balances in the consolidated statement of financial position and consolidated statement of cash flows	39,459	46,203

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

As at 30 June 2019, the balances that were placed with banks in the PRC including non-pledged fixed bank deposit amounted to approximately RMB28,622,000 (31 December 2018: RMB39,468,000). Remittance of funds out of the PRC is subject to the exchange controls imposed by the PRC government.

14. 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 2019 (unaudited) RMB'000	At 31 December 2018 (audited) RMB'000
0 to 30 days	**2,950**	2,318
31 to 60 days	**272**	752
61 to 90 days	**130**	80
91 to 180 days	**92**	110
181 to 365 days	**15**	73
Over 1 year	**252**	284
	3,711	3,617

15. DIVIDENDS

i) The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: 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	
	2019	2018
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Final dividend in respect of the financial year ended 31 December 2018, approved and paid during the current interim period, of HK25.86 cents, equivalent to RMB22.66 cents per ordinary share (2018: in respect of the financial year ended 31 December 2017, approved and paid during the period ended 30 June 2018, of RMB25.68 cents per ordinary share)	**56,359**	63,870
Special dividend of HK25.86 cents, equivalent to RMB22.66 cents per ordinary share (2018: RMB25.68 cents), approved and paid during the current interim period	**56,359**	63,870

16. SHARE CAPITAL

	Number of shares	Amount HK$	Amount equivalent to RMB
Ordinary shares of HK$0.01			
Authorised:			
At 1 January 2018, 31 December 2018, 1 January 2019 and 30 June 2019	10,000,000,000	100,000,000	87,926,000
Issued and fully paid:			
At 1 January 2018, 31 December 2018, 1 January 2019 and 30 June 2019	248,714,000	2,487,140	2,189,160

17. 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 2019 categorised into		
	Fair value at 30 June 2019 (unaudited) RMB'000	Level 1 (unaudited) RMB'000	Level 2 (unaudited) RMB'000	Level 3 (unaudited) RMB'000
Recurring fair value measurement				
Assets				
Financial assets at fair value through profit or loss	379,070	—	—	379,070

17. FINANCIAL INSTRUMENTS *(Continued)*

Fair value *(Continued)*

Fair value hierarchy (Continued)

	Fair value at 31 December 2018 (audited) RMB'000	Fair value measurements as at 31 December 2018 categorised into		
		Level 1 (audited) RMB'000	Level 2 (audited) RMB'000	Level 3 (audited) RMB'000
Recurring fair value measurement				
Assets				
Financial assets at fair value through profit or loss	435,480	—	—	435,480

During the period ended 30 June 2019 and 2018, 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 determining 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 2019 (unaudited) RMB'000	Year ended 31 December 2018 (audited) RMB'000
At the beginning of the period/year	**435,480**	173,100
Additions	**352,140**	510,925
Change in fair value	**11,454**	4,562
Maturity	**(420,004)**	(253,107)
At the end of the period/year	**379,070**	435,480

18. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 June 2019 and 31 December 2018.