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CARPENTER TAN HOLDINGS LIMITED

譚木匠控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 837)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

RESULTS HIGHLIGHTS

- Revenue decreased by 36.6% to approximately RMB108,069,000 (2019: RMB170,355,000).
- Gross profit decreased by 42.3% to approximately RMB61,405,000 (2019: RMB106,432,000).
- Gross profit margin was approximately 56.8%, representing a decrease of 5.7% point (2019: 62.5%).
- Profit for the six months ended 30 June 2020 decreased by 61.8% to approximately RMB27,878,000 (2019: RMB73,046,000).
- Profit attributable to owners of the Company decreased by 63.3% to approximately RMB26,808,000 (2019: RMB73,046,000).
- Earnings per share was approximately RMB10.8 cents (2019: RMB29.4 cents).
- The Board resolved not to recommend the payment of any interim dividend for the six months ended 30 June 2020 (2019: nil).

The board (the “**Board**”) of directors (the “**Directors**”) of Carpenter Tan Holdings Limited (the “**Company**”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2020 (the “**Reporting Period**”) together with the comparative figures for the six months ended 30 June 2019 with the selected notes as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE SIX MONTHS ENDED 30 JUNE 2020

		Six months ended 30 June	
	<i>Note</i>	2020	2019
		(unaudited)	(unaudited)
		RMB'000	RMB'000
Revenue	<i>6</i>	108,069	170,355
Cost of sales		<u>(46,664)</u>	<u>(63,923)</u>
Gross profit		61,405	106,432
Other income	<i>6</i>	25,672	29,147
Selling and distribution expenses		(29,764)	(25,737)
Administrative expenses		(12,601)	(16,248)
Other operating expenses		<u>(8,711)</u>	<u>(5,874)</u>
Profit from operations		36,001	87,720
Finance expense		<u>(241)</u>	<u>(328)</u>
Profit before taxation	<i>7</i>	35,760	87,392
Income tax	<i>8</i>	<u>(7,882)</u>	<u>(14,346)</u>
Profit for the period		<u>27,878</u>	<u>73,046</u>
Attributable to			
Owners of the Company		26,808	73,046
Non-controlling interests		<u>1,070</u>	<u>—</u>
Profit for the period		<u>27,878</u>	<u>73,046</u>
Earnings per share			
Basic and diluted	<i>9</i>	<u>RMB10.8 cents</u>	<u>RMB29.4 cents</u>

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 2020

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Profit for the period	27,878	73,046
Other comprehensive income for the period		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of functional currency to presentation currency	<u>(34)</u>	<u>3,284</u>
Total comprehensive income for the period	<u>27,844</u>	<u>76,330</u>
Attributable to		
Owners of the Company	26,774	76,330
Non-controlling interests	<u>1,070</u>	<u>–</u>
Total comprehensive income for the period	<u>27,844</u>	<u>76,330</u>

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020

	<i>Note</i>	30 June 2020 (unaudited) RMB'000	31 December 2019 (audited) RMB'000
Non-current assets			
Property, plant and equipment	10(a)	60,364	60,539
Investment properties	10(b)	101,240	101,240
Right-of-use assets		38,340	42,019
		<u>199,944</u>	<u>203,798</u>
Current assets			
Inventories		167,470	153,072
Trade receivables	11	5,417	4,799
Financial assets at fair value through profit or loss	12	242,145	447,584
Other receivables, deposits and prepayments		19,225	18,892
Cash and bank balances	13	24,429	39,380
		<u>458,686</u>	<u>663,727</u>
Current liabilities			
Trade payables	14	3,009	3,098
Other payables and accruals		36,137	196,288
Lease liabilities		4,179	4,977
Income tax payable		24,092	34,428
		<u>(67,417)</u>	<u>(238,791)</u>
Net current assets		<u>391,269</u>	<u>424,936</u>
Total assets less current liabilities		591,213	628,734
Non-current liabilities			
Lease liabilities		5,787	7,651
Deferred tax liabilities		22,880	23,847
Deferred income		600	632
		<u>(29,267)</u>	<u>(32,130)</u>
NET ASSETS		<u>561,946</u>	<u>596,604</u>
Capital and reserves			
Share capital	16	2,189	2,189
Reserves		<u>550,887</u>	<u>586,615</u>
Equity attributable to owners of the Company		553,076	588,804
Non-controlling interests		8,870	7,800
TOTAL EQUITY		<u>561,946</u>	<u>596,604</u>

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

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 2019 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.

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 2019, except as described below.

In the current interim period, the Group has adopted and applied, for the first time, the following amendments to HKFRSs issued by the HKICPA:

Amendments to HKFRS 3	<i>Definition of a business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The application of the above amendments in the current interim 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 2019, 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.

5. SEASONALITY OF OPERATIONS

In general, the Group has experienced seasonal fluctuations in sales. It records higher sales in March to April and September to December, while lower sales are recorded in July. The directors consider that such seasonality effect is the result of the increased purchases made by the franchisees prior to festivals/holidays so as to prepare for the peak seasons of their retail business during festivals/holidays in May (Labour Day), October (National Day), December (Christmas and New Year) and January/February (Lunar New Year).

6. REVENUE AND OTHER INCOME

Revenue represents the net invoiced value of goods sold to customers, less value added tax and sales tax, returns and allowances, and franchise fee income. An analysis of the Group's revenue and other income for the period is as follows:

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Revenue		
Sales of goods	107,975	170,034
Franchise fee income	94	321
	108,069	170,355
Other income		
Government grants (<i>note (i)</i>)	4,582	595
Interest income from financial assets	39	117
Change in fair value of financial asset at fair value through profit or loss	11,838	11,454
PRC VAT concession refunds (<i>note 8 (vii)</i>)	5,085	12,059
Rental income from investment properties	2,716	3,849
Gain on sales of raw materials	—	7
Net foreign exchange gain	—	69
Reversal of write-down of inventories	3	—
Reversal of loss allowance on trade receivables	—	1
Others	1,409	996
	25,672	29,147
	133,741	199,502

Note

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

7. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Cost of inventories (<i>note (i)</i>)	46,664	63,923
Write-down of inventories	1,255	1,349
Reversal of write-down of inventories (<i>note (ii)</i>)	(3)	—
Depreciation		
– property, plant and equipment	2,152	1,517
– right-of-use assets	3,768	2,606
Loss allowance on trade and other receivables	323	26
Net loss on disposal of property, plant and equipment	3	21
Staff costs (including directors' emoluments)	29,334	32,487
Reversal of provision of sales return	(1,104)	(829)
Gross rental income from investment properties	(2,716)	(3,849)
Less: Direct outgoings incurred for investment properties that generated rental income during the period	292	468
Net rental income	(2,424)	(3,381)

Notes:

- i) Cost of inventories includes approximately RMB16,512,000 (2019: RMB20,192,000) 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.

