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 Report 2012

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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 report 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 report misleading; and (iii) all opinions expressed in this report 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.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Leung Yuen Ho, Simon *(Chairman)*
Mr. Jerry Denny Strickland Jr.

Independent Non-executive Directors
Mr. Hau Chi Hung
Mr. Lai Kin, Jerome
Mr. Tang Thomas Bong

COMPANY SECRETARY

Ms. Wong Shuk Fong

AUDIT COMMITTEE

Mr. Lai Kin, Jerome *(Chairman)*
Mr. Hau Chi Hung
Mr. Tang Thomas Bong

REMUNERATION COMMITTEE

Mr. Hau Chi Hung *(Chairman)*
Mr. Lai Kin, Jerome
Mr. Tang Thomas Bong

NOMINATION COMMITTEE

Mr. Tang Thomas Bong *(Chairman)*
Mr. Lai Kin, Jerome
Mr. Hau Chi Hung

AUTHORISED REPRESENTATIVES

Mr. Leung Yuen Ho, Simon
Ms. Wong Shuk Fong

COMPLIANCE ADVISER

WAG Worldsec Corporate Finance Limited

PRINCIPAL BANKERS

Hang Seng Bank Limited
DBS Bank (Hong Kong) Limited

AUDITOR

Deloitte Touche Tohmatsu

REGISTERED OFFICE

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Cayman Islands

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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Cayman Islands

CORPORATE WEBSITE

http://www.mastercraftholdings.com

STOCK CODE

8146

LISTING DATE

20 July 2012

CHAIRMAN'S STATEMENT

On behalf of the board of directors of Mastercraft International Holdings Limited (the "Company") and its subsidiaries (together the "Group"), I am writing this statement here with great pleasure for the first annual results of the Group after the successful listing on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

The Group delivered strong results in 2012, reporting record revenue and profits, as our business continued to expand in key markets while successfully managing costs and delivering higher margins.

DEPENDABLE PERFORMANCE

Revenue for the year ended 31 December 2012 increased 25.3% over 2011 to HK$331.3 million as we outpaced the market in a demanding global economic environment. Gross profit margin increased to 20.7%, from 18.2% in 2011 showing our ability to drive productivity gains in our operations and supply chain, despite the head winds from higher commodity prices and rises in other input costs. Research and development, selling and administrative expenses were increased from 10.8% of revenue in 2011 to 13.5% in 2012. The profit for the year in 2012 up by 48.9% and to HK$14.3 million, with margin improving by approximately 70 basis points to 4.3%.

I am pleased to announce that the Board is recommending a final dividend of HK$0.02 per ordinary share.

DEDICATED FOCUS

We have a sound strategy with a dedicated focus on providing value added solutions to North American clients in the portable lighting industry. We will continue to provide value added solution to our clients such as product design and development, marketing and quality control. The Company is investing in its core competences and is currently expanding the product development center in Dongguan, the PRC to strengthen the design and development capabilities.

SEIZING GROWTH OPPORTUNITIES

The Group has been growing its business, improving profitability, generating free cash flow, strengthening its statement of financial position and maximizing return on capital to shareholders. We have created a strong position in the portable lighting industry, cost efficient production and access light contracting manufacturing business model which are facilitating further expansion into new categories and new geographies.

The Group is expanding into furniture products in the North American markets, working with its existing and new clients and various contract manufacturers.

I wish to extend my appreciation to our many dedicated customers and business partners for their support during the year, to our people for their passion and hard working in turning the Group's vision into the reality, my fellow Directors for their sound and contribution and to our many shareholders for their commitment.

Leung Yuen Ho, Simon
Chairman

18 March 2013

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 products 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 31 December 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).

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 business, the Group has leased a premises 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 further expansion in North America markets not only on 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 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.

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.

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

Save as disclosed in this annual report, there was no specific plan for material investments or capital assets as at 31 December 2011 and 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. dollar and all purchases from contract manufacturers were also invoiced in U.S. dollar. 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.

BUSINESS OBJECTIVES AND USE OF PROCEEDS

Comparison of Business Objectives with Actual Business Progress

An analysis comparing the business objectives as stated in the prospectus with the Group's actual business progress for the period from 20 July 2012 to 31 December 2012 is set out below:

Business objectives for the period from 20 July 2012 to 31 December 2012 as stated in the prospectus	Actual business progress up to 31 December 2012
Increase sales in North American markets	— We have actively participated in different trade shows and events in order to enhance the Group's profile and awareness. We have successfully entered into business relationship with two new Mass Market Retailers customers which contributed approximately HK$6.7 million of the Group's revenue. — We have evaluated the operation, performance and product mix for our US distribution hub and based on the customer's preference and request to increase the replenishment inventory level. With the improvement on the distribution services, we have obtained 10 new products' sales orders from our major customer which generated approximately HK$48.9 million revenue to the Group during the period.
Evaluate other overseas markets	We have started to: — evaluate and explore potential new markets which are suitable for the Group's products. — study the market preferences and the coming trends of our products. — perform preliminary assessment on the potential target markets. — look for competent service representative and personnel.
Evaluate the potential of the PRC hotel and motel market	We have started to study market preferences and trends in the PRC hotel and motel market based on information gathered from the market and online sources and performed preliminary assessment in respect of the target market.
Source additional contract manufacturers, strengthen strategic relationships with key contract manufacturers and continue to improve quality control	— We have engaged with 10 new independent contract manufacturers during the period in order to enhance the production capacity, quality control and cost management. We are targeting further expansion in the furniture sector in North America, thus, we have sourced new contract manufacturers specialized in furniture production to produce better quality furniture products. — We have assessed and evaluated the performance of our current contract manufacturers including their production capabilities, financial and logistical resources, product quality and production cost. — We have hired a head of product development and marketing for furniture division who has more than 13 years' experience in furniture industry. He is responsible on the marketing, sourcing and product development for furniture products. We have also hired a quality control inspector who has more than 10 years' inspection experience in furniture products to strengthen the quality control and compliance of products.
Strengthen design and development capabilities	We have leased a premises in Dongguan, Guangdong Province in the PRC for the establishment of new product development centre. The premise has commenced operation since March 2013.

The business objectives and planned use of proceeds as stated in the prospectus were based on the best estimation of future market conditions and development made by the Group at the time of preparing the prospectus while the proceeds were applied in accordance with the actual development of the market. During the period from 20 July 2012 to 31 December 2012, the net proceeds from issuance of new shares of the Company by way of placing had been applied as follows:

	Total use of net proceeds HK$'000	Planned use of proceeds as stated in the prospectus from the 20 July 2012 to 31 December 2012 HK$'000	Actual use of proceeds from the 20 July 2012 to 31 December 2012 HK$'000
Increase sales in North American markets	12,100	–	7,000
Expand product development centre	4,900	500	827
Conduct feasibility studies	2,400	–	–
Expand operation and marketing team	2,400	–	472
General working capital	2,400	600	600
	24,200	1,100	8,899

All the remaining proceeds as at 31 December 2012 had been placed as interest bearing deposits at banks in Hong Kong.

