



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

PLACING

Sole Sponsor

WAG WORLDSEC CORPORATE FINANCE LIMITED

Joint Lead Underwriters



聯發證券有限公司
LUEN FAT SECURITIES CO., LTD.

WAG WORLDSEC CORPORATE FINANCE LIMITED

Underwriters



佐雄證券有限公司
DL BROKERAGE LIMITED
(香港聯合交易所會員)
(MEMBER OF THE STOCK EXCHANGE OF HONG KONG LIMITED)

豐年證券投資有限公司
GOOD HARVEST SECURITIES COMPANY LIMITED

六福金融
LUKFOOK FINANCIAL

新富證券
SANFULL SECURITIES

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



MASTERCRAFT INTERNATIONAL HOLDINGS LIMITED 馬仕達國際控股有限公司 (Incorporated in the Cayman Islands with limited liability)

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING OF SHARES

Number of Placing Shares : 120,000,000 Placing Shares
Placing Price : HK\$0.35 per Placing Share, plus brokerage
of 1%, SFC transaction levy of 0.003%
and Stock Exchange trading fee of
0.005% (payable in full on application in
Hong Kong dollars and subject to refund)
Nominal value : HK\$0.01 per Share
GEM stock code : 8146

Sole Sponsor

WAG WORLDSEC CORPORATE FINANCE LIMITED

Joint Lead Underwriters

**WAG WORLDSEC CORPORATE
FINANCE LIMITED**



Underwriters



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A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies in Hong Kong and available for inspection" in appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

Prior to making an investment decision, prospective investors should carefully consider all the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus. Pursuant to the termination provisions contained in the Underwriting and Placing Agreement, the Sponsor (for itself or on behalf of the Underwriters) has the right in certain circumstances, in its sole and absolute discretion, to terminate the obligations of the Underwriters pursuant to the Underwriting and Placing Agreement at any time at or prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of the terms of the termination provisions are set out in the section headed "Underwriting — Grounds for termination" in this prospectus. It is important that you refer to the said section for further details.

10 July 2012

CHARACTERISTICS OF GEM

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 on 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the website of the Stock Exchange at www.hkexnews.hk in order to obtain up-to-date information on GEM-listed issuers.

EXPECTED TIMETABLE

2012

(Note 1)

Commencement of Placing	10 July
Announcement of the level of indication of interest in the Placing to be published on the website of the Stock Exchange at <i>www.hkexnews.hk</i> and the Company's website at <i>www.mastercraftholdings.com</i> on or before	18 July
Allotment of Placing Shares to placees on or before	18 July
Deposit of Share certificates into CCASS on or before (Note 2).	19 July
Dealings in Shares on GEM to commence at 9:00 a.m. on	20 July

Notes:

1. All times and dates refer to Hong Kong local times and dates. Details of the Structure and conditions of the Placing, including its conditions, are set out in the section headed "Structure and conditions of the Placing" in this prospectus.
2. Share certificates for the Placing Shares allotted and issued to the placees are expected to be deposited directly into CCASS on or before 19 July 2012 for credit to the respective CCASS Participants' or the CCASS Investor Participants' stock accounts designated by the Joint Lead Underwriters, the placees or their agents (as the case may be). No temporary documents or evidence of title will be issued.
3. If there is any change to the above expected timetable, the Company will make a separate announcement to inform investors accordingly.
4. All share certificates will only become valid certificates of title when the Placing has become unconditional in all respects and the Underwriting and Placing Agreement has not been terminated in accordance with its terms at or before 8:00 a.m. (Hong Kong time) on the Listing Date.

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You should rely only on the information contained in this prospectus to make your investment decision.

The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not made nor contained in this prospectus must not be relied on by you as having been authorised by the Company, the Sponsor, the Underwriters, any of their respective directors, officers, employees, agents, affiliates or representatives of any of them or any other person involved in the Placing.

The contents of the Company's website at www.mastercraftholdings.com, which is the official website of the Group, do not form part of this prospectus.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Placing Shares.

There may be greater risks associated with investment in companies listed on GEM than companies listed on the Main Board. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Placing Shares.

BUSINESS

Overview

The Group is principally engaged in the design and development of portable lighting products, shades and furniture sets and other home accessories.

The Group designs products for its customers before outsourcing production of those products to a network of contract manufacturers. Finished products are marketed to consumers under the brand names of the Group's customers. The Group's principal target market segments are discount department stores and off-price retailers. The Group's customers include mass market retailers ("MMRs"), home furnishing stores, furniture stores, Specialty Stores and a distributor in the U.S., Canada and other overseas markets. The price ranges in which the Group sells its products vary according to the category of product. For the year ended 31 December 2010, the price ranges for the Group's portable lighting, shades and furniture sets and other home accessory products were approximately HK\$21–HK\$370, approximately HK\$6–HK\$39 and approximately HK\$5–HK\$1,570 respectively. For the year ended 31 December 2011, the price ranges for the Group's portable lighting, shades and furniture sets and other home accessory products were approximately HK\$17–HK\$370, approximately HK\$6–HK\$53 and approximately HK\$5–HK\$1,704 respectively.

The Group provides its customers with comprehensive "all-in-one" product design and product development services. As well as producing modern, sophisticated and desirable designs up to the prototype stage, the Group provides added value to its customers by overseeing the production, quality control, logistics and packaging processes.

The Group creates new designs based on its appreciation of market trends so as to be able to offer its customers attractive product designs according to their requirements. The Group's in-house product development team also works with the Group's customers on their proposed product designs, liaising with them on production feasibility. The Directors believe these capabilities, coupled with the extensive career experience of the Group's founders, Mr. Leung and Mr. Strickland, give the Group a competitive advantage in the market over other original design manufacturers ("ODMs") as the Group provides a suite of value-added design and development services.

The Directors also believe that as the manufacturing process has been outsourced to its contract manufacturers, the Group can focus on value-added areas such as product design and development, marketing and quality control. The Group has been therefore able to reduce capital investment and operating costs associated with the ownership of production facilities.

SUMMARY

The Group places a strong emphasis on its product quality by implementing a comprehensive quality control system. The Group obtained “UL certification” for its portable lighting products sold into the U.S., confirming that such products have met the recognised safety standards issued by Underwriters Laboratories, Inc. (“UL”), an independent product safety testing and certification organisation. Other certifications obtained by the Group include “CUL certification” (also provided by UL) for products marketed in Canada and “ETL certification” for portable lighting products marketed in the U.S. and Canada provided by Intertek Testing Services.

Sales to MIUSA

On 1 January 2011, in order to meet the purchase preference of, and as requested by, certain U.S. customers, which required products to be already imported into the U.S. resulting in shorter delivery lead-times, the Group engaged MIUSA as a distributor to distribute the Group’s products to these customers. In the nine months ended 30 September 2011, sales of portable lighting, shades and furniture sets and other accessories to MIUSA amounted to approximately HK\$29.2 million, HK\$16.8 million, and HK\$3.4 million, respectively, resulting in total sales to MIUSA of approximately HK\$49.4 million for that period. Pursuant to the inventory purchase agreement, the net sales attributable to sales by the Group to MIUSA in the nine months ended 30 September 2011 was HK\$37.6 million.

The Directors believe that the temporary engagement of MIUSA as the Group’s U.S. distributor was, at the time, the most expedient short term option available to the Group in order to satisfy customers’ requests to purchase the Group’s products from a U.S. distribution hub. The bringing of the business in-house by establishing Mastercraft USA was commercially advantageous, allowed for better control and management of orders and inventory and eliminated the continuing connected transaction. The engagement of MIUSA was terminated at the end of September 2011 and the Group repurchased the inventory from MIUSA pursuant to an inventory purchase agreement. The repurchase comprised portable lighting, shades and furniture sets and other home accessory products in the amounts of approximately HK\$6.8 million, HK\$4.3 million and HK\$0.7 million, respectively, totalling approximately HK\$11.8 million. A reimbursement of HK\$2.3 million of costs in respect of costs incurred by MIUSA as a result of importing inventory to the U.S. was included in the consideration of the repurchase making the total consideration approximately HK\$14.1 million or US\$1.8 million. The repurchase of the inventory was conducted on normal commercial terms and on an arm’s length basis. Further details of the inventory purchase agreement are set out in the section of the prospectus headed “History, development and reorganisation — Reorganisation”.

Out of the approximately HK\$49.4 million total sales to MIUSA in the nine months ended 30 September 2011, approximately HK\$37.6 million were sold onwards to the Group’s U.S. customers. The estimated breakdown of sales of the Group’s products through MIUSA to the Group’s U.S. customers during the nine months ended 30 September 2011 were approximately 91.7% to “Customer B”, approximately 6.7% to “Customer E” and approximately 1.6% to other customers of the Group.

The Group’s business relationships with its top five largest customers for the year ended 31 December 2011 ranged from nine months to thirteen years. The Directors believe that its long-standing relationships stem from the recognition of the quality of the Group’s products and timely completion of customers’ orders under delivery schedules and short production lead times. The management of the Group believes that such relationships help preserve the loyalty of customers and reinforce the commitment of such customers to place further orders with the Group.

SUMMARY

In September 2011, the Group established Mastercraft USA in order to meet Replenishment Orders from its customers. Mastercraft USA keeps a limited, in terms of product range and quantities, Replenishment Inventory of the Group's products at the Group's leased premises in Arkansas. The ordering of Replenishment Inventory by Mastercraft USA is based on the Group's customer's commitments (non-legally binding) and estimates. The Directors confirm that as at the Latest Practicable Date there have been no prior instances where a customer did not take delivery of the Replenishment Inventory relating to its commitment. The Group is therefore positioned to meet Replenishment Orders from its U.S. customers. Further details of the ordering process for the Group's products are set out in the section of the prospectus headed "Business — Delivery — Comparison of current and historical operation in the U.S.". The Group's ability to supply Replenishment Orders is another advantage it has over its competitors who do not operate a U.S. hub.

Products

The Group's products can be divided into three major categories, namely portable lighting, shades and furniture sets and other home accessory products (such as candleholders, picture frames and sculptures). The following table sets out the breakdown of the Group's revenue for each product segment for the years ended 31 December 2010 and 2011.

	Year ended 31 December			
	2010		2011	
	Revenue <i>HK\$'000</i>	Percentage of total revenue %	Revenue <i>HK\$'000</i>	Percentage of total revenue %
Portable lighting	144,663	72.9	173,815	65.7
Shades	33,130	16.7	68,593	25.9
Furniture sets and other home accessory products	20,724	10.4	22,074	8.4
Revenue	198,517	100.0	264,482	100.0

SUMMARY

Geographic locations

The following table illustrates the breakdown of the Group's revenue by geographical area by customers location for the two years ended 31 December 2010 and 2011.

	Revenue from customers	
	Year ended 31 December	
	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
North America		
— U.S.	186,842	258,406
— Canada	<u>11,675</u>	<u>4,352</u>
	198,517	262,758
Others (<i>Note</i>)	<u>—</u>	<u>1,724</u>
	<u><u>198,517</u></u>	<u><u>264,482</u></u>

Note: Others include Kuwait and the United Kingdom (U.K.). For the year ended 31 December 2011, sales to Kuwait and the U.K. amounted to approximately HK\$0.6 million and HK\$1.1 million respectively.

Customers

During the Track Record Period, the Group sold its products to approximately 40 customers. The majority of these customers are based in the U.S. Orders placed by customers in the U.K. and Kuwait with the Group during the year ended 31 December 2011, accounted for approximately 0.4% and 0.2% of the Group's total revenue, respectively. The Group's customers include:

- MMR customers
- Home furnishing stores
- Furniture stores
- Distributor
- Specialty Stores

SUMMARY

The following table sets out, among other things, revenue and sales quantities attributable to each category of the Group's customers during the Track Record Period.

	Year ended 31 December							
	2010				2011			
	Revenue <i>HK'000</i>	Percentage of total revenue %	Quantities	Number of customers	Revenue <i>HK'000</i>	Percentage of total revenue %	Quantities	Number of customers
MMRs	139,249	70.1	4,668,818	3	169,794	64.2	5,822,259	3
Home furnishing stores	31,000	15.6	261,544	5	22,873	8.6	204,711	6
Furniture stores	18,642	9.4	52,741	27	19,762	7.5	75,149	26
Distributors	—	0.0	—	—	37,624	14.2	1,418,997	1
Specialty Stores	7,733	3.9	151,924	3	13,516	5.1	331,064	2
Others	1,893	1.0	1,570	2	913	0.4	826	2
Total	<u>198,517</u>	<u>100.0</u>	<u>5,136,597</u>	<u>40</u>	<u>264,482</u>	<u>100.0</u>	<u>7,853,006</u>	<u>40</u>

The following tables set out the breakdown of the Group's gross profit and gross profit margin by product category during the Track Record Period:

	Year ended 31 December			
	2010		2011	
	Gross profit <i>HK\$'000</i>	Gross profit margin %	Gross profit <i>HK\$'000</i>	Gross profit margin %
Portable lighting	23,025	15.9	27,628	15.9
Shades	9,030	27.3	14,741	21.5
Furniture sets and other home accessory products	<u>6,487</u>	<u>31.3</u>	<u>5,672</u>	<u>25.7</u>
Total	<u>38,542</u>	<u>19.4</u>	<u>48,041</u>	<u>18.2</u>

For the year ended 31 December 2010, the Group's customer base comprised three MMR customers, five home furnishing stores, twenty-seven furniture stores and three Specialty Stores. For the year ended 31 December 2011, the Group's customer base comprised three MMR customers, six home furnishing stores, twenty-six furniture stores, one distributor and two Specialty Stores.

The Group sold various mixes of products to different categories of customers, which lead to differing gross profit margins in relation to such different customer categories.

For the two years ended 31 December 2010 and 2011, the gross profit of the Group was approximately HK\$38.5 million and HK\$48.0 million, respectively. For the two years ended 31 December 2010 and 2011, the gross profit margin of the Group was approximately 19.4% and 18.2%, respectively. The Group believes that the decrease in the gross profit margin by 1.2 percentage points was, among other things, due to the increase in costs charged by contract manufacturers in the PRC

SUMMARY

during the Track Record Period. The increase in cost of purchase cannot be fully passed on to the Group's customers due to pressure exerted by customers bargaining for lower prices resulting in lower profit margin.

The following table sets forth the revenue, gross profit and gross profit margin derived from different categories of customers during the Track Record Period:

	For the year ended 31 December					
	2010			2011		
	<i>Revenue</i>	<i>Gross profit</i>	<i>Gross profit margin</i>	<i>Revenue</i>	<i>Gross profit</i>	<i>Gross profit margin</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>%</i>
MMR customers	139,249	24,623	17.7	169,794	28,475	16.8
Home furnishing stores	31,000	4,958	16.0	22,873	4,059	17.7
Furniture stores	18,642	6,151	33.0	19,762	5,540	28.0
Distributor	—	—	—	37,624	5,976	15.9
Specialty Stores	7,733	2,189	28.3	13,516	3,671	27.2
Others	1,893	621	32.8	913	320	35.0
	<u>198,517</u>	<u>38,542</u>	<u>19.4%</u>	<u>264,482</u>	<u>48,041</u>	<u>18.2%</u>

For the years ended 31 December 2010 and 2011, the Group's top five customers accounted for approximately HK\$160.4 million and HK\$220.8 million or 80.8% and 83.5%, respectively, of the Group's revenue. During the same years, the largest customer of the Group accounted for about HK\$65.7 million and HK\$82.9 million or 33.1% and 31.3%, respectively, of the Group's revenue.

Order processing

Direct Orders are purchase orders placed with Mastercraft International and shipped to customers according to the agreed shipping terms. For delivery at a designated port in the PRC or delivery at a contract manufacturer's factory gate, the delivery lead times in general vary between 6 and 8 weeks. For delivery at customers' locations in the U.S., the delivery lead times in general vary between 10 and 12 weeks to take into account transit times.

Replenishment Orders are subsequent purchase orders for a product placed by certain customers in the U.S. For this type of order, the delivery lead times are generally within one week. In order to meet this type of order, customers would have to place such orders with Mastercraft USA. In order for Mastercraft USA to satisfy this type of order, Mastercraft USA maintains Replenishment Inventory at its warehouse in the U.S. Mastercraft USA, a wholly owned subsidiary of the Group, commenced business operating the Group's U.S. distribution hub on 1 October 2011. From 1 October 2011, all of the Group's U.S. customers in the U.S. have the option of making either Direct Orders or Replenishment Orders.

Further details of the comparison of the ordering process of Direct Orders and Replenishment Orders are set out in the section headed "Business — Comparison of current and historical operation in the U.S.".

SUMMARY

In the case of Replenishment Orders, the Group will submit a manufacturing order to a contract manufacturer on the basis of previously received item commitments (non legally-binding) from the customer (which are the customer's estimated 52-week demand of its stores for the item). The commitments (non legally-binding) and volume estimates are adjusted during the course of a season as sales profiles emerge, taking into account the actual sales demand at the time. On that basis, Mastercraft USA and the Group can anticipate with a high degree of confidence the levels of Replenishment Inventory required to satisfy expected short delivery lead time orders during a particular inventory turnover cycle (which is usually six to eight weeks). However, if a customer over estimates in relation to the commitments (non-legally binding) placed with the Group, the Group may be left with excessive Replenishment Inventory. This may result in inventory write-downs or the Group bearing all freight and insurance costs associated with the transport of the relevant Replenishment Inventory to its U.S. distribution hub. If the Group fails to maintain sufficient levels of Replenishment Inventory to satisfy customers' Replenishment Orders, it may suffer a loss of business opportunities and its customer relationships may be impaired.

Suppliers

Under the Group's current business model, the Group outsources the entire production process to independent third-party contract manufacturers. Currently, the Group outsources production to over 20 contract manufacturers, the majority of which are located in Guangdong Province, the PRC. The Group has established stable and long-term business relationships with its principal contract manufacturers. The Group enjoyed business relationships with four of its top five suppliers for the year ended 31 December 2011 for five years or above.

The Group monitors the performance of its contract manufacturers on an on-going basis to ensure they comply with the quality standards, product delivery schedules and social accountability and safety standards required by the Group's MMR customers.

For each of the years ended 31 December 2010 and 31 December 2011, the top five contract manufacturers utilised by the Group accounted for approximately 91.3% and 85.9% of its total purchases respectively. During the same years, the largest supplier of the Group accounted for about 62.5% and 58.1% respectively of the Group's purchases. All of the Group's contract manufacturers during the Track Record Period and up to the Latest Practicable Date were Independent Third Parties.