8. INCOME TAX

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Current tax		
PRC Enterprise Income Tax (<i>notes 8(i), (ii), (iii) and (vii)</i>)	5,724	14,228
Hong Kong profits tax (<i>note 8(v)</i>)	—	—
Withholding tax on dividends (<i>note 8(vi)</i>)		
– Provision for the period	3,125	6,417
	8,849	20,645
Under provision in prior years, net		
PRC Enterprise Income Tax	—	—
Deferred tax		
Transfer to current tax upon distribution of dividends	(3,125)	(6,417)
Provision for the period (<i>note 8(vi)</i>)	2,158	118
Total	7,882	14,346

Notes:

- i) Chongqing Wanzhou District Zi Qiang Wood Works Co., Ltd (“Zi Qiang Wood Works”), a wholly-owned subsidiary of the Company, is a registered social welfare enterprise since 29 April 2004. Pursuant to the notice on preferential tax policies to social welfare enterprise issued by the State Administration of Taxation of the PRC (the “SAT”), Ministry of Finance of the PRC that, with effect from 1 October 2006, Zi Qiang Wood Works is entitled to income tax concessions on a double deduction of salaries paid to its employees with disabilities, and VAT refund which is equivalent to the number of employees with disabilities multiplied by a specified annual cap amount as determined by the SAT. At the beginning of 2018, Zi Qiang Wood Works was dormant and had transferred its staff to a fellow subsidiary, Chongqing Carpenter Tan Handicrafts Co., Ltd (“Carpenter Tan”), which also registered as social welfare enterprise since 24 November 2016 (note vii). Since no salary were paid by Zi Qiang Wood Works to its employees with disabilities, thus Zi Qiang Wood Works was no longer entitled to all the income tax concessions mentioned above. In 2019, Zi Qiang Wood Works was deregistered.
- ii) On 6 April 2012, the SAT issued notice No. 12 which specified that enterprises fall under the categories of several other published lists of encouraged business activities prior to the announcement of the list of national encouraged business activities in the western region can apply for the concessionary Enterprise Income Tax rate of 15% from 2011 in accordance with Caishui (2011) No. 58. Such concession will be revoked if the enterprises subsequently do not meet the requirement.

On 29 May 2012, both Zi Qiang Wood Works and Chongqing Carpenter Tan Handicrafts Co., Ltd (“Carpenter Tan”), wholly-owned subsidiaries, obtained the approval from Wanzhou Bureau of the State Administration of Taxation under notice No. 12 to enjoy concessionary Enterprise Income Tax rate of 15% from 1 January 2011 to 31 December 2020. Since Zi Qiang Wood Works was dormant during 2018, Zi Qiang Wood Works was not entitled to enjoy concessionary Enterprise Turnover Tax rate of 15% for the year ended 31 December 2018. In 2019, Zi Qiang Wood Works was deregistered.

- iii) The provision for PRC income tax is calculated on the assessable profits of the Group’s subsidiaries incorporated in the PRC at a statutory income tax rate of 25% (2019: 25%), except for Carpenter Tan which is eligible for the income tax concessions according to the preferential tax policies as stated in note 8(ii) above.
- iv) The Company is incorporated in the Cayman Islands and is exempted from income tax in the Cayman Islands. The Company’s subsidiary established in the British Virgin Islands is exempted from income tax in the British Virgin Islands.
- v) No provision for Hong Kong profits tax has been made for the period ended 30 June 2020 and 2019 as the subsidiaries did not have assessable profits subject to Hong Kong profits tax for these periods.
- vi) Under the Enterprise Income Tax Law of the PRC, with effect from 1 January 2008 onwards, non-resident enterprises without an establishment or place of business in the PRC or which have an establishment or place of business but the relevant income is not effectively connected with the establishment or place of business in the PRC will be subject to withholding income tax at the rate of 10% on various types of passive income such as dividends derived from sources in the PRC. Pursuant to the double tax arrangement between the PRC and Hong Kong effective on 1 January 2007, the withholding income tax rate may be reduced to 5% if the investment by the Hong Kong investor in the investee entities in the PRC is not less than 25%. On 22 February 2008, the SAT approved Caishui (2008) No. 1, pursuant to which dividend distributions out of retained earnings of foreign investment enterprises prior to 31 December 2007 will be exempted from withholding income tax.

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

As at 31 December 2019, 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.

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

The Group recognised the VAT refund in the Group's 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 outstanding:

i) Profit attributable to owners of the Company

	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Earnings used in calculating basic earnings per share	26,808	73,046

ii) Weighted average number of ordinary shares

	Number of shares	
	Six months ended 30 June	
	2020	2019
	(unaudited)	(unaudited)
	'000	'000
Weighted average number of ordinary shares in issue	248,714	248,714
Weighted average number of ordinary shares for the purpose of basic earnings per share	248,714	248,714

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 2020 and 2019 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 2020 and 2019.

10. FIXED ASSETS

a) Acquisitions and disposals

During the six months ended 30 June 2020, the Group acquired items of property, plant and equipment with a cost of RMB2,034,000 (31 December 2019: RMB4,129,000). Items of property, plant and equipment with a total carrying amount of RMB62,000 (31 December 2019: RMB124,000) were disposed of during the six months ended 30 June 2020.

b) Valuation

The Group's investment properties were not revalued as at 30 June 2020 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 2019 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 2020 (unaudited) RMB'000	At 31 December 2019 (audited) RMB'000
0 to 30 days	4,398	2,992
31 to 60 days	413	37
61 to 90 days	187	879
91 to 180 days	90	630
181 to 365 days	147	198
Over 1 year	182	63
	<u>5,417</u>	<u>4,799</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.

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

	At 30 June 2020 (unaudited) RMB'000	At 31 December 2019 (audited) RMB'000
Principal Guaranteed Wealth Management Products, at fair value (Note)	<u>242,145</u>	<u>447,584</u>

Note: The amount represents investment in principal guaranteed wealth management products issued by licensed banks in the PRC with expected return ranging from 1.5% to 4.4% per annum (31 December 2019: 2.9% to 4.4% per annum). Financial assets of RMB242,145,000 (31 December 2019: RMB447,584,000) is with maturity of within one year.

