

譚木匠

2021

INTERIM REPORT



梳造东方美

S H U Z A O D O N G F A N G M E I

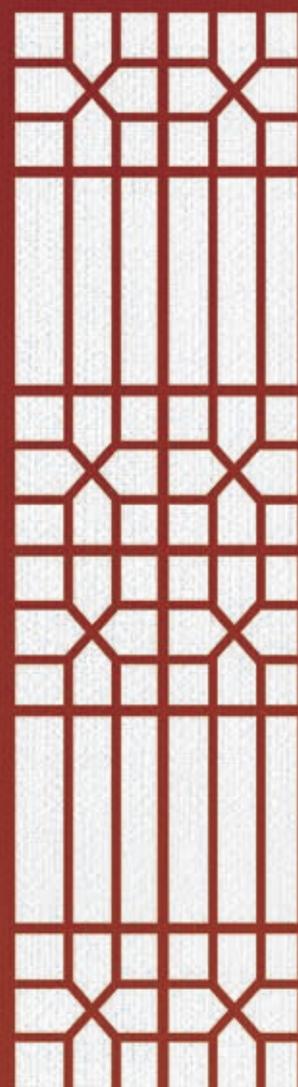
譚木匠控股有限公司^{*}
CARPENTER TAN HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 837

^{*}For identification purpose only

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Tan Chuan Hua (*Chairman*)
Mr. Tan Di Fu
Mr. Tan Li Zi

NON-EXECUTIVE DIRECTORS

Ms. Tan Yinan (*resigned on 12 April 2021*)
Ms. Huang Zuoan (*resigned on 1 June 2021*)

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

MEMBERS OF THE AUDIT COMMITTEE

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

MEMBERS OF THE REMUNERATION COMMITTEE

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

MEMBERS OF THE NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Chan Hon Wan *CA*

AUTHORISED REPRESENTATIVES

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

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STOCK CODE

837

COMPANY WEBSITE

www.ctans.com

FINANCIAL HIGHLIGHTS



FINANCIAL HIGHLIGHTS

	Six months ended 30 June		% Change Increase/ (Decrease)
	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000	
Financial Highlights			
Revenue	169,565	108,069	56.9%
Cost of sales	(64,948)	(46,664)	39.2%
Gross profit	104,617	61,405	70.4%
Gross profit margin	61.7%	56.8%	4.9% point
Profit before taxation	73,043	35,760	104.3%
Profit for the period	57,612	27,878	106.7%
Profit attributable to owners of the Company	56,867	26,808	112.1%
Basic earnings per share (RMB cents)	22.9	10.8	112.0%
	At 30 June 2021 (unaudited)	At 31 December 2020 (audited)	% Change Increase/ (Decrease)
Liquidity and Gearing			
Current ratio ⁽¹⁾	7.10	6.16	15.3%
Quick ratio ⁽²⁾	4.56	4.33	5.3%
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 2021 and 31 December 2020, the Group did not have any interest-bearing bank borrowings. The calculation of gearing ratio is not meaningful.

CHAIRMAN'S STATEMENT



CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of Carpenter Tan Holdings Limited (the "Company") and its subsidiaries (together, the "Group"), I would like to express my sincere gratitude to all shareholders (the "Shareholders") and stakeholders for your continuing attention, support and encouragement to the Group. For the Group, the six months ended 30 June 2021 (the "Reporting Period") was a challenging period. Nevertheless, with the continuing endeavours and constant efforts of all our staff, we strived to create a powerful driving force to foster the development of our various lines of businesses which have consequently reached their new heights.

During the Reporting Period, the Group achieved stable development amid gradual market recovery. However, the economy was still susceptible to market changes in the shadow of the novel coronavirus (COVID-19) pandemic (the "Pandemic"). In this full of challenges and opportunities period, the Group faced up to the difficulties boldly and made proactive efforts in brand communication and market expansion by organizing a series of offline pop-up events themed "Antique combing beauty" (梳房顏究院), a design competition in cooperation with tertiary institutions such as Nanjing University of the Arts, and other events.

Upholding the firm belief that a self-competitive edge is essential to compete in the market, the Group will continue to consolidate fundamentals and grasp opportunities with optimism and self-confidence amid market changes and challenges, thank you.

Mr. Tan Chuan Hua
Chairman of the Board

Hong Kong, 31 August 2021



MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT REVIEW

In the first half of 2021, the Pandemic broke out on a small scale in China. Thanks to the timely and forceful measures taken by governments on various levels, the pandemic was brought under control effectively. Under this backdrop, all walks of life have been making positive progress on recovery, which benefits our country and fosters the wellbeing of our people. In response to the requirement of the normalization of pandemic prevention and control, the Group remained highly alert to the development of the pandemic by adhering to the implementation of stringent pandemic prevention and control measures and supervising all staff to assume their social responsibility of combating the pandemic. During the Reporting Period, staff confidence, company operation and market conditions steadily improved. The Company achieved various work progress and attained work outcomes as scheduled in general. Market conditions apparently improved as compared to last year, as evidenced by the getting back on the positive track of orders in franchised stores as well as the conditions in the terminal retail industry.



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

1. OFFLINE BUSINESS

DOMESTIC BUSINESS

As at 30 June 2021, Carpenter Tan had a total of 1,139 franchised stores in mainland China, 5 franchised stores in other countries and regions and 2 directly self-operated stores in Hong Kong, representing a decrease of 13 stores as compared to the number of stores as at 31 December 2020.

Number of franchised stores and overseas stores/counters:

	As at 30 June 2021		As at 31 December 2020	
	Franchised stores	Directly self-operated stores	Franchised stores	Directly self-operated stores
Mainland China	1,139	–	1,149	2
Hong Kong	–	2	–	2
Other countries and regions	5	–	6	–
Total	1,144	2	1,155	4



MANAGEMENT DISCUSSION AND ANALYSIS

Number of franchised stores distribution in China as at 30 June 2021:

Type of Stores	Number of store	Percentage
Shopping mall	651	57.1%
Street shop	321	28.2%
Department store	74	6.5%
Supermarket	29	2.5%
Scenic spot	34	3.0%
Transportation hub	17	1.5%
Hotel	2	0.2%
Others	11	1.0%
Total	<u>1,139</u>	<u>100.0%</u>

Since the outbreak of the Pandemic, the domestic retail industry in China entered a period of rapid transformation. The original barrier between online and offline sales was removed as more and more physical industries turned into active users of online platforms. Meanwhile, the service industry also employed offline channel expansion and information exchange tools to further engage customers. On the basis of the gradually stabilized business model, the Group has been proactively conducting the online transformation of offline business and the further expansion of online business. During the Reporting Period, the major tasks of the offline marketing team include the following:

Normalizing Pandemic prevention with the establishment of an effective feedback mechanism of Pandemic emergencies

All stores were required to carry out fundamental pandemic prevention measures in line with local pandemic prevention requirements and be equipped with articles such as disinfectant and rinse-free hand sanitizer. After the publication of the written proposal of the Pandemic vaccines, owners and employees of the franchised stores were encouraged to receive vaccines. Speedy and efficient responses were made to regional pandemic emergencies through confirming the specific situation of the stores and related personnel in the regions of sudden pandemic outbreak and reporting to the management in time. At the same time, a series of measures were formulated and implemented in the corresponding regions to safeguard sales. For instance, after the outbreak at the end of May in Guangdong, an applet-based promotion event dedicated to the Guangdong region was organized.

A tracking mechanism was introduced in newly opened stores and marketing personnel was required to fully participate in the entire process of operation. Sales targets were set up and marketing personnel were evaluated to ensure high efficiency and profits in the new stores. In the first half of the year, key new stores included stores in Chongqing Guanghuan, Chongqing Hongyadong, Chongqing Ciqikou, Ningbo MIXC, Guangzhou Beijing Road Tee Mall, Xi'an Huimin Street, Nanjing Wanxiang Centre, Taizhou MIXC, Hefei Baohe Wanda, Beijing Gemdale Centre, Shanghai Landmark Plaza, Shenzhen UNIWORLD, Wuhan IKEA Livat, Changsha Longfor Yanghu Paradise Walk, etc.