The ability of third-party contract manufacturers to produce products for the Group is limited by their production capacity. For further details, please refer to the risk factor headed "The Group outsources the entire production process to certain contract manufacturers in the PRC" in the section headed "Risk factors" in this prospectus. As at the Latest Practicable Date, the Group has never experienced capacity shortages that resulted in default, in delivery or other adverse consequences of the Group.

If products manufactured by the Group's contract manufacturers are unfit for the end users' intended use or contain design or manufacturing defects, the Group and/or the Group's contract manufacturers may face product liability claims from the Group's customers or end users of the Group's products. The products may also be subject to mass recall and the Group may also have to devote significant resources and time to defend itself if legal proceedings for product liability are instituted against it. The Group's suppliers' agreements with its contract manufacturers contain express warranties as to quality and fitness of the products supplied by contract manufacturers. Additionally, the Group's

SUMMARY

PRC legal advisers, JunZeJun Law Offices, have advised that under the Product Quality Law and the Tort Liability Law, if the Group has paid compensation to a claimant in respect of a defective product for which the manufacturer is responsible, the Group will have the right to seek an indemnity from the manufacturer after paying the compensation amount.

COMPETITIVE STRENGTHS

The Directors attribute the Group's past success and potential for future growth to the following principal factors:

- the Group has an experienced, innovative and professional management team with an entrepreneurial spirit and a proven track record
- the Group has established relationships with key and prestigious customers
- the Group maintains long established relationships with its contract manufacturers
- the Group's products meet the high design and development and quality standards of customers
- the Group has established a U.S. distribution hub to meet Replenishment Orders from its U.S. customers

BUSINESS OBJECTIVES AND STRATEGIES

The Group intends to capitalise on its recurring business in the design and development of portable lighting, shades, furniture sets and other home accessory products while targeting further expansion in selected overseas markets, and particularly to increase its market share in the U.S. and Canadian markets, where the Directors see future potential for the Group's products. The Group further intends to remain competitive through the cost-effective outsourcing of the production of its existing and future products.

The key strategic initiatives that the Group plans to implement in the near future are as follows:

- Increase sales in North American markets
- Evaluate the potential of the hotel and motel market in the PRC
- Evaluate other overseas markets
- Source additional contract manufacturers, strengthen strategic relationships with key contract manufacturers and continue to improve quality control
- Strengthen design and development capabilities

SUMMARY

USE OF PROCEEDS

At the Placing Price of HK\$0.35, the net proceeds of the Placing after deduction of underwriting fees and expenses payable by the Company in relation to the Placing, are estimated to be approximately HK\$24.2 million. The Company currently intends to use the net proceeds from the Placing as follows:

- approximately HK\$12.1 million to fund the development (namely, strengthen communication channels with customers, participate in trade shows, publicity and internet marketing) and operations (namely, increase number of service representatives, increase staffing of the sales and marketing team) of the Group to increase sales in the North American markets;
- approximately HK\$4.9 million to establish a product development centre in Dongguan Province, the PRC, equipped with the necessary machinery and equipment to increase the number of designs and prototypes offered to existing and potential customers;
- approximately HK\$2.4 million to conduct feasibility studies in respect of the portable lighting and home furnishing industry in overseas markets and in particular the PRC hotel and motel market;
- approximately HK\$2.4 million to expand the operation and marketing team;
- approximately HK\$2.4 million to be used for general working capital and other general corporate purposes.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the Group's combined results for the two years ended 31 December 2011, which are derived from the Accountants' Report set out in Appendix I to this prospectus. The summary financial data should be read in conjunction with the combined financial information in the Accountants' Report set out in Appendix I to this prospectus.

SUMMARY

Combined statements of comprehensive income

	Year ended 31 December	
	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue		
Portable lighting	144,663	173,815
Shades	33,130	68,593
Furniture sets and other home accessory products	<u>20,724</u>	<u>22,074</u>
	198,517	264,482
Cost of sales	<u>(159,975)</u>	<u>(216,441)</u>
Gross profit	38,542	48,041
Other income	298	192
Selling expenses	(9,417)	(10,089)
Administration expenses	(8,022)	(13,310)
Research and development expenses	(4,486)	(5,216)
Listing expenses	<u>—</u>	<u>(6,969)</u>
Profit before tax	16,915	12,649
Income tax expense	<u>(2,811)</u>	<u>(3,040)</u>
Profit for the year	<u>14,104</u>	<u>9,609</u>
Other comprehensive expenses:		
Exchange differences arising on translating foreign operation	<u>(7)</u>	<u>(11)</u>
Total comprehensive income for the year	<u><u>14,097</u></u>	<u><u>9,598</u></u>
Earnings per share		
Basic (<i>HK\$ cents</i>)	<u><u>3.9 cents</u></u>	<u><u>2.7 cents</u></u>

SUMMARY

Combined statements of financial position

	THE GROUP	
	At 31 December	
	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets		
Property, plant and equipment	2,886	3,134
Deferred tax assets	<u>—</u>	<u>756</u>
	<u>2,886</u>	<u>3,890</u>
Current assets		
Inventories	861	14,703
Trade and other receivables	30,248	51,132
Amounts due from directors	10,584	—
Bank balances and cash	<u>12,504</u>	<u>3,364</u>
	<u>54,197</u>	<u>69,199</u>
Current liabilities		
Trade and other payables	17,165	41,265
Provision	10,153	8,711
Tax payable	4,704	8,456
Amounts due to related companies	<u>433</u>	<u>257</u>
	<u>32,455</u>	<u>58,689</u>
Net current assets	<u>21,742</u>	<u>10,510</u>
Total assets less current liabilities	24,628	14,400
Non-current liability		
Deferred tax liabilities	<u>156</u>	<u>200</u>
Net assets	<u><u>24,472</u></u>	<u><u>14,200</u></u>
Capital and reserves		
Share capital	349	349
Reserves	<u>24,123</u>	<u>13,851</u>
	<u><u>24,472</u></u>	<u><u>14,200</u></u>

SUMMARY

Profit Margin

For the two years ended 31 December 2011, the Group's gross profit was approximately HK\$38.5 million and HK\$48.0 million, respectively. For the two years ended 31 December 2011, the Group's gross profit margin was approximately 19.4% and 18.2%, respectively. The gross profit margin decreased from 19.4% in year 2010 to 18.2% in year 2011, which was mainly attributable to the higher cost charged by the PRC contract manufacturers. The Group's net profit margin decreased from 7.1% for the year ended 31 December 2010 to 3.6% for the year ended 31 December 2011 (or 6.3% after adjusting for listing expenses, which are of a non-recurring nature upon the completion of the listing of the Company).

The Group has addressed falling profitability by successfully increasing the volume of sales to existing clients. The total number of products sold by the Group increased by 2.8 million or 54.9% from approximately 5.1 million in year ended 31 December 2010 to 7.9 million in year ended 31 December 2011. The Group has also prioritised the marketing of products with a higher gross profit margin.

The Group is continuously sourcing more contract manufacturers in order to expand production capabilities and capacity. The Group is able to accept more sales orders from customers and is better able to obtain competitive prices from an enlarged contract manufacturer base. In the year ended 31 December 2011, the number of contract manufacturers used by the Group increased from 20 to 23.

Related Party Transactions

Name of related parties	Nature of transactions	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Dynamic Resources International Limited ("Dynamic Resources")	Commission expenses	481	—
裕泰五金廠	Purchase of raw materials	189	82
裕泰五金廠	Recharge of research and development expenses	3,037	2,964
裕泰五金廠	Recharge of administrative expenses	501	818
Todd Miller Inc.	Commission expenses	637	1,207
MCP Investments, LLC	Rental expenses	<u>—</u>	<u>613</u>
	Total amount paid	<u>4,845</u>	<u>5,684</u>
裕泰五金廠	Moulds disposal	1	4
Mastercraft International USA	Sales of finished goods	<u>—</u>	<u>37,624</u>
	Total amount received	<u>1</u>	<u>37,628</u>

Subsequent to the Track Record Period

According to the Ipsos Report, U.S. consumer confidence has been growing steadily and the total portable lighting sales from February to April 2012 were 6.6% higher than the same period in 2011. Based on the unaudited management accounts of the Group, for the four months ended 30 April 2011,

SUMMARY

the Group's revenue was approximately HK\$72.4 million and for the four months ended 30 April 2012, the Group's revenue was approximately HK\$97.3 million. For the four months ended 30 April 2011 the gross profit margin was approximately 18.0% and for the four months ended 30 April 2012 the gross profit margin was approximately 21.9%. The net assets of the Group increased by approximately 32.4% from approximately HK\$14.2 million as at 31 December 2011 to approximately HK\$18.8 million as at 30 April 2012. The Directors confirm that there is no material adverse change in the revenue and financial position of the Group from 31 December 2011 to the date of this prospectus.

PLACING STATISTICS

**Based on an
Placing Price of
HK\$0.35**

Market capitalisation (<i>Note 1</i>)	HK\$168.0 million
Historical earning per share (<i>Note 2</i>)	HK\$0.020
Unaudited pro forma adjusted net tangible assets per Share	HK\$0.09

Notes:

1. The calculation of market capitalisation of the Shares is on the basis of 480,000,000 Shares in issue immediately after the completion of the Placing and the Capitalisation Issue. It does not take into account any options which may be granted under the Share Option Scheme or any Shares which may be allotted or issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in the section headed "Share capital" in this prospectus.
2. The calculation of the historical earnings per share is based on the profit for the year attributable to owners of the Company and 480,000,000 Shares in issue immediately after the completion of the Placing and the Capitalisation issue. It does not take into account any options, which may be granted under the Share Option Scheme or any Shares, which may be allotted or issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in the section headed "Share capital" in this prospectus.
3. The unaudited pro forma adjusted net tangible assets per Share are arrived at after the adjustments referred to under the sub-section headed "Unaudited pro forma adjusted net tangible assets" in the section headed "Financial information" in this prospectus and on the basis of 480,000,000 Shares in issue immediately after the completion of the Placing and the Capitalisation Issue. It does not take into account any options which may be granted under the Share Option Scheme or any Shares which may be allotted or issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in the section headed "Share capital" in this prospectus.

DIVIDEND AND DIVIDEND POLICY

Prior to the Reorganisation, Mastercraft International declared a dividend in amount of US\$2.6 million (equivalent to approximately HK\$19.9 million) to its then shareholders during the year ended 31 December 2011. This dividend was settled prior to the date of this prospectus and was paid in cash out of the internal resources of the Group.

The declaration of future dividends will be subject to the discretion of the Directors and will depend on, among others, the Group's earnings, financial condition, cash requirements and availability. Accordingly, potential investors should note that the above dividend payments should not be regarded as an indication of future dividend policy.

SUMMARY

RISK FACTORS

There are risks associated with any investment. Some of the particular risks in investing in the Shares are set out in the section headed “Risk factors” in this prospectus. You should read that section carefully before you decide to invest in the Shares.

The Directors consider that the Group’s operations are subject to a number of risk factors, including the following (which is not an exhaustive list):

Risks relating to the business and operations of the Group

- The Group is reliant on the founders and major shareholders
- The Group relies on certain major customers for a significant proportion of its business
- The Group is dependent on sales in a single geographic region
- The Group’s business operations may be affected by increases in the costs of production in the PRC
- The Group has established a U.S. distribution hub the operation of which involves additional risk
- The Group has established a design and development facility based in the PRC the operation of which involves additional risk
- The Group’s failure to maintain proper Replenishment Inventory levels could result in its inability to meet customer demand or could result in inventory write-downs

DEFINITIONS

In this prospectus, the following expressions have the following meanings unless the context otherwise requires.

“Articles” or “Articles of Association”	the articles of association of the Company conditionally adopted on 21 June 2012, as amended from time to time
“associates”	has the meaning ascribed to the GEM Listing Rules
“Audit Committee”	the audit committee of the Board
“Bainikeng”	Bainikeng Industrial Limited, a limited liability company incorporated in Hong Kong on 15 November 2002, which has ceased operation and has been approved for deregistration by the Companies Registry of Hong Kong
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday or Sunday) on which licensed banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the capitalisation issue referred to in the paragraph headed “Written resolutions of the Shareholders passed on 21 June 2012” under the paragraph headed “Further information about the Company” in Appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Investor Participant”	a person or persons admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Companies Law”	the Companies Law (2010 Revision) of the Cayman Islands, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”	Mastercraft International Holdings Limited (馬仕達國際控股有限公司), a company incorporated in the Cayman Islands on 3 August 2011 as an exempted company with limited liability
“connected person(s)”	has the meaning ascribed to it in the GEM Listing Rules

DEFINITIONS

“connected transactions”	the transactions stipulated and specified in Rule 20.13 of the GEM Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it in the GEM Listing Rules. As at the date of this prospectus, the Controlling Shareholders of the Company are Mr. Leung, Mr. Strickland and SYH Investments
“Director(s)”	the director(s) of the Company
“Direct Orders”	means purchase orders placed with Mastercraft International and shipped to customers according to the agreed shipping terms. For delivery at a designated port in the PRC or delivery at a contract manufacturer’s factory gate, the delivery lead times varies between 6 and 8 weeks. For delivery at customers’ location in the U.S., the delivery lead times varies between 10 and 12 weeks to take into account transit times
“FOB”	Free On Board, meaning that the seller delivers when the goods pass the ship’s rail at the named port of shipment
“GEM”	Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time
“Group”	the Company and its subsidiaries, or any of them or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were the Company’s subsidiaries at that time
“HKFRSs”	The Hong Kong Financial Reporting Standards, which include the Hong Kong Accounting Standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“HK\$” or “Hong Kong dollars” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Independent Third Party(ies)”	party(ies), who is/are independent from and not connected with any of the Directors, the chief executive or Substantial Shareholders of the Company or any of its subsidiaries or an associate of any of them

DEFINITIONS

“Ipsos”	Ipsos Hong Kong Limited, an Independent Third Party, is a market research and consulting company engaged by the Company to conduct market survey on the portable lighting industry in U.S., and the findings of which are set out in the section headed “Industry Overview” to this prospectus
“Ipsos Report”	the industry report prepared by Ipsos
“Joint Lead Underwriters”	WAG Worldsec and Luen Fat and a “Joint Lead Underwriter” means any one of them
“Latest Practicable Date”	4 July 2012, being the latest practicable date for ascertaining certain information in this prospectus prior to its publication
“Listing”	the listing and the commencement of dealings of the Shares on GEM
“Listing Date”	the date on which dealings in the Shares on GEM first commence, which is expected to be on or before 20 July 2012
“Luen Fat”	Luen Fat Securities Company Limited, a Joint Lead Underwriter to the Listing and a corporation licensed to conduct type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO
“Mass Market Retailer” or “MMR”	large-scale retailers that offer a wide range of product categories, including electronics, clothing, footwear, accessories, groceries, outdoor products and home-related products. Mass Market Retailers typically focus on the value segment of the market, competing through low pricing. They typically offer limited national brands
“Mastercraft China”	Mastercraft China Limited 馬仕達中國有限公司 (formerly known as Twenty-Two Lighting Limited), a limited liability company incorporated in Hong Kong on 22 March 1999 and wholly owned by Mastercraft Worldwide
“Mastercraft International”	Mastercraft International Limited 馬仕達國際有限公司, a limited liability company incorporated in Hong Kong on 16 June 1994 and wholly owned by Mastercraft Worldwide
“Mastercraft Overseas”	Mastercraft Overseas Limited, a limited liability company incorporated in the British Virgin Islands on 14 July 2011 and wholly owned by Mastercraft Worldwide
“Mastercraft USA”	Mastercraft Distribution USA Inc., a corporation incorporated in the State of Delaware in the United States on 12 September 2011 and wholly owned by Mastercraft Overseas

DEFINITIONS

“Mastercraft WFOE”	Mastercraft Home Furnishing Development (Shenzhen) Limited 馬仕達家飾研發(深圳)有限公司, a wholly foreign-owned enterprise established under the laws of the PRC on 30 August 2011 and wholly owned by Mastercraft China
“Mastercraft Worldwide”	Mastercraft Worldwide Limited, a limited liability company incorporated in the British Virgin Islands on 7 July 2011 and wholly owned by the Company
“Memorandum” or “Memorandum of Association”	the memorandum of association of the Company as currently adopted
“MIUSA” or “Mastercraft International USA”	Mastercraft International USA, Inc., a corporation incorporated in the State of Arkansas in the United States on 20 April 1993 and wholly owned by Mr. Strickland
“MOFCOM”	the Ministry of Commerce of the PRC (中國商務部) or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作部)
“Mr. Leung”	Mr. LEUNG Yuen Ho Simon, 梁遠豪, our chairman and chief executive officer, an executive Director and one of the Controlling Shareholders
“Mr. Strickland”	Mr. Jerry Denny STRICKLAND Jr., one of the Controlling Shareholders and an executive Director
“ODM”	an original design manufacturer, a business model involving designing as well as building products or components for sale to a client that then retails under the brand name of the client
“Placing”	the conditional placing of the Placing Shares comprising Shares to be placed by the Underwriters with professional, institutional and other investors at the Placing Price as further described in the section headed “Structure and conditions of the Placing” in this prospectus
“Placing Price”	HK\$0.35 per Placing Share (exclusive of brokerage of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%)
“Placing Shares”	the 120,000,000 new shares being offered by the Company for subscription under the Placing

DEFINITIONS

“PRC”, “China” or “Mainland China”	the People’s Republic of China excluding, for the purposes of this prospectus only, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“PRC Government”	the central government of the PRC including all government departments (including provincial, municipal and other regional or local government entities) and organs thereof or, as the context requires, any of them
“PRC Laws”	all laws, rules, regulations, notices, orders and decrees in force in the PRC as at the date of this prospectus
“Product Quality Law”	the Product Quality Law of the PRC (中華人民共和國產品質量法) promulgated by the National People’s Congress Standing Committee in 1993 and amended in 2000 and 2009
“Reorganisation”	the reorganisation of the Group in preparation for the Listing, as described in the paragraph headed “Corporate Reorganisation” under the paragraph headed “Further information about the Company” in Appendix V to this prospectus
“Replenishment Inventory”	means products held in Mastercraft USA’s warehouse in Arkansas, the U.S. for customers who will place Replenishment Orders. Such customers will provide estimates and commitments (non-legally binding) to Mastercraft USA. Based on such estimates and commitments (non-legally binding), Mastercraft USA places orders with Mastercraft International, who will in turn place orders with contract manufacturers to manufacture Replenishment Inventory for such customers in order that inventory are made available in Mastercraft USA’s warehouse for such customers to place Replenishment Orders
“Replenishment Orders”	means second or subsequent purchase orders for a product placed by certain customers in the U.S. For this type of order, the delivery lead times are generally within one week. In order to meet this type of order, customers would have to place such orders with Mastercraft USA. In order for Mastercraft USA to satisfy this type of order, Mastercraft USA maintains Replenishment Inventory
“Repurchase Mandate”	the general unconditional mandate to repurchase Shares given to the Directors by the Shareholders, further details of which are described in the sub-paragraph headed “Repurchase by the Company of its own securities” under the paragraph headed “Further information about the Company” in Appendix V to the prospectus