13. CASH AND BANK BALANCES

	At 30 June 2020 (unaudited) RMB'000	At 31 December 2019 (audited) RMB'000
Cash and bank balances in the condensed consolidated statement of financial position and condensed consolidated statement of cash flows	24,429	39,380

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

As at 30 June 2020, the balances that were placed with banks in the PRC amounted to approximately RMB19,239,000 (31 December 2019: RMB33,092,000). 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 2020 (unaudited) RMB'000	At 31 December 2019 (audited) RMB'000
0 to 30 days	1,946	2,222
31 to 60 days	464	530
61 to 90 days	115	59
91 to 180 days	18	4
181 to 365 days	34	48
Over 1 year	432	235
	3,009	3,098

15. DIVIDENDS

- i) The directors resolved not to recommend the payment of any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: 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	
	2020	2019
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Final dividend in respect of the financial year ended 31 December 2019, approved and paid during the current interim period, of HK28.04 cents, equivalent to RMB25.13 cents per ordinary share (2019: in respect of the financial year ended 31 December 2018, approved and paid during the period ended 30 June 2019, of HK25.86 cents, equivalent to RMB22.66 cents per ordinary share)	62,502	56,359
Special dividend of HK67.15 cents, equivalent to RMB59.51 cents per ordinary share paid during the current interim period (2019: special dividend of HK25.86 cents, equivalent to RMB22.66 cents per ordinary share, approved and paid during the period ended 30 June 2019)	148,006	56,359

16. SHARE CAPITAL

	Number of shares	Amount HK\$	Amount equivalent to RMB
Ordinary shares of HK\$0.01			
Authorised:			
At 1 January 2019, 31 December 2019, 1 January 2020 and 30 June 2020	10,000,000,000	100,000,000	87,926,000
Issued and fully paid:			
At 1 January 2019, 31 December 2019, 1 January 2020 and 30 June 2020	248,714,000	2,487,140	2,189,160

17. FINANCIAL INSTRUMENTS

Fair value

Fair value hierarchy

The directors consider that the carrying amounts of other financial assets and financial liabilities, recorded at amortised cost, in the 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 measurements as at 30 June 2020 categorised into			
	Fair value at 30 June 2020 (unaudited) RMB'000	Level 1 (unaudited) RMB'000	Level 2 (unaudited) RMB'000	Level 3 (unaudited) RMB'000
Recurring fair value measurement				
Assets				
Financial assets at fair value through profit or loss	242,145	—	—	242,145

	Fair value measurements as at 31 December 2019 categorised into			
	Fair value at 31 December 2019 (audited) RMB'000	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	447,584	—	—	447,584

During the period ended 30 June 2020 and 2019, 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 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 2020 (unaudited) RMB'000	Year ended 31 December 2019 (audited) RMB'000
At the beginning of the period/year	447,584	435,480
Additions	282,700	620,647
Change in fair value	11,838	20,902
Maturity	(499,977)	(629,445)
At the end of the period/year	<u>242,145</u>	<u>447,584</u>

18. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2020 and 31 December 2019.

19. EVENTS AFTER THE REPORTING PERIOD

Outbreak on Novel Coronavirus ("COVID-19")

Since January 2020, the outbreak on COVID-19 has impacted the global business environment. Up to the date of these unaudited interim financial statements, COVID-19 has resulted in impact to the Group. Pending the development and spread of COVID-19 subsequent to the date of the unaudited interim financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these unaudited interim financial statements. The Group will continue to monitor the development of COVID-19 and react actively to its impact on the financial position and operating results of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT REVIEW

The first half of 2020 is destined to be a moment and a period of time that will not be forgotten.

During the Reporting Period, we mainly focused on preventing and fighting the Epidemic, resuming operation and production. At the beginning of the Epidemic, in accordance with the chairman's instruction of "putting life first and business second", we delivered anti-epidemic materials such as medical masks and alcohol to our employees and their family members and franchised stores through various methods, so that employees of the Group and franchised stores could feel and stay safe to prevent the Epidemic at home. Meanwhile, we worked and pulled together. Through the donation of medical gloves and protective clothing purchased by owners of overseas franchised stores from countries such as Germany and Japan to Wuhan Central Hospital, etc., the Group used its best efforts to help our employees and contribute to the society.

Afterwards, based on the situation of the Epidemic and the difficult situation caused to the Group, we issued an open letter of "complying with the Epidemic prevention and control measures, paying no less wages to our employees and on time, hoping that employees will follow the Group closely without letting even one employee fall behind" to all employees. The Group issued an open initiative of "facing the Epidemic together and overcoming the difficulties of the Epidemic" to all franchised stores. The Group has fulfilled the promises in the open letter and initiative.

Subsequently, in accordance with the government's requirements of the Epidemic prevention measures for the resumption of operation and production, the Group actively responded and seriously carried out implementation. Starting from the partial resumption of bottleneck processes in early March to the full resumption of operation and production in early May, the Group gradually entered the track of normal production and operation.

Restoring employee and market confidence is a key task after the resumption of operation and production. According to the work plan at the beginning of the year, we adjusted the relevant work plan as appropriate. We carried out the work in an active and orderly manner by mainly focusing on the expansion of new market channels, product after-sales maintenance and upgrading, the development of new process structure products, the effective control of product processing and terminal quality, form copying and flexible grinding to improve production efficiency, safety improvement to eliminate static sparks in dust collection pipes, the brand communication of the beauty of craft and the comb story, the establishment of the certification of the social responsibility system, the preliminary preparations for the construction of the new plant in Wanzhou, and the Company's ecological e-commerce park planning, etc. These works have been started in an orderly manner.

Under the Epidemic, there are many situations. The Group needs to seize the new opportunities brought by the Epidemic and advance in the adverse situation. We firmly believe: In every major difficult situation, Carpenter Tan will be reborn, do better and go further.

BUSINESS REVIEW

1. Offline Business

Domestic Business

During the Reporting Period, the marketing team took a series of actions to combat the loss brought about by the Epidemic. From the 2020 Chinese New Year holidays to the full resumption of work in May, the whole offline team worked hand in hand in consensus with franchisees, adapted to market trends, achieved growth despite disadvantages and further bonded together. The overall performance of the team showed efforts and ambition. As at 30 June 2020, Carpenter Tan had 1,187 franchised stores and 3 directly self-operated stores in China, 7 franchised stores/counters in other countries and regions and 3 directly self-operated stores in Hong Kong.

