



# Mastercraft International Holdings Limited

## 馬仕達國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8146



### Third Quarterly Report 2012

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed in the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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This report, for which the directors (the “Directors”) of Mastercraft International Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, (i) the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; (ii) there are no other matters the omission of which would make any statement herein or this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

*This report, in both English and Chinese versions, is available on the Company’s website at [www.mastercraftholdings.com](http://www.mastercraftholdings.com).*



The board of Directors (the "Board") is pleased to present the unaudited condensed consolidated results of the Group for the three months and nine months ended 30 September 2012 together with the unaudited comparative figures for the corresponding periods in 2011 as follows:

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2012

	Note	Three months ended 30 September		Nine months ended 30 September	
		2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Revenue	3	83,850	53,666	226,124	169,695
Cost of sales		(66,171)	(44,111)	(178,865)	(139,574)
<b>Gross profit</b>		<b>17,679</b>	9,555	<b>47,259</b>	30,121
Other income		18	14	48	180
Selling expenses		(4,477)	(1,682)	(12,374)	(6,007)
Administrative expenses		(4,498)	(2,524)	(14,214)	(7,728)
Research and Development expenses		(1,496)	(1,393)	(3,432)	(4,191)
Listing expenses		(1,660)	(3,729)	(5,184)	(4,540)
<b>Profit before tax</b>	4	<b>5,566</b>	241	<b>12,103</b>	7,835
Income tax expenses	5	(1,342)	(745)	(3,183)	(1,994)
Profit (loss) for the period		<b>4,224</b>	(504)	<b>8,920</b>	5,841
Other comprehensive expenses:					
Exchange differences arising on translating foreign operation		1	1	1	(5)
<b>Total comprehensive income (expense) for the period</b>		<b>4,225</b>	(503)	<b>8,921</b>	5,836
<b>Earnings (loss) per share HK cents</b>					
— Basic	7	<b>1.1 cents</b>	(0.1 cent)	<b>2.3 cents</b>	1.6 cents

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the nine months ended 30 September 2012*

## 1. CORPORATE INFORMATION

Mastercraft International Holdings Limited (the "Company") is incorporated and domiciled in the Cayman Islands as an exempted company with limited liability on 3 August 2011. The Company has established a principal place of business in Hong Kong at Unit 503, 5th Floor, Tower B, Hunghom Commercial Centre, 37 Ma Tau Wai Road, Hunghom, Kowloon, Hong Kong and has been registered as a non-Hong Kong company under part XI of the Hong Kong Companies Ordinance on 12 October 2011. Its issued shares have been listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 20 July 2012.

Pursuant to a reorganisation (the "Reorganisation") of the Company and its subsidiaries now comprising the Group completed on 21 June 2012 to rationalise the Group's structure in preparation for the listing of the Shares on GEM of the Stock Exchange, the Company became the holding company of the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 10 July 2012 (the "Prospectus").

## 2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The unaudited condensed consolidated financial statements has been prepared in accordance with the basis of presentation which comply with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective terms include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the company. There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments.

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with the HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise their judgments in the process of applying the Group's accounting policies.

The accounting policies adopted in preparing the unaudited condensed consolidated financial statements were consistent with those applied for the financial statements of the Group for the year ended 31 December 2011.



These unaudited condensed consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK\$'000), unless otherwise stated.

The condensed consolidated accounts have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

### **3. SEGMENT INFORMATION**

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the revenues and profit from different types of goods delivered. Information relating to assets and liabilities in each segment is not included in the internal report regularly reviewed by the Board of Directors of the Company.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

1. Portable lighting (Note 1)
2. Shades (Note 2)
3. Furniture sets and other home accessory products (Note 3)

Notes:

1. Portable lighting represented a selection of portable lighting products (e.g. Table lamps, floor lamps, accent lamps, buffet lamps etc.).
2. Shades represent a selection of shades for the lamps sold by the Group. Shades are complementary goods. A shade is comprised of a frame that typically fits on the top of a lamp and cover the lighting source.
3. Furniture sets and other home accessory products represent the knockdown furniture and ready-to-assemble furniture sets that are sold unassembled, and be put together by the end-customers.