THE GROUP MAY FACE CHALLENGES IN IMPLEMENTING ITS STATEMENT OF BUSINESS OBJECTIVES

The success of the Group's operations depends on, among other things, the proper and timely execution of the Group's future business plans. The Group's future business strategies are described in the section headed "Statement of business objectives" in the prospectus. Some of the Group's future business plans are still in preliminary stages of planning and are not yet supported by a detailed feasibility study. Some of the Group's business plans and intentions are based on the assumption that certain future events will occur. The Group can give no assurance that its future business plans will materialise, or result in the conclusion or execution of any agreement within the intended time frame, or that the Group's objectives will be fully or partially accomplished.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. LEUNG Yuen Ho Simon (梁遠豪), aged 50, was appointed as executive director on 3 August 2011. He has over 25 years' of production and sales experience in the lighting industry. Mr. Leung has been engaged in the lighting industry since he established Tai Pan Lighting Corporation, a company incorporated in Canada, with an independent third party in 1985. Tai Pan Lighting Corporation is a wholesaler supplying lighting products to furniture and lighting retailers in Canada and a distributor of lamps products to hotels in Canada and the U.S. and Mr. Leung acted as the vice president of the company. In August 2011, Mr. Leung resigned as the vice president of Tai Pan Lighting Corporation and sold all of his shares in Tai Pan Lighting Corporation to an independent third party. Mr. Leung is one of the co-founders of the Group. Since the establishment of the Group, Mr. Leung has been involving in overall strategic planning and management of the Group. He is also in charge of financial and operation departments of the Group.

Mr. Jerry Denny STRICKLAND Jr., aged 62, was appointed as executive director on 3 August 2011. He is the Company's director of sales and marketing. Mr. Strickland has more than 25 years of sales experience in the lighting industry. Mr. Strickland began working in the lighting industry in his early twenties. Recognizing that direct imports would represent the future of the portable lighting industry, Mr. Strickland is one of the co-founders of the Group. Since the establishment of the Group, Mr. Strickland has been responsible for overall management of the sales and marketing of the Group and is responsible for coordinating and monitoring the Group's customers. He is also responsible for the Group's product development and heading the Group's product development team to design new products for customers.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. HAU Chi Hung (侯智雄), aged 60, was appointed as an independent non-executive director of the Company on 21 June 2012. Mr. Hau received a degree in Computer Science in 1975 and a Master of Business Administration in 1976 from the University of Alberta (Canada). He was the operations manager of GE Commercial Finance (Hong Kong) Limited (formerly known as Heller Factoring (Hong Kong) Limited in 1982 and 1983) and became a managing director of the same company in 1983. In 1987, he was appointed as a vice-president of Heller Overseas Corporation, responsible for North Asia which encompassed Hong Kong, Taiwan and South Korea. He was later seconded to Thailand and was appointed as the managing director of Kasikorn Factoring and Equipment Co. Ltd. (formerly known as Thai Farmers Heller Factoring Company Limited). He later became the vice president of Korn/Ferry International (H.K.) Limited. From 1994, Mr. Hau has been a director of American Pacific Medical Group Limited, a healthcare provider that builds and operates specialized hospitals in China.

Mr. LAI Kin Jerome (黎健), aged 64, was appointed as independent non-executive director of the Company on 21 June 2012. Mr. Lai graduated in 1974 from the University of Toronto with a Bachelor of Commerce degree. He became a chartered accountant of The Institute of Chartered Accountants of Ontario in 1976 and a member of the Hong Kong Institute of Certified Public Accountants in 2006. Mr. Lai has over 30 years of experience in accounting. He served as chief financial officer and executive director at SPG Land (Holdings) Limited between 2003 and 2008 and as a non-executive director of the company from 2008 to 2011. Mr. Lai was senior vice president of the finance, treasury and administration functional unit of Hong Kong Exchanges and Clearing Limited between 2000 and 2003 and executive director of the finance and management services division of the Stock Exchange between 1997 and 2000. Mr. Lai is currently serving as an independent non-executive director on the board of PC Partner Group Limited, a company listed on the Stock Exchange.

Mr. TANG Thomas Bong (鄧邦), aged 63, was appointed as an independent non-executive director of the Company on 21 June 2012. Mr. Tang has over 25 years' experience in education management. During the period between 1986 and 1991, he was a director of Getton Investments Limited, which operated a branch under the name S.E.A. Canadian Overseas Secondary School. In 1989, he founded the Canadian International School (Singapore), and holds the position of chief executive officer at the school. In 2000, he founded the Schoolhouse by the Bay Pte. Ltd. and the Learning Ladder in Singapore. Also in 2000 Mr. Tang established the Learning Society, a public service organisation that aims to promote and support progressive education programmes for adults and children, educational research, curriculum development, operation of educational institutions, contribution to educational and academic publications and charitable acts in education.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. HUI Chung Ming Gary (許鐘銘), aged 45, the head of product development and marketing, is responsible for the product development and marketing functions of the Group. He joined the Group in 1998 as marketing manager and took up the position of the head of product development and marketing at the end of 2001. He oversees the overall operation of the product design and development department and helps develop the marketing strategies of the Group. Prior to joining the Group, Mr. Hui worked as a product manager for Hung Tai Brass & Metal Wares Factory Limited between 1991 and 1997. His was principally responsible for communicating with customers and suppliers to ensure product quality, including lighting parts and components. He has more than 20 years of experience in the lighting and home furnishings industry. He obtained a higher diploma in translation and interpretation from City Polytechnic (now City University) of Hong Kong in 1990.

Ms. CHIU Shuk Ching (趙淑貞), aged 49, is the head of operations of the Group and is responsible for monitoring the operations team and co-ordinating factories and suppliers to ensure production operations are carried out efficiently and effectively. She joined the Group in 1997 as an operation manager. She has over 22 years of operations-related experience. Prior to joining the Group, Ms. Chiu worked as a recruitment manager in Alpha Personnel Consultant from 1994 to 1996. Ms. Chiu has approximately 10 years' merchandising experience. She worked at Streambrook Company Limited from 1983 to 1987 and from 1989 to 1994, initially as a clerk before being promoted to assistant merchandiser in 1984, and then senior merchandiser in 1994. Ms. Chiu was employed by Dodwell Hong Kong Buying Office Limited briefly from 1988 to 1989 initially as an assistant merchandiser before being promoted as a senior merchandiser. Ms. Chiu received a Bachelor of Business Administration degree from University of Western Sydney via long distance learning in 2005.

Ms. WONG Shuk Fong (黃淑芳), aged 29, is the financial controller and company secretary of the Group. She joined the Group in 2011 and responsible for financial and corporate governance matters of the Group. She is also responsible for overseeing compliance with the Group's internal controls systems. From 2006 to 2010, Ms. Wong worked in CCIF CPA Limited, initially as auditor before being promoted to assistant manager. During that time, Ms. Wong was involved in handling initial public offerings, auditing and substantial corporate transactions for listed companies in Hong Kong. In 2010, she established her own business in Hong Kong providing advice on tax matters and assistance to listed companies in the preparation of public financial reports and corporate announcements. Ms. Wong obtained a Bachelor of Business (Accounting and Finance) degree from University of Technology, Sydney in 2005 and a Master of Commerce (Accounting) degree from University of New South Wales in 2006. She was accredited as a certified public accountant by CPA Australia in 2010.

Ms. KU Mung Chun (古夢珍), aged 44, is responsible for overseeing the accounting function of the Group. She joined the Group in 1996. Prior to joining the Group, Ms. Ku was employed by Norden Company Ltd from1990 to 1993 initially as a shipping clerk, and then as an accounting clerk supervisor. Ms. Ku was then employed by TWD (Hong Kong) Ltd from 1994 to 1995 as an accounts supervisor. She received an advanced diploma in Accounting from the University of Hong Kong in 2005. She also obtained a Bachelor of Business Administration (major in accounting) from 東北財經大學 (Dongbei University of Finance and Economics) in 2007.