Franchised stores and overseas stores/counters:

	31 December 2019		31 December 2018	
	Franchised stores	Directly self-operated stores	Franchised stores	Directly self-operated stores
Mainland China	1,187	3	1,223	3
Hong Kong	–	3	–	3
Other countries and regions	7	–	4	–
Total	<u>1,194</u>	<u>6</u>	<u>1,227</u>	<u>6</u>

Number of franchised stores distribution in China as at 30 June 2020:

Type of Stores	Number of franchised store	Percentage
Shopping mall	625	52.6%
Street shop	362	30.5%
Department store	88	7.4%
Supermarket	47	4.0%
Scenic spot	30	2.5%
Transportation hub	22	1.9%
Hotel	2	0.2%
Others	11	0.9%
Total	<u>1,187</u>	<u>100.0%</u>

The situation was grim in the first half of the year. We have analysed the three major changes brought about by the Epidemic: 1/the Internet has transformed all industries in the information age; 2/the improvement of personal public health awareness; and 3/the increase of national pride. The changes are also opportunities. Focusing on these changes, Carpenter Tan actively adjusts its marketing and publicity strategies. In the future, we will “comb oriental beauty” as the core concept of brand marketing and publicity, dig deep into the beauty of traditional Chinese culture, elaborate the beauty of the “oriental wooden comb” in multiple aspects such as the design, craftsmanship and connotation of the products to further establish the “national product” brand concept of Carpenter Tan. During the Reporting Period, the main tasks of the marketing departments include:

Responding to the Epidemic and promoting multi-channels

Since 4 February 2020, the team supported offline franchised stores with Epidemic prevention materials and distributed a total of 7,890 medical masks, 1,000 bottles of disinfectant and 204 forehead thermometers. Through online and offline cooperation, the team also embarked on a social marketing strategy aiming at private domain traffic. From 10 February to 10 March, a total of 831 franchised stores across the country participated in the retail content sharing on social platform. A total of 11,297 posts were shared and 21,138 products were sold through social retailing, the accumulated transaction amount was approximately RMB3,990,000 and the average unit price was 189. Started from 24 March, Carpenter Tan launched its official WeChat mini program and over 900 stores are currently available online. Customers can place orders with nearby stores through the mini program, hence enhancing the marketing capability of the stores, realising the digital transformation upgrade of the franchised stores. Since March, in view of the severe impact of the Epidemic on the franchised stores, the Group decided to launch a franchise stores incentive scheme with special subsidy of RMB10 million to stores nationwide.

Upgrade of product after-sales maintenance

During the Reporting Period, against the situation of the market downturn, the Group is more determined to promote “life-time free maintenance services” and to do better. The Group aims to upgrade the maintenance services by: shorten the maintenance cycle, improve maintenance efficiency, and enhance customer experience. The Carpenter Tan after-sales maintenance system for members has been launched and 32 authorised comb repair workshops have been established nationwide (currently 15 have commenced operation). Accordingly, common franchised stores that have not been assessed will no longer provide repair service. Repair is to be done to the extent possible but for parts that cannot be repaired due to damage or that repair may cause a change, the Company shall seek prior consent of the customers and explain to them in details. It will gradually transit from the current paid-maintenance policy to free-maintenance policy (except for the replacement of parts). It is expected that by offering life-time maintenance services it will further add value to the brand. A total of 1,954 orders have been received since the repair workshops started operation on 18 May.

IP/Cross-Border Collaboration

This year, the Group extended the Mulan collaboration series by adding hair bobs, continuing the story of Mulan. While guaranteeing practicality, the collaboration also restored its prototype based on history to a greater extent, allowing consumers to feel the cultural heritage of the millennium. On Mother's Day, the Group collaborated with Xiaomi Youpin to launch a limited Mother's Day Ankang gift box which includes a set of wooden comb of Carpenter Tan and a silver scraping plate. As our first launch on Xiaomi crowdfunding platform in the form of crowdfunding, our products are continuously exposed on its mobile application home page and live channels in hope to integrate into the group of 600 million user of Xiaomi Youpin which created a classic example of online and offline cooperation. In addition, the Group is trying to engage other channel brands. The Ocean Elves series new products are the perfect combination of Carpenter Tan scraping plates and Lin Qingxuan essential oil.

Recovery of Results

For the six months ended 30 June 2020, POS sales achieved 51.92% of the target of the first half of the year, reaching 53.27% of the same period last year. Among them, sales from our stores in shopping malls and street shop recovered more quickly, while our stores in transportation hubs and tourist attractions, which accounted for a larger proportion of sales of the same period last year, recovered more slowly due to the impact of lockdown and people flow control. Among them, the POS sales of the national shopping center in June reached 79.5% of the same period last year, POS sales of street shop reached 69.4% of the same period last year, POS sales of stores in tourist attractions and transportation hubs reached 41.4% and 20.9% respectively of the same period last year. In July, the POS sales of the national shopping center in July reached 100.8% of the same period last year, POS sales of street shop reached 81.2% of the same period last year, POS sales of stores in tourist attractions and transportation hubs reached 48.3% and 36.8%, respectively of the same period last year. It is believed that with the lifting of cross-provincial travel restriction in the second half of the year, stores in the transportation hubs and tourist attractions will soon return to normal.

Focusing on the targets for expansion

Affected by the Epidemic, store expansion in the first half of the year was behind the pace compared with store operational performance. As at 30 June 2020, shopping mall stores accounted for 52.6%, of which new shopping mall stores accounted for 81.3% and the ratio of the image stores of the third generation reached 83.2%. The focus for the second half of the year will continue to be the improvement of opening new stores and day-to-day management of stores.

Brand image upgrade

The Group has been preparing to enhance the store image and capture high-end shopping malls. In the first half of the year, the Group entered into an agreement with Japanese designer Mr. Tetsuya Matsumoto to improve the lighting, colour and display effects of the third-generation store of Carpenter Tan and upgrade the store display as well as new image through store design and decoration, continuously enriching and enhancing the store image of Carpenter Tan.

Stable growth in group purchase

Affected by the consumption patterns under the Epidemic, in the first half of 2020, although the retail performance of offline physical stores was less than satisfactory, the group purchase business showed a steady growth, with the group purchase amount increasing by 17.29% during the Reporting Period compared with the same period last year.

Overseas Business

After the Spring Festival of 2020, the Epidemic began to spread all around the world. In March, Europe and the United States became the new regions of the Epidemic and almost all countries in the world imposed lockdown measures. Cross-border exchanges and business activities were interrupted, which caused a serious impact on our overseas business expansion, resulting in the suspension of all our new overseas store projects of the first-half year. Overseas stores, except those in Taiwan and Japan, were all temporary closed in early March, which included the well performing Nurnberg store in Germany. South Korea store and Toronto store in Canada and other stores were converted to online sales, whereas Japan's Kichijoji new store opened in April despite the headwind and was promoted by PR Newswire and other channels.

