



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

2014

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.

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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 three months ended 31 March 2014 together with the unaudited comparative figures for the corresponding periods in 2013 as follows:

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2014

	Note	Three months ended 31 March	
		2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Revenue	3	82,919	89,012
Cost of sales		(64,440)	(70,411)
Gross profit		18,479	18,601
Other income		22	28
Selling expenses		(4,712)	(3,921)
Administrative expenses		(5,300)	(5,993)
Research and Development expenses		(1,271)	(1,361)
Profit before tax	4	7,218	7,354
Income tax expenses	5	(1,284)	(1,653)
Profit for the period		5,934	5,701
Other comprehensive (expense)/income:			
Exchange differences arising on translating foreign operation		(37)	3
Total comprehensive income for the period		5,897	5,704
Earnings per share HK cents — Basic	7	1.24	1.29

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the three months ended 31 March 2014

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.

2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The unaudited condensed consolidated financial information have 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 information for the years presented as a result of these developments.

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

The preparation of financial information 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 information were consistent with those applied for the financial statements of the Group for the year ended 31 December 2013.

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

The condensed consolidated financial information have not been reviewed nor 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 period.

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 2014 (unaudited)

	Portable lighting HK\$'000	Shades HK\$'000	Furniture set and other home accessory products HK\$'000	Total HK\$'000
SEGMENT REVENUE				
External sales	62,366	14,720	5,833	82,919
Segment profit	12,740	4,145	1,594	18,479
Unallocated income				22
Unallocated expenses				
— Selling expenses				(4,712)
— Administration expenses				(5,300)
— Research and development expenses				(1,271)
Profit before tax				7,218

For the three months ended 31 March 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	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

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 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 following table summarises the Group's revenue from customers by geographical locations:

	Three months ended 31 March	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
North America	82,919	89,012
Total revenue	82,919	89,012

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	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Customer A	35,105	37,688
Customer B	30,879	30,424

4. PROFIT BEFORE TAX

	Three months ended	
	31 March	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging (crediting):		
Cost of inventories recognised as expenses	64,439	70,411
Amortisation of intangible asset	24	–
Depreciation of property, plant and equipment	342	183
Net foreign exchange loss	53	22
Staff costs, including directors' remuneration:		
Salaries, wages and other benefits	6,286	6,062
Retirement benefits scheme contributions	188	194
	6,474	6,256
Less: amount included in research and development expenses	(687)	(866)
	5,787	5,390
Interest income	(22)	(27)

5. INCOME TAX EXPENSES

	Three months ended	
	31 March	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current taxation	1,262	1,454
Deferred tax	22	199
	1,284	1,653

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 2014 (for the three months ended 31 March 2013: 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 480,000,000 ordinary shares (for the three months ended 31 March 2013: 443,606,557 ordinary share) in issue during the three months period.

8. MOVEMENT OF RESERVE

Movement of reserves for the Group during the period is set out below:

	Share premium HK\$'000	Translation reserve HK\$'000	Special reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2013 (audited)	32,523	(66)	(1)	28,171	60,627
Profit for the period	–	–	–	5,701	5,701
Other comprehensive income for the period	–	3	–	–	3
Total comprehensive (expense)/ income for the period	–	3	–	5,701	5,704
At 31 March 2013 (unaudited)	32,523	(63)	(1)	33,872	66,331

	Share premium HK\$'000	Translation reserve HK\$'000	Special reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2014 (audited)	32,523	(132)	(1)	39,808	72,198
Profit for the period	–	–	–	5,934	5,934
Other comprehensive expense for the period	–	(37)	–	–	(37)
Total comprehensive (expense)/ income for the period	–	(37)	–	5,934	5,897
At 31 March 2014 (unaudited)	32,523	(169)	(1)	45,742	78,095

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 three months ended 31 March 2014, which contributed to approximately 85.9% (2013: 79.7%) 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 2014 was approximately HK\$62.4 million, HK\$14.7 million and HK\$5.8 million (2013: HK\$65.7 million, HK\$16.7 million and HK\$6.7 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 75.21% and 17.8% (2013: 73.8% and 18.7%) 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

The revenue of the Group decreased by approximately 6.9% from approximately HK\$89.0 million for the three months ended 31 March 2013 to HK\$82.9 million for the three months ended 31 March 2014. Cost of sales of the Group decreased by approximately 8.5% from HK\$70.4 million to HK\$64.4 million. The gross profit slightly decreased by 0.7% from approximately HK\$18.6 million to HK\$18.5 million. The gross profit margin was improved from 20.9% to 22.3%. The total operating cost maintained at HK\$11.3 million for the three months 31 March 2013 and 2014.

Profit attributable to owners of the Company increased by approximately 4.1% from approximately HK\$5.7 million for the three months ended 31 March 2013 to approximately HK\$5.9 million for the three months ended 31 March 2014. The Group's net profit margin improved from 6.4% to 7.2% for the corresponding periods.

FINANCIAL POSITION AND LIQUIDITY

As at 31 March 2014, cash and bank balances of the Group amounted to approximately HK\$33.0 million (As at 31 December 2013: HK\$25.4 million). The Group's current ratio (current asset divided by current liabilities) was 2.2 times and 2.6 times as at 31 December 2013 and 31 March 2014, 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 2014 and 31 December 2013, 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.

As at 31 March 2014, there was no borrowing. Therefore, gearing ratio is not meaningful. The Directors of the Company review the capital structure regularly, taking into account the cost of capital and the associated risks. Based on recommendations of the management of the Group, the Group will balance its overall capital structure accordingly.

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. 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 strong competitive advantage.

With the growth in sales to furniture stores, the Group will continuously seek expansion opportunities in this sector, 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 profitability, the Group has started to look for potential and qualify contract manufacturers outside Dongguan. We have already started to engage some new contract manufacturers in Fuzhou and we might consider setting up a quality control team at Fuzhou in long run.

Looking forward, the global economic environment will continue to be uncertain. To stay competitive in the market, the Group will increase its efforts to enhance the Group's profile through participation in 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 deliver consistent and high quality products by optimising the quality control system and performing stringent quality control measures in every area of operations.

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 2014, except for the following:

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 2014.

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

During the three months ended 31 March 2014, 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 2014, he had fully complied with the required standard of dealings and there was no event of non-compliance.

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

At 31 March 2014, 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 2014.

During the three months ended 31 March 2014, there were no debt securities issued by the Group and the Company at any time.

As at 31 March 2014, 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

For the three months ended 31 March 2014, there were no debt securities issued by the Group and the Company at any time.

Save as disclosed above, as at 31 March 2014, 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 2014, 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 2014, 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 2014.

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 2014.

The Company and WAG have mutually agreed to terminate the compliance adviser agreement with effect from 31 March 2014 due to commercial reasons. Pursuant to the agreement dated 10 July 2012 entered into between WAG and the Company, WAG received fees for acting as the Company's compliance adviser.

The Company has appointed TC Capital Asia Limited ("TC Capital") as new compliance adviser to the Company as required pursuant to Rules 6A.19 and 6A.27 of the GEM Listing Rules and TC Capital will receive fee for acting as the Company's compliance adviser with effect from 1 April 2014.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the three months ended 31 March 2014, 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 2014 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, 9 May 2014