



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

Interim Report 2013

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

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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 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.



The board of Directors (the “Board”) is pleased to present the unaudited condensed consolidated results of the Group for the six months ended 30 June 2013 together with the unaudited comparative figures for the corresponding periods in 2012 as follows:

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE AND SIX MONTHS ENDED 30 JUNE 2013

	Note	Three months ended 30 June		Six months ended 30 June	
		2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Revenue	3	71,338	68,203	160,350	142,274
Cost of sales		(57,203)	(54,695)	(127,614)	(112,694)
Gross profit		14,135	13,508	32,736	29,580
Other income		35	–	63	30
Selling expenses		(4,084)	(3,367)	(8,005)	(7,897)
Administrative expenses		(5,606)	(5,350)	(11,599)	(9,716)
Research and Development expenses		(1,539)	(421)	(2,900)	(1,936)
Listing expenses		–	(1,960)	–	(3,524)
Profit before tax	4	2,941	2,410	10,295	6,537
Income tax expenses	5	(919)	(429)	(2,572)	(1,841)
Profit for the period		2,022	1,981	7,723	4,696
Other comprehensive expense:					
Exchange differences arising on translating foreign operation		(10)	–	(7)	–
Total comprehensive income for the period		2,012	1,981	7,716	4,696
Earnings per share HK cents					
— Basic	7	0.4 cent	0.6 cent	1.6 cents	1.3 cents

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2013

	Note	30 June 2013 HK\$'000 (unaudited)	31 December 2012 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	8	4,479	2,798
Deferred tax assets		860	1,258
		5,339	4,056
Current assets			
Inventories		20,897	29,617
Trade and other receivables	9	57,559	82,715
Cash and bank balances		21,703	20,604
		100,159	132,936
Current liabilities			
Trade and other payables	10	31,534	60,863
Provision		6,748	8,029
Tax payables		3,118	1,834
Amount due to a related company		409	653
Bank overdraft		–	5
		41,809	71,384
Net current assets		58,350	61,552
Total assets less current liabilities		63,689	65,608
Non-current liabilities			
Deferred tax liabilities		146	181
		146	181
Net assets		63,543	65,427
Capital and reserves			
Share capital	11	4,800	4,800
Reserves		58,743	60,627
		63,543	65,427



CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

AS AT 30 JUNE 2013

	Share capital HK\$'000	Share premium HK\$'000	Translation reserve HK\$'000	Special reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2012 (audited)	349	-	(16)	-	13,867	14,200
Profit for the year	-	-	-	-	14,304	14,304
Other comprehensive expense for the year	-	-	(50)	-	-	(50)
Total comprehensive (expense) income for the year	-	-	(50)	-	14,304	14,254
Arising on group reorganisation	1	-	-	(1)	-	-
Issuance of new shares by way of placing of shares	1,200	40,800	-	-	-	42,000
Share issue expenses	-	(5,027)	-	-	-	(5,027)
Capitalisation issue	3,250	(3,250)	-	-	-	-
At 31 December 2012 and 1 January 2013 (audited)	4,800	32,523	(66)	(1)	28,171	65,427
Profit for the period	-	-	-	-	7,723	7,723
Other comprehensive expense for the period	-	-	(7)	-	-	(7)
Total comprehensive (expense) income for the period	-	-	(7)	-	7,723	7,716
Dividend recognised as distribution	-	-	-	-	(9,600)	(9,600)
At 30 June 2013 (unaudited)	4,800	32,523	(73)	(1)	26,294	63,543



CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Six months ended 30 June	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Net cash generated from operating activities	12,777	2,546
Net cash used in investing activities	(2,034)	(88)
Net cash used in finance activities	(9,600)	–
Net increase in cash and cash equivalents	1,143	2,458
Cash and cash equivalents at beginning of the period	20,599	3,364
Effect of foreign exchange rate changes	(39)	–
Cash and cash equivalents at end of the period, represented by bank balances and cash	21,703	5,822