MANAGEMENT DISCUSSION AND ANALYSIS

Taking advantage of the business system adjustment phase in the post-pandemic period, we actively upgraded store locations and store image. In the first half of the year, various stores enhanced their locations, with remarkable improvement in also in store image and store performance. For example, the store located at Hunan Yiyang Wanda Plaza D1763 moved from the second floor to the first floor of the shopping mall, while its average store performance increased from RMB67,900 per month to RMB84,058 per month; the store located at Beijing Fangshan Longfor Paradise Walk moved from the B1 floor to the second floor of the shopping mall, and achieved an increase of 40.3% in the first half of the year from the corresponding period of 2019 before the Pandemic.

During the Reporting Period, the sales performance rebounded as compared to the same period last year. But when compared to the level in the corresponding period in 2019, there is still a difference. Sales completion rate was 92.1% while annual completion rate was 46.7%. Sales decreased by 12.8% when compared to the same period of 2019. The delivery rate in the first half of the year was 91.1%, while the annual completion rate was 46.2%, decreased by 18.0% when compared to the same period of 2019 before the Pandemic.



Stepping up marketing efforts and exploring new marketing approaches

Numerous applet-based in-store promotion activities were held from time to time. Trainings with the theme of "Oriental beauty with combing" (梳造东方美) were organized in different regions in China, which aimed at continuously promoting healthy beauty, one of the core concepts advocated under the brand of "combing oriental beauty", so as to increase market share. Customers were attracted through various interactive activities held in stores and the business districts where the stores are located, as well as innovative pop-up events organized throughout China, which contributed to our sales.

MANAGEMENT DISCUSSION AND ANALYSIS

From 25 May to 1 June, “Antique combing beauty” (梳房顏究院), the key marketing event of the current year, made its debut in Chengdu MIXC. It was the first pop-up store of Carpenter Tan with the theme of “Chinese style”, which demonstrated a perfect fusion of the oriental culture and the fashion trend in store layout as well as product display, rejuvenating the time-honored brand. Other than the omnipresent design with the elements of “combing oriental beauty”, emphasis was put on the beauty of “mountains and water, fragrance and aroma” in the fairy landscape.



Expediting the upgrade of product system

The Group extended the collaboration with Disney with the addition of two models of inserted comb products specially designed for trendy friends. Four models of hairbrushes employing patented craftsmanship were launched. In view of the absence of hair-care combs made of high-end materials, the Group launched three models of high-end hair-care combs. The Group also developed combs for infants and children and launched seven models of products for infants and children with different months of age to enrich the product line. The packaging system was upgraded, in which uniform packaging, high-quality sack and customized cover are now used for the packaging of best-selling products. It is planned that the packaging upgrade of the entire product system will be completed in 2022.

Through differentiation of different sales channels of products, we conducted marketing events in accordance with the characteristics of online and offline channels to better serve different consumer groups. We also developed new product series to broaden our customer base, increase repeat purchase rate and enhance customer loyalty.

OVERSEAS BUSINESS

The Pandemic continued to spread in the first half of 2021, making the recovery of cross-border exchange and business activities impossible in the foreseeable future. We could not expand our overseas offline business as the operation of all overseas stores was suspended other than the store in Singapore, while some franchised stores resorted to online sales. Whereas cross-border e-commerce business of the Company has increased steadily as compared to last year, offline projects and brand promotion activities will depend on the development of the global Pandemic.

MANAGEMENT DISCUSSION AND ANALYSIS

In face of the austere global Pandemic, the Company adopted a series of measures. For instance, additional support for promotional products was given to overseas franchisees; no evaluation was made to the purchase amount of stores during the pandemic; we provided guidance to franchisees to build up an online platform to broaden their sales channel, so as to reduce the losses resulted from store closure; we were concerned about the personal health of overseas franchisees and assisted them to procure protective medical supplies when necessary. During the Reporting Period, the Group completed the delivery of products amounting to a total of RMB690,000 for its overseas offline business, down 1.3% as compared to RMB699,000 in the corresponding period last year.

2. ONLINE BUSINESS

DOMESTIC BUSINESS

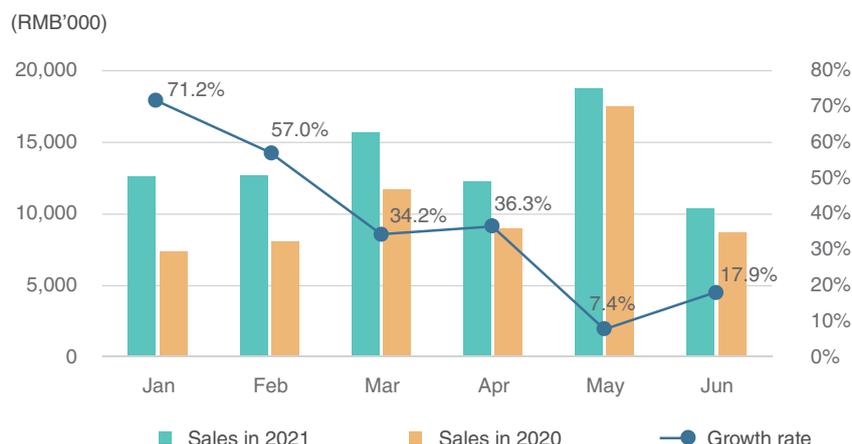
During the Reporting Period, the sales of our e-commerce team reached RMB81.8 million, representing 108.4% of the half-year target and a year-on-year increase of 32.0% compared to the sales for 2020, when compared to the same period of 2019, there is an increase of 27.9%.

	2021 Actual Sales (RMB'000)	2020 Actual Sales (RMB'000)	2019 Actual Sales (RMB'000)	2021 VS 2020 Growth Rate	2021 VS 2019 Growth Rate
January	12,527	7,318	10,121	71.2%	23.8%
February	12,627	8,043	9,868	57.0%	28.0%
March	15,558	11,597	12,192	34.2%	27.6%
April	12,166	8,923	8,416	36.3%	44.6%
May	18,643	17,362	14,682	7.4%	27.0%
June	10,277	8,719	8,662	17.9%	18.6%
總計	81,798	61,962	63,941	32.0%	27.9%

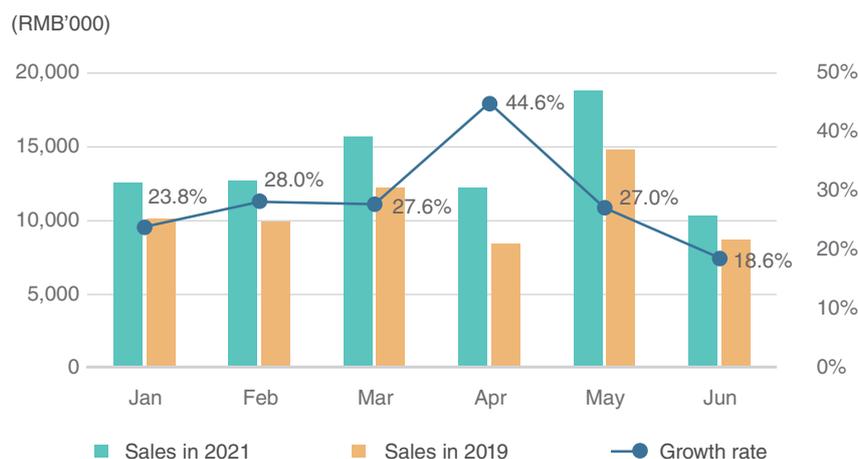


MANAGEMENT DISCUSSION AND ANALYSIS

Monthly online sales for the first-half of 2021 as compared to the same period of 2020



Monthly online sales for the first-half of 2021 as compared to the same period of 2019



This year, we commenced online and offline product classification to target different customer groups with different product strategies and enrich diversity of our products leveraging on our brand advantages. At present, we launched at most 200 products online and upgraded and modified these products in the aspects of craftsmanship, size, material, pattern and design, etc. Then, we took photos, filmed videos, produced master drawings and created a brand new webpage of product details of the modified products in accordance with the design and the production progress. Later on, the products were not only classified as online or offline products, special products were also classified and designated for various e-commerce platforms, such as T-mall, JD and vip.com. We conducted a live broadcast on People's Daily with celebrities to stimulate sales and recorded a total audience of 19.9935 million with 39.944 million likes. The peak concurrent audience reached 770,000.

