



**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**

**First Quarterly Report 2013**

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

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

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

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 Rules Governing the Listing of Securities on GEM of the Stock Exchange 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; and (ii) there are no other matters the omission of which would make any statement herein or this report misleading.

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



The board of Directors (the “Board”) is pleased to present the unaudited condensed consolidated results of the Group for the three months ended 31 March 2013 together with the unaudited comparative figures for the corresponding periods in 2012 as follows:

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED 31 MARCH 2013

	Note	Three months ended 31 March	
		2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Revenue	3	89,012	74,071
Cost of sales		(70,411)	(57,999)
<b>Gross profit</b>		<b>18,601</b>	16,072
Other income		28	30
Selling expenses		(3,921)	(4,490)
Administrative expenses		(5,993)	(5,031)
Research and Development expenses		(1,361)	(890)
Listing expenses		–	(150)
<b>Profit before tax</b>	4	<b>7,354</b>	5,541
Income tax expenses	5	(1,653)	(1,413)
Profit for the period		<b>5,701</b>	4,128
Other comprehensive income/(expense):			
Exchange differences arising on translating foreign operation		3	(1)
<b>Total comprehensive income for the period</b>		<b>5,704</b>	4,127
<b>Earnings per share HK cents — Basic</b>	7	<b>1.29 cents</b>	1.15 cents



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED 31 MARCH 2013

### 1. CORPORATE INFORMATION

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

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

### 2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION


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

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

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

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

The accounting policies adopted in preparing the unaudited condensed consolidated financial statements were consistent with those applied for the financial statements of the Group for the year ended 31 December 2012.



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

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

### 3. SEGMENT INFORMATION

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 lamps, buffet lamps etc. ("Portable lighting").
- (ii) Shades represent a selection of shades for the lamps sold by the Group. Shades are complementary goods and a frame that typically fit on the top of a lamp and cover the lighting source ("Shades").
- (iii) Furniture set and other home accessory products represents the knockdown furniture and ready-to-assemble furniture sets that are sold unassembled, and be put together by the end-customers ("Furniture set and other home accessory products").



## Segment revenues and results

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

### For the three months ended 31 March 2013 (unaudited)

	Portable lighting HK\$'000	Shades HK\$'000	Furniture set and other home accessory products HK\$'000	Total HK\$'000
SEGMENT REVENUE				
External sales	65,674	16,682	6,656	89,012
Segment profit	12,513	4,239	1,849	18,601
Unallocated income				28
Unallocated expenses				
— Selling expenses				(3,921)
— Administration expenses				(5,993)
— Research and development expenses				(1,361)
Profit before tax				7,354

### For the three months ended 31 March 2012 (unaudited)

	Portable lighting HK\$'000	Shades HK\$'000	Furniture set and other home accessory products HK\$'000	Total HK\$'000
SEGMENT REVENUE				
External sales	49,443	19,796	4,832	74,071
Segment profit	10,077	5,215	780	16,072
Unallocated income				30
Unallocated expenses				
— Selling expenses				(4,490)
— Administration expenses				(5,031)
— Research and development expenses				(890)
— Listing expenses				(150)
Profit before tax				5,541

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 and listing expenses). 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 following table summarises the Group's revenue from customers by geographical locations:

	Three months ended 31 March	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
North America	89,012	74,071
Others	–	–
Total revenue	89,012	74,071

### Information about major customers

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

	Three months ended 31 March	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Customer A	37,688	31,617
Customer B	30,424	36,835

#### 4. PROFIT BEFORE TAX

	Three months ended 31 March	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Profit before tax has been arrived at after charging (crediting):		
Cost of inventories recognised as expenses	70,411	57,999
Depreciation of property, plant and equipment	183	157
Net foreign exchange loss	22	50
Staff costs, including directors' remuneration:		
Salaries, wages and other benefits	6,062	4,894
Retirement benefits scheme contributions	194	160
	<b>6,256</b>	<b>5,054</b>
Less: amount included in research and development expenses	(866)	(506)
	<b>5,390</b>	<b>4,548</b>
Interest income	(27)	(12)

#### 5. INCOME TAX EXPENSES

	Three months ended 31 March	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Current taxation	1,454	932
Deferred tax	199	481
	<b>1,653</b>	<b>1,413</b>

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

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





## 6. DIVIDEND

The Directors do not recommend payment of any dividend for the three months ended 31 March 2013 (for the three months ended 31 March 2012: Nil).

## 7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the period attributable to owners of the Company and the weighted average of 443,606,557 ordinary shares (for the three months ended 31 March 2012: 360,000,000 ordinary shares of the Company, taking into account the effect of capitalisation issue as stated in the Prospectus) in issue during the three months period.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group is principally engaged in the design and sale of portable lighting, shades and furniture sets and other home accessory products, the manufacture of which is outsourced to independent contract manufacturers in the PRC. North America is the principal market of the Group and the Group sold products mainly to mass market retailers, home furnishing stores, furniture stores and specialty stores. Mass market retailers remain as the Group's major customer category during the three months ended 31 March 2013, which contributed to approximately 80.2% of the Group's total revenue.