2. Online Business

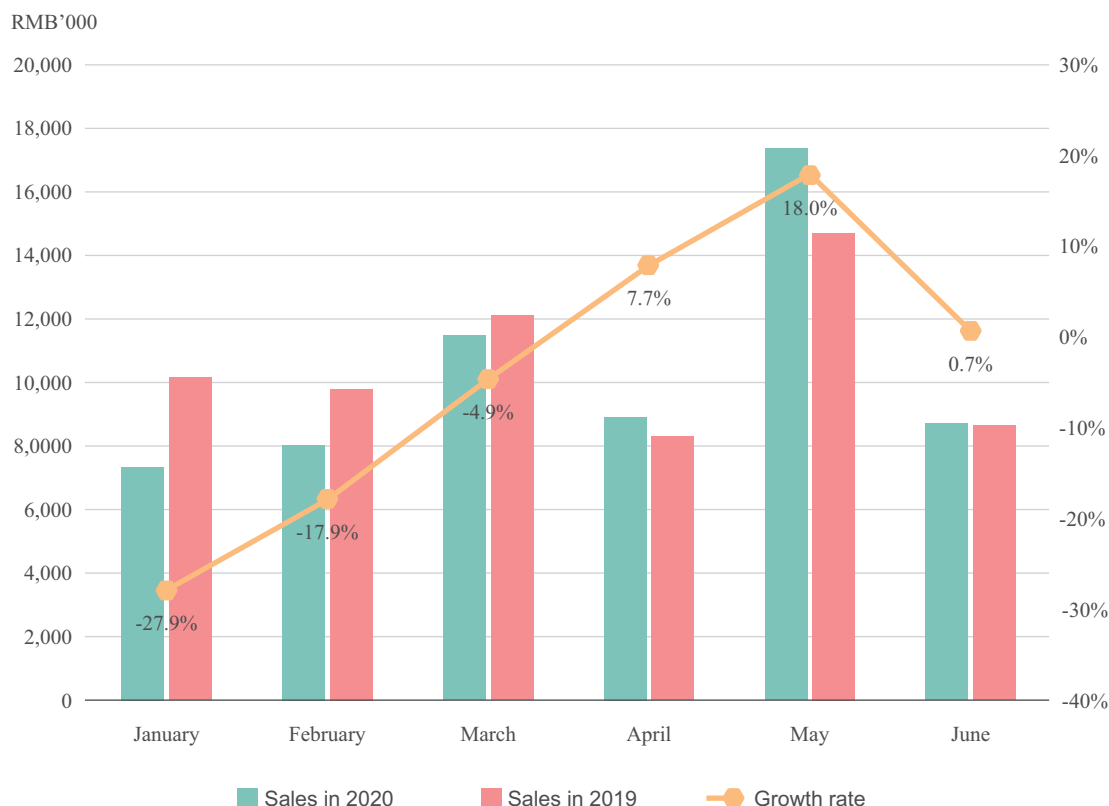
Domestic Business

During the Reporting Period, due to the impact of the Epidemic, online e-commerce ceased its delivery from 17 January and did not resume until early March. As such, a period of 1.5 months for sales was missed, including the Valentine's Day in February, the single largest sales day in the first half of the year. This results in a period-on-period decline of 31% as compared with 2019.

Nevertheless, with the effort of the entire e-commerce team, we actively developed "Online Home Economy" to explore new retail mode, from which we united our team to bring goods online in order to stimulate consumption. During the Reporting Period, Carpenter Tan's domestic online platform has accomplished 48.98% of the annual overall target, representing a slight decrease of 2.84 % compared with the same period in 2019.

We participated in the national product awards live broadcast hosted by Zhu Guangquan and Li Jiaqi (小朱配琦) during Mother's Day and our sales increased by 22.5% period-on-period compared with 2019. At the night of the live broadcast, visitors to our stores reached 340,000, of which 1,9000 placed orders. The conversion rate was as high as 5.5%, the payment amount was nearly RMB1.4 million, and the live broadcast order volume was over 20,000. The 340,000 visitors to our stores during live broadcast were all new visitors, which greatly improved the brand's ability to acquire new customers and transformed it into the brand's consumer assets.

Monthly online sales for the first-half of 2020 as compared to the same period of 2019



Overseas Business

The ravage of Epidemic worldwide has heavily hit customers' confidence and disturbed the pace of our brand going overseas and deployment of overseas markets. Currently, Carpenter Tan's products have been launched on many overseas online platforms, including U.S. Amazon, Australia Ebay, UK Ebay, U.S. Shopify, U.S. Yamibuy, Japan Amazon, Korea NAVER, Singapore LAZADA and Malaysia Shopee. However, opportunities still exist. We official launched on Amazon Japan in last year June 2019. After the launch, the number of monthly order gradually increased, and the sales volume reached the highest in December 2019. The number of orders subsequently decreased due to the impact of the Epidemic. From May to June 2020, the number of order began to increase with the price per customer rose from about 2,000 yen in January to about 4,000 yen lately, which shows that the Japanese market is gradually accepting Carpenter Tan's brand value, and there is certain room to develop. In the second half of this year, by enriching our product category and promoting on platforms, we will enhance product and brand exposure to reach more customers gradually. While actively participate in platform activities, we leverage the traffic from activities and guide it to our products and stores.

3. Innovative Research and Development

In recent years, the innovation design centre has frequently launched excellent innovative products. In 2020, focused on its brand positioning of “Combing Oriental Beauty”, the innovation design centre has further tapped into traditional Chinese culture and built a stylish and young brand image. In the first half of 2020, the market demand for our conventional products decreased as affected by the Epidemic, therefore the centre allocated some of its resource to the research, development and design of the use and combing function of the products. Over the past six months, the centre mainly carried out product strategy system development, the product application of traditional Chinese lacquer, development of light-coloured materials as well as the wooden structure upgrade, the functional upgrade of boar bristle hair brush, participation in the research and development of the structure of glue-free inserted comb, as well as the design and development of its conventional products, including Mulan’s Hair Bobs series, Chongqing-Sichuan Culture Products and Admiration for the Luo Goddess series.