Carpenter Tan's first offline pop-up event of "Antique combing beauty" was held in Chengdu, Sichuan. Promotions were made on various online channels including creative videos on Tiktok, live broadcast and discussion in Weibo. The video generated 5.153 million views, 220,000 likes and 4,200 comments, the live broadcast recorded a total audience of 853,000, while the Weibo marketing account and the discussion accumulated 18.591 million views and 20,000 interactions.

We invited traditional Chinese physicians to film videos about common health problems that many people encounter nowadays, such as hair loss and migraine and explain how to improve these problems with the aid of combing. The videos were placed on brand ecosphere and makers' channels to stimulate brand exposure.

MANAGEMENT DISCUSSION AND ANALYSIS

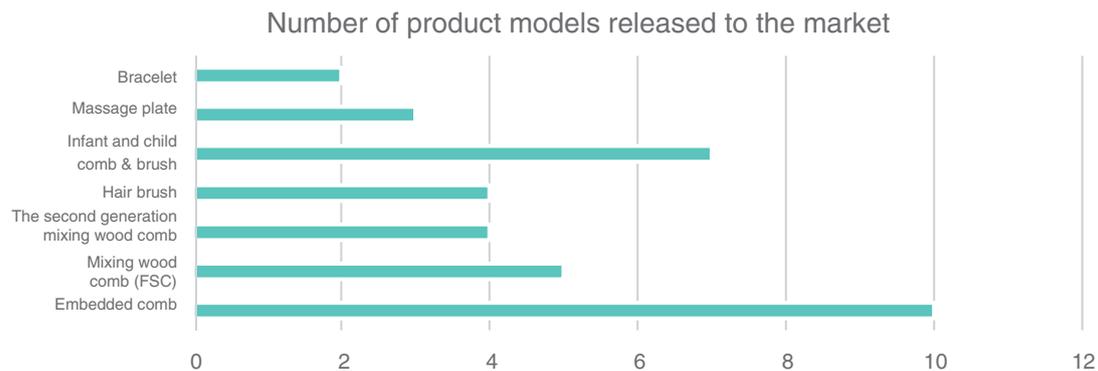
OVERSEAS BUSINESS

Since 2021, all overseas online platforms have been transformed into self-operated platforms. Currently, the major platforms on which we operate are U.S. Amazon and Japan Amazon. We selected certain products according to the sales statistics of the US and Japan markets and delivered them to the warehouses of Amazon to solve the problem of timeliness and efficiency of transportation. At the same time, we placed site advertisements to enhance product exposure. We enhanced our brand flagship store by adjusting the page layout of promotional products and setting up promotional advertisements of the brand flagship store to increase brand exposure. We aimed at increasing our brand recognition while selling products. We continued to maintain our U.S. official website and simultaneously launched the products in the Amazon Warehouse. At present, the orders placed at our official website are mainly derived from organic traffic and our customers are predominantly Chinese, among whom our brand has gained higher recognition. In future, we will further enhance our US official website, making it the hub for overseas sales of our brand products and accumulating a customer base.

During the Reporting Period, the sales on overseas online platforms amounted to RMB162,893, up by 11.0% as compared to RMB144,429 in the first half of 2020.

3. INNOVATIVE RESEARCH AND DEVELOPMENT

In 2021, the Innovative Design Center keeps innovating and developing centered on showing brand tonality, exploring the traditional Chinese culture, shaping a fashionable young brand image, and the improvement of product process, functions and design. During the Reporting Period, 37 new products in seven series have been released (excluding online and offline product classification projects). See the following chart for details:



MANAGEMENT DISCUSSION AND ANALYSIS

The highlight series are as follows:

- High-end airbag hair comb series – filling the gap in high-end airbag hair comb products; adopting national style design.
- Layered brush series – Deeply exploring the difference between the top, middle and tail of boar's mane, enriching the hair brush categories; original layered structure to improve the combing effect; meeting the combing needs for different hairstyles.
- Kid's comb and brush series – Targeting at infants aged 0-24 months; adopting natural wool, horse mane, wood, free from glue or paint, green, healthy, and safe; increasing the product categories, expanding the consumer base
- Second generation mixing wooden comb – The second generation mixing wooden comb series – Increasing the handle thickness and the product weight, more comfortable for grip; improving the anti-fall and anti-cracking performance; reducing the requirement of raw material thickness for angular wood products

During the Reporting Period, with the continuous increase of marketing demand, the Innovative Design Center appeared weak in the marketing planning and material design of new products, and will make improvements in the second half of 2021.



MANAGEMENT DISCUSSION AND ANALYSIS

4. PRODUCTION TECHNOLOGY

From January to June 2021, Carpenter's Wanzhou factory had completed the production of 2,381,927 pieces of products, with an increase of 914,279 pieces or 62.3% from the 1,467,648 pieces in the same period last year. We purchased 1,324.68 cubic meters of wood and 308,883 pieces of horn products (horn combs and horn pieces), which guaranteed the production demand and the Group's strategic security requirements for materials.

With respect to technical R&D, we continued to promote the application of profiling processing technology and blurred polishing technology, effectively improving the production efficiency. We have completed the research and development of techniques such as curved comb processing, tooth guard wood block processing at fixed thickness, glue-free fixed airbag comb processing and product traceability information system. The ongoing R&D projects include: hair-care comb shape processing technology, hair-care comb rubber automatic inserting technology, comb teeth automatic polishing technology and ancient sapwood material stability improvement technology. To provide a safer and healthier working environment, we introduced environmentally friendly boilers and new dust removal systems in the plant.

Pandemic prevention and control were still the focus of the plant in the first half of the year, and the same Pandemic prevention measures as last year were implemented: temperature measurement, separate meals in the canteen (delivering meals to frontline posts), regular disinfection in working and living places, wearing masks at all times, enhancing publicity, mobilization and organization of staff vaccination, etc. We purchased face masks, disinfectants, hand sanitizers and other pandemic prevention supplies as required by the Group to ensure a three-month stock for emergency use. In the first half 2021, we distributed over 85,700 masks.

5. LOGISTICS AND DISTRIBUTION

In the first half of 2021, the Logistics Center organized product processing according to market demand to ensure the satisfaction of the requirements of franchisees and the e-Commerce Business Department of the Company for regular orders and urgent orders, and timely distribution of new products and promotional products as scheduled. In the first half of 2021, more than 2.1 million pieces of products were shipped out. We constantly strengthened the supervision and management of product quality, implementing more stringent quality control process and making continuous improvement. The recurring problem of oxidation of metallic needles and hair care comb needles has been solved effectively.

To prevent the risk of Pandemic, the Logistics Center continued to take strict prevention and control measures. Employees should take turns to eat and isolation boards were set on the table. The materials, returned goods and products for maintenance sent to the Logistics Center from medium- and high-risk areas were all sterilized before being processed. Employees were mobilized and reminded to actively be vaccinated against the Pandemic.



MANAGEMENT DISCUSSION AND ANALYSIS

6. CORPORATE CULTURE

In the first half of 2021, we continued to explore the beauty of combs based on the branding strategy of “Oriental beauty with combing” (梳造東方美). We worked with Professor Chen Jijia (陳嘉嘉) from Nanjing University of the Arts to edit “Taking about the Comb” (也談梳篦), telling the history of combs in a lively and interesting style. The manuscript has been completed and is expected to be officially published in October 2021.

As a continuation of Carpenter Tan’s comb design competition, this year we cooperated with several universities to make “the Beauty of Zhipei” (櫛佩之美) as one of their graduation projects. The students have designed many interesting works full of imagination. We plan to organize a thematic exhibition of these works to allow more people to see those imaginative and forward-looking conceptual combs.