DEFINITIONS

“RMB” and “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	State Administration of Foreign Exchange of the PRC
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) with a par value of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Share Option Scheme”	the share option scheme conditionally approved and adopted by the Company on 21 June 2012, the principal terms of which are summarised in the paragraph headed “Share Option Scheme” in Appendix V to this prospectus
“Specialty Stores”	stores specialising in specific ranges of home and hobby related merchandise and home furnishings products including but not limited to portable lighting products
“Sponsor”	WAG Worldsec Corporate Finance Limited 華高和昇財務顧問有限公司 a licensed corporation under the SFO permitted to carry out type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the sole sponsor to the Placing Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“subsidiaries”	has the meaning ascribed thereto in section 2 of the Companies Ordinance
“Substantial Shareholder”	has the meaning ascribed thereto in the GEM Listing Rules
“SYH Investments”	SYH Investments Limited, a limited liability company incorporated in the British Virgin Islands on 30 May 2011 and wholly owned by Mr. Leung
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers, as amended, supplemented or otherwise modified from time to time
“Tort Liability Law”	the Tort Liability Law of the PRC (中華人民共和國侵權責任法) promulgated by the National People’s Congress Standing Committee on 26 December 2009 and which became effective on 1 July 2010

DEFINITIONS

“Track Record Period”	the period comprising the two financial years ended 31 December 2011
“UL”	the Underwriters Laboratories Inc., an independent product safety testing and certification organisation
“UL certification”	a certification in respect of a product which confirms that it meets the recognised safety standards issued by UL
“Underwriters”	the underwriters of the Placing set out in the paragraph headed “Underwriters” under the section headed “Underwriting” in this prospectus
“Underwriting and Placing Agreement”	the underwriting agreement dated 9 July 2012 and entered into between the Company, the Controlling Shareholders, the executive Directors, the Sponsor, Luen Fat and the Underwriters, further details of which are set out under the section headed “Underwriting” in this prospectus
“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
“WAG Worldsec”	WAG Worldsec Corporate Finance Limited, acting as the Sponsor and a Joint Lead Underwriter to the Listing, a corporation licensed to conduct type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“WFOE”	wholly foreign-owned enterprise
“Yu Tai”	Yutai Brass And Metal Wares Factory Limited 裕泰銅器五金製品廠有限公司, a company incorporated in Hong Kong, a related party during the Track Record Period, which as at 31 January 2012, the date to which its latest annual return was made up, was wholly owned by Mr. Leung’s father who transferred over 99.9% of the issued share capital of the company to two Independent Third Parties pursuant to instruments of transfer dated 14 February 2012
“%”	per cent.

Unless otherwise stated, certain amounts denominated in Hong Kong dollars have been translated into U.S. dollars at an exchange rate of HK\$7.78 to US\$1.00 for illustration purposes only and the conversion of Renminbi into Hong Kong dollars in this prospectus is based on the approximate exchange rate of HK\$1.00 to RMB0.83. Such conversions shall not be construed as representations that amounts in Hong Kong dollars will be or may have been converted into U.S. dollars/Renminbi at such rates or any other exchange rates.

GLOSSARY OF TECHNICAL TERMS

The glossary below contains explanations of certain technical terms used in this prospectus in connection with the Group and its business. The terms and their meanings may not correspond to standard industry meanings or usage of these terms.

“accent lighting”	lighting which adds drama to the room by creating visual interest, such as by lighting paintings, sculptures, brick walls, and outdoor landscaping
“ballast”	a device used with an electric-discharge lamp to obtain the necessary circuit conditions (voltage, current and wave form) for starting and operating. All fluorescent and HID lamps require a ballast for proper operation
“HID”	high intensity discharge, a type of lighting which uses an electric arc to produce intense light
“incandescent lighting”	the most common type of lighting used in homes. Incandescent lamps operate without ballasts
“LED”	light emitting diode, a semiconductor device that emits visible light when an electric current passes through it
“portable lighting”	movable lighting that incorporates a power cord and outlet plug

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, including, without limitation, words and expressions such as “expect”, “believe”, “plan”, “intend”, “estimate”, “project”, “anticipate”, “may”, “will”, “would” and “could” or similar words or statements, in particular, in the sections of this prospectus headed “Business” and “Financial information” in relation to future events, the Group’s future business or other performance and development, the future development of the Group’s industry and the future development of the general economy of the Group’s key markets and the global economy.

These statements are based on numerous assumptions regarding the Group’s present and future business strategy and the environment in which it will operate in the future. Forward-looking statements reflecting the Group’s current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus, and the following:

- future developments in the portable lighting, shades and home furnishings industries globally, and in particular in the North American market;
- the regulatory environment for the portable lighting, shades and home furnishings industries as well as the outlook for the industry generally;
- the amount and nature of, and potential for, future development of the Group’s business;
- the Company’s business strategy and plan of operation; and
- the Company’s dividend policy.

Subject to the requirements of applicable laws, rules and regulations, the Company not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way the Company expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

In this prospectus, statements of or references to the Company’s, or the Group’s, intentions or any of the Company’s or Group’s directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

RISK FACTORS

Potential investors of the Placing Shares should carefully consider all of the information set out in this prospectus and, in particular, the following risks and special considerations associated with an investment in the Company before making any investment decision in relation to the Company. It is possible that damage to the Company's business, financial position and operating results may arise from other risk factors and uncertainties that the Company is unaware of, or factors that the Company considers insignificant at present.

RISKS RELATING TO THE BUSINESS AND OPERATIONS OF THE GROUP

The Group is reliant on the founders and major shareholders

The Group relies heavily on the expertise, know-how and shared vision of Mr. Leung and Mr. Strickland, both of whom are industry veterans possessing an in-depth knowledge of the U.S. portable lighting market. They have built strong relationships with the Group's customers and contract manufacturers. In their roles as executive Directors they are also responsible for key operational decision-making, including business planning, product development and design, and sourcing strategy. If Mr. Leung and Mr. Strickland are unable to continue their service, the Group may not be able to replace them with persons of their experience and know-how in a timely manner or at all, which could hinder the Group's ability to implement its growth strategies effectively and may adversely affect its profitability and financial performance.

The Group is reliant on key management personnel and its ability to attract and retain qualified management personnel

The Group's future success depends on its ability to attract, motivate, train and retain key management, designers and other personnel. If its key senior management personnel as disclosed in the section of this prospectus headed "Directors, senior management and employees" are unable or unwilling to continue their service, the Group may not be able to replace them in a timely manner or at all. The Group may similarly fail to attract and/or motivate necessary key management and skilled personnel in the future, which could have a material adverse effect on the operations and financial position of the Group.

If any of the Group's key management personnel or employees joins a competitor or forms a competing company, the Group may experience a loss of clients, know-how and other key staff members. The Group may need to incur additional costs to provide more competitive packages to recruit and train replacement personnel to sustain its business, which may adversely affect its profitability and financial performance.

The Group relies on certain major customers for a significant proportion of its business

During the Track Record Period, the Group derived a significant portion of its revenue from the provision of services to certain key customers. For the years ended 31 December 2010 and 2011 the revenue derived from the Group's top five customers accounted for 80.8% and 83.5% respectively of its total revenue while the largest customer accounted for approximately 33.1% and 31.3% respectively of the Group's total revenue. The Group can offer no assurance that any of these key customers will continue their purchases, if at all, from the Group at the current levels. In addition, the Group's major

RISK FACTORS

customers' businesses may be negatively impacted by any potential challenge to their brand portfolio, product quality and sales strategy implementation, which, in turn, may adversely affect the Group's sales. The Group's revenue and profitability depend on individual mandates from customers. The Group does not have long-term purchase commitments from its customers, which may lead to significant uncertainty and volatility with respect to its period-to-period revenue. As a result, the Group's results of operations may vary from period to period and may fluctuate significantly in the future. Any failure to maintain good business relationships with the Group's major customers or any significant reduction in sales to or the loss of any of the Group's major customers could materially and adversely affect the Group's profitability and results of operations.

The Group is dependent on sales in a single geographic region, and any impairment to its ability to do business in that region may adversely affect its business or results of operations

For the years ended 31 December 2010 and 2011, 94.1% and 97.7% of the Group's revenues were derived from sales to customers in the U.S. The Group is, therefore, presently dependent on sales within this geographic region, and any impairment to the Group's ability to do business in the region may adversely impact its sales revenues, business and results of operations. The Directors anticipate that sales to the U.S. market will continue to represent a significant portion of the Group's revenue in the foreseeable future. In the event of any adverse changes in the political, economic or social conditions, foreign trade or monetary policies, or legal or regulatory requirements or taxation or tariff regime in the U.S. (including trade protectionist measures against Chinese-manufactured products), the Group's businesses, financial condition and results of operations may be adversely affected.

Although the Group has begun to evaluate the potential of other markets with a view to diversifying its business geographically and expanding its presence in regions beyond the U.S. and North America, which it believes will reduce its dependence on one region, there can be no assurance that the Group will be successful in doing so or that it will be able to do so sufficiently to reduce the dependence on one region significantly or at all.

See also the risk factor headed "The recent global market fluctuations and economic downturn may materially and adversely affect the Group's business, financial condition and results of operations" in this section of the prospectus.

The Group outsources the entire production process to certain contract manufacturers in the PRC

The Group outsources its entire production process to third-party contract manufacturers, the majority of which are located in Guangdong Province, the PRC. For the years ended 31 December 2010 and 2011, it has engaged 20 and 23 independent third-party contract manufacturers respectively. For each of the years ended 31 December 2010 and 2011, the top five contract manufacturers utilised by the Group accounted for approximately 91.3% and 85.9% respectively of its total purchases. All of the Group's contract manufacturers during the Track Record Period and up to the Latest Practicable Date were/are Independent Third Parties.

RISK FACTORS

The ability of third-party contract manufacturers to produce products for the Group is limited by their production capacity. None of the Group's contract manufacturers are contractually bound to allocate a fixed amount of production capacity to the Group. The Group does not have any fixed-term agreements with any of its contract manufacturers and it typically places orders on an individual order-by-order basis, depending on the level of purchase orders it receives from its customers. None of the Group's contract manufacturers supply to the Group on an exclusive basis. It is possible that other customers of the Group's contract manufacturers are larger and better-financed than the Group, or have entered into long fixed-term agreements with the Group's contract manufacturers. The Group's contract manufacturers may allocate their production capacities to these customers during times of production capacity shortages. Any shortfall in available production capacity could significantly affect the Group's ability to deliver its products on time, which may result in a loss of revenue and could damage its relationships with its customers.

The Group's dependence on contract manufacturers for supplying finished products exposes it to a number of risks, any of which may have an adverse effect on the Group's business, financial condition and results of operations:

- the Group's contract manufacturers may fail to meet their production deadlines;
- the Group's contract manufacturers may fail to maintain the Group's required quality standards and social accountability standards (which, among other things, prohibit the use of child labour and require payroll compliance) or comply with the Group's product specifications. This in turn could result in the Group experiencing significant damage to its reputation and brand image;
- the Group may not be able to source from its contract manufacturers finished products at commercially reasonable prices, as a result of which its cost of sales may increase and its profitability may be adversely affected;
- the Group's contract manufacturers may experience transportation delays and interruptions when delivering products to the Group;
- should the Group's contract manufacturers experience unforeseen circumstances, which may require the Group to look for alternative manufacturers, the Group may experience increased costs, disruptions in supply and reduced sales and
- some of the Group's contract manufacturers may also manufacture for other companies that compete with the Group. There is no assurance that the Group's contract manufacturers will allocate the Group with the required production capacity.

As at the Latest Practicable Date, the Group has never experienced capacity shortages that resulted in default, delay in delivery or other adverse consequences to the Group.

RISK FACTORS

Unfavourable changes in market trends and the popularity of the Group's customers' brands may adversely affect the Group's business, results of operation and financial position

The Group's products are sold on an ODM basis and marketed under the brand names of the Group's customers. As the Group has no influence over the branding of the products it sells on an ODM basis, any unfavourable changes in the market trend and popularity of its customers' brands may adversely affect the Group's business, results of operation and financial position.

The Group's business operations may be affected by increases in the costs of production in the PRC

The principal raw materials used in the production of the Group's products include acrylic, ceramic, crystal, glass, metal, plastic, polyresin and wood. The Group does not procure raw materials directly. The Group's third-party contract manufacturers source raw materials at their own cost. However, fluctuations in the price of raw materials may cause a significant increase in the Group's contract manufacturers' costs of production.

Furthermore, as a result of the rapid economic growth in the PRC and the increase in demand for labour in the Pearl River Delta region, factories in the Pearl River Delta region have been facing increasing labour costs in recent years.

Due in part to pressure exerted by customers bargaining for lower prices, the Group has previously been unable to pass on increased outsourcing costs to its customers. As a result, increases in the costs of production in the PRC may significantly reduce the Group's profit margins, which could consequently have an adverse effect on its financial performance and results of operations.

The Group has established a U.S. distribution hub the operation of which involves additional risk

Mastercraft USA is an operating subsidiary of the Group. It is subject to U.S. laws and regulations. The operation of Mastercraft USA involves additional costs and risks to the Group. Incorporated in Delaware, U.S., Mastercraft USA is subject to U.S. corporate federal income tax on all of its income (after giving effect to applicable deductions) generally at the current maximum tax rate of 35%. In addition to U.S. federal income taxes, Mastercraft USA will generally be subject to U.S. state and local income taxes generally depending on the jurisdictions in which it is considered to be doing business or otherwise is considered to have a nexus. Mastercraft USA may also be subject to other state and local taxes, such as franchise taxes for the privilege of doing business in a state, sales taxes and real estate taxes, and employment and payroll taxes.

The maintenance and operation of Mastercraft's U.S. warehouse involves additional costs including, but not limited to, employee related costs (inclusive of salaries, staff welfare, medical and pension benefits), rent, bank charges and traveling expenses. Operating costs incurred by Mastercraft USA from its commencement of business to 31 December 2011 were approximately HK\$3.4 million. The Group estimates that the total operation and administration costs for Mastercraft USA for the year ending 31 December 2012 will be approximately HK\$13.6 million.

The Group also bears an additional inventory risk further details of which are set out in the paragraphs headed "The Group's failure to maintain proper Replenishment Inventory levels could result in its inability to meet customer demand or could result in inventory write-downs" in this section of the

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prospectus. If the Group fails to sell all its inventory, the Group's cash flow position will be affected and, hence the Group's liquidity. Mastercraft USA and the Group may be adversely affected if the Group's customers no longer purchase from Mastercraft USA as the Group would still have to bear the costs associated with maintaining the distribution hub while at the same time it would no longer benefit from the increased profit margins earned on sales of its products through the U.S. distribution hub. Similarly, the Group would ultimately have to bear the cost of the voluntary winding up of Mastercraft USA if the Group determines that there is no further justification in maintaining Mastercraft USA. The Directors confirm they believe that the aforementioned risks and costs associated with maintaining Mastercraft USA can be off-set by an increase in revenue and profit arising from additional sales through Mastercraft USA.

The Group has established a design and development facility based in the PRC the operation of which involves additional risk

Mastercraft WFOE, a wholly foreign-owned enterprise, was established under the laws of the PRC on 30 August 2011. The Group established Mastercraft WFOE to bring the Group's design and development capabilities entirely in-house. Mastercraft WFOE was established through an initial investment of paid up registered capital of HK\$500,000.

Since Enterprise Income Tax Law of the People's Republic of China 《中華人民共和國企業所得稅法》 and Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China 《中華人民共和國企業所得稅法實施條例》 became effective on 1 January 2008, and the abolition of the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises 《中華人民共和國外商投資企業和外國企業所得稅法》, all enterprises and other organisations that derive income within the PRC are subject to enterprise income tax in accordance with the provisions of Enterprise Income Tax Law of the People's Republic of China 《中華人民共和國企業所得稅法》.

The maintenance and operation of Mastercraft WFOE involves additional costs including, but not limited to, employee related costs (inclusive of salaries, staff welfare, medical and pension benefits) and couriers services expenses. Operating costs incurred by Mastercraft WFOE from its commencement of business to 31 December 2011 were approximately HK\$0.6 million. The Group estimates that the total operation and administration costs for Mastercraft WFOE for the year ending 31 December 2012 will be approximately HK\$ 3.4 million.

Mastercraft WFOE and the Group may be adversely affected if customers no longer require the Group to design and develop portable lighting products. The Group through Mastercraft WFOE would still have to bear some of the costs associated with maintaining the design and development facility in the PRC. Similarly, the Group would ultimately have to bear the cost of the voluntary winding up Mastercraft WFOE, if the Group determines that there is no further justification in maintaining Mastercraft WFOE.

The Group may face challenges in implementing its statement of business objectives

The success of the Group's operations depends on, among other things, the proper and timely execution of the Group's future business plans. The Group's future business strategies are described in the section headed "Statement of business objectives" in this prospectus. Some of the Group's future business plans are still in preliminary stages of planning and are not yet supported by a detailed

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feasibility study. Some of the Group's business plans and intentions are based on the assumption that certain future events will occur. The Group can give no assurance that its future business plans will materialise, or result in the conclusion or execution of any agreement within the intended time frame, or that the Group's objectives will be fully or partially accomplished. Accordingly, the Group's profitability, operations, prospects and/or financial conditions may be materially and adversely affected if any or all of the Group's future plans cannot be accomplished in the manner described in the section headed "Statement of business objectives" in this prospectus.

The Group's profitability and prospects may depend on its ability to design and develop products acceptable to its customers

The Group's business is underpinned by its ability to understand and meet customers' design requirements. It is important to the continual success of the Group that it is able to bring out designs and develop ideas which are appealing to and acceptable by its customers and the mass market. However customer preferences change frequently. There is no assurance that the Group will be able to continue generating new ideas and designs that will meet with customers' approval and preference. Any failure to anticipate, identify or react swiftly to changes in such preferences could result in the Group's customers sourcing products from third parties which would result in reduced sales, and could negatively impact the Group's business, financial condition, results of operations and growth prospects.