(a) **Segment revenues and results**

The following is an analysis of the Group's revenue and results by operating segments:

**For the nine months ended 30 September 2012 (unaudited)**

	Portable lighting HK\$'000	Shades HK\$'000	Furniture sets and other home accessory products HK\$'000	Total HK\$'000
SEGMENT REVENUE				
External sales	154,374	57,636	14,114	226,124
Segment profit	29,275	14,547	3,437	47,259
Unallocated income				48
Unallocated expenses				
— Selling expenses				(12,374)
— Administration expenses				(14,214)
— Research and development expenses				(3,432)
— Listing expenses				(5,184)
Profit before tax				12,103

**For the nine months ended 30 September 2011 (unaudited)**

	Portable lighting HK\$'000	Shades HK\$'000	Furniture sets and other home accessory products HK\$'000	Total HK\$'000
SEGMENT REVENUE				
External sales	112,433	39,916	17,346	169,695
Segment profit	17,119	8,531	4,471	30,121
Unallocated income				180
Unallocated expenses				
— Selling expenses				(6,007)
— Administration expenses				(7,728)
— Research and development expenses				(4,191)
— Listing expenses				(4,540)
Profit before tax				7,835



Segment profit represents the profit earned by each segment without allocation of certain income and expense (including other income, selling expenses, administration expenses, research and development expenses and listing expense). This is the measure reported to the chief operating decision maker, the executive Directors of the Company, for the purposes of resources allocation and assessment of segment performance.

**(b) Geographical Information**

The following table summarises the Group's revenue from customers by geographical locations:

	Nine months ended 30 September	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
North America	225,789	168,903
Others	335	792
Total revenue	<b>226,124</b>	169,695

**(c) Information about major customers**

Revenues from customers of the corresponding period contributing over 10% of the total revenue of the Group are as follows:

	Nine months ended 30 September	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Customer A	90,682	N/A
Customer B	60,529	61,803
Customer C	26,709	22,939
Customer D	N/A	37,624

#### 4. PROFIT BEFORE TAX

	Nine months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging (crediting):		
Bad debt written off of trade receivables	—	410
Cost of inventories recognised as expenses	<b>175,334</b>	134,112
Allowance for inventories	—	128
Depreciation of property, plant and equipment	<b>473</b>	430
Net foreign exchange loss	<b>48</b>	56
Staff costs, including directors' remuneration:		
Salaries, wages and other benefits	<b>15,179</b>	4,192
Retirement benefits scheme contributions	<b>505</b>	147
	<b>15,684</b>	4,339
Less: amount included in research and development expenses	<b>(1,765)</b>	(863)
	<b>13,919</b>	3,476
Gain on disposal of property, plant and Interest income	— <b>(4)</b>	(120) (1)





## 5. INCOME TAX EXPENSES

	Nine months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current taxation	3,315	2,250
Deferred tax	(132)	(256)
	<b>3,183</b>	1,994

The Company is tax exempt under the laws of the Cayman Islands. The subsidiaries operating in Hong Kong are subject to Hong Kong Profits Tax at a tax rate of 16.5% on profits earned in Hong Kong.

Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the relevant jurisdiction.

## 6. DIVIDEND

The Directors do not recommend payment of any dividend for the nine months ended 30 September 2012.

## 7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the period attributable to owners of the Company and the weighted average of 384,000,000 ordinary shares (for the nine months ended 30 September 2011: 360,000,000 ordinary shares of the Company, taking into account the effect of capitalisation issue as stated in the Prospectus) in issue during the nine months period.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The Group is principally engaged in the design and sale of portable lighting, shades and furniture sets and other home accessory products, the manufacture of which is outsourced to independent contract manufacturers in the PRC. North America is the principal market of the Group and the Group sold products mainly to mass market retailers, home furnishing stores, furniture stores and specialty stores. Mass market retailers remain as the Group's major customer category during the nine months ended 30 September 2012, which contributed to approximately 78.7% of the Group's total revenue.

