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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

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This announcement, 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 announcement, in both English and Chinese versions, is available on the Company's website at www.mastercraftholdings.com.

HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2012 amounted to HK$331,338,000, representing an increase of 25.3% as compared with the previous year.

- Gross profit of the Group for the year ended 31 December 2012 amounted to HK$68,478,000, representing an increase of 42.5% as compared with the previous year.

- Profit attributable to the owners of the Company for the year ended 31 December 2012 was HK$14,304,000, representing an increase of 48.9% as compared with the previous year.

- The earnings per share for the year ended 31 December 2012 was HK$ 0.0345 (for the year ended 31 December 2011: HK$ 0.0267 (see note 10)).

- The directors recommend the payment of final dividend of HK$ 0.02 per ordinary share in respect of the year ended 31 December 2012. (2011: Nil (see note 9))

The board (the "Board") of directors (the "Directors") of Mastercraft International Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012 together with the comparative figures for the year ended 31 December 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012

	Notes	2012	2011
		HK$'000	HK$'000
Revenue	5	331,338	264,482
Cost of sales		(262,860)	(216,441)
Gross profit		68,478	48,041
Other income		63	192
Selling expenses		(17,871)	(10,089)
Administrative expenses		(21,145)	(13,310)
Research and Development expenses		(5,550)	(5,216)
Listing expenses		(5,611)	(6,969)
Finance cost	6	(2)	-
Profit before tax	7	18,362	12,649
Income tax expense	8	(4,058)	(3,040)
Profit for the year		14,304	9,609
Other comprehensive expense:			
Exchange differences arising on translating foreign operation		(50)	(11)
Total comprehensive income for the year		14,254	9,598
Earnings per share HK cents - Basic	10	3.45cents	2.67cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2012

	Notes	2012	2011
		HK$'000	HK$'000
Non-current Assets			
Property, plant and equipment		2,798	3,134
Deferred tax assets		1,258	756
		4,056	3,890
Current Assets			
Inventories		29,617	14,703
Trade and other receivables	11	82,715	51,132
Bank balances and cash		20,604	3,364
		132,936	69,199
Current Liabilities			
Trade and other payables	12	60,863	41,265
Provision		8,029	8,711
Amounts due to related companies		653	257
Tax payable		1,834	8,456
Bank overdraft		5	-
		71,384	58,689
Net Current Assets		61,552	10,510
Total Assets less Current Liabilities		65,608	14,400
Non-current Liability			
Deferred tax liabilities		181	200
Net assets		65,427	14,200
Capital and Reserves			
Share capital		4,800	349
Reserves		60,627	13,851
Total Equity		65,427	14,200

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012

	Share capital	Share premium	Special reserve	Translation reserve	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2011	349	-	-	(5)	24,128	24,472
Profit for the year	-	-	-	-	9,609	9,609
Other comprehensive expense for the year	-	-	-	(11)	-	(11)
Total comprehensive (expense) income for the year	-	-	-	(11)	9,609	9,598
Dividends recognised as distribution (note 9)	-	-	-	-	(19,870)	(19,870)
At 31 December 2011 and 1 January 2012	349	-	-	(16)	13,867	14,200
Profit for the year	-	-	-	-	14,304	14,304
Other comprehensive expense for the year	-	-	-	(50)	-	(50)
Total comprehensive (expense) income for the year	-	-	-	(50)	14,304	14,254
Arising on group reorganisation	1	-	(1)	-	-	-
Issuance of new shares by way of placing of shares	1,200	40,800	-	-	-	42,000
Share issue expenses	-	(5,027)	-	-	-	(5,027)
Capitalisation issue	3,250	(3,250)	-	-	-	-
At 31 December 2012	4,800	32,523	(1)	(66)	28,171	65,427

1. GENERAL

The Company was incorporated in the Cayman Islands on 3 August 2011 and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 20 July 2012. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P. O. Box 2681, Grand Cayman, KY1-1111, Caymans Islands, and the address of the principal place of business is Unit 503, 5th floor, Tower B, Hunghom Commercial Centre, 37 Ma Tau Wai Road, Hunghom, Kowloon, Hong Kong.