The Group's designs and technical know-how and the applications of the Group's existing or new products may be plagiarised or infringed by third parties

Although the Group's copyrights and trademarks have been registered in the U.S. and Hong Kong, such protection may not cover all regions where the Group's products are marketed or will be marketed. Any plagiarism or infringement in respect of the Group's existing or new products may have an adverse effect on the Group's business. As at the Latest Practicable Date, the Group was not aware of any instances of its intellectual property rights having been plagiarised or infringed.

The Group may be exposed to product liability claims in the U.S. and any other markets in which the Group's products are sold

Products designed or sourced by the Group and produced by the Group's contract manufacturers are mostly sold on an ODM basis to retailers mainly in the U.S. If the Group's quality control procedures fail or are inadequate or these products are unfit for the end users' intended use or contain design or manufacturing defects, the Group and/or the Group's contract manufacturers may face product liability claims from the Group's customers or end users of the Group's products. The Group's overseas customers may or may not carry product liability insurance, depending on the requirements of relevant laws where the products are marketed or sold. The Group maintains up to date insurance including general commercial liability coverage and open cover marine cargo insurance. Only products of the type currently produced by the Group are covered by its general commercial liability coverage. The Group will need to modify its general commercial liability coverage should it choose to expand its product line beyond portable lighting, shades and furniture sets. The Group's marine cargo insurance currently only covers voyages from Hong Kong and China to the U.S., Canada, Western Europe, Macau, India, Thailand, U.A.E, Bahrain, Saudi Arabia and South America. The Group will need to modify its marine cargo insurance should it choose to, or be required, to ship its products along different shipping routes. The Group can, pursuant to the Tort Liability Law of the PRC (中華人民共和國侵權責任法) and the Product Quality Law of the PRC (中華人民共和國產品質量法) claim damages, in tort and contract

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respectively, from contract manufacturers for liability arising out of defects in their products. The Group has experienced no instances of product recalls. The Directors consider that the Group's quality control policy and procedures have not been materially affected by product liability claims made against the Group. The Directors believe that such claims are generally not due to faults in the products of the Group on the basis that (i) the Group's products always go through its testing and inspection procedures; and (ii) in the U.S. all lighting products sold by the Group must conform to the UL standards of safety.

The Directors confirm that the Group has never experienced any material product liability claims prior to the Track Record Period. As of the Latest Practicable Date three product liabilities claims made against the Company remain open. The amount payable by the Group under its general commercial liability insurance policy is US\$5,000 per claim. Amounts in excess of US\$5,000 are payable by the Group's insurance company (to the extent that the relevant claim or liability is covered by the Group's insurance policy) up to a maximum of US\$5,000,000. In respect of the three open claims the Group will not be informed of the actual final claim amount until the Group's insurance company has carried out investigations. Two of the three outstanding claims related to alleged burns and electric shock, whereas the third relates to alleged damage caused by fire. Although the Directors consider that the approach to the Group's product liability insurance coverage is consistent with the industry norm, the Group gives no assurance that its product liability insurance will be sufficient to cover any claims that may be brought against it.

The Group's business, financial condition, results of operations and prospects may be adversely affected if the Group's insurance does not cover its liabilities, or if it is required to pay higher premiums in the future as a result of its liabilities. The Group's products may also be subject to mass recall and the Group may also have to spend significant resources and time to defend itself if legal proceedings for product liability are instituted against it. If any such claims are made (and even if such product liability claims were to prove unsuccessful or otherwise not be fully pursued), the Group's reputation may also be adversely affected, which may lead to a loss of future business and subsequently its business, financial condition, results of operations and prospects could be materially adversely affected.

The Group's business operations involve certain credit risks arising from the payment terms it offers to its customers

The Group receives payment after the customer takes delivery of the Group's products and the Group invoices the customer pursuant to the shipping terms and credit terms offered. Sales invoices are issued upon delivery of the Group's products to customers and not upon acceptance of the orders of the customers.

The payment terms for Direct Orders under which the Group sells its products include letters of credit, documentary collection against payment and open accounts of between 30 and 60 days. In the case of open accounts payment terms, there is no assurance that the Group's clients will continue, or be able to, settle invoices in full and on time. This may result in a material adverse effect on the cash flow, prospects, business operation, results of operation and/or financial condition of the Group.

For Replenishment Orders, the customers of the Group place orders and take delivery of the Replenishment Orders from Mastercraft USA's warehouse in the U.S. as required. Mastercraft USA offers credit terms of 30 to 50 days to customers. The Group has to bear the risk of non-payment while bearing the cost of freight to the U.S., as well as warehouse and other expenses.

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As at the Latest Practicable Date, the Group has not experienced any instances in which customers did not settle their accounts with the Group that had a material adverse impact on the Group. For the year ended 31 December 2011, trade receivables written-off by the Group amounted to HK\$410,000. This bad debt was attributable to a single customer with whom the Group had a business relationship commencing in February 2010 and ending in June 2010.

Credit terms to customers are assessed and granted on a case-by-case basis. Before commencing trading with a new customer, the Group will assess such customer's creditworthiness, using credit agencies such as Dun & Bradstreet. The Group regularly reviews the settlement records of its existing customers to determine the credit terms to be offered to them in order to minimize its credit risk. Further details of the Group's credit policy are set out in the section of the prospectus headed "Business — Sales and marketing — Payment terms and credit policy".

The Group does not require customers to pay deposits when ordering products and does not receive deposits from its customers prior to submitting manufacturing orders to its contract manufacturers

The Group does not require customers to pay deposits when ordering products. As a result, if a customer cancels a purchase order or refuses to accept delivery of goods in breach of the customer's agreement with the Group, the Group may need to commence litigation in order to recover damages. Subject to certain cancellation rights, customers generally become legally committed to buy goods from the Group upon the Group accepting an order from the customer. Title to the relevant goods will normally pass to the customer pursuant to the applicable shipping terms stated in the purchase order (or alternatively in a relevant supplier agreement with a particular customer). Shipping terms normally provide that title passes upon delivery at the designated delivery location (such as at Port Yantian in the PRC for Direct Orders or at Mastercraft USA's warehouse in the U.S. for Replenishment Orders) (for further details, please refer to the section headed "Business — Delivery" in this prospectus).

The Group's supplier agreements with its customers are generally governed by the laws of the jurisdiction in which the relevant customers do business or have their headquarters or place of incorporation. For example, the Group's supplier agreement with Customer B is governed by the laws of the State of Arkansas in the U.S. In the U.S., contracts for the sale of goods are generally governed by Article 2 of the Uniform Commercial Code ("UCC"). Since the supplier agreement with Customer B is governed by the laws of the State of Arkansas, the supplier agreement with Customer B would be governed by the version of the UCC enacted in Arkansas. Accordingly, in the event Customer B wrongfully rejects or revokes acceptance of goods, then the Group would have several remedies available to it pursuant to the Arkansas UCC, which generally include: (i) withholding delivery of the goods; (ii) stoppage of delivery of the goods; (iii) resale of the goods and recovery of damages; or (iv) recovery of damages for nonacceptance or for the price of the goods. A court may provide the remedy of specific performance in such situations where the goods are considered unique, or in other circumstances.

To date, the Group has not experienced any instances where a customer did not take delivery or proceed with a specific purchase from the Group without justification.

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The Group's failure to maintain proper Replenishment Inventory levels could result in its inability to meet customer demand or could result in inventory write-downs

In order to satisfy customer's demand for Replenishment Orders, the Group submits manufacturing orders to contract manufacturers based on commitments (non-legally binding) from its customers. The Group receives these commitments, which are based on its customer's estimates of their demand for the Group's products. With reference to customers' commitments (non-legally binding) and estimates, the Group endeavours to maintain Replenishment Inventory at a level appropriate to meet its customers' demand for Replenishment Orders. If a customer over estimates on the commitments (non-legally binding) placed with the Group, the Group may be left with excess Replenishment Inventory. If the Group fails to maintain sufficient level of Replenishment Inventory to satisfy customers' Replenishment Orders, it may suffer a loss of business opportunities and its customer relationships may be impaired. The Replenishment Inventory held by the Group as at 30 April 2012 was worth approximately HK\$16.2 million representing approximately 99.4% of the Group's total inventory, based on the Group's management accounts. The Replenishment Inventory therefore represents almost the entire of the Group's inventory of finished products. Prior to the commencement of business of Mastercraft USA on 1 October 2011, the Group held minimal inventory of finished products.

Please refer to the section of the prospectus headed "Business — Delivery" for further information. The Directors confirm that as at the Latest Practicable Date, there have been no prior instances where a customer did not take delivery of the Replenishment Inventory. In addition, during the Track Record Period, there were no instances when a customer over-estimated commitments, resulting in the Group being left with a substantial amount of excess Replenishment Inventory.

The Group's sales may be affected by seasonality

A significant portion of the Group's revenue is derived from the North American market. The Group believes that there is a seasonal pattern in the spending behavior of North American consumers. Typically the Group records higher revenues during the North American winter and in the run-up to major American holidays, such as Thanksgiving, Christmas and New Year. As a result of these fluctuations, comparisons of sales and operating results between different periods within a single financial year may not be meaningful and should not be relied upon as indicators of the Group's performance.

The inventory turnover between the Group and its customers, and MIUSA and its customers is not comparable

As the Group only held minimal inventory of finished products prior to Mastercraft USA commencing business in the last quarter of 2011, the stock turnover days as disclosed in the financial statements of the Group for the two years ended 31 December 2011 may not be indicative of future performance. Investors should therefore exercise caution when assessing historical data using the stock turnover days' ratio.

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RISKS RELATING TO THE INDUSTRY

The Group operates in a highly competitive market that has a low degree of product differentiation

Both the global and North American markets for portable lighting, shades, furniture sets and other home décor accessories are highly competitive and fragmented. If the Group is unable to remain competitive, it will lose its market share to its competitors as well as new entrants to the market, and its financial performance would be materially and adversely affected. For additional information on the global and North American markets, see the section headed “Industry overview” in this prospectus.

The Group may face competition from sourcing business operators

The Directors consider that sourcing and procurement is a fragmented industry and the entry barrier to the business of providing sourcing and procurement solutions is low. The Group has long-established relationships with both its customers and contract manufacturers. The Group also believes it can provide value added services to its customers through its established design and product development capabilities. Although the Group is not a sourcing operator, its competitive edge may be eroded in circumstances when sourcing business operators are able to match the Group’s above-mentioned qualities or competitive strengths or provide similar businesses but undercut the Group on pricing.

Many of the Group’s existing and potential competitors may have substantially greater financial, technical, design manufacturing and other resources than the Group, which may provide them with cost advantages as a result of their ability to achieve economies of scale and their ability to negotiate volume discounts and lower prices. Some of the Group’s competitors may also have more established distribution networks, larger customer bases or more in-depth knowledge of target markets. As a result, they may be able to devote greater resources to research and development, and the promotion and sale of their products and, when compared to the Group’s may be able to respond more quickly to evolving industry standards and changes in market conditions. The Group’s failure to compete successfully with existing or future competitors would have a material adverse effect on its business, results of operations and prospects.

The markets for portable lighting, shades, furniture sets and other home décor accessories have relatively low levels of product differentiation and market demand is highly price sensitive. Competitors may propose price reductions in order to gain extra market share and that may affect the competitiveness of the Group. In addition, there is no territorial limitation on where customers’ products may be sourced. The Group’s competitors may choose to work from lower cost areas where labour and living costs are much lower than those in Hong Kong and the PRC. Should the Group be unable to retain its competitiveness in terms of price and product quality, the market share of the Group’s products may be adversely affected.

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The Group's products are subject to the laws, regulations and industry standards in the U.S. and Canada. Failure to comply with these rules and standards or failure to make timely adjustments in response to changes in such rules and standards would have a material and adverse effect on the Group's business and results of operations

The Group's products (including lighting and furniture sets) are subject to extensive laws, regulations and industry standards in the jurisdictions where it markets and distributes its products. The Group's products sold into the U.S. need to comply with the standards set by the American National Standards Institute for distribution in the U.S. All lighting products sold by the Group to its U.S. customers are subject to testing by independent safety organisations such as UL or Intertek Testing Services. Similarly all lighting products sold by the Group to its customers in Canada must also conform to relevant standards. UL and the Canadian Standards Association test products to verify compliance with relevant standards. Ensuring compliance with any new or amended laws, rules, regulations or standards imposed on the Group's products may result in considerable additional costs and lead to additional manufacturing and quality control procedures that may affect the Group's financial condition and results of operations. In addition, the Group's customers may be unable to sell products that have not obtained the relevant product safety certifications, failure by the Group's contract manufacturers to manufacturer the Group's products in accordance with the Group's and the Group' customers' product safety certifications may result in the non-acceptance of the products by the Group's customers, which in turn may result in additional manufacturing costs that may affect the Group's financial condition and results of operations.

The Group's products are subject to the U.S. Consumer Product Safety Act

As a distributor or importer of consumer products in the U.S., certain of the Group's products are also subject to the U.S. Consumer Product Safety Act, which empowers the U.S. Consumer Product Safety Commission (the "Consumer Commission") to exclude from the market products that are found to be unsafe or hazardous. Under certain circumstances, the Consumer Commission could require the Group to repair, replace or refund the purchase price of one or more of its products, or the Group may voluntarily do so. Any such repurchases or recalls of the Group's products could be costly to it and could damage the reputation or the value of its brands. If the Group is required to remove, or it voluntarily removes its products from the market, its reputation or brands could be tarnished and it may have large quantities of finished products that could not be sold. Furthermore, failure to timely notify the Consumer Commission of a potential safety hazard can result in significant fines being assessed against the Group. Additionally, laws regulating certain consumer products exist in some states in which the Group sells its products, and more restrictive laws and regulations may be adopted in the future.

Demand for the Group's products is sensitive to changes in trends in U.S. residential construction

The Directors believe that the end users of the Group's products are principally customers of MMRs and other stores based in the U.S. and that these consumers purchase the Group's products for use in their homes. The Group's products are therefore sensitive to U.S. consumer and market trends for domestic-use products. The Directors believe that such trends and behaviour patterns are in turn partly influenced by trends in U.S. home building. Trends relating to the average size of new U.S. homes, the nature of their construction, rules and regulations in relation to their construction, and the character of

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their typical fit-out (i.e. whether they are built incorporating other lighting options such as pre-installed floor, ceiling and roof lighting), could reduce demand for the Group's products and materially and adversely affect the Group's business and operating results.

Anti-dumping measures or trade quotas initiated by countries where the Group exports a significant volume of products may adversely affect the Group's business

The majority of the Group's products are shipped to the US. Should there be any trade sanctions, anti-dumping measures or trade quotas initiated by countries where the Group exports a significant volume of products, there is no assurance that orders from the Group's existing customers may be maintained. If, for the abovementioned reasons, the Group's existing customers cease to place or reduce their order size for the Group's products and the Group is unable to obtain substitute orders with comparable size and profit margin, its business and financial performance may be adversely affected.

RISKS RELATING TO THE MARKET

Natural disasters, acts of war, terrorist attacks, political unrest and other events may have a negative impact on the Group's operations

Natural disasters and other acts of God which are beyond the Group's control may materially and adversely affect the economy and livelihood of the people in the U.S. and worldwide. The Group's operations and financial condition may be adversely affected, especially when such events occur in regions in which its customers' products are for sale. Acts of war, terrorist attacks and political unrest may cause damage or disruption to the Group's business, the Group's employees and the Group's markets, any of which could materially and adversely affect the Group's overall results of operations and financial condition. In addition, the PRC has in recent years encountered different types of epidemics, which have caused various degrees of damage to the economy of the PRC. If an outbreak of epidemics occurs again, the ability of the Group to source products from its contract manufacturers may suffer which will in turn adversely affect the Group's results of operations.

The recent global market fluctuations and economic downturn may materially and adversely affect the Group's business, financial condition and results of operations

The global capital and credit markets have experienced extreme volatility and disruption in recent years. The sovereign debt crisis in Europe, concerns over inflation or deflation, energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market and a declining residential real estate market in the U.S. and elsewhere have contributed to market volatility and diminished expectations of growth for the global economy and capital and consumer markets in the future. These factors, combined with volatile oil prices, declining business activities and consumer confidence and increased unemployment outside the PRC, have contributed to the global economic slowdown and a possible prolonged global recession. As a result, demand for the Group's products may decrease, thereby adversely affecting the Group's business, financial condition and results of operations.

As an ODM supplier selling to the U.S., the Group's sales are dependent on the health of the U.S. retail market and levels of discretionary consumer spending in general which is in turn influenced by a number of factors some of which are beyond the Group's control, including, amongst others, the recent economic downturn. Beginning in 2008 and continuing into throughout 2009 and 2010, the economic situation in the U.S. deteriorated significantly. The effect of the deterioration of the economy was

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reflected in part by the decline of the Group's net sales, which dropped by approximately 10.0% in 2009 compared to 2008. According to the Ipsos Report, between 2006 and 2010, the U.S. portable lighting market contracted by approximately 12% representing a negative CAGR of approximately 3.1%. Between 2009 and 2010, despite this market contraction, the Group's net sales increased by 60.7%. However, there is no guarantee that global economic conditions will not deteriorate again or that the U.S. will not experience further economic recession. Continuing or repeated disruptions to the U.S. or global economy, and thus to consumer confidence and spending, could have a material adverse impact on the Group's net sales and profitability.

RISKS RELATING TO THE PRC

Changes and uncertainties in the PRC legal system may have an adverse impact on the Group's operations

The PRC is still in the process of developing a comprehensive statutory framework. The PRC Government has established a commercial law system, and significant progress has been made in promulgating laws and regulations relating to economic affairs and matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade. However, many of these laws and regulations are relatively new, and the implementation and interpretation of these laws and regulations remain uncertain in many areas. Consequently, developments and changes in PRC laws and regulations, including their interpretation and enforcement, may increase the volatility of the Group's and the Group's contract manufacturers business operations, which may have an adverse impact on the Group's results of operations and financial condition.