Mr. FONG Chi Chung (方志忠), aged 54, is the Group's factories compliance manager. He joined the Group in 1995 as an inspector and became factories compliance manager in 2006. In 2011 and 2012, he was also appointed to act as the legal representative of Mastercraft Home Furnishing Development (Shenzhen) Limited and Mastercraft Home Furnishing Development (Dongguan) Limited ("Mastercraft WFOE"), respectively. Prior to joining the Group, Mr. Fong was employed by Tai Pan Lighting Corporation from 1985 to 1995 as a production technician responsible for lighting component finishing and gained knowledge in product safety. He is responsible for monitoring the entire system flows of the Group's contract manufacturers to ensure such contract manufacturers comply with applicable laws and regulations as well as specific requirements of the Group's customers. He is also responsible for day-to-day operations of Mastercraft WFOE. Mr. Fong has more than 25 years of experience in the lighting industry, in particular production and factory set-up matters.

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 (the "Listing Date") 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 ("CE") should be separated and should not be performed by the same individual. Mr. Leung Yuen Ho, Simon, who acts as the chairman and the CE 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 CE. 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 CE. 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 had fully complied with the required standard of dealings and there was no event of non-compliance.

BOARD OF DIRECTORS

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making.

The Board comprises two executive Directors and three independent non-executive Directors and the Board is accountable to shareholders. The management and control of the business of the Company is vested in its Board. It is the duty of the Board to enhance value to the shareholders of the Company. The composition of the Board and biographies of the Directors are set out on page 8 of this annual report.

The two executive Directors are responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances and is collectively responsible for promoting the success of the Company by directing and supervising its affairs.

The three independent non-executive Directors are responsible for ensuring a high standard of financial and other mandatory reporting of the Board as well as to provide a balance in the Board in order to protect shareholders' interest and overall interest of the Group.

Each independent non-executive Director has given the Company an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all the independent non-executive Directors are independent and meet the independent guidelines set out in Rule 5.09 of the GEM Listing Rules.

Number of Meetings and Directors' Attendance

Regular board meetings should be held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

The Company was listed on the GEM board of the Stock Exchange on 20 July 2012 and during the period from 20 July 2012 up to the date of this report, 4 board meetings, 3 audit committee meetings, 1 remuneration committee and 1 nomination committee were held. The individual attendance record of each Director at the meetings during the financial year is set out below:

	Attendance/Number of meetings			
Name of Directors	Board meeting	Audit committee	Remuneration committee	Nomination committee
Executive Directors				
Mr. Leung Yuen Ho, Simon	4/4	–	–	–
Mr. Jerry Denny Strickland Jr.	4/4	–	–	–
Independent Non-executive Directors				
Mr. Lai Kin, Jerome *(Chairman of audit committee)*	4/4	3/3	1/1	1/1
Mr. Hau Chi Hung *(Chairman of remuneration committee)*	4/4	3/3	1/1	1/1
Mr. Tang Thomas Bong *(Chairman of nomination committee)*	4/4	3/3	1/1	1/1

The company secretary attended all the scheduled Board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and finance.

Practice and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Code Provision A.1.3 stipulates that at least 14 days' notice should be given for a regular Board meeting. For other Board and committee meetings, reasonable notices are generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or audit committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. All Directors are given an opportunity to include matters in the agenda for regular Board meetings. The Board and each Director also have separate and independent access to the senior management whenever necessary. With the support of the senior management, the chairman is responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

Minutes of all Board meetings recording sufficient details of matters considered and decisions reached are duly kept by the company secretary of the meetings and opened for inspection by the Directors.

The Company's articles of association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

Training of Directors

Pursuant to Code Provision A.6.5, which has come into effect from 1 April 2012, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Up to the date of this report, all Directors have participated in continuous professional development by attending training course or reading relevant materials on the topics related to corporate governance and regulations.

The individual training record of each Director received for the year ended 31 December 2012 is summarized below:

Name of Directors	Attending seminar(s)/relevant materials in relation to the business or directors' duties Yes/No
Executive Directors	
Mr. Leung Yuen Ho, Simon	Yes
Mr. Jerry Denny Strickland Jr.	Yes
Independent Non-executive Directors	
Mr. Lai Kin, Jerome	Yes
Mr. Hau Chi Hung	Yes
Mr. Tang Thomas Bong	Yes

All the Directors also understand the importance of continuous professional development and are committed to participating any suitable training or reading relevant materials in order to develop and refresh their knowledge and skills.

AUDIT COMMITTEE

The Company established an audit committee on 21 June 2012 which comprises Mr. Hau Chi Hung, Mr. Lai Kin, Jerome and Mr. Tang Thomas Bong, with Mr. Lai Kin, Jerome being the chairman of the committee. The audit committee has adopted the written terms of reference in compliance with paragraph C3.3 of the Code as set out in Appendix 15 to the GEM Listing Rules. Among other things, the primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The committee will be assisted by the professional accounting firm engaged by the Group, which will conduct regular internal audits and report to the committee.

The audit committee has reviewed the Company's annual audited results for the year ended 31 December 2012.

REMUNERATION COMMITTEE

The Company established a remuneration committee on 21 June 2012 which comprises Mr. Hau Chi Hung, Mr. Lai Kin, Jerome and Mr. Tang Thomas Bong, with Mr. Hau Chi Hung being the chairman of the committee. The remuneration committee has adopted written terms of reference in compliance with paragraph B1.3 of the Code as set out in Appendix 15 to the GEM Listing Rules. Among other things, the primary duties of the remuneration committee include the evaluation of the performance and the making of recommendations on the remuneration package of the Directors and senior management.

Following the Listing, and according to the terms of reference of the remuneration committee adopted by the Company, the remuneration committee of the Company will make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration, a significant portion of which will be linked to corporate and individual performance.

NOMINATION COMMITTEE

The Company established a nomination committee on 21 June 2012 which comprises Mr. Hau Chi Hung, Mr. Lai Kin, Jerome and Mr. Tang Thomas Bong, with Mr. Tang Thomas Bong being the chairman of the committee. The nomination committee has adopted written terms of reference in compliance with paragraph A4.5 of the Code as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the nomination committee include nominating potential candidates for directorship, reviewing the nomination of directors and making recommendations to the Board on terms of such appointment.

COMMUNICATION WITH SHAREHOLDERS

The Company endeavors to maintain an on-going dialogue with the shareholders and in particular, through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation.

The Company will ensure that there are separate resolutions for separate issues proposed at the general meetings.

The Company will continue to maintain an open and effective investor communication policy and to update investors on relevant information on the Group's business in a timely manner, subject to relevant regulatory requirements.

GENERAL MEETINGS WITH SHAREHOLDERS

The Company's first annual general meeting will be held on 6 May 2013.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to article 58 of the Articles of Association, extraordinary general meetings of the Company (the "EGM") shall be convened on the requisition of any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s), as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting enquiries to the Board

To ensure effective communication between the Board and the shareholders, the Company has adopted a shareholders' communication policy (the "Policy"). Under the Policy, the Company's information shall be communicated to the shareholders mainly through general meetings, including annual general meetings, the Company's financial reports (annual, interim and quarterly reports), and its corporate communications and other corporate publications on the Company's website and the Stock Exchange's website. Shareholders may at any time make a request for the Company's information to the extent that such information is publicly available. Any such questions shall be first directed to the company secretary of the Company at the Company's 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.