As a municipal intangible cultural heritage project of Chongqing, we were invited to participate in the Western China Tourism Industry Expo held in Chongqing to showcase Carpenter Tan’s wood comb products and interact with the audience, enabling them to experience the comb making process. We continued to shoot the video “Carpenter Tan’s Family” (譚木匠的家人們), telling the story of Carpenter Tan’s franchisees. We cooperated with Sheng Sheng Tang (昇晟堂), a traditional Chinese medicine organization in Nanjing, in compiling a comic book with the content of combing head meridians with a view to promote hair combing and health knowledge.



7. HUMAN RESOURCES AND COMPREHENSIVE GOVERNANCE

The Group has strictly abided by the national laws and regulations on labor, safety, environmental protection and occupational health, formulated practical management systems and implementation measures, and implemented inspections to ensure strict performance. We have not violated any laws and regulations concerning labor security, nor have any accident in safety, environmental protection and occupational health taken place. We continue to improve fire and dust removal system equipment and the operation safety conditions to ensure 20 years of safe operation. At present, due to the frequent occurrence of metal dust explosion accidents in the country, compulsory measures of high standards concerning dust explosion have been adopted. The Company is proactively implementing technical transformation in accordance with the metal dust safety standards, and working hard to create a grade II safety production standardization enterprise.

MANAGEMENT DISCUSSION AND ANALYSIS

In terms of corporate structure, manpower deployment and competence, we mainly focus on strategies and manpower needs in marketing, product design, and technical research and development. In terms of product design and technical research and development, thanks to the strategic implementation plan of the Innovative Design Center in Nanjing and the technical R&D studio in Chongqing, the available resources and competence have been significantly improved. In terms of marketing, due to the limitation of regional human resources and the poor effect of local recruitment previously, more efforts are needed to improve the competence of marketing human resources and the implementation of recruitment.

A tentative adjustment has been made to the performance evaluation mechanism of staff at all levels. We have tried to adjust the evaluation method from combining the achievement of the Company's annual sales and profit performance plan with the achievement of key performance indicators of the department, to combining individual daily work commitment with the fulfillment of key tasks of the department, with an aim to promote the staff at all levels to fulfill their daily responsibilities earnestly, complete the key tasks and accomplish the preset goals of their posts and departments, and avoid the egalitarian practice. The two evaluation methods have their own advantages and disadvantages, which need to be tested and evaluated over time and adjusted in real time. Due to the impact of the Pandemic, although the market has gradually picked up, it is still in the stage of recovery and improvement. Therefore, in spite of rising consumer index such as prices, the Company has no general salary adjustment plan this year, but will make partial optimization for factors such as job changes.

The activities of strategic reserve of raw materials, product design, research and development of process technology, changes and innovation, and patent achievements have been carried out. Thanks to the implementation of the Group's strategic raw material reserve plan, we have safely survived the crisis of scarcity of material supply and sharp price rise caused by the pandemic since early last year, providing a sound guarantee for the order demand and the confidence of franchisees after the recovery of the domestic market. The product design adapts to the needs of online and offline grading. Currently, 107 online graded products have been developed and launched online and 37 online and offline new products in 7 series have been routinely developed and marketed. Foreign-related data on market sales are being collected for the assessment of marketability and value creation. We have cooperated with four universities in completing the proofing of 22 series of works of the graduation designs centered on "The Beauty of Zhipei" (櫛佩之美) of the comb and basically achieved the development and improvement of the traditional lacquer process and entered the stages of mass production and marketing. The research and development of process technology is focused on automatic polishing, profiling milling, blurred polishing, automatic dispensing, and automatic color separation and tooth insertion. So far, we have achieved phased results but also encountered considerable difficulties, for which our engineers need to go to the site and the workshop to study the situation. Also, the Group has made some progress in rational proposals, changes and innovation, and patent achievements. In the first half of 2021, 445 rational proposals were received and 197 of them were adopted, 43 changes and innovations were received and 39 of them were recognized, 9 patents were filed (including 5 designs, 3 utility models and 1 invention) and 1 invention patent passed the publication and 1 patent was actually transformed and applied. Currently, the Group has 61 valid patents, with 12 added from the same period last year. The newly filed patents are intended to protect the new structure and technology application so as to raise the barriers to competition for product structure and technology application while the Group is making every endeavor in transformation and application.

MANAGEMENT DISCUSSION AND ANALYSIS

In terms of operational risk control, the Group has continued to improve the after-sales maintenance system and effectively perform the after-sales product maintenance. Regarding the severe corrosion of metal comb needles reported in the market and the return of goods during the same period last year, the Group has made improvements in materials and processes and the pre-inspection and pre-judgment of simulated usage scenarios. Judging from the factory processing, logistics and warehousing observations, and reports from franchised stores and the market, these problems have been significantly improved and effectively resolved. This year, as indicated from online returns and offline reports from the market, there has been a significant increase in the information on counterfeit products and illegal online sales. The company has conducted relevant screening and clue tracking based on this, and has effectively communicated with the economic investigation, anti-counterfeiting and rights protection departments of the government. However, we are still troubled by the need for us to provide sufficient evidence to meet the conditions for filing a case, and no substantive results have been seen. The Group will still first prevent the internal operating risks of the system through strict implementation of internal control systems such as economic and business activity risk control, intellectual property and negotiated secret protection agreements, partner integrity evaluation, product anti-counterfeiting identification, franchised product exclusivity, and group purchase reporting and supervision. In the meantime, with the help of evidence collection by professional lawyer teams, direct legal actions for rights protection, clues investigation for counterfeit and inferior products, case filing and investigation, and other methods, we will spare no effort to safeguard rights and prevent market risks. According to the needs for market risk management and control under the new situation, the Group has made corresponding adjustments and modifications to the Administrative Measures for Risk Control of Economic Business Contracts, Administrative Measures for the Protection of Intellectual Property Rights and Trade Secrets, Control Procedures for External Provision Processes, Product and Service Processes, Qualified Supplier Evaluation, and Franchise Contract. We also strengthen market information collection, after-sales return identification and trace, and other measures, and regularly report, review and improve our work through quarterly work meetings.

In terms of brand culture development, with the normalization of the pandemic, we strive to adjust our thinking and strategies based on the current situation. We have led the implementation of the graduation design centered on the comb theme “The Beauty of Zhipei” together with Nanjing University of the Arts, Nanjing University of Technology and other two universities. Now we have completed the proofing and evaluation of the works and accomplished the expected goals. We are conducting post-work such as appraisal and exhibition tour, and have clarified the direction of next year’s graduation design. We are conducting an exploration of “Listening to the Beauty of the Comb” with Chen Jiajia, a teacher from Nanjing University of the Arts, gained new discoveries and understandings of the historical origins, evolution and inheritance of combs, enriched the knowledge about the history and culture of combs and accumulated the comb culture.

Current pain points and anxiety includes the contradiction between the rising trend of cost and market positioning, the contradiction between the increasing number of employees at the retirement age and the training and reserve of new employees who are willing to work by hand, the risk vigilance of the relative solidification and aging of the front-line production personnel, especially those at the management positions, the maintenance of competitiveness in product research and development, process technology and market advantages, solving the problems of the boiling frog such as being content with the status quo and conservative, and maintaining our original intention and deeply practicing the corporate culture in the money-oriented era.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

1. REVENUE

The Group recorded revenue of approximately RMB169,565,000 for the six months ended 30 June 2021, representing an increase of approximately RMB61,496,000 or 56.9% as compared to approximately RMB108,069,000 for the six months ended 30 June 2020. The increase in revenue was mainly due to the gradual recovery of market demand due to the control of the Pandemic during the Reporting Period as compared to the six months ended 30 June 2020.