Changes in foreign exchange regulations may adversely affect the Group's results of operations

The PRC Government regulates the conversion between the RMB and foreign currencies. Over the years, the government has significantly reduced its control over routine foreign exchange transactions under current accounts, including trade and service-related foreign exchange transactions and payment of dividends. Under the current foreign exchange regulations in the PRC, subject to the relevant registration with the State Administration of Foreign Exchange ("SAFE"), PRC subsidiaries are able to pay dividends in foreign currencies, by complying with certain substantive and procedural requirements. However, foreign exchange transactions under capital accounts continue to be subject to significant foreign exchange controls and require the approval of, or registration with, SAFE. There can be no assurance that the current PRC foreign exchange policies regarding payment of dividends in foreign currencies will remain unchanged in the future. Restrictive changes in PRC foreign exchange policies might have a negative impact on the Group's ability to receive dividends from its PRC subsidiaries in foreign currencies.

In addition, subsequent to the Placing, the Group is permitted by the PRC foreign investment regulations to invest the Group's net proceeds from the Placing into any PRC subsidiary of the Group, either through increasing registered capital or through increasing investment amount to finance the Group's operations. In such case, the relevant PRC subsidiary is required to obtain the prior approval of and make registration with the relevant PRC authorities. These regulations may limit the ability or delay the transfer of funds from the Company to PRC subsidiaries, which may have an adverse impact on the Group's business operations.

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RISKS RELATING TO THE PLACING

There is no prior public market for the Shares and their liquidity and market price may be volatile

There has been no prior public market for the Shares, liquidity may be low and market price may be volatile. Sale of substantial amounts of Shares in the public market after the Placing could adversely affect the prevailing market price of the Shares.

The Placing Price will be the result of negotiations between the Company and the Sponsor, for itself and on behalf of the Underwriters, and the Placing Price may differ significantly from the market price for the Shares following the Placing. The Company has applied for the listing of, and permission to deal in, the Shares on GEM. However, a listing on GEM does not guarantee that an active trading market for the Shares will be developed following the Placing or in the future.

The market price and trading volume of the Shares may be highly volatile. Factors such as variations in the Group's revenues, earnings or cash flow, and/or announcements of new investments or strategic alliances could cause the market price of the Shares to change substantially. Any such developments may result in large and sudden changes in the volume and market price at which the Shares are trading. There is no assurance that these developments will not occur in the future. It is possible that the Shares will be subject to changes in market price that may not be directly related to the Group's financial or business performance.

The percentage ownership of the existing Shareholders in the Company may be reduced and existing Shareholders may experience dilution in their percentage shareholdings in the Company

The Group may need to raise additional funds in the future to finance expansion, new developments relating to its operations or new acquisitions. If additional funds are raised through the issue of new equity or equity-linked securities of the Company other than on a pro rata basis to existing Shareholders, the percentage ownership of the existing Shareholders in the Company may be reduced and existing Shareholders may experience dilution in their percentage shareholdings in the Company. In addition, any such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or senior to the Shares.

Furthermore, any exercise of the options, which may be granted under the Share Option Scheme in the future and issue of Shares thereunder, would result in the reduction in the percentage ownership of the existing Shareholders and may result in a dilution in the earnings per Share and net asset value per Share, as a result of the increase in the number of Shares outstanding after the issue.

Under HKFRSs, the cost of Shares granted to the Group's employees through the Share Option Scheme will be charged to the profit and loss accounts, and the issue of new Shares to the Group's employees should be expensed at fair value. This would reduce the Group's profitability for the relevant period(s).

WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

WAIVER FROM STRICT COMPLIANCE WITH CHAPTER 20 OF THE GEM LISTING RULES

The Group has entered into certain transactions which would constitute continuing connected transactions that are subject to the reporting, annual review and announcement requirements under the GEM Listing Rules after the Listing. Further particulars about such transactions together with the application for a waiver from strict compliance with the relevant requirements under Chapter 20 of the GEM Listing Rules are set out in the section headed “Connected transactions” in this prospectus.

WAIVER FROM STRICT COMPLIANCE WITH RULE 11.11 OF THE GEM LISTING RULES

Rule 11.11 of the GEM Listing Rules requires that the latest financial period reported on by the reporting accountants must not have ended more than six (6) months before the date of this prospectus. Strict compliance with Rule 11.11 of the GEM Listing Rules would require the consolidated results of the Group for the two years ended 31 December 2011 and one month ended 31 January 2012 to be included in this prospectus.

The Company has included in this prospectus the combined financial statements of the Group for the two years ended 31 December 2011. Due to certain unforeseen technical reasons that rendered the planned procedure unachievable resulting in the Company needing to rearrange the printing of this prospectus with the commercial printer, the Company is unable to register this prospectus with the Companies Registry and to issue this prospectus prior to 30 June 2012. The Directors consider that it would be unduly burdensome for the Company to prepare the combined financial statements for one month ended 31 January 2012, which would lead to substantial delay for the Listing.

Directors confirmation

The Directors confirm that on the basis of sufficient due diligence performed by them on the Group and, based on the discussion among the management and due diligence work conducted so far which the Directors consider appropriate:

- (a) there is no material adverse changes in the financial or trading position and operations of the Group since 31 December 2011 and up to the date of this prospectus.
- (b) there is no event which may materially affect the information contained in the accountants’ report of the Group set forth in Appendix I to this prospectus and all relevant financial information contained in other parts of this prospectus.
- (c) information that is reasonably necessary for potential investors to make an informed assessment of the activities or financial position of the Group has already been included in this prospectus.

Conditions of the waiver

The Company has applied to the Stock Exchange and the Stock Exchange has granted a waiver from strict compliance with the requirements set out under Rule 11.11 of the GEM Listing Rules on the conditions that:

- (1) the date of this prospectus will be on or before 10 July 2012;

WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

- (2) the date of listing of the shares of the Company will be on or before 20 July 2012; and
- (3) the Directors will confirm and disclose in this prospectus the confirmations as set out in the paragraph headed “Directors confirmation” above.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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 the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

Printed copies of the prospectus required by the GEM Listing Rules and the Companies Ordinance are available, for information purposes only, at the office of WAG Worldsec Corporate Finance Limited at 6th Floor, New Henry House, 10 Ice House Street, Central, Hong Kong, from 4:00 p.m. to 5:00 p.m. on Tuesday, 10 July 2012, and from 9:00 a.m. to 5:00 p.m. from Wednesday, 11 July 2012 to Friday, 13 July 2012 (both dates inclusive).

APPLICATION FOR LISTING ON GEM

The Company satisfies the requirements relating to continuity of ownership and control throughout the full financial year immediately preceding the Latest Practicable Date and up until the Listing Date under Rule 11.12A(2) of the GEM Listing Rules.

The Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Placing Shares, and any new Shares which may be allotted and issued pursuant to the exercise of options that were granted or may be granted under the Share Option Scheme and as otherwise described herein. Pursuant to Rule 11.23(7) of the GEM Listing Rules, at least 25% of the total issued share capital of the Company must at all times be held by the public. A total of 120,000,000 Placing Shares representing 25% of the enlarged issued share capital of the Company will be in the hands of the public immediately following completion of the Capitalisation Issue and the Placing, and upon Listing (without taking into account any new Shares which may be allotted and issued pursuant to the exercise of options that were granted or may be granted under the Share Option Scheme).

No part of the Company's share or loan capital is listed or dealt in on any other stock exchange. As at the Latest Practicable Date, the Company was not seeking or proposing to seek a listing of, or permission to deal in, any part of its share or loan capital on any other stock exchange other than the Stock Exchange.

The Shares are freely transferable. Under Section 44B(1) of the Companies Ordinance, any allotment or transfer made in respect of any placing of the Placing Shares will be void if permission for the listing of, and dealing in, the Shares on GEM has been refused before the expiration of three weeks from the date of closing of the Placing or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to the Company by or on behalf of the Stock Exchange.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

Only securities registered on the branch register of members of the Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors for the Placing Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in the Shares or exercising their rights thereunder. It is emphasised that none of the Company, the Directors, the Sponsor, the Underwriters and their respective directors or employees or any other persons involved in the Placing accepts responsibility for any tax effects on, or liability of, holders of Shares resulting from the subscription for, holding, purchase, disposal of or dealing in the Shares.

HONG KONG BRANCH REGISTER AND STAMP DUTY

The Company's principal register of members is maintained by its principal registrar in the Cayman Islands, Butterfield Fulcrum Group (Cayman) Limited, and the Company's branch register of members will be maintained by its branch share registrar in Hong Kong, Union Registrars Limited.

All Placing Shares issued by the Company pursuant to applications made in the Placing will be registered on the Company's branch register of members maintained in Hong Kong in order to enable them to be traded on GEM. Only Shares registered on the Company's branch register of members maintained in Hong Kong may be traded on GEM. Dealings in the Shares registered on the Company's branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty. Dealings in the Shares will not be subject to the Cayman Islands stamp duty.

THE SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares on GEM and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or, under contingent situation, any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. Applicants should seek the advice of licensed securities dealers or other professional advisers for details of those settlement arrangements as such arrangements will affect applicants' rights and interests.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

DEALINGS AND SETTLEMENT

Dealing in the Shares is expected to commence on 20 July 2012. Shares will be traded in board lots of 6,000 Shares each.

The GEM stock code for the Shares is 8146.

The Company will not issue any temporary document of title.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

PLACING SHARES TO BE OFFERED IN HONG KONG ONLY

Each person acquiring the Placing Shares will be required to confirm, or be deemed by his acquisition of Placing Shares to confirm, that he is aware of the restriction on sale of the Placing Shares described in this prospectus.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

STRUCTURE AND CONDITIONS OF THE PLACING

Details of the structure and conditions of the Placing are set out in the section headed “Structure and Conditions of the Placing” of this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE PLACING
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DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. LEUNG Yuen Ho Simon (梁遠豪)	Flat A 16/F Block 1 Cavendish Heights 33 Perkins Road Hong Kong	Chinese
Mr. Jerry Denny STRICKLAND Jr.	4099 Highway 349 Jonesboro, AR 72403 United States of America	American
<i>Independent non-executive Directors</i>		
Mr. HAU Chi Hung (侯智雄)	Flat A, 10/F Wah Chi Mans 18 Shan Kwong Road Happy Valley, Hong Kong	Chinese
Mr. LAI Kin Jerome (黎健)	Flat A, 40/F Winsome Park 42 Conduit Road Mid-levels Hong Kong	Chinese
Mr. TANG Thomas Bong (鄧邦)	Flat D, 20/F, Tower 1 Sorrento 1 Austin Road West Tsim Sha Tsui Hong Kong	Chinese

PARTIES INVOLVED IN THE PLACING

Sponsor	WAG Worldsec Corporate Finance Limited 6th Floor, New Henry House 10 Ice House Street Central Hong Kong
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DIRECTORS AND PARTIES INVOLVED IN THE PLACING

Joint Lead Underwriters

WAG Worldsec Corporate Finance Limited
6th Floor, New Henry House
10 Ice House Street
Central
Hong Kong

Luen Fat Securities Company Limited
6th Floor, New Henry House
10 Ice House Street
Central
Hong Kong

Underwriters

WAG Worldsec Corporate Finance Limited
6th Floor, New Henry House
10 Ice House Street
Central
Hong Kong

Luen Fat Securities Company Limited
6th Floor, New Henry House
10 Ice House Street
Central
Hong Kong

Sanfull Securities Limited
Suite 2001-6, 20/F, Cosco Tower
183 Queen's Road Central
Hong Kong

Luk Fook Securities (HK) Limited
Room 505-6, 5/F Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

DL Brokerage Limited
1/F Wing's Building
110-116 Queen's Road Central
Hong Kong

Good Harvest Securities Company Limited
7/F Harbour Commercial Building
122-124 Connaught Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

Legal advisers to the Company

As to Hong Kong law
Hastings & Co.
5th Floor, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

As to Cayman Islands law
Conyers Dill & Pearman (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

As to PRC law
JunZeJun Law Offices
6th Floor, South Tower
Financial Street Center
9 Financial Street, Xicheng
Beijing 100033
PRC

As to United States law
K&L Gates LLP
599 Lexington Avenue
New York, NY 10022
United States

As to the State of Arkansas Law
Quattlebaum, Groom, Tull & Burrow
111 Center Street
Suite 1900
Little Rock, Arkansas 72201
United States

Legal advisers to the Sponsor and the Underwriters

As to Hong Kong law
Charltons
12th Floor, Dominion Centre
43-59 Queen's Road East
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE PLACING
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Auditors and reporting accountants

Deloitte Touche Tohmatsu
35th Floor, One Pacific Place
88 Queensway
Hong Kong

Property valuer

BMI Appraisals Limited
33rd Floor, Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters and principal place of business in Hong Kong	Unit 503, 5th Floor, Tower B Hunghom Commercial Centre 37 Ma Tau Wai Road Hunghom, Kowloon Hong Kong
Company website	http://www.mastercraftholdings.com/ <i>(information contained in this website does not form part of this prospectus)</i>
Compliance Officer	Mr. LEUNG Yuen Ho Simon (梁遠豪)
Company Secretary	Ms. WONG Shuk Fong (黃淑芳), CPA
Members of the Audit Committee	Mr. HAU Chi Hung (侯智雄) Mr. LAI Kin Jerome (Chairman) (黎健) Mr. TANG Thomas Bong (鄧邦)
Members of the Remuneration Committee	Mr. HAU Chi Hung (Chairman) (侯智雄) Mr. LAI Kin Jerome (黎健) Mr. TANG Thomas Bong (鄧邦)
Members of the Nomination Committee	Mr. HAU Chi Hung (侯智雄) Mr. LAI Kin Jerome (黎健) Mr. TANG Thomas Bong (Chairman) (鄧邦)
Authorised representatives	Mr. LEUNG Yuen Ho Simon (梁遠豪) Flat A, 16/F, Block 1 Cavendish Heights 33 Perkins Road Hong Kong Ms. WONG Shuk Fong (黃淑芳) Flat A, 10/F., Block 3 Sunny Villa 218–240 Castle Peak Road Ting Kau, Tsuen Wan New Territories Hong Kong
Compliance adviser	WAG Worldsec Corporate Finance Limited

CORPORATE INFORMATION

Principal bankers	Hang Seng Bank Limited Standard Chartered Bank (Hong Kong) Limited
Principal share registrar and transfer office in the Cayman Islands	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 609 Grand Cayman KY1-1107 Cayman Islands
Hong Kong branch share registrar and transfer office	Union Registrars Limited 18/F Fook Lee Commercial Centre Town Place 33 Lockhart Road Wanchai Hong Kong

INDUSTRY OVERVIEW

This section contains information and statistics relating to the industry in which the Group operates. The information and statistics in this section have been extracted from independent third party publications. The Group, the Sponsor and the Underwriters believe that the sources of the information and statistics are appropriate sources for such information and statistics and have taken reasonable care in extracting and reproducing such information. While the Group and the Sponsor and the Underwriters have exercised reasonable care in extracting and reproducing such information and statistics, the Group cannot ensure the accuracy of such information and statistics and such information and statistics may not be consistent with other information. The Group, the Sponsor and the Underwriters have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false or misleading. The information and statistics have not been independently verified by the Group, the Sponsor, the Underwriters and other parties involved in the Placing or their respective directors and advisers and no representation is given as to the accuracy of such information and statistics. You should not place undue reliance on any of such information and statistics contained in this section.

PORTABLE LIGHTING PRODUCTS, SHADES AND FURNITURE SETS AND OTHER HOME ACCESSORIES

Sources of information

Ipsos Report

The Directors commissioned Ipsos, an independent global market research company, to conduct an analysis of, and to report on, the U.S. and global markets for portable lighting products, shades and furniture sets and other home accessories for inclusion in this prospectus at an aggregate fixed fee of HK\$308,000. Established in 2003, Ipsos is a market research and consulting company which employees approximately 6,000 personnel worldwide in over 80 countries. It is part of Ipsos SA, a global market research company listed on the NYSE Euronext Paris. Ipsos conducts research on market profiles, market size, share and segmentation analyses, distribution and value analyses, competitor tracking and corporate intelligence. The report commissioned has been prepared by Ipsos independently.

The Ipsos Report commissioned by the Directors includes (i) an overview of the U.S. economy; (ii) an overview of the global portable lighting industry; (iii) an overview of the U.S. portable lighting industry; (iv) an analysis of the U.S. portable lighting market; (v) an overview of future development trends; (vi) an overview of the competitive landscape in the U.S.; and (vii) an overview of factors affecting competition, which have been quoted in this prospectus.

The independent research undertaken by Ipsos includes primary research, client consultation and desk research. Primary research and client consultation involve interviews with key stakeholders and industry experts, including associations, associated with portable lighting products, shades and furniture sets and other home accessories.

INDUSTRY OVERVIEW

The intelligence gathered by Ipsos has been analysed, assessed and validated using their in-house analysis models and techniques. The forecasts in the Ipsos Report are based on the following general bases and assumptions:

- The global supply of portable lighting products, shades and furniture sets and other home accessories is assumed to be stable and without shortage over the forecast period;
- It is assumed that there is no external shock such as extensive financial crisis or the wide outbreak of diseases to affect the demand and supply of portable lighting during the forecast period;
- There will not be any sudden halt on the industry because of the policy change during the forecasting period.

The Director and the Sponsor are satisfied that they have no reason to believe that such information and statistics are false or misleading. The Directors have included certain information from the Ipsos Report in this prospectus because they believe such information facilitates the understanding of the portable lighting products, shades and furniture sets and other home accessories markets for potential investors. No other information disclosed in this prospectus is extracted from reports commissioned by the Directors.

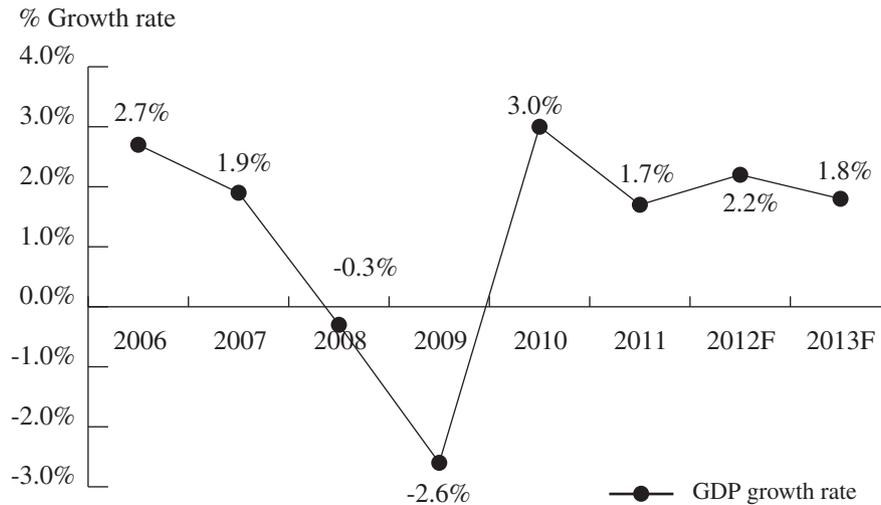
THE U.S. ECONOMY

The U.S. economy experienced a downturn during the global financial crisis of 2008 and 2009. Gross Domestic Product in real terms (“real GDP”) fell by approximately 0.3% in 2008 and by approximately 2.6% in 2009. In 2010, U.S. real GDP recovered to pre-financial crisis levels by approximately 3.0%. In 2011, real GDP growth fell to about 1.7%. Factors that helped the U.S. economy recover included the strengthening of the U.S. banking and financial system, an increase in domestic consumption, and the Federal Reserve System’s efforts to spur growth through quantitative easing and other measures such as the maintenance of low interest rates. In 2009, the rate of unemployment in the U.S. stabilised at approximately 10%. This rate increased by approximately 0.8% in 2010, and approximately by 1.4% in 2011. In April 2012, the number of employed persons in the U.S. was estimated to be approximately 4.2% higher compared to April 2011.