Putting forward proposals at Shareholders' meeting

The number of shareholders necessary for putting forward a proposal at a shareholders' meeting shall be any number of shareholders representing not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings at the date of the request.

COMPANY SECRETARY

Ms. Wong Shuk Fong joined the Group in 2011 and has been the company secretary since 2012. She is an employee of a fellow subsidiary of the Company and has day-to-day knowledge of the Company's affairs. As the company secretary, Ms. Wong supports the Board by ensuring board procedures and all applicable law, rules and regulations are followed. She is responsible for advising the Board on governance matters and facilitates induction and professional development of the Directors. The selection, appointment or dismissal of the company secretary are subject to the Board approval in accordance with the Article. Whilst the company secretary reports to the CE on the Group's company secretarial and corporate governance matters, all Directors have access to the advice services of the company secretary. Pursuant to the GEM Listing Rules which came into effect on 1 January 2012, the company secretary has taken no less than 15 hours of relevant professional training in the year under review.

DIRECTORS AND OFFICERS INSURANCE

Appropriate insurance covers on directors' and officers' liabilities have been in force to protect the Directors and officers of the Group from their risk exposure arising from the business of the Group.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual, half-year and quarterly reports, other price-sensitive announcements and other financial disclosures required under the GEM Listing Rules and other statutory requirements.

The Directors acknowledged their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2012. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the consolidated financial statements.

The auditors to the Company acknowledge their reporting responsibilities in the independent auditor's report on the consolidated financial statements for the year ended 31 December 2012.

AUDITOR'S REMUNERATION

The remuneration paid/payable to the auditor of the Group for the year ended 31 December 2012 is set out as follows:

Services rendered	Paid/payable HK$'000
Statutory audit services	780
Non-statutory audit services:	
Reporting accountant in relation to the listing	717
	1,497

INTERNAL CONTROLS

The Board has overall responsibility for the internal control system of the Company. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company. During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company.

INVESTOR RELATIONS

The Company believes that maintaining a high level of transparency is a key to enhancing investor relations. It is committed to a policy of open and timely disclosure of corporate information to its shareholders and investment public. The Company updates its shareholders on its latest business developments and financial performance through its annual, interim and quarterly reports. The corporate website of the Company (http://www.mastercraftholdings.com) has provided an effective communication platform to the public and the shareholders.

During the year ended 31 December 2012, there had been no significant change in the Company's constitutional documents.

REPORT OF THE DIRECTORS

The Directors present their first annual report and the audited consolidated financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 30 to the consolidated financial statements. There were no significant changes in nature of Group's principal activities during the year.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2012 are set out in note 30 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on page 20 of the annual report.

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.

USE OF NET PROCEEDS FROM PLACING

The net proceeds from the Company's issue of new shares at the time of its listing on the GEM Board of the Stock Exchange on 20 July 2012, after deduction of related issuance expenses, amounted to approximately HK$24.2 million of which approximately HK$8.9 million was used in accordance with the proposed applications set out in the prospectus. The unused proceeds amounted to approximately HK$15.3 million as at 31 December 2012 had been placed with the commercial banks in Hong Kong. The Directors believe that the remaining net proceeds will be used according to the intended usages as set out in the prospectus.

SEGMENTAL INFORMATION

Details of segment reporting are set out in note 8 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, the aggregate amount of revenue attribute to the Group's five largest customers was 86.1 % of the total value of the Group's revenue. The Group's purchase to the five largest suppliers accounted for 80.4 % of the total value of the Group's purchase.

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in major customers or suppliers.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 22 to the consolidated financial statements.

RESERVES

Movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 22.

DISTRIBUTABLE RESERVES

At 31 December 2012, the Company's reserves, calculated in accordance with the provisions of Cayman Islands' legislation, amounted to HK$44,234,000. At 31 December 2011, there were no reserves available for distribution to the shareholders of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's shares during the year ended 31 December 2012.

FINANCIAL SUMMARY

A summary of the results of the Group for the past 3 financial years, as extracted from the financial informations of the prospectus, is set out on page 50 of this annual report. This summary does not form part of the consolidated financial statements in this annual report.

DIRECTORS AND DIRECTORS' SERVICE CONTRACT

In accordance with the Articles of the Company, one-third of the Directors are subject to retirement by rotation or, if their number is not three or a multiple of three, then the nearest to but not less than one-third shall retire from the office and, being eligible, will offer themselves for re-election, at the forthcoming annual general meeting of the Company.

The service contracts between the Company and executive Directors and independent non-executive Directors are for a term of three and two years, which commenced on 21 June 2012, respectively. Their terms of office are also subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

CONFIRMATION OF INDEPENDENCE

The Company has received annual confirmations of independence from Mr. Lai Kin Jerome, Mr. Hau Chi Hung and Mr. Tang Thomas Bong pursuant to the GEM Listing Rules. The Company considers the independent non-executive Directors to be independent pursuant to Rule 5.09 of the GEM Listing Rules as at the date of this report.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on pages 8 and 9 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 28 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year.

COMPETING INTEREST

For the year ended 31 December 2012, the Directors were not aware of any business or interest of the Directors, the controlling shareholders, the management shareholder 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.

GROUP'S EMOLUMENT POLICY

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments, if any, are determined by the Board with reference to the Directors' duties, responsibilities and performance and the results of the Group. Each Director may also receive a year-end bonus in respect of each financial year. The amount of such bonus will be determined by the remuneration committee of the Board.

As at 31 December 2012, the Group employed total of 5 Directors and 102 employees. Total staff costs, including Directors' emoluments, amounted to approximately HK$23.5 million for the year ended 31 December 2012. The Group's remuneration policies were determined with reference to the performance, qualification and experience of individual employee, as well as the results of the Group and the market conditions. The Group provided discretionary bonus, medical insurance and provident fund. The Company adopted a share option scheme on 21 June 2012, under which the Company can grant options to, among others, employees of the Group to subscribe for shares of the Company with a view to rewarding them for their contributions to the Group and giving incentives to them for optimizing their future contributions to the Group. Up to the date of this report, no share option has been granted under such share option scheme.

Details of the emoluments of the Directors and five highest paid individuals pursuant to Rules 18.28 to 18.30 of the GEM Listing Rules are set out in note 12 to the consolidated financial statements.

CONTRACT OF SIGNIFICANCE

There is no contract of significance between the Company or any of its subsidiaries, and controlling shareholders or any of its subsidiaries.

DIRECTORS' AND CHIEF EXECUTIVES' 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.

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.

RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in note 28 to the financial statements.

CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report section set out on pages 10 to 14.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge, as at the date of this annual report, there is sufficient public float of 25% of the Company's issued shares as required under the GEM Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association and the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

EVENTS AFTER THE REPORTING PERIOD

As at the end of the reporting period, the Group did not have any significant events after the reporting period.