The Company is an investment holding company. The principal activities of the Group are in the business of design and supply chain of lightings and home furnishing products.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is different from the functional currency of the Company, United States dollars ("US$"), as the directors of the Company consider that HK$ is more appropriate in view of the place of the Company's shares is listed in Hong Kong.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market of the Stock Exchange, the Company became the holding company of the Group on 20 June 2012. Details of the Group Reorganisation are as set out in "History, Development and Reorganisation" of the prospectus issued by the Company dated 10 July 2012.

The Group comprising the Company and its subsidiaries resulting from the Group Reorganisation is regarded as a continuing entity. The Group was under the common control of Mr. Jerry Strickland and Mr. Yuen Ho Leung, Simon (together referred to "Controlling Equity Holders").

The financial statements of the Group have been prepared on the basis as if the Company had always been the holding company of the Group using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting under Common Control Combinations" issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated statement of comprehensive income and consolidated statement of changes in equity of the Group have been prepared as if the group structure upon completion of Group Reorganisation had been in existence as at 1 January 2011, or since their respective dates of incorporation or establishment, where is a shorter period.

The consolidated statement of financial position of the Group as at 31 December 2011 had been prepared in accordance with the principles of merger accounting to present assets and liabilities of the companies now comprising the Group as if the group structure upon completion of the Group Reorganisation had been in existence as at that date.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments to HKFRSs issued by the HKICPA.

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets; and
Amendments to HKFRS 7	Financial Instruments: Disclosures - Transfers of Financial Assets

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 - 2011 Cycle[1]
Amendments to HKFRS 7	Disclosures - Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC) - Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 July 2012.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK (SIC)-Int 12 *Consolidation - Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

Based on the existing group structure, the application of these five standards is not expected to have a significant impact on the amounts reported in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The Directors of the Company anticipate that the application of the other new and revised HKFRSs issued but not yet effective will have no material effect on the results, financial position and disclosure of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

5. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable for goods sold to outside customers, less returns and discount, if any, during the year.

Information reported to the executive 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 gross profit from different types of goods delivered. No operating segments identified by chief operating decision maker have been aggregated in arriving at the reportable segments of the Group. Information relating to assets and liabilities in each segment is not included in the internal report regularly reviewed by the executive directors of the Company.

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

(i) *Portable lighting represents a selection of portable lighting products, e.g. Table lamps, floor lamps, accent lams, buffet lamps etc., ("Portable lighting").*

(ii) *Shades represent a selection of shades for the lamps sold by the Group. Shades are complementary goods and a frame that typically fit on the top of a lamp and cover the lighting source ("Shades").*

(iii) *Furniture set and other home accessory products represents the knockdown furniture and ready-to-assemble furniture sets that are sold unassembled, and be put together by the end-customers ("Furniture set and other home accessory products").*

Segment revenues and results

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

For the year ended 31 December 2012

	Portable lighting HK$'000	Shades HK$'000	Furniture sets and other home accessory products HK$'000	Total HK$'000
SEGMENT REVENUE				
External sales	231,714	80,315	19,309	331,338
Segment profit	43,604	19,717	5,157	68,478
Unallocated income				63
Unallocated expenses				
- Selling expenses				(17,871)
- Administration expenses				(21,145)
- Research and development expenses				(5,550)
- Listing expenses				(5,611)
- Finance cost				(2)
Profit before tax				18,362

For the year ended 31 December 2011

	Portable lighting HK$'000	Shades HK$'000	Furniture sets and other home accessory products HK$'000	Total HK$'000
SEGMENT REVENUE				
External sales	173,815	68,593	22,074	264,482
Segment profit	27,628	14,741	5,672	48,041
Unallocated income				
Unallocated expenses				192
- Selling expenses				(10,089)
- Administration expenses				(13,310)
- Research and development expenses				(5,216)
- Listing expenses				(6,969)
Profit before tax				12,649

Segment profit represents the profit earned by each segment without allocation of certain income and expenses (including other income, selling expenses, administration expenses, research and development expenses, listing expenses and finance cost). 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.