	For the six months ended 30 June			
	2021		2020	
	(unaudited) (RMB'000)	%	(unaudited) (RMB'000)	%
Sales				
– Combs	29,035	17.1	21,867	20.2
– Mirrors	150	0.1	115	0.1
– Box sets	137,562	81.1	83,594	77.4
– Other accessories*	2,771	1.6	2,399	2.2
Franchise joining fee income	47	0.1	94	0.1
Total	<u>169,565</u>	<u>100.0</u>	<u>108,069</u>	<u>100.0</u>

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

2. COST OF SALES

The cost of sales of the Group was approximately RMB64,948,000 for the six months ended 30 June 2021, representing an increase of approximately RMB18,284,000 or 39.2% as compared to approximately RMB46,664,000 for the six months ended 30 June 2020. The increase in cost of sales was mainly due to the increase in revenue for the Reporting Period.

3. GROSS PROFIT AND GROSS PROFIT MARGIN

For the six months ended 30 June 2021, gross profit of the Group was approximately RMB104,617,000, representing an increase of approximately RMB43,212,000 or 70.4% as compared to approximately RMB61,405,000 for the six months ended 30 June 2020. The gross profit margin increased from approximately 56.8% in 2020 to 61.7% in 2021. The increase in gross profit margin was mainly due to the change in sales mix which led to the increase in proportion of revenue for the products with higher gross profit margin for the Reporting Period.

4. OTHER INCOME

Other net income was mainly comprised of PRC VAT concession refunds, interest income from financial assets, change in fair value of financial assets at fair value through profit or loss, government grants and rental income. Other income was approximately RMB18,489,000 for the six months ended 30 June 2021, representing a decrease of approximately RMB7,183,000 or 28.0% as compared to approximately RMB25,672,000 for the six months ended 30 June 2020. The decrease was mainly due to a decrease in government grants and change in fair value of financial assets at fair value through profit or loss, while partially offset by the increase in PRC VAT concession refunds.

MANAGEMENT DISCUSSION AND ANALYSIS

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 RMB34,064,000 for the six months ended 30 June 2021, representing an increase of approximately RMB4,300,000 or 14.4% as compared to RMB29,764,000 for the six months ended 30 June 2020. This increase was mainly a result of the increase in advertising and promotion expenses and sales commission for the Reporting Period.

6. ADMINISTRATIVE EXPENSES

The administrative expenses of the Group were approximately RMB15,332,000 for the six months ended 30 June 2021, representing an increase of approximately RMB2,731,000 or 21.7% as compared to approximately RMB12,601,000 for the six months ended 30 June 2020. The increase was primarily due to the increase in professional fee and remuneration cost for the Reporting Period.

7. PROFIT FROM OPERATIONS

For the six months ended 30 June 2021, profit from operations for the Group amounted to approximately RMB73,207,000, increased by approximately RMB37,206,000 or 103.3% when compared to approximately RMB36,001,000 for the six months ended 30 June 2020. Increase in profit from operations was mainly due to the increase in gross profit of approximately RMB43,212,000 and decrease in other operating expenses of approximately RMB8,208,000, while partially offset by the decrease in other income of approximately RMB7,183,000, increase in selling and distribution expenses of approximately RMB4,300,000 and increase in administrative expenses of approximately RMB2,731,000 for the six months ended 30 June 2021.

8. FINANCE EXPENSES

For the six months ended 30 June 2021 and 2020, the Group did not have any interest expenses, respectively as there was no bank borrowings during both periods. The finance expenses of approximately RMB164,000 and RMB241,000 for the Reporting Period and for the six months ended 30 June 2020 were related to finance expenses as the Group started to apply the new HKFRS 16 from 1 January 2019.

9. PROFIT BEFORE TAXATION

For the six months ended 30 June 2021, profit before taxation for the Group amounted to approximately RMB73,043,000, increased by approximately RMB37,283,000 or 104.3% when compared to approximately RMB35,760,000 for the six months ended 30 June 2020. Increase in profit before taxation was mainly due to the increase in profit from operations of approximately RMB37,206,000 for the Reporting Period.

10. INCOME TAX EXPENSES

For the six months ended 30 June 2021, income tax expenses for the Group amounted to approximately RMB15,431,000, increased by approximately RMB7,549,000 or 95.8% when compared to approximately RMB7,882,000 for the six months ended 30 June 2020. This increase was mainly due to the increase in profit before taxation for the Reporting Period.

The effective tax rate for the Reporting Period was 21.1% which was lower than 22.0% for the six months ended 30 June 2020 by 0.9% points. Details of income tax expenses are set forth in Note 8 to the unaudited interim financial report.

MANAGEMENT DISCUSSION AND ANALYSIS

11. PROFIT FOR THE PERIOD

As a result of the foregoing, the profit for the six months ended 30 June 2021 was approximately RMB57,612,000, representing an increase of approximately RMB29,734,000 or 106.7% as compared to approximately RMB27,878,000 in the corresponding period of 2020.

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 operations and the bank loan facilities available to the Group, the Directors 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 2021, the Group had cash and bank balances of RMB60,280,000 mainly generated from operations of the Group.

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.

During the Reporting Period, the Group's cash and cash equivalents decreased by approximately RMB35,497,000, which mainly comprised the net cash generated from operating activities with the amount of approximately RMB18,585,000, net cash generated from investing activities with the amount of approximately RMB3,836,000, net cash used in financing activities with the amount of approximately RMB58,171,000, and the positive effect of foreign exchange of approximately RMB253,000. The cash flow details of the Group are set out in page 38 under "Condensed Consolidated Statement of Cash Flows" in this report.

14. CAPITAL STRUCTURE

INDEBTEDNESS

As at 30 June 2021 and during the Reporting Period, the Group did not have any bank loan.

GEARING RATIO

As at 30 June 2021 and 31 December 2020, the Group did not have any bank loan. The calculation of gearing ratio was not meaningful.

PLEDGE OF ASSETS

As at 30 June 2021, the Group did not have any assets pledged to the banks (as at 31 December 2020: 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 RMB8,809,000 and RMB2,034,000 for the Reporting Period and the six months ended 30 June 2020 respectively.

FOREIGN EXCHANGE RISK

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

MANAGEMENT DISCUSSION AND ANALYSIS

15. CONTINGENT LIABILITIES, LEGAL AND POTENTIAL PROCEEDINGS

As at 30 June 2021, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

16. MAJOR ACQUISITION AND DISPOSAL

For the six months ended 30 June 2021, 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.

FUTURE OUTLOOK

1. Unrelenting efforts in Pandemic prevention and control: our practical and unwavering attitude in combating the Pandemic is the foundation upon which we ensure our order supply and sustain market boom. As long as the risk of Pandemic exists, we will stay highly alert, persist in our efforts and never relax.
2. Strategically safeguarding the raw material reserves: since the outbreak of the Pandemic at the beginning of last year, domestic importers of raw materials have raised their prices, while the costs of materials and logistics have also increased significantly because of the scarcity of raw material resources resulting from the stringent measures taken by the PRC government to guard against imported cases, which have prevented the return of containers and hence the incoming of resources. As aforementioned, benefited from the continuous implementation of the Group’s strategic raw material reserve plan, we have been able to secure market orders under the Pandemic since the beginning of last year. Therefore, we shall never let down our guard, or else we may not have enough products to satisfy market demand, just as the cases of other industry peers.
3. Increasing efforts in fighting against counterfeits and illegal online sales: while conducting associated tracking for product and packaging customer information and standardizing the franchising system, we will also endeavour to combat and investigate clues of the online sales of other products, counterfeits or inferior products under the brand of Carpenter Tan. Meanwhile, we will avoid making the cases widely known so as to protect our own brand.
4. Cost management: on one hand, we will optimize and establish financial auditing rules that fit the characteristics of the raw materials and processes of our Company and further refine them to fit an accurate product category and specific model, so as to provide grounds for marketing and decision making. On the other hand, whilst ensuring the accuracy of auditing to the greatest extent, we will strive for better internal control for our craftsmanship and working processes to reduce costs, in order to gain competitive advantage and secure reasonable profits. Despite our incessant efforts in these two tasks, we have encountered numerous problems and the results have been far from satisfactory. They will remain our major tasks in the second half of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