AUDITOR

The consolidated financial statements have been audited by Deloitte Touche Tohmatsu who shall retire at the forthcoming annual general meeting of the Company. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
Mastercraft International Holdings Limited

Leung Yuen Ho, Simon
Chairman

Hong Kong, 18 March 2013

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF
MASTERCRAFT INTERNATIONAL HOLDINGS LIMITED
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Mastercraft International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 20 to 49 which comprise the consolidated statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with HKFRSs and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 18 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	2012 HK$'000	2011 HK$'000
Revenue	8	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	9	(2)	–
Profit before tax	10	18,362	12,649
Income tax expense	13	(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	14	3.45 cents	2.67 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012

	Notes	2012 HK$'000	2011 HK$'000
Non-current Assets			
Property, plant and equipment	15	2,798	3,134
Deferred tax assets	16	1,258	756
		4,056	3,890
Current Assets			
Inventories	17	29,617	14,703
Trade and other receivables	18	82,715	51,132
Bank balances and cash	19	20,604	3,364
		132,936	69,199
Current Liabilities			
Trade and other payables	20	60,863	41,265
Provision	21	8,029	8,711
Amounts due to related companies	28(a)	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	16	181	200
Net assets		65,427	14,200
Capital and Reserves			
Share capital	22	4,800	349
Reserves		60,627	13,851
Total Equity		65,427	14,200

The consolidated financial statements on pages 20 to 49 were approved and authorised for issue by the Board of Directors on 18 March 2013 and are signed on its behalf by:

Leung Yuen Ho, Simon
EXECUTIVE DIRECTOR

Jerry Denny Strickland Jr.
EXECUTIVE DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2011	349	–	–	(5)	24,128	24,472
Profit for the year	–	–	–	–	9,609	9,609
Other comprehensive expense	–	–	–	(11)	–	(11)
Total comprehensive (expense) income for the year	–	–	–	(11)	9,609	9,598
Dividends recognised as Distribution (note 11)	–	–	–	–	(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 (note 22)	1	–	(1)	–	–	–
Issuance of new shares by way of placing of shares (note 22)	1,200	40,800	–	–	–	42,000
Share issue expenses	–	(5,027)	–	–	–	(5,027)
Capitalisation issue (note 22)	3,250	(3,250)	–	–	–	–
At 31 December 2012	4,800	32,523	(1)	(66)	28,171	65,427

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 HK$'000	2011 HK$'000
Operating Activities		
Profit before tax	18,362	12,649
Adjustment for:		
Depreciation of property, plant and equipment	638	582
Write-off of inventories	128	34
Interest expenses	2	–
Interest income	(20)	(1)
Bad debts written off of trade receivables	–	410
Gain on disposal of property, plant and equipment	–	(120)
Operating cash flows before movements in working capital	19,110	13,554
Increase in inventories	(15,042)	(13,876)
Increase in trade and other receivables	(31,583)	(21,294)
Increase in trade and other payables	19,598	24,100
Decrease in provision	(682)	(1,442)
Increase (decrease) in amounts due to related companies	396	(176)
Cash (used in) generated from operations	(8,203)	866
Income tax paid in Hong Kong	(11,164)	–
Income tax paid in other jurisdiction	(37)	–
NET CASH (USED IN) FROM OPERATIONS ACTIVITIES	(19,404)	866
INVESTING ACTIVITIES		
Purchase for property, plant and equipment	(299)	(825)
Interest received	20	1
Advance to directors	–	(2,678)
Repayment from directors	–	216
Proceeds on disposal of property, plant and equipment	–	120
NET CASH USED IN INVESTING ACTIVITIES	(279)	(3,166)
FINANCING ACTIVITIES		
Proceeds from issuance of new shares by way of placing of shares	42,000	–
Payment of transaction cost attributable to issue of new shares	(5,027)	–
Interest paid	(2)	–
Dividend paid to shareholders	–	(6,824)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	36,971	(6,824)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,288	(9,124)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	3,364	12,504
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(53)	(16)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	20,599	3,364
Analysis of cash and cash equivalents:		
Bank balances and cash	20,604	3,364
Bank overdraft	(5)	–
	20,599	3,364

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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. Particulars of the subsidiaries of the Company are set out in note 30.

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, consolidated statement of changes in equity and consolidated statement of cash flows 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.

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

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.

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

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.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control,whichever is shorter.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of allowance for sales return and trade discounts. The adjustments on estimation of sales return made by customers and the sales discounts on goods sold by the management based on past experience and other relevant factors, are recognised against the revenue.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, revenue from sale of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purpose are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of the each individual group entity, transactions in currencies other than the functional currency of that entity(foreign currencies) are recorded in the respective functional currency (i.e. the current of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Retirement benefit costs

Payments to defined contribution retirement benefit plans, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax are recognised in profit or loss.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity according to the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees, points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables and amounts due to related companies are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provision

Provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provision is measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of time value of money is material).

5. KEY SOURCE OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the management of the Group are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated impairment of trade receivables

Where there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash inflows from the outstanding trade receivables. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the carrying amounts of trade receivables of the Group are approximately HK$77,453,000 (2011: HK$50,536,000).

5. KEY SOURCE OF ESTIMATION UNCERTAINTY *(Continued)*

Useful lives and impairment assessment of property, plant, and equipment

The management determines the estimated useful lives, the residual value, and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. In addition, management assess impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. Management will increase the depreciation charge where useful lives are expected to be shorter than expected, or will write off or write-down obsolete or non-strategic assets that have been abandoned or sold. As at 31 December 2012, the carrying amount of property, plant and equipment is approximately HK$2,798,000 (2011: HK$3,134,000).

Estimated provision of sales discount and defective claims

For the provision of sales discounts and defective claims, other than sales agreements entered with a customer, there is no fixed terms of sale discounts and defective claims entered with customers. The amount is based on the management's estimation by reference to the historical experience on sales discounts and defective claims from customers. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions change, it may lead to a change in the provision of sales discounts and defective claims. As at 31 December 2012, the carrying amount of provision of sales discounts and defective claims is approximately HK$8,029,000 (2011: HK$8,711,000).

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it 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 year.

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

The management of the Group reviews the capital structure regularly, taking into account of the cost and risk 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.

7. FINANCIAL INSTRUMENTS

7a. Categories of financial instruments

	2012 HK$'000	2011 HK$'000
Financial assets		
Loans and receivables (including bank balances and cash)	**101,184**	54,117
Financial liabilities		
Amortised cost	**50,858**	33,962

7. FINANCIAL INSTRUMENTS *(Continued)*

7b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables, amounts due to related companies and bank overdraft. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The carrying amounts of the Group's foreign currency denominated monetary assets at the end of the reporting date are as follows:

	Assets		Liabilities	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong Dollar ("HK$")	**525**	177	**(5)**	–
Renminbi ("RMB")	**17**	–	**–**	–

Sensitivity analysis

Assets denominated in HK$ mainly represented bank balances placed with banks held by a group entity with US$ as functional currency. As HK$ is pegged to US$, the exposure to fluctuations in exchange rate of HK$ against US$ is considered insignificant, and thus the management of the Group is of the opinion that the Group's exposure to such foreign exchange risk is minimal.

No sensitivity analysis on the US$ against RMB is prepared as the directors of the Company consider the impact of such foreign currency risk is limited.

(ii) Interest rate risk

The Group's cash flow interest rate risk is primarily related to interest bearing bank balances. However, the cash flow interest rate risk on the interest bearing bank balances is insignificant as they are all short term.

Credit risk

As at 31 December 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

The Group has significant concentration of credit risk. At 31 December 2012, 37% (31 December 2011: 30%) of the total trade receivables was due from the Group's largest customer, while 78% (31 December 2011: 89%) of the total trade receivables was due from the Group's five largest customers at 31 December 2012.

