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## 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)*

### CONTINUING CONNECTED TRANSACTIONS

The Board wishes to announce that on 30 December 2013, Mastercraft USA has entered into a Lease Agreement with MCP Investments to renew the Existing Lease Agreement for the leasing of the Premises and Mastercraft International has entered into a Service Agreement with Todd Miller to renew the Existing Service Agreement for engaging it to be one of the non-exclusive service representatives of Mastercraft International for the sale of the Group's products to furniture stores in U.S.

As MCP Investments is an associate of Mr. Strickland, a controlling shareholder and an executive Director, and a connected person of the Company under the GEM Listing Rule. Todd Miller Inc. is a company owned by Mr. Todd Miller, who is a brother-in-law of Mr. Strickland. Therefore, both transactions will constitute continuing connected transactions of the Company under the GEM Listing Rules.

Accordingly, the Lease Agreement and Service Agreement constitute continuing connected transactions for the Company under GEM Listing Rule 20.34. As the applicable percentage ratios represented by the Annual Cap in respect of the Lease Agreement and Service Agreement are more than 0.1% but less than 5.0%, the entering into of the Lease Agreement and Service Agreement are only subject to reporting, announcement and annual review requirements under GEM Listing Rules 20.45 to 20.47 and 20.37 to 20.40 and is exempt from the independent shareholders' approval requirements.

#### 1. Lease Agreement with MCP Investments

##### *Background*

Reference is made to the prospectus of the Company dated 10 July 2012 in respect of the Existing Lease Agreement with MCP Investments for the leasing of the Premises, which constituted a continuing connected transaction for the Company under the GEM Listing Rules. In view of the expiration of the Existing Lease Agreement on 31 December 2013, Mastercraft USA, as tenant, has entered into the Lease Agreement with MCP Investments, as landlord, on 30 December 2013 to renew the Existing Lease Agreement for the leasing of the Premises.

##### *Principal terms of the Lease Agreement*

Term:	Three years from 1 January 2014 to 31 December 2016 (both dates inclusive)
Monthly rental:	US\$26,250 (equivalent to approximately HK\$204,000)
Premises:	3506 Airport Road, Jonesboro, Arkansas, United States with a gross floor area of approximately 105,234 square feet

### *Annual Cap*

The rental payable by the Group under the Lease Agreement for each of the three years ending 31 December 2014, 2015 and 2016 will be US\$315,000 per annum (equivalent to approximately HK\$2,451,000 per annum). The annual caps for the three years ending 31 December 2016 are set out below:

	<b>For the year ending 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	HK\$'000	HK\$'000	HK\$'000
The rental payable by the Group under the Lease Agreement	2,451	2,451	2,451

Since 2011, Mastercraft USA has been leasing the Premises from MCP Investments for use as the principal place of business in the United States. Accordingly, the Company considers it to be commercially necessary and beneficial to renew the Existing Lease Agreement so that Mastercraft USA can continue to use the Premises as their office and warehouse in the United States and avoid any relocation costs and disruption to operations.

The rental under the Lease Agreement was determined by the Directors with reference to the prevailing market rates for similar properties in the vicinity. BMI Appraisals Limited, an independent property valuer, has issued a letter confirming that the terms and conditions of the Lease Agreement are on normal commercial terms and the rental payable under the Lease Agreement is fair and reasonable and in line with the prevailing market rates in the vicinity of the Premises as at the date of the Lease Agreement.

The Directors (including the independent non-executive Directors) consider that it is in the interest of the Group to lease the Premises from MCP Investments as its office and warehouse. In the view of the Directors, the arrangements under the Lease Agreement will not affect the Group's ability to operate independently or involve the risk of reliance on Mr. Strickland. The Directors consider that such arrangement is not crucial or functionally important to the Group, as it is able to lease premises independently, if required.

## **2. Service Agreement with Todd Miller Inc.**

### *Background*

Reference is made to the prospectus of the Company dated 10 July 2012 in respect of the Existing Service Agreement for the engagement of Todd Miller as one of the non-exclusive service representatives of Mastercraft International for the sale of the Group's products to furniture stores in the U.S., which constituted a continuing connected transaction for the Company under the GEM Listing Rules.

In view of the expiration of the Existing Service Agreement on 31 December 2013, the Service Agreement was entered into on 31 December 2013 for a term of three years from 1 January 2014 and on effectively the same terms and conditions of the Existing Service Agreement.

Mastercraft International paid a commission in respect of each purchase order of the Group's products handled by Todd Miller at a rate of up to 13% of the net invoice price of the relevant purchase order. Typically, service representatives follow-up and facilitate orders for a variety of the Group's products. The commission payable is calculated across the bundle of products comprising a particular order. The commission paid by the Group to Todd Miller is calculated by reference to the profit margins of the products sale of which Todd Miller had facilitated.