5. Technological innovations: who are going to manufacture combs? It is a question that we must answer and a hurdle that we must overcome. Through promoting technological development and innovations, the Group has implemented automation in many preliminary rough processing procedures and partial deep processing procedures, which effectively lowers the difficulty and labor demand of the tasks. However, the changes in product structure of the Group have resulted in an increasing proportion of products with more sophisticated craftsmanship, leading to a significant increase in the workload for handcraft and precision processing. The increase in labor demand has offset its decrease. Meanwhile, as the Group steps up its efforts in anti-counterfeiting, appearance effect, after-sales maintenance and other tasks, new working processes such as anti-counterfeit labels, skin plastic packaging, professional maintenance station and chip embedment have been introduced, which, together with the increase in the number of employees who have reached the retirement age, pushes up the demand for labor. The Group has formulated a three-year development plan with annual targets for technological development and innovations. We will strictly follow the plan, pay attention to the new changes in market demand and product structure, and make appropriate and timely adjustments to the direction of technological development. In the meantime, we will avail ourselves of the incentive mechanism in respect of technological advancement, craftsmanship innovation and intellectual property to boost the motivation and creativity of our technicians and create value for the Group.
6. Integrated governance: the Group will abide by the laws and regulations in the PRC in such aspects as labor, safety, environmental protection and occupational health and prevent negative events that will harm the Group's brand. We will also support and accomplish works that will facilitate brand precipitation and add value, so as to maintain the Group's brand image and enhance its brand value.

HUMAN RESOURCES AND TRAINING

As at 30 June 2021, the Group had a total of 965 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 staffs, the Group provided the staffs various on-job training in various forms such as face to face teaching and examination to consolidate and spread the corporate culture of Carpenter Tan.

OTHER INFORMATION

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in (i) the design, manufacture and distribution of small size wooden accessories which are mainly made of natural wood and designed with traditional Chinese cultural features and with high artistic qualities; (ii) the operation of a franchise and distribution network primarily in China; and (iii) the operation of retailing shops for direct sale of its products in Hong Kong and China. The Group's products are mainly classified into four categories, namely (i) wooden or horn combs such as coloured drawing combs, grass-and-tree dyed wooden combs and carved combs; (ii) pocket-size wooden mirrors such as coloured drawing mirrors and carved mirrors; (iii) other wooden accessories and adornments such as bead bracelets (香珠手鏈), pendants (鏈墜), barrettes (髮夾), hair bobs (髮簪) and massage tools; and (iv) box sets which combine its different products featured in themes for gift purpose. The Group's products are mainly sold under the brand name of "Carpenter Tan" (譚木匠).

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the six months ended 30 June 2021, 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 2021, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "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 the 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%

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 30 June 2021, the interests and long positions of every person 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 (the "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.

OTHER INFORMATION

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

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Group shall not exceed 10% of the shares in issue from time to time. As at 30 March 2021 and 31 August 2021, being the dates of the 2020 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 (the “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.

OTHER INFORMATION

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 2020, the Company had granted to certain eligible participants (the "Grantees"), a total of 900,000 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 2020 is as follows:

Grantees	Position held with the Group	Date of grant	Option period (Note 1)	Exercise price per share (HK\$) (Note 2)	Number of Share Options					Approximate percentage of the Company's total issued share capital
					Outstanding as at 1 January 2021	Granted during the period	Cancelled during the period	Lapsed during the period	Outstanding as at 30 June 2021	
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 Keja	Sales Controller	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%
					<u>700,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>700,000</u>	<u>0.28%</u>

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 2020, the Group had capital commitments contracted but not provided for acquisition of property, plant and equipment of approximately RMB1,087,000 (as at 31 December 2019: RMB942,000).

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 20 May 2021, the Company declared a final dividend of HK19.58 cents per share for the year ended 31 December 2020 amounting to an aggregate of approximately HK\$48,698,000 (equivalent to approximately RMB40,540,000) to the shareholders of the Company. The final dividend was paid on 29 June 2021 by the internal cash resources of the Company.

The Board resolved not to recommend the payment of any interim dividend for the six months ended 30 June 2021 (2020: 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 of 30 June 2021, the Group had used net proceeds of approximately RMB64,090,000, of which approximately RMB25,391,000 had been applied for enhancement of the Group's design and product development and enhancement for operational efficiency, approximately RMB12,696,000 for enhancement for sales network and sales support services, approximately RMB15,000,000 for construction of logistic center and production base and approximately RMB11,003,000 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.

ACQUISITION OF EQUITY INTERESTS IN AN INDIRECT SUBSIDIARY

As disclosed in the announcements of the Company dated 14 January 2021 and 20 January 2021, on 14 January 2021, Chongqing Carpenter Tan and Jurong Yuechang Travel entered into a transfer agreement, pursuant to which Chongqing Carpenter Tan agreed to purchase, and Jurong Yuechang Travel agreed to sell, 9.09% equity interest in Jiangsu Carpenter Tan for a consideration of RMB15,873,000. On 8 March 2021, Jiangsu Carpenter Tan became an indirect wholly-owned subsidiary of the Company. Please refer to the announcements of the Company dated 14 January 2021 and 20 January 2021 for further details.

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 INFORMATION

MODEL CODE 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 2021. 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 auditors 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 auditors.

The audit committee currently comprises the three independent non-executive Directors, namely, Mr. Yang Yang, Ms. 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 financial information in this interim report has not been audited by the auditor of the Company. 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 2021 with the management of the Group and agreed with the accounting treatment adopted by the Company, and was of the opinion that the preparation of the financial statements in this interim report complies with the applicable accounting standards and the requirements under the Listing Rules and adequate disclosures have been made.

OTHER INFORMATION

EVENTS AFTER THE REPORTING PERIOD

The outbreak of the Pandemic continued to bring about additional uncertainties in the Group's operating environment and may impact the Group's operations and financial position. The Group has been closely monitoring the impact from the Pandemic on the Group's businesses and will take all necessary and appropriate measures to reduce the impact of the Pandemic to the Group. Based on the information currently available, the Directors have confirmed that there has been no material adverse change in the financial or trading position of the Group up to the date of this report.

Saved as disclosed above, 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 2021 will be duly despatched to shareholders of the Company and published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.ctans.com>).

By order of the Board
Carpenter Tan Holdings Limited
Tan Chuan Hua
Chairman

Hong Kong, 31 August 2021

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Notes	Six months ended 30 June	
		2021 (unaudited) RMB'000	2020 (unaudited) RMB'000
Revenue	6	169,565	108,069
Cost of sales		(64,948)	(46,664)
Gross profit		104,617	61,405
Other income	6	18,489	25,672
Selling and distribution expenses		(34,064)	(29,764)
Administrative expenses		(15,332)	(12,601)
Other operating expenses		(503)	(8,711)
Profit from operations		73,207	36,001
Finance expenses		(164)	(241)
Profit before taxation	7	73,043	35,760
Income tax	8	(15,431)	(7,882)
Profit for the period		57,612	27,878
Attributable to			
Owners of the Company		56,867	26,808
Non-controlling interests		745	1,070
Profit for the period		57,612	27,878
Earnings per share			
Basic and diluted	9	RMB22.9 cents	RMB10.8 cents

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Six months ended 30 June	
	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000
Profit for the period	57,612	27,878
Other comprehensive income for the period		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of functional currency to presentation currency	263	(34)
Total comprehensive income for the period	57,875	27,844
Attributable to		
Owners of the Company	57,130	26,774
Non-controlling interests	745	1,070
Total comprehensive income for the period	57,875	27,844