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 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 six months ended 30 June 2013 (unaudited)

	Portable lighting HK\$'000	Shades HK\$'000	Furniture sets and other home accessory products HK\$'000	Total HK\$'000
SEGMENT REVENUE				
External sales	115,611	34,568	10,171	160,350
Segment profit	21,040	8,955	2,741	32,736
Unallocated income				63
Unallocated expenses				
— Selling expenses				(8,005)
— Administration expenses				(11,599)
— Research and development expenses				(2,900)
Profit before tax				10,295

For the six months ended 30 June 2012 (unaudited)

	Portable lighting HK\$'000	Shades HK\$'000	Furniture sets and other home accessory products HK\$'000	Total HK\$'000
SEGMENT REVENUE				
External sales	96,418	36,355	9,501	142,274
Segment profit	18,332	9,134	2,114	29,580
Unallocated income				30
Unallocated expenses				
— Selling expenses				(7,897)
— Administration expenses				(9,716)
— Research and development expenses				(1,936)
— Listing expenses				(3,524)
Profit before tax				6,537



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)	
	Six months ended		As at	As at
	30 June		30 June	31 December
	2013	2012	2013	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(audited)
Hong Kong (place of domicile)	-	-	2,349	2,592
PRC	-	-	1,950	110
North America	160,350	141,939	180	96
Others	-	335	-	-
Total revenue/non-current assets	160,350	142,274	4,479	2,798

Information about major customers

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

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Customer A (Note)	66,623	56,780
Customer B (Note)	49,358	39,525
Customer C (Note)	N/A	14,189

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



4. PROFIT BEFORE TAX

	Six months ended 30 June	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Profit before tax has been arrived at after charging (crediting):		
Cost of inventories recognised as expenses	127,614	110,465
Depreciation of property, plant and equipment	431	313
Net foreign exchange loss	113	54
Staff costs, including directors' remuneration:		
Salaries, wages and other benefits	11,985	10,055
Retirement benefits scheme contributions	372	320
	12,357	10,375
Less: amount included in research and development expenses	(1,634)	(1,042)
	10,723	9,333
Interest income	(46)	–

5. INCOME TAX EXPENSES

	Six months ended 30 June	
	2013 HK\$'000 (unaudited)	2012 HK\$'000 (unaudited)
Current taxation	2,209	1,865
Deferred tax	363	(24)
	2,572	1,841

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 six months ended 30 June 2013 (for the six months ended 30 June 2012: Nil).

A final dividend for the year ended 31 December of 2012 of HK\$0.02 per ordinary share has been paid during the six months ended 30 June 2013.

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 473,753,425 ordinary shares (for the six months ended 30 June 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 six months period.

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the Group acquired property, plant and equipment with a cost of approximately HK\$2,080,000 (during the six months ended 30 June 2012: HK\$88,000).

9. TRADE AND OTHER RECEIVABLES

	As at 30 June 2013 HK\$'000 (unaudited)	As at 31 December 2012 HK\$'000 (audited)
Trade receivables	53,225	77,453
Bill receivables	738	3,114
	53,963	80,567
Other receivables and prepayments	3,596	2,148
	57,559	82,715

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



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

	As at 30 June 2013 HK\$'000 (unaudited)	As at 31 December 2012 HK\$'000 (audited)
1 to 30 days	15,470	35,254
31 to 60 days	20,997	34,519
61 to 90 days	14,838	10,523
Over 90 days	2,658	271
	53,963	80,567

10. TRADE AND OTHER PAYABLES

	As at 30 June 2013 HK\$'000 (unaudited)	As at 31 December 2012 HK\$'000 (audited)
Trade payables	26,567	33,606
Accrued sales commission	487	1,268
Other payables and accruals	4,480	6,391
	31,534	41,265