Real GDP growth rate decreased from approximately 3.0% in 2010 to 1.7% in 2011. It is expected that real GDP will have a growth rate of approximately 2.2% for 2012. The slow growth in 2012 is due to the threat of falling economies in some of the Euro zone countries which will affect U.S. exporters. However, lower global oil prices, lower interest rates, and a reduction in levels of U.S. household debt are among the principal factors expected to contribute to a boost in consumer spending. The housing and automobile sectors are both expected to recover during 2011 to 2013. The 2012 presidential election may also have an effect on U.S. GDP.

INDUSTRY OVERVIEW

U.S. GDP growth rate from 2006 to 2011 and forecasted U.S. GDP growth rate for 2012 to 2013



Sources: U.S. Bureau of Economic Analysis; EIU Statistics

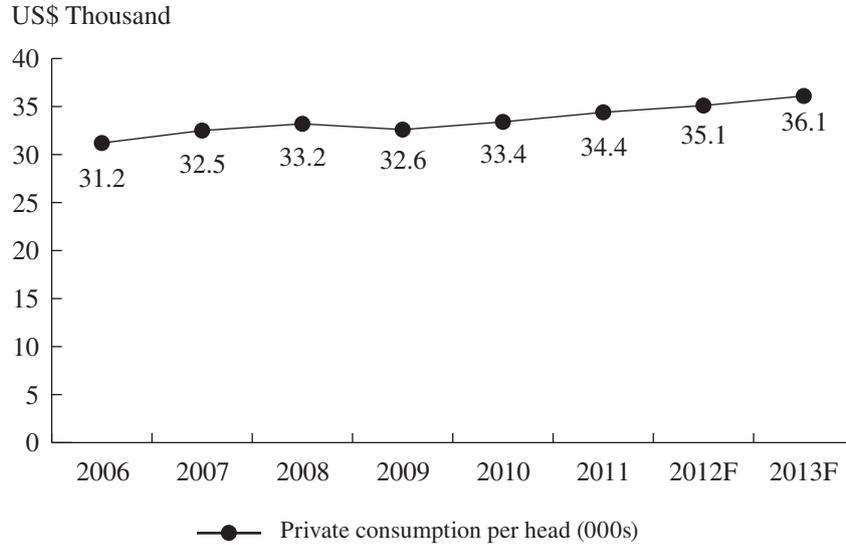
It is estimated that for the period from 2006 to 2013 private consumption per head in the U.S. will have increased at a Compound Annual Growth Rate (“CAGR”) of approximately 2.1%. In 2006, private consumption per head in the U.S. was approximately US\$31.2 thousand. In 2011 this figure increased by approximately 10.3% to approximately US\$34.4 thousand. There was a fall in consumption in 2009 brought about by the global economic downturn. However, it is estimated that private consumption per head will increase by approximately 4.9% to reach US\$36.1 thousand in 2013.

This increase in private consumption per head indicates a probable increase in discretionary spending and a corresponding likelihood that household will spend more on household products and home furnishings including portable lighting products. For the years from 2006 to 2011, the home sector accounted for approximately 6.0% of the total demand for U.S. portable lighting. The increase in private consumption per head is expected to be among the factors driving growth in the U.S. portable lighting market.

INDUSTRY OVERVIEW

Private consumption per head in the U.S. from 2006 to 2011 and estimated consumption per head in the U.S. from 2012 to 2013

CAGR of private consumption per head in the U.S. from 2006 to 2013 = 2.1%



Sources: EIU Statistics; Ipsos analysis.

The number of households in the U.S. is forecast to increase by a CAGR of approximately 1.1% between 2006 and 2013. In 2006, there were an estimated 112.3 million households in the U.S. By 2011, this figure increased by approximately 5.7%, to reach an estimated 118.7 million. The number of U.S. households is forecast to grow by another 1.9% to reach an estimated 121.0 million households in 2013.

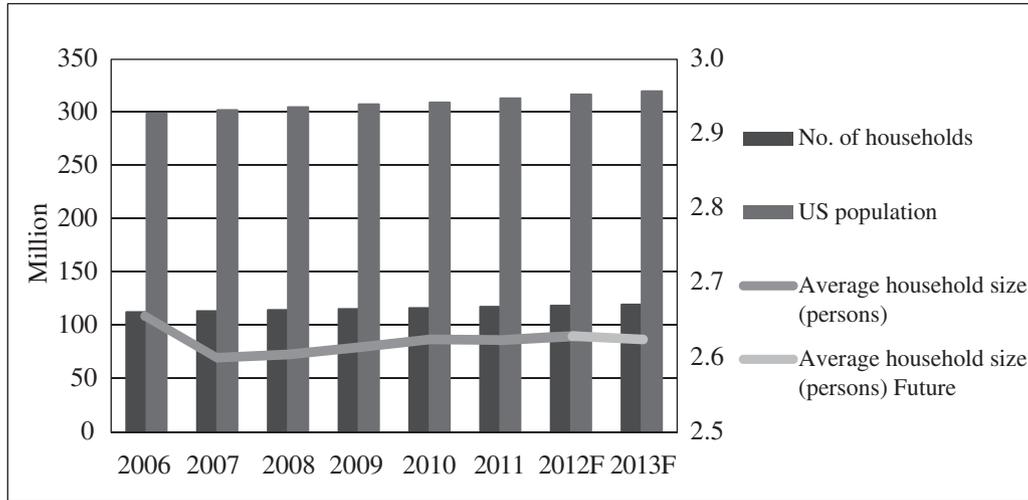
According to the U.S. Census Bureau, the population of the U.S. increased from approximately 298.6 million in 2006, to approximately 311.6 million in 2011. The population of the U.S. is forecasted to grow by an additional 2.5% and reach approximately 319.3 million by 2013. From 2006 to 2013, the average number of persons per household in the U.S. remains stable at around 2.6.

Population growth has led to an increase in the number of households in the U.S. rather than an increase in the number of persons per household. An increase in the U.S. population will lead to an increase in the demand for housing. This may in turn, bring about an increase in demand for portable lighting.

INDUSTRY OVERVIEW

The population, number of households and average household size in the U.S. from 2006 to 2011, and the estimated population, number of households and average household size in the U.S. for 2012 to 2013.

Estimated CAGR of total number of household in U.S. from 2006 to 2013 = 1.1%



Sources: U. S. Census Bureau, EIU Statistics; Ipsos analysis.

OVERVIEW OF GLOBAL PORTABLE LIGHTING INDUSTRY

The global portable lighting industry was estimated to be worth approximately US\$6,836 million in 2011. From 2006 to 2011, the industry grew at a CAGR of approximately 7.7%. Between 2012 and 2013, the industry is forecast to grow by approximately 6.4%.

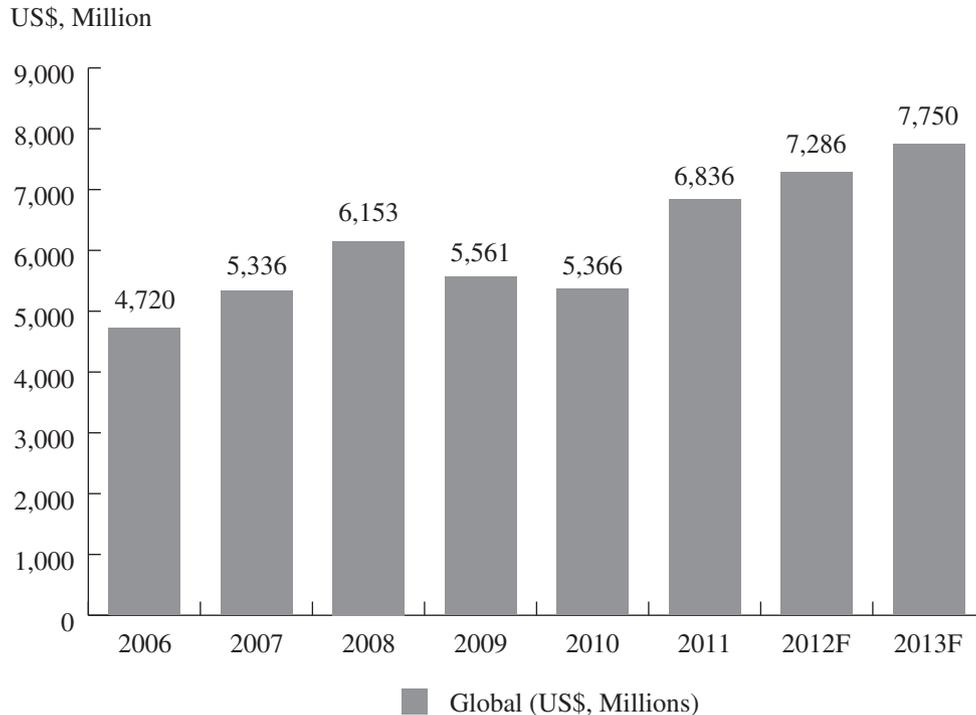
In 2011, the U.S. accounted for 37.5% of the global portable lighting market, the world's largest single market for portable lighting. The European market was the world's second largest market and accounted for 35% of the total global portable lighting market. Asia ranked third and accounted for 18% of the total global portable lighting market.

With a forecasted average growth rate of approximately 6%, Asia is expected to experience the highest growth of the three largest portable lighting markets between 2012 and 2013. Market information relating to Asia has been included for completeness only as it is identified as one of the potential growth regions in the global market. The Company does not have any definitive plans to expand its business into the Asian market. The Company will consider all business opportunities on a case-by-case basis as they arise. The review and evaluation of the potential of overseas markets is part of the Group's business objectives.

INDUSTRY OVERVIEW

Market sales value for portable lighting in the global market from 2006 to 2013

*Estimated CAGR of market sales value of
the portable lighting market from 2006 to 2013 = 7.3%*



Note: Sales values represent manufacturers' sales.

In 2006, the global portable lighting market was worth approximately US\$4,720 million. It is forecast to be worth approximately US\$7,750 million by 2013. The global portable lighting market contracted in 2009 and 2010 as a result of the global financial crisis, which led to a fall in average household expenditure, increased unemployment, and a fall in construction worldwide.

The global portable lighting market recovered in 2011, and is expected to continue to grow through to 2013. This is primarily due to a recovery in construction in the U.S. and a rise in consumer spending together with the strong economic growth in Asia.

OVERVIEW OF U.S. PORTABLE LIGHTING INDUSTRY

In 2011, the U.S. portable lighting industry was worth approximately US\$2,562 million and accounted for an estimated 37.5% of the total global portable lighting industry.

Numerous types of portable lighting products are available in the U.S. market, from basic desk lamps to high-end crystal designs, to statuesque floor lamps. It is common practice among U.S.-based portable lighting retailers to divide portable lighting products into home decor lighting or home improvement lighting, and classify lighting products as either table lamps, floor lamps or desk lamps.

INDUSTRY OVERVIEW

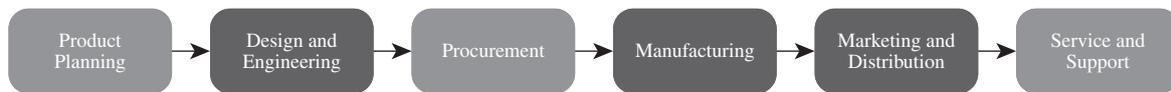
The U.S. portable lighting market can be described as highly saturated. It is comprised of hundreds of firms selling a diverse range of products manufactured both domestically and internationally. These products are sold via a range of retail channels including discount department stores, off-price retailers, home improvement centres, warehouse clubs, home accent and gift stores, and lamp and lighting stores.

Within the lighting industry there has been a move away from the use of relatively short-life incandescent lighting, to longer-life light sources, such as fluorescent lamps and light-emitting diodes (“LEDs”). In recent years, the use of LED’s has become more popular due to improvements relating to energy efficiency and lower production costs.

In the years of 2010 and 2011, table lamps were the most popular form of portable lighting products sold by U.S. retailers primarily because they were smaller, more versatile and were adaptable to different uses in consumers’ homes. The most popular distribution channel was discount department stores and off-price retailers including stores such as Wal-Mart, Target and HomeGoods.

Continued growth is forecast for the portable lighting industry as the residential construction industry recovers.

Supply chain for ODM portable lighting products



There are six steps in the typical ODM portable lighting supply chain:

- (1) Product planning
- (2) Design and engineering
- (3) Procurement
- (4) Manufacturing
- (5) Marketing and distribution
- (6) Service and support

Product planning is the first step in the portable lighting supply chain. The supplier evaluates the feasibility and profitability of introducing specific new portable lighting products to the market, and plans the entire process of product development including the “product concept”. This is the process where the physical and circuit designs are drawn. Designers work together with engineers to ensure that the product specifications are met.

The components required in the manufacturing process are sourced after the design phase has been completed. As part of the procurement process, price quotations are obtained from different component vendors. Due diligence then is carried out to assess the quality of different vendors’ components. Prototypes are developed to ensure the products viability before large scale manufacturing commences.

INDUSTRY OVERVIEW

Marketing activities begin at an early stage to generate orders and gauge demand. An after sales service is typically provided to customers.

Demand for portable lighting in the U.S.

An estimated 8 million households in the U.S. purchase a unit of portable lighting annually. These are generally single item purchases. Floor lamps, torchieres, desk lamps, reading lamps and small accent lamps are commonly purchased from discount department stores. Over 50% of floor lamps and torchieres are sold at a retail price of between US\$30 and US\$150. Over 50% of desk and reading lamps are sold at a retail price of between US\$10 and US\$50, and approximately 50% of accent lamps are sold at a retail price of between US\$10 and US\$30.

Table lamps are commonly purchased from discount department stores and home improvement centres. Over 50% of table lamps purchased are sold at a retail price of between US\$30 and US\$200. In the U.S., portable lighting is most commonly used in homes to provide ambient, task or accent lighting.

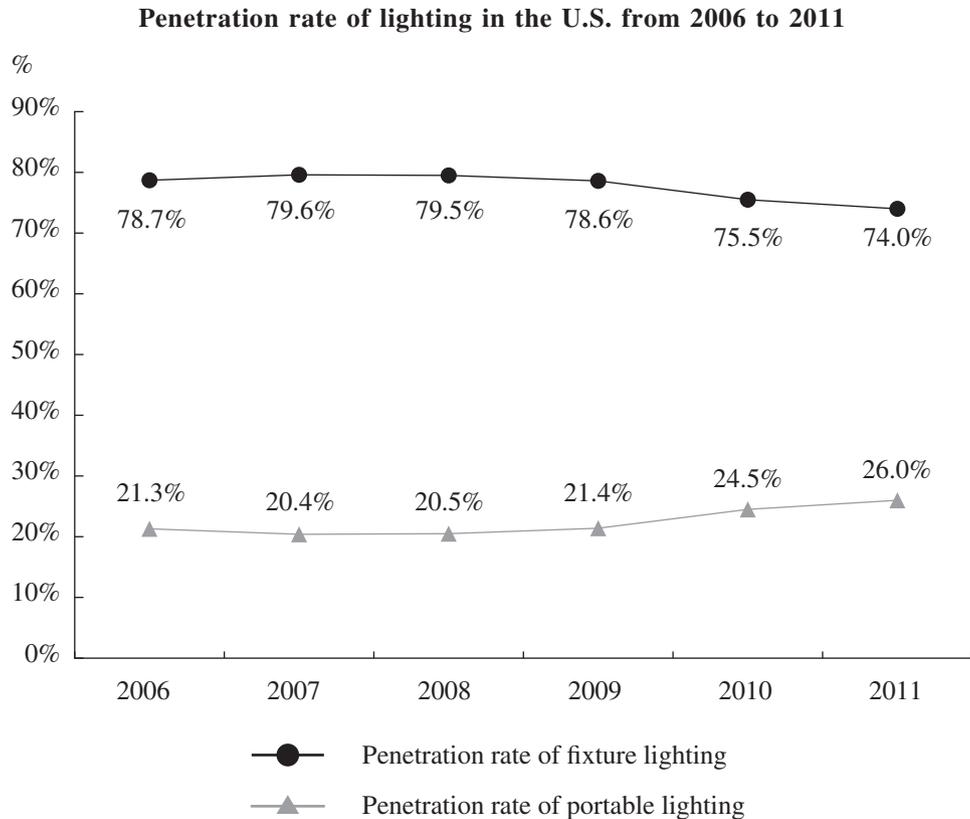
Portable lighting is typically purchased from Specialty Stores such as home decor superstores, linens and office products superstores, lighting showrooms and boutiques, discount department stores and off-price retailers such as Wal-Mart, Target and HomeGoods.

Consumers frequently purchase portable lighting products when they move homes or businesses. Similarly, consumers purchase portable lighting products when they redecorate, replace or upgrade their home furnishings. This form of demand forms part of the “replacement market” demand.

INDUSTRY OVERVIEW

ANALYSIS OF THE U.S. PORTABLE LIGHTING MARKET

Penetration rate of portable and fixture lighting in the U.S.



Note: Penetration rates refer to the proportion of portable lighting or fixture lighting as a percentage of the lighting industry as a whole.

The penetration rate of portable lighting in the U.S. increased from approximately 21.3% in 2006, to approximately 26.0% in 2011. Over the same period, the penetration rate of fixture lighting decreased from approximately 78.7% to approximately 74.0%. One of the principal reasons for the decrease in the penetration rate of fixture lighting and increase in the penetration rate of portable lighting was the global financial crisis. Fixture lighting is more closely associated with new residential constructions than portable lighting. The financial crisis and slowdown in new residential constructions led to a decrease in the penetration rate of fixture lighting. Over the same period the penetration rate of portable lighting increased. This is because portable lighting is a relatively inexpensive and highly substitutable alternative to fixture lighting.