The Group's revenue from sale of portable lighting, shades and furniture sets and other home accessory products for the nine months ended 30 September 2012 was approximately HK\$154.4 million, HK\$57.6 million and HK\$14.1 million (2011: HK\$112.4 million, HK\$39.9 million and HK\$17.3 million) respectively. Portable lighting products remained as the Group's significant revenue stream. During the period under review, portable lighting product and shades contributed to approximately 68.3% and 25.5% (2011: 66.3% and 23.5%) of the Group's revenue, respectively. The Directors and management are continuously monitoring the product margin in order to enhance the shareholders' interest. The gross margin of portable lighting products and shades increased from 15.2% to 19.0% and 21.4% to 25.2%, respectively from the nine months ended 30 September 2011 to the corresponding periods in 2012.

### **FINANCIAL REVIEW**

With the support and trust gained from our strong customer base in North America and the development of the US distribution hub, the revenue of the Group increased by approximately 33.3% from approximately HK\$169.7 million for the nine months ended 30 September 2011 to HK\$226.1 million for the nine months ended 30 September 2012.

Cost of sales of the Group increased by approximately 28.0% from HK\$139.6 million for the nine months ended 30 September 2011 to HK\$178.9 million for the nine months ended 30 September 2012. As a result of the foregoing, the gross profit of the Group increased by 56.9%, from approximately HK\$30.1 million for the nine months ended 30 September 2011 to HK\$47.3 million for the nine months ended 30 September 2012. The gross profit margin



was 17.8% and 20.9% for the nine months ended 30 September 2011 and 2012, respectively. With the commencement of activities of our US distribution hub and the PRC research and development centre in October 2011 and November 2011, respectively, the staff costs increased by HK\$11.3 million in the nine months ended 30 September 2012 as compare with the corresponding period in 2011. The increase in staff cost was the main reason for the increase in selling expenses and administrative expenses between the corresponding periods.

Profit attributable to owners of the Company increased by approximately 52.9% from approximately HK\$5.8 million in the nine months ended 30 September 2011 to approximately HK\$8.9 million in the nine months ended 30 September 2012. The Group's net profit margin slightly improved from 3.4% to 3.9% for the corresponding periods.

### **FINANCIAL POSITION AND LIQUIDITY**

As at 30 September 2012, cash and bank balances of the Group amounted to approximately HK\$27.4 million (As at 31 December 2011: HK\$3.4 million). The Group's current ratio (current asset divided by current liabilities) was 1.2 and 2.0 times as at 31 December 2011 and 30 September 2012, respectively. Considering the Group's current level of cash and bank balances, funds generated internally from our operations, net proceeds from the placing and the available banking facilities, the Board is confident that the Group will have sufficient resources to meet its financial needs for its operations. As at 30 September 2012, the Group has unutilised general banking facilities of HK\$3,500,000.

### **CAPITAL MANAGEMENT**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the period of review.

The capital structure of the Group consists of cash and cash equivalents, and equity attributable to owners of the Company comprising issued capital and retained profits.

The Directors of the Company review the capital structure regularly, taking into account the cost of capital and the risks associated with the capital.

## **OUTLOOK**

The Directors believe that upon the successful listing of the Shares of the Company on the GEM board of the Stock Exchange on 20 July 2012 by way of placing could enhance the Group's profile and the net proceeds from the placing will strengthen the Group's financial position and enable the Group to implement its business plan.

Product design and development plays a crucial role in the Group's business. The product development team creates and transforms ideas into products in order to meet customers' needs and to expand the product varieties offered to both existing and potential customers. To strengthen and expand the design and development business, the Group has rented a premise in Dongguan, Guangdong Province in the PRC to set up the new product development centre which the Directors believe is fundamental to the Group's future growth.

The Group targets at further expansion in North America markets, where the Directors see the greatest potential growth in demand for the Group's products in near future. The Group intends to continue outsourcing the entire production of its existing and future products in order to remain competitive.

## **CORPORATE GOVERNANCE REPORT**

The Company endeavors in maintaining high standard of corporate governance for the enhancement of shareholders' value and provide transparency, accountability and independence. The Company has complied with the required code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") during the nine months ended 30 September 2012.

### **COMPLIANCE WITH THE REQUIRED STANDARD OF DEALINGS IN SECURITIES TRANSACTIONS BY DIRECTORS**

During the nine months ended 30 September 2012, the Group adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding Directors' securities transactions in securities of the Company. Upon the Group's specific enquiry, each Director confirmed that during the nine months ended 30 September 2012, he or she had fully complied with the required standard of dealings and there was no event of non-compliance.