The top five customers represent over 86% (2011: 80%) of the revenue for the year ended 31 December 2012. The top five customers are mass market retailers, home furnishing stores and specialty store located in the United States of America.

7. FINANCIAL INSTRUMENTS *(Continued)*

7b. Financial risk management objectives and policies *(Continued)*

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The table includes both undiscounted cash flows and principal cash flows.

Liquidity tables

	Weighted average effective interest rate %	Repayable on demand HK$'000	Within 3 months HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
At 31 December 2012					
Trade and other payables	–	–	50,200	50,200	50,200
Amount due to a related company	–	653	–	653	653
Bank overdraft	5%	5	–	5	5
		658	50,200	50,858	50,858

	Weighted average effective interest rate %	Repayable on demand HK$'000	Within 3 months HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
At 31 December 2011					
Trade and other payables	–	–	33,705	33,705	33,705
Amounts due to related companies	–	257	–	257	257
		257	33,705	33,962	33,962

7c. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of all financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

8. 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 revenue 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 set 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

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

For the year ended 31 December 2011

	Portable lighting HK$'000	Shades HK$'000	Furniture set 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				192
Unallocated expenses				
— Selling expenses				(10,089)
— Administration expenses				(13,310)
— Research and development expenses				(5,216)
— Listing expenses				(6,969)
Profit before tax				12,649

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. 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 HK$'000	2011 HK$'000	**2012 HK$'000**	2011 HK$'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

8. REVENUE AND SEGMENT INFORMATION *(Continued)*

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 HK$'000	2011 HK$'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.

9. FINANCE COST

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

10. 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 (note 12)		
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)

11. 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.

12. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS

Details of the emoluments paid/payable to the directors of the Company are as follow:

	2012 HK$'000	2011 HK$'000
Directors' fee	162	–
Other emoluments		
— salaries and other benefits	3,180	1,200
— contribution to retirement benefits scheme	75	57
	3,417	1,257

For the year ended 31 December 2012

	Fees HK$'000	Salaries and other benefits HK$'000	Discretionary Bonus HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive directors:					
Mr. Leung Yuen Ho, Simon	–	1,560	–	14	1,574
Mr. Jerry Strickland	–	1,620	–	61	1,681
Independent non-executive directors ("INEDs"): (Note)					
Mr. Hau Chi Hung	27	–	–	–	27
Mr. Lai King Jerome	108	–	–	–	108
Mr. Tang Thomas Bong	27	–	–	–	27
	162	3,180	–	75	3,417

Note: The INEDs were appointed on 20 July 2012 upon the listing of the Company's shares on the Growth Enterprise Market of the Stock Exchange.

12. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS *(Continued)*

For the year ended 31 December 2011

	Fees HK$'000	Salaries and other benefits HK$'000	Discretionary bonus HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
Executive directors:					
Mr. Leung Yuen Ho, Simon	–	840	–	12	852
Mr. Jerry Strickland	–	360	–	45	405
	–	1,200	–	57	1,257

Mr. Leung Yuen Ho, Simon is also the chief executive of the Company and his emoluments disclosed above included those for services rendered by him as the chief executive.

The five highest paid individuals of the Group included 2 (2011: 1) directors for the year. The details of their emoluments are set out above. The remunerations of the remaining 3 (2011: 4) highest paid individuals are as follows:

	2012 HK$'000	2011 HK$'000
Employees		
— salaries and other benefits	**2,647**	1,629
— discretionary bonus (Note b)	**295**	500
— contributions to retirement benefits scheme	**95**	47
	3,037	2,176

Note b: The discretionary bonus is determined by the Board of Directors of the Company based on the Group's performance for the relevant year.

The emoluments of these remaining 3 highest paid individuals (2011: 4) in the Group for the year ended 31 December 2012 were within the following bands:

	2012 No. of Employees	2011 No. of Employees
Nil–HK$1,000,000	**1**	4
HK$1,000,001–HK$1,500,000	**2**	–
	3	4

During both years, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived any emoluments in both years.

13. 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 (note 16)	(521)	(712)
Total	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.

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of comprehensive income as follows:

	2012 HK$'000	2011 HK$'000
Profit before tax	18,362	12,649
Tax at Hong Kong Profits Tax rate at 16.5%	3,030	2,087
Tax effect of expenses not deductible for tax purpose	926	1,150
Tax effect of income not taxable for tax purpose	(13)	–
Tax effect of tax losses not recognised	242	147
Tax effect of different tax rate of subsidiaries in other jurisdictions	(138)	(344)
Over provision in respect of prior years	(37)	–
Others	48	–
Income tax expense for the year	4,058	3,040

14. 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 (note 22) 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.

15. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Leasehold improvement HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST					
At 1 January 2011	1,910	75	3,966	3,868	9,819
Exchange adjustment	–	3	41	–	44
Additions	–	60	63	702	825
Disposal	–	–	(290)	(470)	(760)
At 31 December 2011 and 1 January 2012	1,910	138	3,780	4,100	9,928
Exchange adjustment	–	2	29	–	31
Additions	–	108	191	–	299
At 31 December 2012	1,910	248	4,000	4,100	10,258
ACCUMULATED DEPRECIATION					
At 1 January 2011	610	34	3,325	2,964	6,933
Exchange adjustment	–	2	37	–	39
Provided for the year	76	15	170	321	582
Eliminated on disposal	–	–	(290)	(470)	(760)
At 31 December 2011 and 1 January 2012	686	51	3,242	2,815	6,794
Exchange adjustment	–	1	27	–	28
Provided for the year	76	29	189	344	638
At 31 December 2012	762	81	3,458	3,159	7,460
CARRYING VALUES					
At 31 December 2012	1,148	167	542	941	2,798
At 31 December 2011	1,224	87	538	1,285	3,134

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Land and buildings	4%
Leasehold improvement	20% or over the lease term of rented properties, whichever is shorter
Furniture and fixtures and equipment	20%
Motor vehicles	20%

The carrying value of land and buildings comprises:

	2012 HK$'000	2011 HK$'000
Land and building situated in Hong Kong under medium-term leases	**1,148**	1,224

As at 31 December 2012, the Group has pledged its land and building with carrying value of approximately HK$1,148,000 (2011: HK$1,224,000), respectively, to secure general banking facilities granted to the Group.

16. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognised and movements thereon during current and prior years:

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Temporary difference on unrealised profits on intra-group transaction HK$'000	Total HK$'000
At 1 January 2011	(169)	13	–	(156)
(Charge) credit to profit or loss	(37)	(7)	756	712
At 31 December 2011 and 1 January 2012	(206)	6	756	556
Credit (charge) to profit or loss	25	(5)	501	521
At 31 December 2012	(181)	1	1,257	1,077

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2012 HK$'000	2011 HK$'000
Deferred tax assets	1,258	756
Deferred tax liabilities	(181)	(200)
	1,077	556

At the end of the reporting period, the Group had unused tax losses of approximately HK$2,639,000 (2011: HK$1,202,000) available for offset against future profits. A deferred tax assets has been recognised in respect of such loss of HK$6,000 (2011: HK$36,000) and no deferred tax asset has been recognised in respect of the remaining HK$2,633,000 as at 31 December 2012 (2011: HK$1,166,000) due to the unpredictability of future profits streams of these subsidiaries.