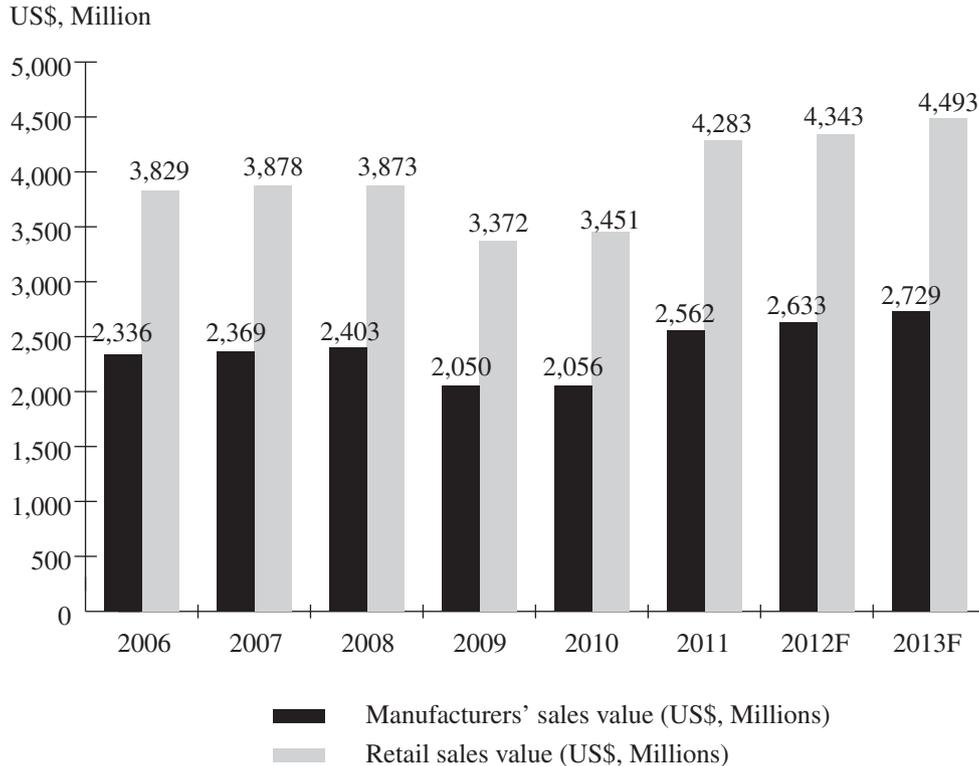
INDUSTRY OVERVIEW

U.S. sales value

Market sales value for portable lighting in the U.S. from 2006 to 2013

*CAGR of estimated manufacturers' sales value for portable lighting
in the U.S. from 2006 to 2013 = 2.3%*

CAGR of estimated market sales value for portable lighting in the U.S. from 2006 to 2013 = 1.1%



Source: Ipsos

The value of retail sales of portable lighting in the U.S. was approximately US\$3,829 million in 2006. The market contracted by approximately 9.9% between 2006 and 2010, and at a negative CAGR of approximately 2.6%, to approximately US\$3,451 million in 2010. The market rebounded and reached approximately US\$4,283 in 2011, increased by about 24.1%. It is expected that the market will continue to recover and grow by approximately 4.9% between 2011 and 2013 as the residential market recovers. In addition, strong growth is expected for LED products as bans on incandescent bulbs are phased in. The value of LED components in the combined fixed and portable lighting markets grew from about US\$1.2 billion in 2010, to about US\$1.8 billion in 2011, an increase of about 50%. The value of retail sales of portable lighting is estimated to increase by approximately 4.9% to US\$4,493 million between 2011 and 2013.

INDUSTRY OVERVIEW

In 2006, manufacturing sales of portable lighting products in the U.S. was worth approximately US\$2,336 million. The market contracted by approximately 12% between 2006 and 2010, representing a negative CAGR of approximately 3.1%. In 2010, portable lighting manufacturers sold approximately US\$2,056 million worth of products into the U.S. In 2006, about 43.1 million portable lighting units were sold in the U.S. In 2010, this figure fell by approximately 13.1% to approximately 37.5 million units.

This contraction was principally due to the financial crisis, which led to a fall in average household expenditure, increased unemployment rates and a slowdown in the construction sector. For example, the number of completed new housing units fell, from approximately 1.1 million in 2008 to approximately 0.4 million in 2011. With less people moving into new homes and having less money to spend on redecoration, the whole home decoration sector, including portable lighting, decreased in size, both in terms of value and volume.

The U.S. economy and construction industry is in the process of recovery. Privately-owned housing “starts” in April 2012, were around 23.7% higher than April 2011. The portable lighting manufacturers’ and retail market returned to positive growth of approximately 24.6% in 2011. Manufacturers’ sales are forecasted to grow further by approximately 6.5%, representing a CAGR of around 3.2% between 2011 and 2013, and to reach approximately US\$2,729 million in 2013. Sales volumes are also forecast to increase by 3.7% between 2011 and 2013, and reach approximately 46.5 million units in 2013.

Market segmentation of portable lighting in the U.S.

Although the portable lighting market contracted in 2008 and 2009, it is far comparatively better than the fixture lighting fixtures market which contracted by almost 50% between 2008 and 2011. Fixture lighting is closely associated to new home building, which fell from approximately 1.4 million units in 2007, to approximately 0.4 million units in 2011. Although portable lighting is also closely associated with new home construction, due to its lower price and substitutability, it proved to be less sensitive to the contraction in the home construction sector than fixture lighting. The portable lighting market was better able to withstand the effects of the downturn, and showed signs of recovery in 2011. According to the U.S. Census Bureau, the estimated total sales by U.S. home furniture stores increased by approximately 2.0%, from about US\$40.0 million in 2010 to about US\$40.8 million in 2011.

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Market segmentation for portable lighting by product types in the U.S. from 2006 to 2013

Year	Incandescent		Fluorescent		Others		Total
	Sales Value	Share	Sales Value	Share	Sales Value	Share	Sales Value
	(US\$ million)	(%)	(US\$ million)	(%)	(US\$ million)	(%)	(US\$ million)
2006	2,166	92.7%	153	6.5%	17	0.7%	2,336
2007	2,175	91.8%	175	7.4%	19	0.8%	2,369
2008	2,184	90.9%	197	8.2%	22	0.9%	2,403
2009	1,845	90.0%	185	9.0%	21	1.0%	2,050
2010	1,682	81.8%	318	15.5%	56	2.7%	2,056
2011	1,791	69.9%	615	24.0%	156	6.1%	2,562
2012F	1,561	59.3%	804	30.5%	268	10.2%	2,633
2013F	1,348	49.4%	966	35.4%	414	15.2%	2,729
CAGR (%)	-6.6%		30.1%		57.8%		

Note: "Sales values" represent manufacturers' sales. "Others" includes light sources such as halogen, high intensity discharge lamps ("HID's") and LED's.

Sources: U.S. Department of Commerce; Ipsos analysis.

The global financial crisis has precipitated changes in consumer behaviour. Consumers are increasingly seeking "value" and are purchasing lower priced portable lighting products. Between 2006 and 2013, spending on portable lighting products costing less than US\$20 is forecasted to grow at a CAGR of approximately 4.3%, spending on portable lighting products costing US\$20 to US\$50 is forecast to grow at a CAGR of approximately 3%, and spending on portable lighting products costing US\$50 to US\$150 is forecast to grow at a CAGR of approximately 2.9%. Spending on products costing US\$150 to US\$500 and more than US\$500 is forecast to grow at a negative CAGR of approximately -0.8% and -2.8% respectively.

Market segmentation for portable lighting by price range in U.S. from 2006 to 2013

Year	Less than US\$20		US\$20–US\$50		US\$50–150		US\$150–500		More than US\$500		Total
	Sales Value	Share	Sales Value	Share	Sales Value	Share	Sales Value	Share	Sales Value	Share	Sales Value
	(US\$ million)	(%)	(US\$ million)	(%)	(US\$ million)	(%)	(US\$ million)	(%)	(US\$ million)	(%)	(US\$ million)
2006	446	19.1%	297	12.7%	958	41.0%	575	24.6%	61	2.6%	2,336
2007	461	19.5%	304	12.8%	976	41.2%	571	24.1%	57	2.4%	2,369
2008	478	19.9%	311	12.9%	1,000	41.6%	560	23.3%	55	2.3%	2,403
2009	416	20.3%	267	13.0%	859	41.9%	463	22.6%	45	2.2%	2,050
2010	427	20.7%	270	13.1%	865	42.1%	451	21.9%	43	2.1%	2,056
2011	538	21.0%	341	13.3%	1,089	42.5%	546	21.3%	49	1.9%	2,562
2012F	568	21.6%	351	13.3%	1,121	42.6%	543	20.6%	50	1.9%	2,633
2013F	600	22.0%	366	13.4%	1,169	42.8%	545	20.0%	50	1.8%	2,729
CAGR (%)	4.3%		3.0%		2.9%		-0.8%		-2.8%		

Note: "Sales values" represent manufacturers' sales.

Source: Ipsos analysis.

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Between 2006 and 2011, sales of portable lighting for domestic use (the “Home”) represented the largest single category of portable lighting sales. It is forecast that home sales will remain the largest single sales category through to 2013, approximately 88.1%. This anticipated increase is expected to be primarily due to the recovery of the residential construction industry and an increase in private household consumption.

Portable lighting usage in the hotel and restaurant industry is likely to grow at a slower rate than residential usage. The number of hotel and restaurant openings slowed during the economic downturn. This category accounted for approximately 12.1% of total portable lighting usage in 2006, but is expected to account for 10.6% in 2013.

Market segmentation for portable lighting by place of usage in the U.S. from 2006 to 2013

Year	Home		Commercial: hotels and restaurants		Others		Total
	Sales Value	Share	Sales Value	Share	Sales Value	Share	Sales Value
	(US\$ million)	(%)	(US\$ million)	(%)	(US\$ million)	(%)	(US\$ million)
2006	2,022	86.6%	283	12.1%	31	1.3%	2,336
2007	2,049	86.5%	289	12.2%	31	1.3%	2,369
2008	2,065	85.9%	305	12.7%	33	1.4%	2,403
2009	1,764	86.0%	258	12.6%	28	1.4%	2,050
2010	1,771	86.1%	256	12.5%	29	1.4%	2,056
2011	2,229	87.0%	300	11.7%	33	1.3%	2,562
2012F	2,316	88.0%	295	11.2%	34	1.3%	2,633
2013F	2,405	88.1%	289	10.6%	35	1.3%	2,729
CAGR (%)	2.5%		0.3%		1.8%		

Note: “Sales values” represent manufacturers’ sales. “Others” refers to other commercial uses.

Source: Ipsos analysis.

Between 2006 and 2013, the average market share of discount department stores and off-price retailers is estimated to be approximately 29.6%, the largest sales channel of portable lighting in the U.S.

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Market segmentation of portable lighting by sales channel type in the U.S. from 2006 to 2013

Year	Discount department stores and off-price retailers		Home improvement centres and warehouse clubs		Home accent and gift stores		Lamp and lighting stores and chain stores		Others		Total
	Value (US\$ million)	Share (%)	Value (US\$ million)	Share (%)	Value (US\$ million)	Share (%)	Value (US\$ million)	Share (%)	Value (US\$ million)	Share (%)	Value (US\$ million)
2006	609	30.1%	404	20.0%	167	8.3%	162	8.0%	681	33.6%	2,022
2007	608	30.1%	424	21.0%	168	8.3%	121	6.0%	698	34.6%	2,019
2008	615	29.8%	455	22.0%	174	8.4%	154	7.5%	668	32.3%	2,065
2009	520	29.5%	414	23.5%	150	8.5%	141	8.0%	538	30.5%	1,764
2010	521	29.4%	418	23.6%	151	8.5%	138	7.8%	544	30.7%	1,771
2011	651	29.2%	526	23.6%	192	8.6%	178	8.0%	682	30.6%	2,229
2012F	678	29.3%	562	24.3%	198	8.6%	182	7.9%	696	30.1%	2,316
2013F	700	29.1%	601	25.0%	208	8.6%	188	7.8%	709	29.5%	2,405
CAGR (%)	2.0%		5.8%		3.2%		2.1%		0.6%		

Source: Ipsos analysis.

Note: Split only includes portable lighting sold in the residential segment; "Others" include traditional furniture stores, direct-to-consumer, interior designers, lifestyle stores, department stores, craft and fabric stores and chains, antique shops, variety store and mall kiosks, Sales values represent manufacturers sales.

Between 2006 and 2011, discount department stores and off-price retailers together with home improvement centres and warehouse clubs, were the two largest sales channels for portable lighting products. Discount department stores and off-price retailers accounted for approximately 30.1% of the total market in 2006, and approximately 29.2% in 2011. Home improvement centres and warehouse clubs accounted for approximately 20% of the total market in 2006, and approximately 23.6% in 2011. Discount department stores and off-price retailers, and home improvement centres and warehouse clubs are forecast to continue to be the two largest sales channels through to 2013, by which time it is estimated that the percentage of the total market share attributable to department stores and off-price retailers will remain at around 29.1%, and that the total market share attributable to home improvement centres and warehouse clubs will increase to approximately 25%. The dominant position enjoyed by discount department stores is due to the large number of retail stores they typically own and/or operate, and the large volume of products they purchase. In January 2011, Wal-Mart operated approximately 3,800 stores in the U.S., and Target operated approximately 1,750 stores.

Over the next few years, the market share of each sales channel is unlikely to change. However the volume of sales attributable to furniture stores is expected to increase. This is because discount department stores and off-price retailers, and home improvement centres and warehouse clubs are having difficulties selling larger items of home furnishings so they are expected to focus on smaller pieces such as portable lighting in order to make sales.

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FUTURE DEVELOPMENT TRENDS

Factors affecting demand and sales of portable lighting in the U.S.

Population growth

Demand for portable lighting in the U.S. will be directly affected by population growth. According to the U.S. Census Bureau, the population of the U.S. increased from 298.6 million in 2006, to approximately 311.6 million in 2011. Between 2011 and 2013, the population of the U.S. is forecast to grow by an additional 2.5% and reach approximately 319.3 million in 2013.

Population also increases due to people immigrating to the U.S. In 2008 the total number of new immigrants settling in the U.S. was estimated to be 466.6 thousand. In 2011, this figure increased to approximately 481.9 thousand. As the new immigrants settle, they will need to purchase products, such as portable lighting, for their new homes.

Immigrants to the U.S. from 2006 to 2011

Category of admission	Number of persons					
	2006	2007	2008	2009	2010	2011
New arrivals	447,016	431,368	466,558	463,042	476,049	481,948
Adjustments of status	819,248	621,047	640,568	667,776	566,576	580,092
Total	1,266,264	1,052,415	1,107,126	1,130,818	1,042,625	1,062,040

Source: U.S. Department of Homeland Security

Consumer confidence

The unemployment rate has been decreasing, from approximately 9.0% in October 2011, to approximately 8.1% in April 2012, the lowest the rate has been since early 2009. This led to an increase in consumer confidence which saw retail sales in April 2012, increase by an estimated 0.1% from March 2012. Consumer confidence has been growing steadily, total sales from February 2012 to April 2012 was 6.6% higher compared to the same period of the year before. The manufacturing industry also felt a positive effect as the Institute for Supply Management's ("ISM") purchasing managers' index ("PMI") increased from 50.8 in October 2011, to 54.8 in April 2012. As consumers are more confident in spending, they will look to purchase items to improve their lifestyle and home. The increase of personal consumption expenditures ("PCE") for furnishings and durable household equipment reflects this. It increased from US\$233.7 billion in the third quarter of 2009, the lowest of that year, to US\$243.4 billion for the same period in 2010. In the first quarter of 2011, PCE was approximately US\$248.3 billion and increased to US\$251.2 billion in the second quarter and in the third quarter, it increased further to US\$254.9 billion. This trend continued as in the first quarter of 2012, PCE for furnishings and durable household equipment reached approximately US\$266.8 billion, an increase from approximately US\$259.1 billion from the last quarter of 2011.

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Competitive landscape in the U.S.

The supply of portable lighting in the U.S. is highly fragmented. In 2010, Test-Rite Products Corp., Mastercraft and Jimco Lamp and Manufacturing Co., accounted for approximately 6.1%, 4.9% and 3.7% of the portable lighting products supplied to discount department stores and off-price retailers, respectively. The largest retailers in this category of portable lighting retailers are Wal-Mart, Target, and HomeGoods.

The top five portable lighting suppliers account for approximately 16.6% of the total portable lighting products supplied to discount department stores and off-price retailers with a large number of other smaller suppliers accounting for the remaining 83.4%.

In 2010, the Company ranked second by revenue among portable lighting suppliers supplying to the U.S. discount department stores and off-price retailers. The Company's revenue for the year ended 31 December 2010, was approximately HK\$198.5 million (U.S.\$25.5 million).

Rank	Name of company	Approximate revenue in 2010 (U.S.\$) (in million)	Approximate share of revenue in 2010 (%)
1	Test-Rite Products Corp.	31.9	6.1%
2	Mastercraft	25.5	4.9%
3	Jimco Lamp & Manufacturing Co.	19.1	3.7%
4	Cheyenne Home Furnishings Inc	5.2	1.0%
5	Adesso Inc.	4.7	0.9%
6	Others	434.1	83.4%
Total		520.5	

Source: Ipsos

Discount department stores and off-price retailers frequently stipulate that manufacturers must be able to supply products over a range of price points. Wal-Mart typically sells its portable lighting products for a retail price of between US\$5 and US\$10. Profit margins on individual products are relatively low. Typically, profits are maximised through volume of sales. Similarly, Dollar General, another off-price retailer, sells products at a low retail price and which can be described as being of a basic quality and simple style. If portable lighting manufacturers can meet the optimum pricing points and produce products in the various styles demanded, they may benefit from the high volume orders typically placed by discount department stores and off-price retailers.

Some discount department stores and off-price retailers have launched innovative sales promotions, such as, "shade replacement programmes", in response to the market challenges arising out of the financial crisis. Customers are encouraged to purchase replacement shades to change the appearance of particular portable lighting products.

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New sales channels are becoming more popular. Customers are increasingly purchasing home accessories online. Portable lighting manufacturers and retailers are responding by seeking to improve their online marketing. New marketing methods include direct mail and e-mail. Furthermore, customers are seeking quality products that they consider to be better purchase in the long term. Some retailers have opened offices in China to allow them to better monitor product quality and to enhance communications with the suppliers.