## **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY**

At 30 September 2012, the interests and short positions of the Directors and chief executive of the Company in the ordinary shares (the "Shares") of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

### **Long positions in the Shares**

<b>Name</b>	<b>Capacity and nature of interest</b>	<b>Number of shares (note 1)</b>	<b>Percentage of the Company's issued share capital</b>
Mr. Leung Yuen Ho Simon (note 2)	Interest of controlled corporation	180,000,000 (L)	37.5%
Mr. Jerry Denny Strickland Jr.	Beneficial owner	180,000,000 (L)	37.5%
SYH Investments Limited (note 3)	Beneficial owner	180,000,000 (L)	37.5%

Notes:

1. The letter "L" denotes a long position in the shareholder's interest in the share capital of the Company.
2. Mr. Leung Yuen Ho, Simon is deemed to be interested in 180,000,000 shares held by SYH Investments Limited under SFO.
3. SYH Investments Limited, a company incorporated in BVI on 30 May 2011 with limited liability, is an investment holding company the entire issued share capital of which is held by Mr. Leung Yuen Ho, Simon as at 30 September 2012.

During the nine months ended 30 September 2012, there were no debt securities issued by the Group and the Company at any time.

As at 30 September 2012, none of the Directors or the chief executive of the Company or their respective associates had registered any other interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

### **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND DEBENTURES OF THE COMPANY**

As at 30 September 2012, so far as is known to the Directors, the following persons, not being Directors or the chief executive of the Company had, or were deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or who is directly or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

#### **Long positions in the Shares**

<b>Name</b>	<b>Capacity and nature of interest</b>	<b>Number of shares (note 1)</b>	<b>Percentage of the Company's issued share capital</b>
Mr. Jerry Denny Strickland Jr.	Beneficial owner	180,000,000 (L)	37.5%
SYH Investments Limited	Beneficial owner	180,000,000 (L)	37.5%

Note:

1. The letter "L" denotes a long position in the shareholder's interest in the share capital of the Company.

For the nine months ended 30 September 2012, there were no debt securities issued by the Group and the Company at any time.



Save as disclosed above, as at 30 September 2012, the Directors were not aware of any other person, other than the Directors and the chief executive of the Company who had, or was deemed to have, interests or short positions in the Shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or who is directly or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or options in respect of such share capital.

### **CONTRACT OF SIGNIFICANCE**

At 30 September 2012, there is no contract of significance between the Company or any of its subsidiaries, and a controlling shareholder or any of its subsidiaries.

### **COMPETING INTEREST**

For the nine months ended 30 September 2012, the Directors were not aware of any business or interest of the Directors or the controlling shareholder of the Company and their respective associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

### **SHARE OPTION SCHEME**

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Since the Scheme has become effective on 21 June 2012, no share option was granted, exercised or cancelled by the Company under the Scheme during the period under review and there was no outstanding share option under the Scheme as at 30 September 2012.

### **INTERESTS OF THE COMPLIANCE ADVISERS**

As notified by WAG Worldsec Corporate Finance Limited ("WAG"), the Company's compliance adviser, neither WAG nor its directors or employees or associates had any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) as at 30 September 2012.

Pursuant to the agreement dated 10 July 2012 entered into between WAG and the Company, WAG received and will receive fees for acting as the Company's compliance adviser.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the nine months ended 30 September 2012, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Shares.

## **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference on in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises three independent non-executive Directors, namely Mr. Lai Kin Jerome (chairman of the audit committee), Mr. Hau Chi Hung and Mr. Tang Thomas Bong.

The unaudited condensed financial information of the Company for the nine months ended 30 September 2012 has been reviewed by the audit committee.

By order of the Board  
**Mastercraft International Holdings Limited**  
**Leung Yuen Ho, Simon**  
*Chairman and Executive Director*

Hong Kong, 14 November 2012

*As at the date of this report, the executive Directors are Mr. Leung Yuen Ho Simon and Mr. Jerry Denny Strickland Jr.; and the independent non-executive Directors are Mr. Hau Chi Hung, Mr. Lai Kin Jerome, and Mr. Tang Thomas Bong.*