During the Reporting Period, the innovation design centre completed the development for 8 new products, and design 36 samples, of which 9 samples passed the review and were launched in the market. Among the products that have been launched during the first-half of the year, there are 3 flat combs, 2 inserted combs, 3 hair bobs and 1 box-set. The retail sales of Disney IP products launched accounted for 6.1% of the total retail sales.

In addition, the innovation design centre has also carried out design and development of the installation craftsmanship for product display and brand promotion at franchised stores. The centre also conducted image upgrade and daily exhibition upgrade for its franchised stores in cooperation with the sales and marketing department. Among the patent applications submitted by the innovation design centre, there were 3 for exterior design patent, and 3 exterior design patent certificates had been obtained.

4. Production Technology

Wanzhou factory of Carpenter Tan has resumed production since 3 March 2020, and full resumption of production by the end of April. In the process of gradually resuming production, the factory centralised its production backbone and prioritized production to meet market needs. During the Reporting Period, the factory completed a production of approximately 1,468,000 pieces of products, decreased by approximately 894,000 pieces of products or 37.8% as compared to approximately 2,362,000 pieces of products in the same period last year. In the first half of this year, the procurement of timber amounted to approximately 3,600 cubic meters and the procurement of horn products (horn combs, horns) amounted to approximately 331,500 pieces, ensuring the production needs and the requirements regarding the Group's raw material strategy.

Technically, the project development of teeth-inlaid comb drilling machine has been completed, the project has entered a trial production stage. The innovative development of manual profiling technology, automatic profiling technology and blurred polishing technology may optimise the production process, shorten the production cycle to improve efficiency and save cost. The project development of teeth-protecting wood thickness determination equipment, wood-teeth hair-care comb automatic colour separation and teeth implant equipment, hair-care comb moulding equipment, and the development of fast-growing wood functional improvement and utilisation as well as hardwood weather-resistant stability are in progress. During the Reporting Period, the Company obtained authorisations for 2 utility model patents and 3 exterior design patents, applications for 1 invention patent, 11 utility model patents, and 3 exterior design patents were accepted.

5. Logistics and Distribution

In the face of the Epidemic, in order to safeguard delivery, the logistics centre, while responding to the market and guarding against risks, started to arrange personnel to process orders and vehicles to pick-up and drop-off employees. The Company was permitted to resume operations in stages on 26 February, with 45 people in the first batch, 20 people in the second batch, 5 people in the third batch and 31 people in the fourth batch on 6 May. The operations resumed with no Epidemic infected employee.

Under the requirements of all franchisees and e-commerce business department, the Group timely organized product processing and completed distribution on time. Particularly, the live broadcast hosted by Zhu Guangquan and Li Jiaqi (小朱配琦) and an activity cooperated with Yi Zen (一幀) were under tight schedule, but the Group tracked the progress, processed and assembled as well as distributed as planned and completed on time. Some of the logistics costs, especially for the e-commerce goods, can be saved by arranging several shipments to be consolidated into one vehicle. The payment method of express business was switched from cash on delivery to monthly settle, thus reducing the labour cost and cutting expenses

The quality control process was adjusted and implemented. Based on the Group's requirements of product quality control, the quality inspection links have been adjusted. The logistics centre added a product final-inspection link in Wanzhou factory and a pre-assembly inspection in the logistic centre. As a result, the Group gained a better control over the quality of the dispatch products. However, oxidation issue on hair-care combs with metal teeth is pending for further improvement.

6. Corporate Culture

During the Reporting Period, numerous offline marketing plans for the brand were held in abeyance to timely adjust the branding strategies, which were enhancing online promotion, developing brand identity, and emphasising on promotional impact from the inside out. It was embodied on the aspects such as organising the knowledge base for Carpenter Tan's brand culture and presenting it in the form of "graphic+ audio" to facilitate staff's in-depth understanding of the brand, displaying the history, craftsmanship, stories and culture of combs in multiple dimensions focusing on the "beauty of combs" and enhancing promotional effect though delightful and diversified dissemination.

During the Labour Day Holiday, we produced and disseminated a set of posters with the theme of "Beauty of Labour" with the front-line employees of the Carpenter Tan factory as the protagonist. It was at the beginning of full resumption of work when this set of photos was taken, during which the factory must ensure the resumption of production in an orderly manner while strictly managed to prevent epidemic accidents. We use this set of posters to pay tribute to factory leaders and staff who have made concerted effort to withstand the daunting challenge.

In the second half of 2020, we plan to shoot a brand promotion footage telling the story of franchisees, how they do ordinary things extraordinarily, in order to pay tribute to the franchisees who have experienced the severe impact of the Epidemic, as well as to boost the morale of the franchisees to overcome difficulties with the Group.

7. Human Resources and Comprehensive Solution

In February and March 2020, the Group hardly generated any cash inflow from sales, and only reached one-third of that for the same period in last year in May. Under this situation, the Group expressly implemented three initiatives: 1/called on all employees to resolutely abide by the national Epidemic prevention and control measures; 2/the administrative department and heads of various departments took the lead in delivering Epidemic prevention supplies that was urgently needed; and 3/made full and punctual payment of wages to rest assure the employees and their families. We called on our staff members to have trust in the Group, the country, and the leadership of the Party, and to avoid adding further burden to the country by taking care of ourselves.

With the Administrative Personnel Centre as the lead department, we organised Epidemic prevention supplies in an orderly manner, announced Epidemic prevention measures, and ensured that every employee is being taken care of. At the same time, the Group announced supportive measures for franchised stores to overcome the difficulties of the Epidemic. On the other hand, the Group also organised and donated protective medical supplies to the Central Hospital of Wuhan. The Group has borne in mind its social responsibility to overcome the adversity with the country.

In terms of rapid resumption of work and production, because Wanzhou plant is located in the area listed as the first high-risk area outside Hubei, the intensity as to prevention and control measures and the difficulty of resumption of work and production can be imagined. The Group accurately established and implemented on-site prevention and control systems and measures according to the standard and strict requirements of the prevention and control departments. With a sense of mission and responsibility that we are highly responsible for the staff, the Group and the society, we have successfully completed the self-help production and the resumption of work and production, and responsibly undertook the commitment of leaving no employees behind.

FINANCIAL REVIEW

1. Revenue

The Group recorded revenue of approximately RMB108,069,000 for the six months ended 30 June 2020, representing a decrease of approximately RMB62,286,000 or 36.6% as compared to approximately RMB170,355,000 for the six months ended 30 June 2019. The decrease was mainly due to the negative impacts from the Epidemic, which drove down the demand for the products of the Group as the movement of people and goods was affected by the Epidemic, and the Group's production was temporarily suspended after the Chinese New Year holiday.