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

	Notes	30 June 2021 (unaudited) RMB'000	31 December 2020 (audited) RMB'000
Non-current assets			
Property, plant and equipment	10(a)	67,380	60,920
Investment properties	10(b)	101,240	101,240
Right-of-use assets		34,075	36,787
		<u>202,695</u>	<u>198,947</u>
Current assets			
Inventories		186,471	159,404
Trade receivables	11	3,284	3,714
Financial assets at fair value through profit or loss	12	253,000	264,000
Other receivables, deposits and prepayments		18,011	12,573
Cash and bank balances	13	60,280	95,777
		<u>521,046</u>	<u>535,468</u>
Current liabilities			
Trade payables	14	4,460	4,114
Other payables and accruals		38,896	50,479
Lease liabilities		1,654	3,308
Income tax payable		28,351	29,013
		<u>(73,361)</u>	<u>(86,914)</u>
Net current assets		<u>447,685</u>	<u>448,554</u>
Total assets less current liabilities		<u>650,380</u>	<u>647,501</u>
Non-current liabilities			
Lease liabilities		4,627	4,567
Deferred tax liabilities		24,587	23,195
Deferred income		565	600
		<u>(29,779)</u>	<u>(28,362)</u>
NET ASSETS		<u>620,601</u>	<u>619,139</u>
Capital and reserves			
Share capital	16	2,189	2,189
Reserves		615,309	604,035
Equity attributable to owners of the Company		<u>617,498</u>	<u>606,224</u>
Non-controlling interests		<u>3,103</u>	<u>12,915</u>
TOTAL EQUITY		<u>620,601</u>	<u>619,139</u>

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2021

		Attributable to owners of the Company										
		Share capital	Share premium	Capital reserve	Statutory reserves	Other reserves	Property revaluation reserve	Equity settled share-based payment reserve	Currency translation reserve	Retained profits	Non-controlling interests	Total
Notes		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	At 1 January 2020 (audited)	2,189	110,503	10,005	57,947	17,542	12,245	192	(16,788)	394,969	7,800	596,604
	Profit for the period	-	-	-	-	-	-	-	-	26,808	1,070	27,878
	Exchange differences arising on translation of functional currency to presentation currency	-	-	-	-	-	-	-	(34)	-	-	(34)
	Total comprehensive income for the period	-	-	-	-	-	-	-	(34)	26,808	1,070	27,844
	Dividends	15	-	-	-	-	-	-	-	(62,502)	-	(62,502)
	At 30 June 2020 (unaudited)	<u>2,189</u>	<u>110,503</u>	<u>10,005</u>	<u>57,947</u>	<u>17,542</u>	<u>12,245</u>	<u>192</u>	<u>(16,822)</u>	<u>359,275</u>	<u>8,870</u>	<u>561,946</u>
	At 1 January 2021 (audited)	2,189	110,503	10,275	58,211	17,542	12,245	268	(16,312)	411,303	12,915	619,139
	Profit for the period	-	-	-	-	-	-	-	-	56,867	745	57,612
	Exchange differences arising on translation of functional currency to presentation currency	-	-	-	-	-	-	-	263	-	-	263
	Total comprehensive income for the period	-	-	-	-	-	-	-	263	56,867	745	57,875
	Dividends	15	-	-	-	-	-	-	-	(40,540)	-	(40,540)
	Equity transaction with non-controlling interest	19	-	-	-	-	-	-	-	(5,316)	(10,557)	(15,873)
	At 30 June 2021 (unaudited)	<u>2,189</u>	<u>110,503</u>	<u>10,275</u>	<u>58,211</u>	<u>17,542</u>	<u>12,245</u>	<u>268</u>	<u>(16,049)</u>	<u>422,314</u>	<u>3,103</u>	<u>620,601</u>

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

	Six months ended 30 June	
	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000
Operating activities		
Cash generated from operations	32,893	7,324
Interest received	393	39
Income tax paid, net	(14,701)	(19,185)
Net cash generated from/(used in) operating activities	18,585	(11,822)
Investing activities		
Purchase of property, plant and equipment	(987)	(272)
Proceeds from disposal of property, plant and equipment	–	57
Purchase of construction in progress	(7,822)	(1,762)
Payment for purchase of financial assets at fair value through profit or loss	(183,000)	(282,700)
Proceeds from matured financial assets at fair value through profit or loss	195,645	499,977
Net cash generated from investing activities	3,836	215,300
Financing activities		
Dividend paid	(40,540)	(210,508)
Capital element of lease rentals paid	(1,594)	(2,662)
Interest element of lease rentals paid	(164)	(241)
Equity transactions with non-controlling shareholders	(15,873)	–
Net cash used in financing activities	(58,171)	(213,411)
Net decrease in cash and cash equivalents	(35,750)	(9,933)
Cash and cash equivalents at 1 January	95,777	39,380
Effect of foreign exchange rate changes, net	253	(5,018)
Cash and cash equivalents at 30 June	60,280	24,429

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2021

1. GENERAL INFORMATION

Carpenter Tan Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 20 June 2006 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 Building 10, Shang Island, No. 7 Dongchangzhong 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 2020 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which term collectively includes HKASs and Interpretations issued by the HKICPA.

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 2020, except as described below.

The Group has applied the following amendments to HKFRSs issued by the HKICPA to this interim financial report for the current accounting period:

Amendment to HKFRS 16	Covid-19-related rent concessions beyond 30 June 2021
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest rate benchmark reform – Phase 2

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The application of the above amendments in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Save as disclosed in the annual report for the year ended 31 December 2020, the Directors of the Company anticipate that the application of the other new and revised standards and amendments issued but not yet effective will have no material impact on the results and financial position of the Group.

4. SEGMENT REPORTING

Operating segments are identified on the basis of internal reports which provide information about the components of the Group. The information is reported to and reviewed by the Board of Directors, which is the chief operating decision maker ("CODM") of the Group, for the purpose of resources allocation and performance assessment.

Management considers the business from a product perspective and assesses its performance based on revenues derived from a broad range of sales of wooden handicrafts and accessories. Over 90% of the Group's revenue, results and assets are derived from a single 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.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 (Mother's Day), September (Teacher Day), October (National Day), November (Double Eleven) and December (Christmas and 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 joining fee income. An analysis of the Group's revenue and other income for the period is as follows:

	Six months ended 30 June	
	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000
Revenue		
Sales of goods	169,518	107,975
Franchise joining fee income	47	94
	169,565	108,069
Other income		
Government grants (note (i))	98	4,582
Interest income from financial assets	393	39
Change in fair value of financial assets at fair value through profit or loss	1,646	11,838
PRC VAT concession refunds (note 8 (v))	12,230	5,085
Rental income from investment properties	3,147	2,716
COVID-19-related rent concessions received	4	–
Net foreign exchange gain	527	–
Reversal of write-down of inventories	–	3
Reversal of loss allowance on trade receivables	41	–
Others	403	1,409
	18,489	25,672
	188,054	133,741

Note

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2021

7. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000
Cost of inventories (note (i))	64,948	46,664
Write-down of inventories	1,239	1,255
Reversal of write-down of inventories (note (ii))	–	(3)
Depreciation		
– property, plant and equipment	2,346	2,152
– right-of-use assets	2,246	3,768
Loss allowance on trade and other receivables	44	323
Net loss on disposal of property, plant and equipment	3	3
Staff costs (including directors' emoluments)	38,300	29,334
Reversal of provision of sales returns	(951)	(1,104)
Gross rental income from investment properties	(3,061)	(2,716)
Less: Direct outgoings incurred for investment properties that generated rental income during the period	397	292
Net rental income	(2,664)	(2,424)

Notes:

- i) Cost of inventories includes approximately RMB24,560,000 (2020: RMB16,512,000) relating to staff costs and depreciation, which are included in the respective total amounts disclosed separately above.
- ii) Reversal of write-down of inventories relates to the utilisation and sales of the obsolete or slow-moving inventories that had been written down in previous years.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2021

8. INCOME TAX

	Six months ended 30 June	
	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000
Current tax		
PRC Enterprise Income Tax (notes 8(i) and (ii))	12,012	5,724
Hong Kong profits tax (note 8(iii))	–	–
Withholding tax on dividends (note 8(iv))		
– Provision for the period	2,027	3,125
	14,039	8,849
Under provision in prior years, net		
PRC Enterprise Income Tax	–	–
Deferred tax		
Transfer to current tax upon distribution of dividends	(2,027)	(3,125)
Provision for the period (note 8(iv))	3,419	2,158
	15,431	7,882
Total		

Notes:

- i) 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% (2020: 25%), except for Carpenter Tan which is eligible for the income tax concessions according to the preferential tax policies.
- ii) 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.
- iii) No provision for Hong Kong profits tax has been made for the period ended 30 June 2021 and 2020 as the subsidiaries did not have assessable profits subject to Hong Kong profits tax for these periods.
- iv) 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 31 December 2020, the relevant formalities for the reduced tax rate have been completed. The management consulted with PRC lawyers and assessed that the Group was entitled to 5% withholding income tax rate since 2019.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2021

8. INCOME TAX (Continued)

Notes: (Continued)

- v) 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, a wholly-owned subsidiary of the Group, 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 since 24 November 2016.

