



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

2015



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 the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) 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 2015 together with the unaudited comparative figures for the corresponding periods in 2014 as follows:

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2015

	Note	Three months ended 31 March	
		2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Revenue	3	99,867	82,919
Cost of sales		(79,507)	(64,440)
Gross profit		20,360	18,479
Other income		29	22
Selling expenses		(4,585)	(4,712)
Administrative expenses		(5,891)	(5,300)
Research and Development expenses		(1,483)	(1,271)
Profit before tax	4	8,430	7,218
Income tax expenses	5	(1,577)	(1,284)
Profit for the period		6,853	5,934
Other comprehensive income/(expense):			
Exchange differences arising on translating foreign operation		48	(37)
Total comprehensive income for the period		6,901	5,897
Earnings per share HK cents – Basic	7	1.43	1.24

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the three months ended 31 March 2015

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

The unaudited condensed consolidated financial statements 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 2014.

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 financial statements 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 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 three months ended 31 March 2015 (unaudited)

	Portable lighting HK\$'000	Shades HK\$'000	Furniture sets and other home accessory products HK\$'000	Total HK\$'000
SEGMENT REVENUE				
External sales	76,318	18,964	4,585	99,867
Segment profit	14,310	4,931	1,119	20,360
Unallocated income				29
Unallocated expenses				
– Selling expenses				(4,585)
– Administration expenses				(5,891)
– Research and development expenses				(1,483)
Profit before tax				8,430

For the three months ended 31 March 2014 (unaudited)

	Portable lighting HK\$'000	Shades HK\$'000	Furniture sets 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

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:

	Three months ended 31 March	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
North America	99,867	82,919
Total revenue	99,867	82,919

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	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Customer A	38,706	35,105
Customer B	34,046	30,879

4. PROFIT BEFORE TAX

	Three months ended	
	31 March	
	2015	2014
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging (crediting):		
Cost of inventories recognised as expenses	78,232	64,439
Amortisation of intangible asset	24	24
Depreciation of property, plant and equipment	411	342
Net foreign exchange loss	65	53
Staff costs, including directors' remuneration:		
Salaries, wages and other benefits	7,514	6,286
Retirement benefits scheme contributions	220	188
	7,734	6,474
Less: amount included in research and development expenses	(633)	(687)
	7,101	5,787
Interest income	(4)	(22)

5. INCOME TAX EXPENSES

	Three months ended	
	31 March	
	2015	2014
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current taxation	1,178	1,262
Deferred tax	399	22
	1,577	1,284

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 2015 (for the three months ended 31 March 2014: 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 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 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

	Share premium HK\$'000	Translation reserve HK\$'000	Special reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2015 (audited)	32,523	(132)	(1)	49,040	81,430
Profit for the period	-	-	-	6,853	6,853
Other comprehensive income for the period	-	48	-	-	48
Total comprehensive income for the period	-	48	-	6,853	6,901
At 31 March 2015 (unaudited)	32,523	(84)	(1)	55,893	88,331

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the design and supply chain of lighting and home furnishing products, the manufacture of which is 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 three months ended 31 March 2015, which contributed to approximately 78.3% (2014: 85.9%) 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 three months ended 31 March 2015 was approximately HK\$76.3 million, HK\$19.0 million and HK\$4.6 million (2014: HK\$62.4 million, HK\$14.7 million and HK\$5.8 million) respectively. Portable lighting products remained as the Group's significant revenue stream. During the period under review, portable lighting product and shades contributed to approximately 76.4% and 19.0% (2014: 75.2% and 17.8%) of the Group's revenue, respectively. The Directors and management are continuously monitoring the product margin in order to enhance the shareholders' interest. The gross profit margin of portable lighting, shades and furniture set and other home accessory products decreased from 20.4% to 18.8%, 28.2% to 26.0% and 27.3% to 24.4%, respectively.

FINANCIAL REVIEW

The revenue of the Group increased by approximately 20.4% from approximately HK\$82.9 million for the three months ended 31 March 2014 to HK\$99.9 million for the three months ended 31 March 2015. Cost of sales of the Group increased by approximately 23.4% from HK\$64.4 million to HK\$79.5 million. The gross profit increased by 10.2% from approximately HK\$18.5 million to HK\$20.4 million. The gross profit margin was dropped from 22.3% to 20.4%. During the period, the total operating cost amounted to approximately HK\$12.0 million, representing 12.0% of the Group's total revenue (2014: HK\$11.3 million, representing 13.6% of the Group's total revenue).



Profit attributable to owners of the Company increased by approximately 15.5% from approximately HK\$5.9 million for the three months ended 31 March 2014 to approximately HK\$6.9 million for the three months ended 31 March 2015. The Group's net profit margin slightly dropped from 7.2% to 6.9% for the corresponding periods. Earnings per share increased from HK1.24 cents to HK1.43 cents.

FINANCIAL POSITION AND LIQUIDITY

As at 31 March 2015, cash and bank balances of the Group amounted to approximately HK\$21.8 million (As at 31 December 2014: HK\$21.8 million). The Group's current ratio (current asset divided by current liabilities) was 2.7 times and 3.1times as at 31 December 2014 and 31 March 2015, 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 31 December 2014 and at 31 March 2015, 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 2015, 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.

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 31 March 2015, the Group employed 5 Directors and 113 employees. Total staff costs, including Directors' emoluments, amounted to approximately HK\$7.7 million for the three months ended 31 March 2015 (2014: HK\$6.5 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 continue to play a crucial role in the Group's business. Introducing innovative new products is the centrepiece of our long term strategy. In the years to come, we will continue to innovate and expand our product development process, enabling us to respond faster to customer requests and emerging opportunities, giving us a strong competitive advantage. In addition, we will continually strengthen our existing supply chain network of design and development, sourcing, quality control, logistics, and distribution, allowing us to better support our customers and capture a higher market share in the consumer goods supply chain.

We continue to build up the awareness of our own brand name "Couture" not only in North America, but Europe and Asia Pacific markets, as we believe brand extension into new product categories and markets enable us to generate sustainable growth. Geographic expansion will be a highlight of our future; our long term strategy is to gradually build our business outside North America. We will also concentrate in development of furniture industry by hiring a development team to expand our furniture products to mass market retailers and furniture stores; we see the greatest potential growth in demand in the near future.



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. In order to explore opportunities around the world, we will conduct feasibility study with the online sales market and platform. The Group will continue to uphold its proven track record and reputation of punctually delivering 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 2015, 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 2015.

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

During the three months ended 31 March 2015, 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 2015, 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 2015, 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%

Notes:

- The letter "L" denotes a long position in the shareholder's interest in the share capital of the Company.
- Mr. Leung Yuen Ho, Simon is deemed to be interested in 180,000,000 shares held by SYH Investments Limited under SFO.

Save as disclosed above, as at 31 March 2015, 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 31 March 2015, 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	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 as at 31 March 2015.

CONTRACT OF SIGNIFICANCE

At 31 March 2015, 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 2015, 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 2015.

INTERESTS OF THE COMPLIANCE ADVISERS

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 31 March 2015.

Pursuant to the agreement entered into between TC Capital and the Company, TC Capital received fees for acting as the Company's compliance adviser for the three months ended 31 March 2015.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the three months ended 31 March 2015, 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 consolidated financial statements of the Company for the three months ended 31 March 2015 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, 15 May 2015