	For the six months ended 30 June			
	2020		2019	
	(unaudited)		(unaudited)	
	(RMB'000)	%	(RMB'000)	%
Sales				
– Combs	21,867	20.2	37,956	22.3
– Mirrors	115	0.1	309	0.2
– Box sets	83,594	77.4	129,958	76.2
– Other accessories*	2,399	2.2	1,811	1.1
Franchise fee income	94	0.1	321	0.2
	108,069	100.0	170,355	100.0

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

2. Cost of Sales

The cost of sales of the Group was approximately RMB46,664,000 for the six months ended 30 June 2020, representing a decrease of approximately RMB17,259,000 or 27.0% as compared to approximately RMB63,923,000 for the six months ended 30 June 2019, the decrease in cost of sales is mainly due to the decrease in revenue for the Reporting Period.

3. Gross Profit and Gross Profit Margin

For the six months ended 30 June 2020, gross profit of the Group was approximately RMB61,405,000, representing a decrease of approximately RMB45,027,000 or 42.3% as compared to approximately RMB106,432,000 for the six months ended 30 June 2019. The gross profit margin decreased from approximately 62.5% in 2019 to 56.8% in 2020. The decrease in gross profit margin was mainly due to the change in sales mix which lead to the decrease in proportion of revenue for the products with higher profit margin for the Reporting Period.

4. Other Income

Other net income comprise of PRC VAT concession refunds, interest income from financial assets, change in fair value of financial asset at fair value through profit or loss, PRC VAT concession refunds, government grants and rental income. Other income was approximately RMB25,672,000 for the six months ended 30 June 2020, representing a decrease of approximately RMB3,475,000 or 11.9% as compared to approximately RMB29,147,000 for the six months ended 30 June 2019. The decrease was mainly due to a decrease in PRC VAT concession refunds of approximately RMB6,974,000, while partially offset by the increase in government grants of approximately RMB3,987,000.

5. Selling and Distribution Expenses

The selling and distribution expenses, mainly including advertising, marketing and promotion expenses, rental expenses, salaries and benefits, transportation fee and travelling expenses, amounted to approximately RMB29,764,000 for the six months ended 30 June 2020, representing an increase of approximately RMB4,027,000 or 15.6% as compared to RMB25,737,000 for the six months ended 30 June 2019. This increase was mainly a result of the increase in advertising and promotion expenses of approximately RMB2,599,000 for the Reporting Period.

6. Administrative Expenses

The administrative expenses of the Group was approximately RMB12,601,000 for the six months ended 30 June 2020, representing a decrease of approximately RMB3,647,000 or 22.4% as compared to approximately RMB16,248,000 for the six months ended 30 June 2019. The decrease was primarily due to the decrease in depreciation of right-of-use assets of approximately RMB2,563,000 for the Reporting Period.

7. Profit from Operations

For the six months ended 30 June 2020, profit from operations for the Group amounted to approximately RMB36,001,000, decreased by approximately RMB51,719,000 or 59.0% when compared to approximately RMB87,720,000 for the six months ended 30 June 2019. Decrease in profit from operations was mainly due to the decrease in gross profit of approximately RMB45,027,000 and other income of approximately RMB3,475,000, increase in selling and distribution expenses of approximately RMB4,027,000, while partially offset by the decrease in administrative expenses of approximately RMB3,647,000 for the six months ended 30 June 2020.

8. Finance Expenses

For the six months ended 30 June 2020 and 2019, there was no interest expenses, respectively as there was no bank borrowings during both periods. The finance expenses of approximately RMB241,000 and RMB328,000 for the Reporting Period and for the six months ended 30 June 2019 are related to finance expenses from the lease liabilities 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 2020, profit before taxation for the Group amounted to approximately RMB35,760,000, decreased by approximately RMB51,632,000 or 59.1% when compared to approximately RMB87,392,000 for the six months ended 30 June 2019. Decrease in profit before taxation was mainly due to the decrease in profit from operation of approximately RMB51,719,000 for the Reporting Period.

10. Income Tax Expenses

For the six months ended 30 June 2020, income tax expenses for the Group amounted to approximately RMB7,882,000, decreased by approximately RMB6,464,000 or 45.1% when compared to approximately RMB14,346,000 for the six months ended 30 June 2019. This decrease was mainly due to the decrease in profit before taxation.

The effective tax rate for the Reporting Period was 22.0% which was higher than 16.4% for the six months ended 30 June 2019 by 5.6% points. Details of income tax expenses are set forth in Note 8 to the condensed consolidated financial statements.

11. Profit for the Period

As a result of the foregoing, the profit for the six months ended 30 June 2020 was approximately RMB27,878,000, representing a decrease of approximately RMB45,168,000 or 61.8% as compared to approximately RMB73,046,000 in the corresponding period of 2019.

12. Profit Attributable to Owners of the Company

The profit attributable to owners of the Company for the six months ended 30 June 2020 was approximately RMB26,808,000, representing a decrease of approximately RMB46,238,000 or 63.3% as compared to approximately RMB73,046,000 for the six months ended 30 June 2019. Such decrease was mainly due to the decrease in profit for the period of approximately RMB45,168,000.

13. Liquidity and Capital Resources

The Group has met its working capital needs mainly through cash generated from operations and various long-short-term bank loan when required. During the Reporting Period, the Group did not have any bank loan. Taking into account the cash flow generated from operation and the bank loan facilities available to the Group, the directors of the Company are of the view that the Group has sufficient working capital to meet its current liquidity demand and the liquidity demand within at least 12 months from the date of publication of this announcement.

As at 30 June 2020, the Group had cash and bank balances of RMB24,429,000 mainly generated from operations of the Group.

14. 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 RMB14,951,000, which mainly comprised the net cash outflow used in operating activities with the amount of approximately RMB11,822,000, net cash inflow generated from investing activities with the amount of approximately RMB215,300,000, net cash outflow used in financing activities with the amount of approximately RMB213,411,000, and the negative effect of foreign exchange of approximately RMB5,018,000.

15. Capital Structure

Indebtedness

As at 30 June 2020 and during the Reporting Period, the Group did not have any bank loan.

Gearing ratio

As at 30 June 2020 and 31 December 2019, the Group did not have any bank loan. The calculation of gearing ratio was not meaningful.

Pledge of assets

As at 30 June 2020, the Group did not have any assets pledged to the banks (as at 31 December 2019: 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 RMB2,034,000 and RMB1,869,000 for the Reporting Period and the six months ended 30 June 2019 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.