17. INVENTORIES

	2012 HK$'000	2011 HK$'000
Finished goods	29,617	14,703

18. 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.

18. TRADE AND OTHER RECEIVABLES *(Continued)*

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.

19. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.01% to 0.10% per annum as at 31 December 2012 (2011: 0.01% to 0.10% per annum).

20. 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

20. TRADE AND OTHER PAYABLES *(Continued)*

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
1–30 days	**32,010**	17,760
31–60 days	**16,390**	12,848
61–90 days	**1,465**	2,688
Over 90 days	**335**	310
	50,200	33,606

21. PROVISION

The balance represents the provision of sales discounts and defective claims, and the movements of provision are as follow:

	HK$'000
At 1 January 2011	10,153
Charge to profit or loss	3,433
Utilisation of provision	(4,875)
At 31 December 2011 and 1 January 2012	8,711
Charge to profit or loss	5,854
Utilisation of provision	(6,536)
At 31 December 2012	8,029

Other than sales agreements entered with a customer, there is no fixed term of provision of sales discounts and defective claims that is stated in the sales agreements entered with customers. The amount of provision is based on the management's estimation by reference to the historical experience. The Group accrued liability for potential sales discounts and defective claims at the time of sale to cover potential liabilities that could arise under these sales transactions.

22. SHARE CAPITAL

	Number of shares	**Share capital** HK$'000
Authorised:		
Ordinary shares of HK$0.01 each at date of incorporation and at 31 December 2011 (note i)	38,000,000	380
Addition (note iii)	762,000,000	7,620
	800,000,000	8,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each at date of incorporation and at 31 December 2011 (note i)	2	–
Issue of shares on Group Reorganisation (note ii)	34,999,998	350
Capitalisation issue (note iii)	325,000,000	3,250
Issuance of new shares by way of placing (note iv)	120,000,000	1,200
	480,000,000	4,800

22. SHARE CAPITAL *(Continued)*

Notes:

(i) On 3 August 2011, the Company was incorporated in the Cayman Islands with an authorised share capital of HK$380,000 divided into 38,000,000 shares of HK$0.01 each, of which 1 nil paid share with nominal value of HK$0.01 was allotted and issued to Codan Trust Company (Cayman) Limited ("Codan Trust"), being the subscriber to the Company. On 3 August 2011, the one share held by Codan Trust was transferred to SYH Investments Limited ("SYH Investments"), a company wholly owned by Mr. Leung Yuen Ho, Simon, and an additional 1 nil paid share with nominal value of HK$0.01 was allotted and issued to Mr. Jerry Strickland.

(ii) On 20 June 2012, the Company as purchaser, and SYH Investments and Mr. Jerry Strickland sold, the entire issued share capital of Mastercraft Worldwide Limited. The total consideration payable was satisfied by (A) the Company allotting and issuing 17,499,999 shares to SYH Investments and 17,499,999 shares to Mr. Jerry Strickland respectively; and (B) the Company crediting as fully paid at par the two nil paid shares of the Company held by SYH Investments and Mr. Jerry Strickland. The Company then become the holding company of the companies now comprising the Group since 20 June 2012, the date of completion of reorganisation.

(iii) Pursuant to a resolution passed by directors of the Company on 21 June 2012, the authorised share capital of the Company was increased from HK$380,000 divided into 38,000,000 shares to HK$8,000,000 divided into 800,000,000 shares by creation of an additional 762,000,000 shares with a nominal value of HK$0.01 each.

On 20 July 2012, the Company allotted and issued fully paid up share capital of HK$3,250,000, divided into 325,000,000 shares with a nominal value of HK$0.01 to the then existing shareholders by capitalising the amount of HK$3,250,000 from the amount standing to the credit of the share premium account.

(iv) On 20 July 2012, 120,000,000 shares of HK$0.01 each of the Company, were issued at HK$0.35 per share by way of placing and the Company's shares were listed on the Growth Enterprise Market of the Stock Exchange.

The Company became the holding company of the Group on 20 June 2012. Share capital in the consolidated statement of financial position as at 31 December 2011 represented the aggregate amount of issued share capital of the Company, Mastercraft Worldwide Limited, Mastercraft International Limited and Mastercraft China Limited.

23. OPERATING LEASES

The Group as lessee

	2012 HK$'000	2011 HK$'000
Minimum lease payments paid under operating leases in respect of rented premises during the year	**4,043**	956

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2012 HK$'000	2011 HK$'000
Within one year	**3,535**	2,857
In the second to fifth years inclusive	**4,467**	2,789
Over five years	**2,593**	–
	10,595	5,646

Operating lease payments represents rentals payable by the Group for certain of its staff quarters and office premises.

Leases are negotiated and rental are fixed for an average lease terms of two years.

24. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs with the maximum monthly amount of HK$1,250 (prior to 1 June 2012, with maximum monthly amount of HK$1,000) to the scheme, which contribution is matched by employees.

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiary is required to contribute 10% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The Group's subsidiary in USA operates a defined contribution scheme. Contributions to the defined contribution scheme are made at a certain percentage of the employee's payroll.

The total cost charged to the consolidated statement of comprehensive income of HK$691,000 (2011: HK$294,000) for the year ended 31 December 2012 represents contributions payable to these schemes.

25. BANK FACILITIES

At 31 December 2012, the Group has general banking facilities of HK$5,000,000 (2011: HK$3,500,000). The banking facilities are secured by the Group's land and building, having carrying value of approximately HK$1,148,000 (2011: HK$1,224,000) as at 31 December 2012.

26. CAPITAL COMMITMENTS

	2012 **HK$'000**	2011 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for	**134**	–

27. CONTINGENT LIABILITIES

During the year ended 31 December 2011, a service representative of the Group's subsidiary, Mastercraft International Limited ("Mastercraft International") located in the USA, filed a court case against Mastercraft International and its related parties Mr. Jerry Strickland, Jerry Strickland Inc., and Mastercraft International USA Inc (''Mastercraft International USA"), which is wholly owned by Mr. Jerry Strickland, in the district court in Minnesota, USA for breach of contract in an amount in excess of US$50,000 in regard of immediate termination of contract with that service representative in July 2010. That service representative was also claiming for special damages from Mastercraft International, Mr. Jerry Strickland, Jerry Strickland Inc., and Mastercraft International USA, for failing to timely pay the full amount of commissions due to that service representative for the sales referred by that service representative in 2010. During the year ended 31 December 2012, a settlement agreement has been reached between that service representative and Mastercraft International, Mr. Jerry Strickland, Jerry Strickland Inc. and Mastercraft International USA to settle the case. Furthermore, an agreement was reached between Mastercraft International, Mr. Jerry Strickland, Jerry Strickland Inc. and Mastercraft USA that the full amount of settlement is borne by Mr. Jerry Strickland. No further financial impact is liable to the Group.

Furthermore, in April 2011, another service representatives company and its owner (the ''Service Representatives") located in the USA filed a court case against Mastercraft International, Mr. Jerry Strickland, Jerry Strickland Inc., and Mastercraft International USA, with the district court in Minnesota, USA in regard of the termination of business relationship between the Service Representatives and Mastercraft International with amount of claim for in excess of US$50,000. At 31 December 2011, US$88,000 had been provided and included in accrued sales commission (note 20). On 25 May 2012, this case has been settled with settlement amount not materially different to the accrual made.