### ***Principal terms of the Service Agreement***

The Service Agreement was entered into on 31 December 2013 for a term of three years from 1 January 2014 and on effectively the same terms and conditions of the Existing Service Agreement. The commission payable by Mastercraft International to Todd Miller in respect of each purchase order will be at a rate to be mutually agreed between Mastercraft International and Todd Miller prior to the purchase order being accepted by Mastercraft International, provided that the commission for any purchase order of the Group's products shall not be more than 13% of the net invoice price of the relevant purchase order. As confirmed by the Directors, the commission rates payable by Mastercraft International will be determined after arm's length negotiation with Todd Miller with regard to the type of the products to be sold under the relevant purchase order and shall be on terms no less favourable than those that would be available to other independent non-exclusive service representatives of Mastercraft International for similar products at the material time.

### ***Proposed Cap Amounts and Basis for Determination***

Set out below are the amounts of continuing connected transaction for the years ended 31 December 2012 and 2013.

	<b>For the year ended 31 December</b>	
	<b>2012</b>	<b>2013</b>
	HK\$'000	HK\$'000
Total sales amount handled by Todd Miller	13,400	19,060
Commission payable to Todd Miller	1,511	1,863
Annual Cap amount	<u>1,700</u>	<u>1,900</u>

Since the Group commenced its business of selling furniture sets and other home accessory products to the furniture stores sector in 2009, the Group has recorded a satisfactory growth in sales to this sector of customers and also according to historical records of the sales attributable to furniture stores and sales amounts handled by Todd Miller, the Board expects that the sales will achieve a continuous growth in this sector for the three years ending 31 December 2016.

Due to the attractive profit margins of furniture sets and other home accessory products, the Directors decided to further develop this sector by expanding the customer base and identifying more suitable contract manufacturers to enhance the quality and production capacity of these products. The Directors believe that, with the benefit of increased production capacity, the estimated growth rates for the sales to the furniture stores sector will be approximately 40%, 30% and 30% for the three years ending 31 December 2016, respectively.

Based on aforesaid estimated growth rates and assuming the average overall commission rate of 10.4% for the two years ended 31 December 2012 and 2013 remain constant, the estimated commission payable to Todd Miller for the three years ending 31 December 2016 are projected to be approximately HK\$2,773,000, HK\$3,605,000 and HK\$4,686,000, respectively. It is therefore proposed that the annual caps for the commission payable by the Group to Todd Miller for the three years to be as follows:

	<b>For the year ending 31 December</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	HK\$'000	HK\$'000	HK\$'000
Commission payable to Todd Miller	<u>2,800</u>	<u>3,700</u>	<u>4,700</u>

The Board is of the view that the Service Agreement has been entered into normal commercial terms, in the ordinary and usual course of business of the Group and the commission payable under the Service Agreement is fair and reasonable and it is in the interest of the Group to continue with the continuing connected transaction.

## DEFINITIONS

In this announcement, unless the context requires otherwise, the following terms and expressions have the following meanings:

“Board”	the board of Directors
“Company”	Mastercraft International Holdings Limited, a company incorporated in the Cayman Islands as an exempted company with limited liability and the shares of which are listed on the GEM Board of the Stock Exchange
“Directors”	the directors of the Company
“Existing Lease Agreement”	the lease agreement dated 1 October 2011 made between Mastercraft USA and MCP Investments in respect of the leasing of the Premises from 1 October 2011 to 31 December 2013 (both dates inclusive)
“Existing Service Agreement”	The service agreement dated 3 March 2011 made between Mastercraft International and Todd Miller in respect of the appointment of non-exclusive service representative up to 31 December 2013
“Group”	the Company and its subsidiaries
“GEM”	Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the rules governing the listing securities on GEM, as amended, supplemented or otherwise modified from time to time.
“HK\$” or H.K. dollar(s)	Hong Kong dollars, the lawful currency of Hong Kong
“Lease Agreement”	the lease agreement dated 30 December 2013 made between Mastercraft USA and MCP Investments in respect of the leasing of the Premises from 1 January 2014 to 31 December 2016 (both dates inclusive)
“Mastercraft USA”	Mastercraft Distribution USA Inc., a company incorporated in the State of Delaware in the United States and wholly-owned subsidiary of the Company
“Mastercraft International”	Mastercraft International Limited, a limited liability company incorporated in Hong Kong and wholly-owned subsidiary of the Company
“MCP Investments”	MCP Investments, LLC, a company incorporated in the United States and it is an associate of Mr. Strickland.
“Mr. Strickland”	Mr. Jerry Denny Strickland Jr., one of the controlling shareholders and an executive Director
“Premises”	located at 3506 Airport Road, Jonesboro, Arkansas, United States

“Service Agreement”	The service agreement dated 31 December 2013 made between Mastercraft International and Todd Miller in respect of the appointment of non-exclusive service representative from 1 January 2014 and 31 December 2016
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“U.S.” or “United States”	the United States of America
“US\$” or “U.S. dollar(s)”	United States dollars, the lawful currency of the United States

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

Hong Kong, 7 March 2014

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

*This announcement, for which the Directors 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 announcement 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 announcement misleading.*

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