



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



2014

THIRD QUARTERLY REPORT

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 Company and its subsidiaries (collectively referred to as the “Group”) for the three months and nine months ended 30 September 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 and nine months ended 30 September 2014

	Note	Three months ended 30 September		Nine months ended 30 September	
		2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Revenue	3	112,521	97,424	274,546	257,774
Cost of sales		(87,360)	(74,707)	(213,982)	(202,321)
Gross profit		25,161	22,717	60,564	55,453
Other income		14	19	66	82
Selling expenses		(6,232)	(5,096)	(16,274)	(13,101)
Administrative expenses		(5,168)	(5,590)	(16,121)	(17,189)
Research and development expenses		(1,549)	(1,074)	(4,194)	(3,974)
Profit before tax	4	12,226	10,976	24,041	21,271
Income tax expenses	5	(2,132)	(2,743)	(4,504)	(5,315)
Profit for the period		10,094	8,233	19,537	15,956
Other comprehensive expenses:					
Exchange differences arising on translating foreign operation		2	–	(41)	(7)
Total comprehensive income for the period		10,096	8,233	19,496	15,949
Earnings per share					
HK cents — Basic	7	2.1 cents	1.7 cents	4.1 cents	3.3 cents

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 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 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 has been prepared under the historical cost convention.

The preparation of financial information in conformity with the HKFRSs 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 and 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 represent 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 nine months ended 30 September 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	213,750	42,809	17,987	274,546
Segment profit	44,063	11,744	4,757	60,564
Unallocated income				66
Unallocated expenses				
— Selling expenses				(16,274)
— Administration expenses				(16,121)
— Research and development expenses				(4,194)
Profit before tax				24,041

For the nine months ended 30 September 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	187,418	52,934	17,422	257,774
Segment profit	35,698	14,668	5,087	55,453
Unallocated income				82
Unallocated expenses				
— Selling expenses				(13,101)
— Administration expenses				(17,189)
— Research and development expenses				(3,974)
Profit before tax				21,271

Segment profit represents the profit earned by each segment without allocation of certain income and expenses (including other income, selling expenses, administration expenses and research and development 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:

	Nine months ended 30 September	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
North America	274,268	257,219
Others	278	555
Total revenue	274,546	257,774

Information about major customers

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

	Nine months ended 30 September	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Customer A	104,086	111,751
Customer B	91,102	84,078

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

4. PROFIT BEFORE TAX

	Nine months ended 30 September	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Profit before tax has been arrived at after charging (crediting):		
Cost of inventories recognised as expenses	274,546	257,774
Amortization of intangible asset	72	–
Depreciation of property, plant and equipment	884	650
Net foreign exchange loss	181	170
Staff costs, including directors' remuneration:		
Salaries, wages and other benefits	21,507	18,000
Retirement benefits scheme contributions	591	577
	22,098	18,577
Less: amount included in research and development expenses	(2,972)	(2,348)
	19,126	16,229
Loss on disposal of property, plant and equipment	–	33
Interest income	(61)	(65)

5. INCOME TAX EXPENSES

	Nine months ended 30 September	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Current taxation	4,773	4,969
Deferred tax	(269)	346
	4,504	5,315

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 nine months ended 30 September 2014 (for the nine months ended 30 September 2013: nil).

A final dividend for the year ended 31 December of 2013 of HK\$0.03 per ordinary share has been paid during the nine months ended 30 September 2014.

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 in issue during the nine 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	–	–	–	15,956	15,956
Other comprehensive expense for the period	–	(7)	–	–	(7)
Total comprehensive (expense)/ income for the period	–	(7)	–	15,956	15,949
Dividend recognized as distribution	–	–	–	(9,600)	(9,600)
At 30 September 2013 (unaudited)	32,523	(73)	(1)	34,527	66,970

	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	–	–	–	19,537	19,537
Other comprehensive expense for the period	–	(41)	–	–	(41)
Total comprehensive (expense)/ income for the period	–	(41)	–	19,537	19,496
Dividend recognized as distribution	–	–	–	(14,400)	(14,400)
At 30 September 2014 (unaudited)	32,523	(173)	(1)	44,945	77,294

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 are outsourced to independent contract manufacturers in the People's Republic of China (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 nine months ended 30 September 2014, which contributed to approximately 78.4% (2013: 84.1%) of the Group's total revenue.