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

	As at 30 June 2013 HK\$'000 (unaudited)	As at 31 December 2012 HK\$'000 (audited)
1 to 30 days	11,296	17,760
31 to 60 days	12,270	12,848
61 to 90 days	2,121	2,688
Over 90 days	880	310
	26,567	33,606

11. SHARE CAPITAL

	Number of Shares	Share capital HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 1 January 2012	38,000,000	380
Increased in authorised share capital	762,000,000	7,620
As at 31 December 2012 and 30 June 2013	800,000,000	8,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each at 1 January 2012	2	–
Issue of ordinary shares pursuant to the Reorganisation	34,999,998	350
Capitalisation issue	325,000,000	3,250
Issuance of new shares by way of placing	120,000,000	1,200
As at 31 December 2012 and 30 June 2013	480,000,000	4,800



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 six months ended 30 June 2013, which contributed to approximately 81.4% 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 six months ended 30 June was approximately HK\$115.6 million, HK\$34.6 million and HK\$10.2 million (2012: HK\$96.4 million, HK\$36.4 million and HK\$9.5 million), respectively. Portable lighting products remained as the Group's significant revenue stream. During the period under review, portable lighting products and shades contributed to approximately 72.1% and 21.6% (2012: 67.7% and 25.6%) of the Group's revenue, respectively. The Directors and management are continuously monitoring the gross 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 12.7% from approximately HK\$142.3 million for the six months ended 30 June 2012 to HK\$160.4 million for the six months ended 30 June 2013.

Cost of sales of the Group increased by approximately 13.2% from HK\$112.7 million for the six months ended 30 June 2012 to HK\$127.6 million for the six months ended 30 June 2013. As a result of the foregoing, the gross profit of the Group increased by 10.7%, from approximately HK\$29.6 million for the six months ended 30 June 2012 to HK\$32.7 million for the six months ended 30 June 2013. The gross profit margin was approximately 20.8% and 20.4% for six months ended 30 June 2012 and 2013, respectively. The total operating cost amounted to approximately HK\$22.5 million as compared to HK\$19.5 million, representing 14.0% of the revenue (2012: 13.7%).



Profit attributable to owners of the Company increased by approximately 64.5% from approximately HK\$4.7 million for the six months ended 30 June 2012 to approximately HK\$7.7 million for the six months ended 30 June 2013. The Group's net profit margin improved from 3.3% to 4.8% for the corresponding periods.

FINANCIAL POSITION AND LIQUIDITY

As at 30 June 2013, cash and bank balances of the Group amounted to approximately HK\$21.7 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 2.4 times as at 31 December 2012 and 30 June 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 30 June 2013 and 31 December 2012, the Group has unutilised 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 centrepiece 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 the 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. In order to tackle the increase in production costs and maintain its profitability, the Group has started to look for potential and qualified contract manufacturers in Vietnam and India for the long run.

Looking forward, the global economic environment will continue to be uncertain. Faced with the stagnant economic environment of the United States and the uncertain debt crisis in major European countries, the global market demand for consumer products remains volatile. To stay competitive in the market, the Group will increase its efforts to enhance the Group's profile through participation in all trade shows, events, exhibitions and fair and expand its product portfolio to keep abreast of market trends. The Group will continue to uphold its proven track record and reputation of punctually delivering consistent and high quality products by optimising quality control system and performing stringent quality control measures in every area of its operations.



CONTINGENT LIABILITIES

As at 30 June 2013 and 31 December 2012, the Group did not have any contingent liabilities.

SIGNIFICANT INVESTMENTS

As at 30 June 2013 and 31 December 2012, the Group did not have any significant investment plans.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There was no specific plan for material investments or capital assets as at 30 June 2013 and 31 December 2012.

MATERIAL ACQUISITIONS OR DISPOSALS

During the six months ended 30 June 2013, there was no material acquisition or disposal of subsidiaries and associated companies by the Group.