Geographical Information

The Group's operations are located in Hong Kong, the People's Republic of China (excluding Hong Kong) ("PRC") and North America.

Information about the Group's revenue from external customers based on the location of goods physically delivered to and information about its non-current assets based on geographical location of the assets:

	Revenue from external customers		Non-current assets (other than deferred tax assets)	
	2012	2011	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong (place of domicile)	-	-	2,592	2,984
PRC	-	-	110	150
USA	323,305	258,406	96	-
Canada	7,083	4,352	-	-
Others	950	1,724	-	-
Total revenue/non-current assets	331,338	264,482	2,798	3,134

Information about major customers

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

	2012	2011
	HK$'000	HK$'000
Customer A *(Note)*	85,249	82,862
Customer B *(Note)*	129,111	44,373
Customer C *(Note)*	43,537	42,588
Customer D *(Note)*	N/A	37,624

(Note) The revenue from Customers A, B, C and D involved in portable lighting, shade and furniture sets and other home accessory products segments.

6. FINANCE COST

	2012	2011
	HK$'000	HK$'000
Interest expenses on bank overdraft	2	-

7. PROFIT BEFORE TAX

	2012 HK$'000	2011 HK$'000
Profit before tax has been arrived at after charging (crediting):		
Write-off of inventories	128	34
Bad debt written off of trade receivables	-	410
Auditor's remuneration	783	382
Cost of inventories recognised as expenses	257,777	214,877
Depreciation of property, plant and equipment	638	582
Net foreign exchange loss	41	86
Staff costs, including directors' remuneration:		
Salaries, wages and other benefits	22,821	9,810
Retirement benefits scheme contributions	691	294
Termination compensation to staff	-	544
	23,512	10,648
Less: amount included in research and development expenses	(2,877)	(1,342)
	20,635	9,306
Gain on disposal of property, plant and equipment	-	(120)
Interest income	(20)	(1)

8. INCOME TAX EXPENSE

	2012 HK$'000	2011 HK$'000
Current taxation:		
- Hong Kong Profits Tax	4,359	3,697
- Overseas taxation	257	55
	4,616	3,752
Overprovision in prior years		
- Hong Kong Profits Tax	(19)	-
- Overseas taxation	(18)	-
	(37)	-
Deferred taxation	(521)	(712)
	4,058	3,040

The Company and the subsidiaries operating in Hong Kong are subject to Hong Kong Profits Tax at a tax rate of 16.5% on assessable profits earned in Hong Kong.

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

9. DIVIDENDS

No dividend has been paid or proposed by the Company during the years ended 31 December 2012 and 2011.

Prior to the Group Reorganisation, Mastercraft International Limited, a subsidiary of the Company, had declared dividend in an amount of US$2,554,000 (equivalent to HK$19,870,000) to its then shareholders during the year ended 31 December 2011.

Subsequent to the end of the reporting period, a final dividend for the year ended 31 December of 2012 of HK$0.02 per ordinary share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting. Accordingly, the proposed final dividend is estimated to be approximately HK$9,600,000 and the amount has not been recognised as a liability as at the end of the reporting period.

10. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company and the weighted average of 414,098,361 ordinary shares (2011: 360,000,000) of the Company, taking into account the shares issued and outstanding during the year and on the assumption that the Group Reorganisation (note 2) and capitalisation issue have been effective on 1 January 2011.

No diluted earnings per share is presented as there were no potential ordinary shares in issue during the years ended 31 December 2012 and 2011.

11. TRADE AND OTHER RECEIVABLES

	2012 HK$'000	2011 HK$'000
Trade receivables	77,453	50,536
Bill receivables	3,114	117
	80,567	50,653
Other receivables and prepayment	2,148	479
	82,715	51,132

Trade and bill receivables are mainly arisen from sales of portable lighting and home furnishing products. No interest is charged on the trade receivables.