The Group's revenue from sale of portable lighting, shades and furniture set and other home accessory products for the nine months ended 30 September 2014 was approximately HK\$213.8 million, HK\$42.8 million and HK\$18.0 million (2013: HK\$187.4 million, HK\$52.9 million and HK\$17.4 million), respectively. Portable lighting remained as the Group's significant revenue stream. During the period under review, portable lighting and shades contributed to approximately 77.9% and 15.6% (2013: 72.7% and 20.5%) 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 increased by approximately 6.5% from approximately HK\$257.8 million for the nine months ended 30 September 2013 to HK\$274.5 million for the nine months ended 30 September 2014. Cost of sales of the Group increased by approximately 5.8% from HK\$202.3 million to HK\$214.0 million. The gross profit increased by 9.2% from approximately HK\$55.5 million to HK\$60.6 million. The gross margin was improved from 21.5% to 22.1%. The total operating cost was HK\$34.3 million and HK\$36.6 million, which maintained at 13.3% of the revenue for the nine months ended 30 September 2013 and 2014, respectively.

Profit attributable to owners of the Company increased by approximately 22.4% from approximately HK\$16.0 million for the nine months ended 30 September 2013 to approximately HK\$19.5 million for the nine months ended 30 September 2014. The Group's net profit margin improved from 6.2% to 7.1% for the corresponding periods in 2014.

FINANCIAL POSITION AND LIQUIDITY

As at 30 September 2014, unaudited cash and bank balances of the Group amounted to approximately HK\$16.4 million (as at 31 December 2013: HK\$25.4 million). The Group's current ratio (current assets divided by current liabilities) maintained at 2.2 times as at 31 December 2013 and 30 September 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 30 September 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 maximizing the return to shareholders through the optimization 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 30 September 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.

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 September 2014, the Group employed 5 Directors and 106 employees. Total staff costs, including Directors' emoluments, amounted to approximately HK\$22.1 million for the nine months ended 30 September 2014 (2013: HK\$18.6 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 (the "Share Option Scheme"), under which the Company can grant options to, among others, employees of the Group to subscribe for shares of the Company with a view to rewarding them for their contributions to the Group and giving incentives to them for optimizing their future contributions to the Group. Up to the date of this report, no share option has been granted under such Share Option Scheme.

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 and our modern classic lighting and home furnishing products under our own brandname "Couture", the Group will continuously seek expansion opportunities in these sectors, 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 fairs 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.

CODE ON CORPORATE GOVERNANCE PRACTICES

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 nine months ended 30 September 2014.

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 nine months ended 30 September 2014.

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

During the nine months ended 30 September 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 nine months ended 30 September 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

As at 30 September 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 of Director	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%

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 which is wholly-owned by him under SFO.

Save as disclosed above, as at 30 September 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

Save as disclosed below, as at 30 September 2014, the Directors were not aware of any other person 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.

Long Positions in the Shares

Name of Director	Capacity and nature of interest	Number of shares (note 1)	Percentage of the Company's issued share capital
SYH Investments Limited (note 2)	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. 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, an executive Director, as at 30 September 2014.

CONTRACT OF SIGNIFICANCE

At 30 September 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 nine months ended 30 September 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 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Since the Share Option Scheme has become effective on 21 June 2012, no share option was granted, exercised or cancelled by the Company under the Share Option Scheme during the period under review and there was no outstanding share option under the Share Option Scheme as at 30 September 2014.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by TC Capital Asia Limited ("TC Capital"), the Company's compliance adviser, neither TC Capital 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 September 2014.

Pursuant to the agreement entered into between TC Capital and the Company, TC Capital received and will receive fees for acting as the Company's compliance adviser.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the nine months ended 30 September 2014, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the listed securities of the Company.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference 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 nine months ended 30 September 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, 5 November 2014