The Group recognised the VAT refund in the Group's 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.

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 in issue during the period:

i) PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

	Six months ended 30 June	
	2021	2020
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Earnings used in calculating basic earnings per share	<u>56,867</u>	<u>26,808</u>

ii) WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES

	Number of shares	
	Six months ended 30 June	
	2021	2020
	(unaudited)	(unaudited)
	'000	'000
Weighted average number of ordinary shares in issue	<u>248,714</u>	<u>248,714</u>
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>248,714</u>	<u>248,714</u>

B) DILUTED EARNINGS PER SHARE

The diluted earnings per share is the same as the basic earnings per share during the six months ended 30 June 2021 and 2020 because that the exercise of the share options granted was higher than the weighted average market price of the Company's shares during the six months ended 30 June 2021 and 2020.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2021

10. FIXED ASSETS

A) ACQUISITIONS AND DISPOSALS

During the six months ended 30 June 2021, the Group acquired items of property, plant and equipment with a cost of RMB8,809,000 (31 December 2020: RMB4,561,000). Items of property, plant and equipment with a total carrying amount of RMB78,000 (31 December 2020: RMB82,000) were disposed of during the six months ended 30 June 2021.

B) VALUATION

The Group's investment properties were not revalued as at 30 June 2021 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 2020 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 loss allowance based on invoice date, which approximates the respective revenue recognition date, is as follows:

	At 30 June 2021 (unaudited) RMB'000	At 31 December 2020 (audited) RMB'000
0 to 30 days	2,667	3,205
31 to 60 days	197	91
61 to 90 days	56	133
91 to 180 days	11	56
181 to 365 days	96	15
Over 1 year	257	214
	<u>3,284</u>	<u>3,714</u>

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

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2021

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30 June 2021 (unaudited) RMB'000	At 31 December 2020 (audited) RMB'000
Principal Guaranteed Wealth Management Products, at fair value (Note)	<u>253,000</u>	<u>264,000</u>

Note: The amount represents investment in principal guaranteed wealth management products issued by licensed banks in the PRC with expected return ranging from 1.40% to 3.69% per annum (31 December 2020: 2.15% to 3.05% per annum). Financial assets of RMB253,000,000 (31 December 2020: RMB264,000,000) are with maturity of within one year.

13. CASH AND BANK BALANCES

	At 30 June 2021 (unaudited) RMB'000	At 31 December 2020 (audited) RMB'000
Cash and bank balances in the condensed consolidated statement of financial position and condensed consolidated statement of cash flows	<u>60,280</u>	<u>95,777</u>

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

As at 30 June 2021, the balances that were placed with banks in the PRC amounted to approximately RMB54,204,000 (31 December 2020: RMB92,196,000). 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 is as follows:

	At 30 June 2021 (unaudited) RMB'000	At 31 December 2020 (audited) RMB'000
0 to 30 days	3,167	3,339
31 to 60 days	693	207
61 to 90 days	60	1
91 to 180 days	37	103
181 to 365 days	-	71
Over 1 year	503	393
	<u>4,460</u>	<u>4,114</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2021

15. DIVIDENDS

- i) The directors resolved not to recommend the payment of any interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: 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	
	2021 (unaudited) RMB'000	2020 (unaudited) RMB'000
Final dividend in respect of the financial year ended 31 December 2020, approved and paid during the current interim period, of HK19.58 cents, equivalent to RMB16.30 cents per ordinary shares (2020: in respect of the financial year ended 31 December 2019, approved and paid during the period ended 30 June 2020, of HK28.04 cents, equivalent to RMB25.13 cents per ordinary share)	<u>40,540</u>	<u>62,502</u>
No special dividend (2020: Special dividend of HK67.15 cents, equivalent to RMB59.51 cents per ordinary share paid during the period ended 30 June 2020)	<u>-</u>	<u>148,006</u>

16. SHARE CAPITAL

	Number of shares	Amount HK\$	Amount equivalent to RMB
Ordinary shares of HK\$0.01			
Authorised:			
At 1 January 2020, 31 December 2020, 1 January 2021 and 30 June 2021	<u>10,000,000,000</u>	<u>100,000,000</u>	<u>87,926,000</u>
Issued and fully paid:			
At 1 January 2020, 31 December 2020, 1 January 2021 and 30 June 2021	<u>248,714,000</u>	<u>2,487,140</u>	<u>2,189,160</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 condensed 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 at 30 June 2021 (unaudited) RMB'000	Fair value measurements as at 30 June 2021 categorised into		
	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	253,000	—	253,000

Fair value at 31 December 2020 (audited) RMB'000	Fair value measurements as at 31 December 2020 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	264,000	—	264,000

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2021

17. FINANCIAL INSTRUMENTS *(Continued)*

FAIR VALUE *(Continued)*

FAIR VALUE HIERARCHY (Continued)

During the period ended 30 June 2021 and 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of the fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurements

The fair value of the Group's financial assets in Level 3 is determined by discounting the contractual price of financial assets. The discount rate used is derived from the expected return which is significant unobservable inputs and is ranging from 1.5% to 4.4%. The fair value measurement is positively correlated to the expected returns.

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

	Six months ended 30 June 2021 (unaudited) RMB'000	Year ended 31 December 2020 (audited) RMB'000
At the beginning of the period/year	264,000	447,584
Additions	183,000	1,108,566
Change in fair value	1,645	16,666
Maturity	(195,645)	(1,308,816)
At the end of the period/year	253,000	264,000

18. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2021 and 31 December 2020.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2021

19. EQUITY TRANSACTIONS WITH NON-CONTROLLING SHAREHOLDERS

ACQUISITION OF EQUITY INTERESTS IN AN INDIRECT SUBSIDIARY

On 14 January 2021, a subsidiary of the Group, Chongqing Carpenter Tan, entered into the Equity Transfer Agreement with Jurong Yuechang Travel, a company owned by Mr. Tan Chuan Hua, who is executive Director and Chairman of the Group, to acquire 9.09% equity interest of Jiangsu Carpenter Tan at a consideration of RMB15,873,000. On 8 March 2021, the transaction was completed. The Group held 100% equity of Jiangsu Carpenter Tan. Jiangsu Carpenter Tan became a wholly-owned subsidiary of the Group.

The Group recognized a net decrease in non-controlling interests of RMB10,557,000 and an aggregate decrease in equity attributable to owners of the Company of RMB5,316,000 for the period ended 30 June 2021. The effects on the equity attributable to the owners of the Group during the period is summarized as follows:

	Acquisition of 9.09% equity interest in Jiangsu Carpenter Tan HK\$'000
Carrying amounts of non-controlling interests decreased	10,557
Less: Consideration paid by cash to the non-controlling shareholder for acquiring 9.09% of the issued shares of Jiangsu Carpenter Tan	<u>(15,873)</u>
Deficiency of carrying amounts recognized in the equity transactions with non-controlling interests within equity of the Group	<u><u>(5,316)</u></u>

There were no equity transactions with non-controlling interests in 2020.

20. EVENTS AFTER THE REPORTING PERIOD

OUTBREAK ON NOVEL CORONAVIRUS (“COVID-19”)

The outbreak of the Pandemic continued to bring about additional uncertainties in the Group’s operating environment and may impact the Group’s operations and financial position. The Group has been closely monitoring the impact from the Pandemic on the Group’s businesses and will take all necessary and appropriate measures to reduce the impact of the Pandemic to the Group. Based on the information currently available, the Directors have confirmed that there has been no material adverse change in the financial or trading position of the Group up to the date of this report.