16. Contingent Liabilities, Legal and Potential Proceedings

As at 30 June 2020, the Group did not have any material contingent liabilities, legal proceedings or potential proceedings.

17. Major Acquisitions and Disposals

For the six months ended 30 June 2020, the Group has not made any significant acquisition and disposal.

18. Going Concern

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

OUTLOOK

An Epidemic has changed people’s lives and also tested the Group’s ability to resist risks: the Group’s inherent strength, tough management, cash flow, independent research and development capabilities and whether we can make timely dynamic strategic adjustments in the face of the Epidemic are all standards of the big test. The Group believes that we have withstood this review and test, and Carpenter Tan is a trustworthy company with strong anti-risk capabilities. And the Group’s development history also fully proves that the achievement made by Carpenter Tan today represents its rebirth overcoming difficulties repeatedly. We have to face the difficulties and move forward with confidence. As such, we will be able to survive from despair.

Carpenter Tan believes: This is a change and also an opportunity. We will adjust our marketing and communication strategies in time: realising the modular interaction of marketing and services, improving the marketing capabilities of stores, and realising the digital transformation and upgrading of franchised stores; merging communication and sales channels, carrying out planning and promotion according to users’ thinking; further exploring the beauty of Chinese traditional culture, and interpreting the beauty of “oriental wooden comb” in multiple dimensions such as product design, craftsmanship and connotation. In the future, we will implement online and offline linkage to let more consumers know Carpenter Tan.

In the face of this Epidemic, the party and the government took a highly responsible attitude to the people and adopted strong measures to quickly control the Epidemic, and minimize the loss of life and property of the people. The Group requires all employees to love the party and the country, resolutely support national sovereignty and territorial integrity, and do their own job earnestly. The Group believes that: Carpenter Tan is engaged in industries, and industries can bring prosperity to the country while empty talk will ruin the country. Based on the current market situation, the Group has introduced a series of measures with an aim to seize new opportunities under the Epidemic, advance in the adverse situation, and work together to accomplish the tasks of Carpenter Tan and go further together.

HUMAN RESOURCES AND TRAINING

As at 30 June 2020, the Group had a total of 958 employees in Mainland China, Hong Kong and overseas. In addition to providing job opportunities to the disabled, the Group has attached high emphasis to the self-upgrade of its staff. By holding various themed exhibitions, workshops, seminars and staff training, the working skills and marketing strategies, techniques and methods of the staff as well as their sense of belonging to the Group were further enhanced. During the Reporting Period, in order to develop team spirits, courtesy, production management and accounting practice of the staff, the Group provided the staff various on-job training in various forms such as face to face teaching and examination to consolidate and spread the corporate culture of Carpenter Tan.

OTHER INFORMATION

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 China and Hong Kong. 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 2020, 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.

CAPITAL COMMITMENT

As at 30 June 2020, the Group had capital commitment 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 announcement, at least 25% issued shares of the Company has been held by public shareholders.

DIVIDENDS

Pursuant to a resolution passed by the shareholders of the Company on 20 May 2020, the Company declared a final dividend of HK28.04 cents per share for the year ended at 31 December 2019 amounting to approximately HK\$69,739,000 (equivalent to approximately RMB62,502,000) to the shareholders of the Company. The final dividend was paid on 29 June 2020 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 2020 (2019: nil).

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

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

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

The proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 29 December 2009, after deducting the related issuance expenses, amounted to approximately HK\$132,900,000 (equivalent to approximately RMB116,800,000). As at 30 June 2020, the Group had used net proceeds of approximately RMB54,200,000, of which RMB25,500,000 had been applied for enhancement of the Group's design and product development and enhancement for operational efficiency, RMB16,500,000 for enhancement for sales network and sales support services, construction of production base and RMB12,200,000 as working capital. The remaining net proceeds have been deposited with banks.

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

CORPORATE GOVERNANCE PRACTICES

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

MODEL CODES FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the “Model Code”) as its own code governing securities transactions of the Directors. Each of the Directors has confirmed his or her compliance with the Model Code for the six months ended 30 June 2019. The Company has also adopted written guidelines on no less exacting terms than the Model Code for the relevant employees. The senior management, who, because of their office in the Company, is likely to be in possession of unpublished inside information, has been requested to comply with the written guidelines. No incidence of non-compliance of the employees’ written guidelines by the relevant employees was noted by the Company during the Reporting Period.

AUDIT COMMITTEE

The Company has established an audit committee on 17 November 2009 and has formulated its written terms of reference, which have from time to time been modified, in accordance with the prevailing provisions of the CG Code. The primary duties of the audit committee are (among other things) to provide an independent review and supervision of financial reporting, and examine the effectiveness of the internal controls of the Group and to ensure the external auditor are independent and the audit process is effective. The audit committee examines all matters relating to the accounting principles and policies adopted by the Group, auditing functions, internal controls, risk management and financial reporting. The audit committee also serves as a channel of communication between the Board and the external auditor.

The audit committee currently comprises the three independent non-executive Directors, namely, Mr. Yang Yang, Madam Liu Liting and Mr. Chau Kam Wing, Donald. Mr. Chau is the chairman of the audit committee, and he possesses recognised professional qualifications in accounting as required by the Listing Rules.

The financial information in this announcement has not been audited by the auditor of the Company. The audit committee has reviewed the Company’s unaudited condensed consolidated interim financial information, this results announcement and the interim report of the Company for the six months ended 30 June 2020 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 announcement complies with the applicable accounting standards and the requirements under the Listing Rules and adequate disclosures have been made.

EVENTS AFTER THE REPORTING PERIOD

Impact from the Epidemic

Since January 2020, the outbreak on the Epidemic has impacted the global business environment. Up to the date of this announcement, the Epidemic has resulted impact to the Group. Pending the development and spread of the Epidemic subsequent to the date of this announcement, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of this announcement. The Group will continue to monitor the development of the Epidemic and react actively to its impact on the financial position and operating results of the Group.

Saved as disclosed above, there is no material events after the Reporting Period as at the date of this announcement.

DISCLOSURE OF INFORMATION

The interim report for the six months ended 30 June 2020 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 2020

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Tan Chuan Hua, Mr. Tan Di Fu and Mr. Tan Lizi; two non-executive Directors, namely Madam Tan Yinan and Madam Huang Zuoan; and three independent non-executive Directors, namely Madam Liu Liting, Mr. Yang Yang and Mr. Chau Kam Wing, Donald.

* *For identification purpose only*