The Group's revenue from sale of portable lighting, shades and furniture sets and other home accessory products for the three months ended 31 March 2013 was approximately HK\$65.7 million, HK\$16.7 million and HK\$6.6 million (2012: HK\$49.4 million, HK\$19.8 million and HK\$4.8 million) respectively. Portable lighting products remained as the Group's significant revenue stream. During the period under review, portable lighting product and shades contributed to approximately 73.8% and 18.7% (2012: 66.8% and 26.7%) of the Group's revenue, respectively. The Directors and management are continuously monitoring the product margin in order to enhance the shareholders' interest.

## FINANCIAL REVIEW

With the support and trust gained from our strong customer base in North America, the revenue of the Group increased by approximately 20.2% from approximately HK\$74.1 million for the three months ended 31 March 2012 to HK\$89.0 million for the three months ended 31 March 2013.



Cost of sales of the Group increased by approximately 21.4% from HK\$58.0 million for the three months ended 31 March 2012 to HK\$70.4 million for the three months ended 31 March 2013. As a result of the foregoing, the gross profit of the Group increased by 15.7%, from approximately HK\$16.1 million for the three months ended 31 March 2012 to HK\$18.6 million for the three months ended 31 March 2013. The gross profit margin was approximately 21.7% and 20.9% for three months ended 31 March 2012 and 2013, respectively. The total operating cost amounted to approximately HK\$11.2 million as compared to HK\$10.4 million, representing 12.7% of the revenue (2012: 14.1%).

Profit attributable to owners of the Company increased by approximately 38.1% from approximately HK\$4.1 million for the three months ended 31 March 2012 to approximately HK\$5.7 million for the three months ended 31 March 2013. The Group's net profit margin improved from 5.6% to 6.4% for the corresponding periods.

## FINANCIAL POSITION AND LIQUIDITY

As at 31 March 2013, cash and bank balances of the Group amounted to approximately HK\$19.3 million (As at 31 December 2012: HK\$20.6 million). The Group's current ratio (current asset divided by current liabilities) was 1.9 times and 2.2 times as at 31 December 2012 and 31 March 2013, 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 March 2013 and 31 December 2012, the Group has unutilized general banking facilities of HK\$5,000,000.

## CAPITAL MANAGEMENT

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

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

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



## OUTLOOK

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. The Group's new product development centre at Dongguan, Guangdong Province in the PRC has commenced business in March 2013 in order to strengthen and expand the design and development business. Introducing innovative new products is the centerpiece of our long term strategy. We continue to expand our product development process, enabling us to respond faster to customer requests and emerging opportunities, giving us a vigorous competitive advantage.

The Group targets further expansion in North America markets not only in the portable lighting market but also the furniture market, where the Directors see the greatest potential growth in demand for the Group's products in the near future. The Group intends to continue outsourcing the entire production of its existing and future products in order to remain competitive.

## CORPORATE GOVERNANCE REPORT

The Company endeavors to maintain 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 three months ended 31 March 2013.

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 during the three months ended 31 March 2013.

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

During the three months ended 31 March 2013, 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 three months ended 31 March 2013, he had fully complied with the required standard of dealings and there was no event of noncompliance.

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

At 31 March 2013, 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 March 2013.

During the three months ended 31 March 2013, there were no debt securities issued by the Group and the Company at any time.

As at 31 March 2013, 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 March 2013, 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 three months ended 31 March 2013, there were no debt securities issued by the Group and the Company at any time.

Save as disclosed above, as at 31 March 2013, the Directors were not aware of any other person, other than the Directors and the chief executive of the Company who had, or was deemed to have, interests or short positions in the Shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or who is directly or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or options in respect of such share capital.



### **CONTRACT OF SIGNIFICANCE**

At 31 March 2013, there is no contract of significance between the Company or any of its subsidiaries, and a controlling shareholder or any of its subsidiaries.

### **COMPETING INTEREST**

For the three months ended 31 March 2013, the Directors were not aware of any business or interest of the Directors or the controlling shareholder of the Company and their respective associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

### **SHARE OPTION SCHEME**

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Since the Scheme has become effective on 21 June 2012, no share option was granted, exercised or cancelled by the Company under the Scheme during the period under review and there was no outstanding share option under the Scheme as at 31 March 2013.

### **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 March 2013.

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

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

During the three months ended 31 March 2013, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Shares.



## AUDIT COMMITTEE

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

The unaudited condensed financial information of the Company for the three months ended 31 March 2013 has been reviewed by the audit committee.

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

Hong Kong, 6 May 2013