CHARGES ON ASSETS

As at 30 June 2013 and 31 December 2012, the Group has general banking facilities of HK\$5,000,000. The banking facilities are secured by the Group's land and building, having carrying amount of approximately HK\$1,108,000 and HK\$1,148,000 as at 30 June 2013 and 31 December 2012, respectively.

FOREIGN EXCHANGE EXPOSURE

During the period under review, all sales of the Group were invoiced in U.S. dollars and all purchases from contract manufacturers were also invoiced in U.S. dollars. As the H.K. dollar is pegged to the 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 30 June 2013, 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

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.

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 1 January 2013 to 30 June 2013 is set out below:

Business objectives for the period from 1 January 2013 to 30 June 2013 as stated in the Prospectus	Actual business progress up to 30 June 2013
Increase sales in the North American markets	<p>The Group has continuously participated in different trade shows and events in order to enhance the Group's profile and awareness.</p> <p>The Group has evaluated the operation, performance and product mix for our US distribution hub and based on the customer's preference and request to manage the replenishment inventory level.</p>



Business objectives for the period from 1 January 2013 to 30 June 2013 as stated in the Prospectus

Actual business progress up to 30 June 2013

Evaluate other overseas markets	The management team is evaluating and exploring any potential new markets, which are suitable for the Group's products by studying the market preferences and the coming trends of our products. We are looking for competent service representative and personnel.
Evaluate the potential of the PRC hotel and motel market	The management team is studying the 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 target market.
Source additional contract manufacturers, strengthen strategic relationships with key contract manufacturers and continue to improve quality control	The Group has continuously assessed and evaluated the performance of our current contract manufacturers including their production capabilities, financial and logistical resources, product quality and production cost. In order to tackle the increase in production costs and maintain its profitability, the Group will continue to exercise stringent cost controls, thus, the Group has started to look for potential and qualified contract manufacturers in Vietnam and India for the long run.
Strengthen design and development capabilities	The Group's new product development center at Dongguan has commenced operation since March 2013. We have hired additional staff to strengthen the prototype production capacity.



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 1 January 2013 to 30 June 2013, the net proceeds from issuance of new shares of the Company had been applied as follows:

	Total net proceeds HK\$'000	Planned use of proceeds as stated in the Prospectus from the 1 January 2013 to 30 June 2013 HK\$'000	Actual use of proceeds used from the 1 January 2013 to 30 June 2013 HK\$'000	Total amount utilized up to 30 June 2013 HK\$'000
Increase sales in North American markets	12,000	7,000	–	7,000
Expand product development center	4,900	2,000	1,865	2,691
Conduct feasibility studies	2,400	600	–	–
Expand operation and marketing team	2,400	1,200	1,200	1,672
General working capital	2,400	600	600	1,200
	24,100	11,400	3,665	12,563

All the remaining proceeds as at 30 June 2013 had been placed as interest bearing deposits at banks in Hong Kong.

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 30 June 2013, the Group employed total of 5 Directors and 107 employees. Total staff costs, including Directors' emoluments, amounted to approximately HK\$12.4 million for the six months ended 30 June 2013 (2012: HK\$10.4 million). 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 optimising their future contributions to the Group. Up to the date of this report, no share option has been granted under such share option scheme.

CORPORATE GOVERNANCE REPORT

The Company endeavours 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 six months ended 30 June 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 six months ended 30 June 2013.



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

During the six months ended 30 June 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 six months ended 30 June 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 30 June 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 30 June 2013.

During the six months ended 30 June 2013, there were no debt securities issued by the Group and the Company at any time.

As at 30 June 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 30 June 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 six months ended 30 June 2013, there were no debt securities issued by the Group and the Company at any time.

Save as disclosed above, as at 30 June 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 30 June 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 six months ended 30 June 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 30 June 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 30 June 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 six months ended 30 June 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 six months ended 30 June 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, 13 August 2013