The Group allows credit period with a range from 30 to 90 days to its trade customers. The following is an aged analysis of trade receivables and bill receivables presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	2012 HK$'000	2011 HK$'000
1 to 30 days	35,254	26,047
31 to 60 days	34,519	15,451
61 to 90 days	10,523	8,263
Over 90 days	271	892
	80,567	50,653

Before accepting any new customer, the Group has assessed the credit quality of each potential customer and defines credit rating and limit for each customer. In addition, the Group has reviewed the repayment history of receivables by each customer with reference to the payment terms stated in contracts to determine the recoverability of a trade receivable.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK$20,045,000 (2011: HK$8,716,000), which are past due for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired:

	2012 HK$'000	2011 HK$'000
Overdue by:		
1 to 30 days	14,585	7,824
31 to 60 days	4,298	35
61 to 90 days	980	49
Over 90 days	182	808
	20,045	8,716

For the year ended 31 December 2011, trade receivable of HK$410,000 (2012: Nil) was written off as the Directors of the Company had determined that the amount was irrecoverable.

12. TRADE AND OTHER PAYABLES

	2012 HK$'000	2011 HK$'000
Trade payables	50,200	33,606
Accrued sales commission	780	1,268
Other payables and accruals	9,883	6,391
	60,863	41,265

The credit period granted by suppliers to the Group ranged from 30 to 60 days. The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2012 HK$'000	2011 HK$'000
1 to 30 days	32,010	17,760
31 to 60 days	16,390	12,848
61 to 90 days	1,465	2,688
Over 90 days	335	310
	50,200	33,606

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group is principally engaged in the design and sale of portable lighting, shades and furniture set 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 year ended 31 December 2012, which contributed to approximately 79.8% of the Group's total revenue.

The Group's revenue from sale of portable lighting, shades and furniture set and other home accessory products for the year ended 31 December 2012 was approximately HK$ 231.7 million, HK$80.3 million and HK$19.3 million (2011: HK$173.8 million, HK$68.6 million and HK$22.1 million) respectively. Portable lighting products remained as the Group's significant revenue stream. During the year, portable lighting product and shades contributed to approximately 69.9% and 24.2% (2011: 65.7% and 25.9%) 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 profit margin of portable lighting products, shades and furniture set and other home accessory products increased from 15.9% to 18.8%, 21.5% to 24.5% and 25.7% to 26.7%, respectively from the year ended 31 December 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 25.3% from approximately HK$264.4 million for the year ended 31 December 2011 to HK$331.3 million for the year ended 31 December 2012.

Cost of sales of the Group increased by approximately 21.4% from HK$216.4 million for the year ended 31 December 2011 to HK$262.9 million for the year ended 31 December 2012. As a result of the foregoing, the gross profit of the Group increased by 42.5%, from approximately HK$48.0 million for the year ended 31 December 2011 to HK$68.5 million for the year ended 31 December 2012. The gross profit margin was 18.2% and 20.7% for year ended 31 December 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$12.9 million in the year ended 31 December 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 48.9% from approximately HK$9.6 million in the year ended 31 December 2011 to approximately HK$14.3 million in the year ended 31 December 2012. The Group's net profit margin improved from 3.6% to 4.3% for the corresponding periods.

Financial position and liquidity

As at 31 December 2012, cash and bank balances of the Group amounted to approximately HK$20.6 million (As at 31 December 2011: HK$3.4 million). The Group's current ratio (current asset divided by current liabilities) was 1.2 times and 1.9 times as at 31 December 2011 and 2012, respectively. Considering the Group's current level of cash and bank balances which includes the unspent net proceeds from the listing, funds generated internally from our operations 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 31 December 2012, the Group has unutilized general banking facilities of HK$5,000,000 (2011: 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 from prior years.

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

The Directors of the Company review the capital structure regularly, taking into account the cost of capital and the risks associated with the capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends and new capital injection.