28. RELATED PARTY DISCLOSURES

(a) Amounts due to related companies

Amounts due to related companies are as follows:

	2012 HK$'000	2011 HK$'000
Todd Miller Inc. (Note 1)	653	230
深圳市龍崗區平胡白坭坑裕泰銅器五金廠("裕泰五金廠") (note 2)	–	27
	653	257

Notes:

1. The amount represents the commission expense due to Todd Miller Inc. Todd Miller Inc. is controlled by Mr. Todd Miller, who is a relative of Mr. Jerry Strickland, a director of the Company.

2. The amount represented the trade payables due to 裕泰五金廠 which was trading in nature. 裕泰五金廠 is a factory owned by Yutai Brass and Metal Ware Factory Limited ("Yutai") located in the PRC. Yutai was controlled by family members of Mr. Leung Yuen Ho, Simon, an executive director and a Controlling Equity Holder of the Company. The balance as at 31 December 2011 was fully settled in January 2012.

The following is an aged analysis of amounts due to related companies presented based on the invoice date at the end of the reporting period:

	2012 HK$'000	2011 HK$'000
1-30 days	310	257
31-60 days	108	–
61-90 days	3	–
Over 90 days	232	–
	653	257

All the balances are unsecured, interest free and repayable on demand.

(b) Transactions with related companies

Save as disclosed elsewhere in the consolidated financial statements, the Group had also entered into the following transactions with related parties:

Name of related parties	Nature of transactions	2012 HK$'000	2011 HK$'000
裕泰五金廠	Moulds disposal (note 1)	–	4
裕泰五金廠	Purchase of raw materials	–	82
裕泰五金廠	Recharge of research and development expenses (note 2)	–	2,964
裕泰五金廠	Recharge of administrative expenses (note 3)	–	818
Mastercraft International USA	Sales of finished goods	–	37,624
Todd Miller Inc.	Commission expenses (note 4)	1,511	1,207
MCP Investment, LLC ("MCP")	Rental expenses (note 5)	2,451	613

Notes:

(1) Mould disposal represented proceeds from disposal of moulds to 裕泰五金廠 at cost.

(2) Research and development expenses, including raw material cost, staff cost, rental expenses, utilities, insurance etc. recharged at cost.

(3) Administrative expenses recharged at cost.

28. RELATED PARTY DISCLOSURES *(Continued)*

(b) Transactions with related companies *(Continued)*

Notes: (Continued)

(4) The commission expenses paid to Todd Miller Inc. are for the provision of handling services to customers of the Group. The amount is calculated based on the percentage range up to 13% (2011: 13%) of sales, depending on the kind of products being sold to the customers.

(5) During the year ended 31 December 2011, Mastercraft Distribution USA Inc. entered into a lease agreement with MCP for a period from 1 October 2011 to 31 December 2013 with monthly rental of US$26,250 (equivalent to approximately HK$204,000). MCP is a related company controlled by Mr. Jerry Strickland, a director of the Company.

(c) Compensation of key management personnel

The directors of the Company and the five highest paid employees are identified as key management members of the Group, their compensation during the year is set out in note 12.

29. NON-CASH TRANSACTION

During the year ended 31 December 2011, a dividend of US$2,554,000 (equivalent to HK$19,870,000) was declared by Mastercraft International Limited, a subsidiary of the Group. Dividend amounting to HK$13,046,000 was offset against the amounts due from directors.

30. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation/ establishment	Principle place of operation	Equity interest attributable to the Group As at 31 December 2012	2011	Issued and fully paid share/ registered capital	Principal activities
Directly owned						
Mastercraft Worldwide Limited	The British Virgins Island ("BVI")	BVI	100%	100%	US$6 ordinary shares	Investment holding
Indirectly owned						
Mastercraft International Limited 馬仕達國際有限公司	Hong Kong ("HK")	HK	100%	100%	HK$348,900 ordinary shares	Design and supply chain business of lightings and home furnishing products
Mastercraft China Limited 馬仕達中國有限公司	HK	HK	100%	100%	HK$2 ordinary shares	Production of prototypes of lightings and home furnishing products
Mastercraft Home Furnishing Development (Shenzhen) Limited 馬仕達家飾研發(深圳)有限公司^	PRC	PRC	100%	100%	HK$500,000 registered capital	Production of registered capital prototypes of lightings and home furnishing products
Mastercraft Home Furnishing Development (Dongguan) Limited 馬仕達家飾研發(東莞)有限公司^	PRC	PRC	100%*	–	– (Note)	Production of registered capital prototypes of lightings and home furnishing products
Mastercraft Overseas Limited	BVI	BVI	100%	100%	US$1 ordinary shares	Investment holding
Mastercraft Distribution USA Inc.	The United States of America ("USA")	USA	100%	100%	US$1 common stock	Wholesale distribution of lightings and home furnishing products

* Established on 4 December 2012.

^ Foreign investment enterprise established in the PRC.

30. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

Note: Pursuant to the Certificate of Approval issued by People's Government of Guangdong Province, total registered capital of Mastercraft Home Furnishing Development (Dongguan) Limited is HK$3,000,000 as at 31 December 2012. The Group has not injected any registered capital into the subsidiary as at 31 December 2012.

None of the subsidiaries had issued any debt securities at the end of both years.

31. SUMMARY OF FINANCIAL INFORMATION OF THE COMPANY

	2012 HK$'000	2011 HK$'000
Non-current Assets		
Investment in a subsidiary	16,735	–
Amounts due from subsidiaries	17,542	–
	34,277	–
Current Assets		
Other receivables	164	–
Bank balances and cash	15,387	–
	15,551	–
Current Liabilities		
Other payable	708	–
Tax payable	86	–
	794	–
Net current assets	14,757	–
Total Assets less Current Liabilities	49,034	–
Capital and Reserves		
Share capital	4,800	–
Reserves (Note)	44,234	–
Total Equity	49,034	

Note:

Reserves

	Share premium HK$'000	Special reserve HK$'000	Accumulated Loss HK$'000	Total HK$'000
At 3 August 2011 (Date of incorporation), 31 December 2011 and 1 January 2012	–	–	–	–
Loss and total comprehensive expenses for the year	–	–	(4,674)	(4,674)
Arising on group reorganisation (note)	–	16,385	–	16,385
Issuance of new shares by way of placing of shares (note 22)	40,800	–	–	40,800
Share issue expenses	(5,027)	–	–	(5,027)
Capitalisation issue (note 22)	(3,250)	–	–	(3,250)
At 31 December 2012	32,523	16,385	(4,674)	44,234

Note: Special reserve represents the difference between the equity of subsidiary recognised and the nominal amount of the Company's shares issued in exchange thereof pursuant to the Group Reorganisation.

FINANCIAL SUMMARY

RESULTS

	2012 HK$'000	2011 HK$'000 (Note)	2010 HK$'000 (Note)
Revenue	331,338	264,482	198,517
Profit before tax	18,362	12,649	16,915
Income tax expense	(4,058)	(3,040)	(2,811)
Profit for the year	14,304	9,609	14,104

ASSETS AND LIABILITIES

	2012 HK$'000	2011 HK$'000 (Note)	2010 HK$'000 (Note)
Total assets	136,992	73,089	57,083
Total liabilities	(71,565)	(58,889)	(32,611)
Total equity	65,427	14,200	24,472

Note: The figures for the two years ended 31 December 2010 and 2011 have been extracted from the prospectus of the Company dated 10 July 2012.