Outlook
The Directors believe that upon the successful listing of the shares of the Company on the GEM board of the Stock Exchange by way of placing on 20 July 2012 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 functions, the Group has leased premises in Dongguan, Guangdong Province in the PRC to set up the new product development centre, which the Directors believe to be one of the key drivers for the Group's future growth.

The Group targets further expansion in North America markets not only in portable lighting market but also the furniture market, 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.

Contingent Liabilities
As at the end of the reporting period, the Group did not have any significant contingent liabilities.

Significant Investments
As at the end of the reporting period, the Group did not have any significant investment plans.

Future Plans for Material Investments or Capital Assets
There was no specific plan for material investments or capital assets as at 31 December 2012.

Material Acquisitions or Disposals
During the years ended 31 December 2011 and 2012, there was no material acquisition or disposal of subsidiaries and associated companies by the Group.

Charges on assets
As at 31 December 2011 and 2012, the Group has general banking facilities of HK$3,500,000 and HK$5,000,000, respectively. The banking facilities are secured by the Group's land and building, having carrying amount of approximately HK$1,224,000 and HK$1,148,000 as at 31 December 2011 and 2012, respectively.

Foreign exchange exposure
During the year, all sales of the Group were invoiced in U.S. dollars and all purchases from contract manufacturers were also invoiced in U.S. dollars. As H.K. dollar is pegged to U.S. dollar, the exposure to fluctuations in exchange rate of H.K. dollar against U.S. dollar is considered insignificant and the amounts of other foreign currencies involved are insignificant, thus the management of the Group is of the opinion that the Group's exposure to such foreign exchange risk is minimal.

Capital commitment
As at 31 December 2011, the Group did not have any significant capital commitment. As at 31 December 2012, the Group has capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for in the consolidated financial statements amounting to approximately HK$134,000.

CORPORATE GOVERNANCE REPORT

The Company endeavours 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 period from 20 July 2012 to 31 December 2012, except for the follows:

Under code provision A.1.1 of the Code, the Board shall meet regularly and at least four times a year at approximately quarterly intervals. As the Company became listed on 20 July 2012, the Board and the Board committees, including the audit committee, nomination committee and remuneration committee, only convened and held three board meetings and two audit committee meetings from the Listing Date to 31 December 2012.

Under code provision A.2.1, which states that the roles of chairman and chief executive officer ("CEO") should be separated and should not be performed by the same individual. Mr. Leung Yuen Ho, Simon, who acts as the chairman and the CEO of the Company, is also responsible for the overall business strategy and development and management of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive Directors and senior management, who are in charge of different functions, complement the role of the chairman and the CEO. The Board believes that this structure is conducive to strong and consistent leadership which enables the Group to operate efficiently. As such, the structure is beneficial to the Group and the Shareholders as a whole.

The Company understands the importance to comply with the code provision A.2.1 and will continue to consider the feasibility of appointing a CEO. The Company will make timely announcement if such decision has been made.

Save as disclosed above, the Board considered that the Company had complied with the code provisions set out in the Code from the Listing Date to 31 December 2012.

Compliance with the Required Standard of Dealings in Securities Transactions by Directors

During the year, 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 year ended 31 December 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 31 December 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

Name	**Capacity and nature of interest**	**Number of shares** *(note 1)*	**Percentage of the Company's issued share capital**
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 31 December 2012.*

During the year ended 31 December 2012, there were no debt securities issued by the Group and the Company at any time.

Save as disclosed above, as at 31 December 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 31 December 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

Name	**Capacity and nature of interest**	**Number of shares** *(note 1)*	**Percentage of the Company's issued share capital**
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 year ended 31 December 2012, there were no debt securities issued by the Group and the Company at any time.

Save as disclosed above, as at 31 December 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 31 December 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 year ended 31 December 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 31 December 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 31 December 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 year ended 31 December 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 consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2012 have been reviewed by the audit committee.

Scope of works of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2012 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

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

Hong Kong, 18 March 2013

As at the date of this announcement, 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.