Factors affecting competition

The key factors that affect competition in the portable lighting manufacturing industry are:

1. the ability to ship products promptly,
2. having a reputation for high-quality and reliable products,
3. price,
4. innovative design,
5. promotional incentives and favourable trade terms.

Similarly, it is important that manufacturers implement efficient stock management procedures which enables them to respond to customer orders. Customers will seek products from a manufacturer's competitors if an individual portable lighting manufacturer does not have adequate stock levels or cannot meet orders in a timely manner. A reputation for producing high quality products can be described as a competitive advantage in the portable lighting industry. A manufacturer with a reputation for producing quality products will be able to establish and maintain good relationships with retailers.

The ability of manufacturers to price their products at specific optimum market price points is an important factor when supplying portable lighting to discount department stores and off-price retailers. Wal-Mart's typically sells its "off-price" portable lighting products at prices between US\$5 to US\$10, the so-called "magic selling retail price". Portable lighting manufacturers who can provide promotional incentives and favourable trade terms to discount department stores and off-price retailers will have a competitive advantage.

An additional competitive advantage rests in a portable lighting company's ability to create portable lighting products in desirable "timeless styles". Portable lighting retailers demand portable lighting products in styles for which they believe there will be long-term demand.

The U.S. furniture sets market

Economic conditions strongly influence the furniture and household accessories market. Following the financial crisis in 2009, the domestic retail sales of U.S. furniture and home furnishing stores dropped to US\$86.6 million from US\$99.9 million in 2008. As the economy continued its recovery in 2011, retail sales in the furniture and household accessories market increased also to an estimated US\$88.8 million.

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Home accessories and furniture chain stores in the U.S. often sell individual items together as a set to encourage customers to buy more products. The most common way home accessories and furniture chain stores sell their furniture sets is by assembling them in show rooms to demonstrate the functionality of the set. Another technique is to display the sets in a way that reflects a specific lifestyle. For example, a showroom could be set up in a modern and minimalistic style using minimalistic furniture sets and lighting or decorative accessories. Customers who aspire to live this lifestyle will be attracted to them and will be more likely to purchase the sets used in the showroom to recreate the same look in their homes.

The most common furniture sets sold in home accessories and furniture chain stores are dining room sets that includes a table with matching chairs; bedroom sets that includes a bed and matching bedside tables; and coffee table sets which includes a coffee table with one or two matching side tables. However, it is rare for these stores to sell portable lamps together with furniture in sets. This is because customers see value and convenience in purchasing large furniture in sets, such as tables, but they prefer to choose their own smaller accent items that reflect their personal style and individuality to decorate their homes.

Even though they are generally sold as individual items to complement larger pieces of furniture, portable lamps are also sold in sets. However, lamp sets are usually sold in sets of two or more lamps with no accompanying furniture. In home accessories and furniture chain stores in the U.S., an estimated 2% of lamps are sold as part of a lamp set. Of the different types of lamp sets sold, the most popular sets are two-piece matching table lamp sets which account for an estimated 40% of lamp sets, followed by three-piece floor lamp sets with matching table lamps which account for 13% of lamp sets, and two-piece floor and table lamp sets which account for approximately 5% of lamp sets. Lamp that are sold together with furniture, such as three-piece foyer table and lamp sets that includes two matching table lamps and a table designed to be used in the foyer of a residence, are rarely stocked. This is because customers prefer to choose their own portable lamps to match their own taste and style.

Portable lamps are displayed around home accessories and furniture chain stores according to the overall design of the showrooms. Some portable lamps are designed as part of a larger furniture collection and although they are displayed together, they are sold separately so customers can buy as much of the collection as they like. However, because portable lamps are often used for different purposes, such as desk lamps to light a work desk, or accent lamps to add to the ambience of the room, home accessories and furniture chain stores will also display lamps according to their functions so customers can choose lamps by function type. Large chain retail stores also arrange their displays based on current trends. Therefore, it is important for the design of lamps to follow the trends so they can be displayed with furniture, and stores will also need to stock a variety of styles of portable lamps to cater for the different needs and tastes of their customers.

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This section of the prospectus contains a summary of certain laws and regulations currently relevant to the Group's operations. Having made all reasonable enquiries and to their best knowledge, the Directors confirm that save as disclosed in this section and the section headed "Risk factors" in this prospectus, the Group has complied with all material applicable laws and regulations in major jurisdictions, namely the PRC, the U.S., Canada and Hong Kong, where it operated during the Track Record Period and as at the Latest Practicable Date and has obtained all necessary permits, licences and certificates for its operations.

PRC LAWS AND REGULATIONS RELATING TO THE GROUP'S BUSINESS

The Group's business is subject to the laws and regulations of the Chinese government and the government of the jurisdictions in which its business is operated. This section summarizes the main PRC laws and regulations relating to the Group's operations.

At the Latest Practicable Date, the Group have complied with all applicable laws and regulations in all material respects, and have obtained all licences as required for its business operations. The establishment of Mastercraft WFOE in the PRC did not bring the Group under the scope of 《關於外國投資者併購境內企業的規定》(the Regulations on the Merger with and Acquisitions of Domestic Enterprises by Foreign Investors) as promulgated by the PRC Ministry of Commerce.

Foreign-owned enterprises

Wholly foreign-owned enterprises are subject to 《中華人民共和國外資企業法》(the Wholly Foreign-owned Enterprise Law of the PRC) promulgated on 12 April 1986 and amended on 31 October 2000, and 《中華人民共和國外資企業法實施細則》(the Rules for the Implementation of the Wholly Foreign-owned Enterprise Law of the PRC) promulgated on 12 December 1990 and amended on 12 April 2001. A wholly foreign-owned enterprise is a legal entity with the capacity to bear civil liabilities, enjoy civil rights and to own, use and sell properties independently. The registered capital of a wholly foreign-owned enterprise must be contributed by foreign investors. The liability of a foreign investor is limited to the amount of the registered capital for which it agrees to subscribe. According to the relevant laws and regulations of the PRC, foreign investors are allowed to pay the amount of the registered capital periodically, and the registered capital must be injected within the specified period as approved by the Ministry of Commerce of the PRC (or its authorised organisations).

Employment

The Group is subject to 《中華人民共和國勞動法》(the PRC Labour Law) (the "PRC Labour Law"), 《中華人民共和國勞動合同法》(the PRC Labour Contract Law) (the "Labour Contract Law") and 《中華人民共和國勞動合同法實施條例》(the Implementing Regulations of the PRC Labour Contract Law) (the "Implementing Regulations"), as well as other related regulations, rules and provisions issued by the relevant governmental authorities from time to time for the Group's operations in the PRC.

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The Labour Contract Law which became effective on 1 January 2008, calls for stricter requirements in terms of signing labour contracts with employees, stipulating probation and violation penalties, dissolving labour contracts, paying remuneration and economical compensation, as well as social security premiums.

According to the PRC Labour Law and the Labour Contract Law, enterprises must enter into labour contracts if they are to establish labour relationships with the employees. Enterprises must provide wages, which are no lower than the local minimum wage standards, to such employees and are required to establish labour safety and sanitation systems, strictly abide by PRC rules and standards and provide relevant training to the employees. Enterprises must also provide the employees with working conditions that meet PRC rules and standards for safety and sanitation and must examine regularly the health of the employees engaged in hazardous occupations.

Under the Labour Contract Law, an employment agreement may include provisions intended to protect the trade secrets of the employer. A non-competition agreement may be included in support of such protections. The employer must pay reasonable compensation on a monthly basis to the employee during the term of the non-competition period. Where the employee violates the competition restriction provisions, he or she must pay liquidated damages to the employer as agreed. The personnel subject to competition restrictions shall be limited to the employer's senior management, senior technicians and other personnel who owe confidentiality obligations to the employer. The scope, geographic region and term of the competition restrictions must be agreed upon by the employer and the employee and such agreement shall not violate the provisions of laws and regulations. After the end or termination of the employment contract, the maximum duration for a non-competition agreement which restricts a former employee from working for other employers that manufacture or operate the same type of products or that engage in the same type of business having a competitive relationship with the original employer, or from commencing his or her own business in manufacturing or operating the same type of products and engaging in the same type of business shall not exceed two years.

The Directors have confirmed that, during the Track Record Period and up to the Latest Practicable Date, the Group complied with all applicable labour and safety laws and regulations in all material respects.

Foreign currency exchange

Pursuant to 《中華人民共和國外匯管理條例》(the Regulation of the PRC on Foreign Exchange Administration (2008 Revision)) promulgated by the State Council in January 1996 which came into effect in April 1996 (and was updated on 5 August 2008), the RMB is freely convertible to pay for current accounts, including trade and service related foreign exchange transactions and dividend payments, but does not include expenditure on capital accounts which includes that of direct investments, loans or securities investments outside China. The RMB is freely convertible for expenditure on capital accounts only if prior approval from SAFE and its branches is obtained. According to the Regulation of the PRC on Foreign Exchange Administration (2008 Revision), a foreign invested enterprise in China can purchase foreign currencies for trade and service related foreign exchange transactions without approval from SAFE, but it must submit the commercial documentation in relation to such transactions for verification.

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On 29 August 2009, SAFE issued 《關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知》(the Circular on Relevant Operating Issues concerning the Improvement of Administration of Payment and Settlement of Foreign Currency Capitals of Foreign Invested Enterprises) (“Circular 142”). According to Circular 142, Renminbi obtained from the settlement of foreign currency capital of a foreign-invested enterprise must be used within the business scope approved by governmental authorities and cannot be used for domestic equity investment, unless otherwise permitted by PRC laws or regulations. When an enterprise intends to repay a loan in Renminbi with the Renminbi obtained from the settlement of its foreign currency capital, it must submit a statement that the loan has been used in accordance with a contract and within the business scope approved by the regulatory authorities.

Dividend distribution

The principal regulations governing distribution of dividends of wholly foreign invested companies include 《中華人民共和國公司法》(the Company Law of the PRC) promulgated by the National People’s Congress Standing Committee on 27 October 2005 which became effective as of 1 January 2006, the Wholly Foreign-owned Enterprise Law of the PRC, and the Rules for the Implementation of the Wholly Foreign-owned Enterprise Law of the PRC.

Under these laws and regulations, foreign invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, foreign investment enterprises in China are required to allocate at least 10% of their respective accumulated profits after tax each year, if any, to fund certain reserve funds unless these accumulated reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

The Company is incorporated under the laws of the Cayman Islands and holds its interest in Mastercraft WFOE through a Hong Kong company, Mastercraft China. Pursuant to 《中華人民共和國企業所得稅法》(the PRC Enterprise Income Tax Law) and its implementing rules, enacted on 16 March 2007 and 28 November 2007, respectively, both of which became effective on 1 January 2008, if Mastercraft China is deemed to be a non-PRC tax resident enterprise without an office or premises in the PRC or with an office or premises which has no actual relationship with the Company’s income, a withholding tax at the rate of 10% will be applied to any dividends paid by Mastercraft WFOE to Mastercraft China, unless, due to the existence of specific tax treaties, the Company is entitled to a reduction or elimination of such tax. Pursuant to tax treaties entered into between the PRC and Hong Kong, dividends paid by a foreign-invested enterprise in the PRC to its shareholder(s) in Hong Kong will be subject to withholding tax at a rate of 5% if the Hong Kong company directly holds a 25% or more interest in the PRC enterprise and other conditions required by the PRC laws and regulations are satisfied, otherwise, the dividend withholding tax rate is 10%.

According to 《國家稅務總局關於執行稅收協定股息條款有關問題的通知》(the Notice of the State Administration of Taxation on issues relating to the administration of the dividend provision in tax treaties) (“Notice 81”) promulgated on 20 February 2009, the corporate recipients of dividends distributed by PRC enterprises must satisfy the direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends. According to 《非居民享受稅收協定待遇管理法》(The Administrative Measures for Non-resident to Enjoy Treatments under Tax Treaties (Trial)) (“Administrative Measures”) which came into force on 1 October 2009, in order for a non-resident

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enterprise (as defined under the PRC tax laws) that is in receipt of dividends from PRC resident enterprises to enjoy favourable tax benefits under the tax arrangements, an application for approval to the competent tax authority must first be submitted. A non-resident enterprise may not enjoy the favourable tax treatment provided for in the tax treaties without such approval.

Major applicable taxes

Enterprise income tax

PRC enterprise income tax is calculated primarily on the basis of taxable income determined under PRC tax laws and regulations. On 16 March 2007, the National People's Congress adopted the PRC Enterprise Income Tax Law that imposes a single uniform income tax rate of 25% for most domestic enterprises and foreign invested enterprises.

U.S. LAWS AND REGULATIONS RELATING TO THE GROUP'S BUSINESS

Product liability

With respect to product liability generally, products sold in the U.S. are subject to both statutory and common law liability.

Common law claims are generally made under three categories: negligence claims, which would be based on the notion that the Group had a duty to ensure the safety of its consumable products and failed to meet that duty (for example, by failing to adequately monitor its contract manufacturers and raw materials used in products); strict liability claims, based on the notion that certain of the Group's products are inherently dangerous and should be subject to liability without regard to duty or fault, and breach of warranty claims, which to the extent not disclaimed, would be based upon goods not being as should be expected at the time the sale occurs, whether or not the defect is apparent. Statutory claims likely would come in the form of claims brought under various state consumer protection laws.

Quality and safety standards

CPSC

The Consumer Product Safety Act ("CPSA") defines a "consumer product" as any article or product component (except products regulated by the U.S. Food and Drug Administration ("FDA")), produced or distributed for sale to, or use by, a consumer for use in and around the home, school or recreation area.

The U.S. Consumer Product Safety Commission ("CPSC") has jurisdiction over the safety of "consumer products" under the CPSA, and the safety and labelling of "hazardous substances" under the Federal Hazardous Substances Act ("FHSA"). Products regulated by the FDA are specifically excluded from CPSC jurisdiction under these two statutes. However, under the Poison Prevention Packaging Act ("PPPA"), the CPSC has jurisdiction over the safety of packaging of all household substances. In 2008, the Consumer Product Safety Improvement Act ("CPSIA") was enacted. It increased the CPSC's budget, introduced new product testing and documentation requirements and established new acceptable levels

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for certain substances, including lead. The CPSIA also contains provisions intended to protect whistleblowers who report violations of consumer product safety laws. It also increased penalties for consumer product safety violations.

The CPSA requires manufacturers, importers, distributors, and retailers to submit reports to the CPSC when products they manufacture, import, distribute, or sell pose a risk to consumer safety. The CPSIA requires that manufacturers, including importers and labelers of products, certify that their products comply with all applicable CPSA consumer product safety rules, standards, regulations, and prohibitions under any laws administered by the CPSC by issuing a certificate to accompany the product. The CPSC may seek an injunction against the distribution of any product that it deems to be an “imminent hazard,” seek corrective action (including voluntary or mandatory recalls) with regard to any product that it deems to present a “substantial hazard,” and issue civil or criminal penalties for violations of the statute.

Portable lighting sold in the U.S. is subject to testing by independent safety organizations such as UL and Intertek ETL. These bodies test a range of consumer products, including portable lighting, to ensure that they are safe for public use. The CPSIA requires that portable lighting sold in the U.S. complies with the “Standard for Safety of Portable Luminaries” set forth in UL I53.

Under the FHSA, the CPSC regulates the safety warnings for “hazardous substances.” A hazardous substance is defined as any substances or mixtures of substances that (1) is toxic, (2) is corrosive, (3) is an irritant, (4) is a strong sensitizer, (5) is flammable or combustible, or (6) generates pressure through decomposition, heat or other means. The FHSA specifically excludes from coverage any products regulated by the FDA. Under the FHSA, the CPSC has the authority to deem products banned or misbranded hazardous substances and to seek civil and criminal penalties for the unlawful distribution of such products.

The PPPA authorizes the CPSC to develop “special packaging” requirements (child-resistant packaging) for household substances. The CPSC may require special packaging for a product if such packaging is (1) necessary to protect children from serious personal injury or illness and (2) technically feasible, practicable and appropriate. Violations of the PPPA may render the product a misbranded hazardous substance under the FHSA and subject the violator to penalties under that statute. In addition, for cosmetics, violations of the PPPA could subject the violator to penalties under the Federal Food, Drug, and Cosmetic Act.

There is no private right of action under the CPSA, CPSIA or other statutes administered by the CPSC, absent a specific rule promulgated by the CPSC.

Employment

In terms of laws governing the Group’s employment of workers, the State of Arkansas has its own laws and regulations that exist in addition to the laws and regulations of the U.S. In addition to laws and regulations governing matters such as payroll taxes, child labor, time and manner of payment, minimum wage and overtime and occupational safety, the State of Arkansas requires all covered employers to provide unemployment and workers’ compensation insurance, as well as comply with wage reporting and tax withholding requirements.

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Unemployment Insurance: Once a business begins hiring employees to work in Arkansas, the business is required to notify the Arkansas Department of Workforce Services (“ADWS”) promptly and complete paperwork to determine the appropriate tax status, which depends on the type of corporation and business operations. The paperwork should be completed and filed with ADWS no later than the last day of the second month after the employer employs individuals in Arkansas. The required paperwork form is used by ADWS to determine the employer’s unemployment tax rate, which is multiplied by quarterly taxable wages in order to determine the amount of unemployment taxes an employer owes. The employer also has an obligation to file quarterly wage reports.

Workers’ Compensation: Covered employers operating in the State of Arkansas must have workers’ compensation coverage for their employees as required by the laws of the State of Arkansas as enforced by the Arkansas Workers’ Compensation Commission. Failure to obtain or maintain workers’ compensation coverage may expose the employer to liability and affect the employer’s ability to obtain appropriate business permits and licences. To comply with the coverage provisions of such laws, businesses must (1) be legally exempt from the requirement to provide workers’ compensation insurance coverage, (2) obtain such coverage from an insurance carrier, or (3) be self-insured. Employers have an obligation to report injuries or deaths in the scope of employment to the Arkansas Worker’s Compensation Commission within ten (10) days of occurrence.

Environmental, Health and Safety Governmental Regulations

As the Group’s operations are currently conducted, it is not subject to federal, state, and local environmental laws and regulations, such as the federal Water Pollution Control Act of 1972, or “Clean Water Act,” the federal Clean Air Act, the federal Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, or “CERCLA,” and analogous state and local laws. The Group is, however, subject to the Occupational Health and Safety Act (“OSHA”), and analogous state and local laws. In addition, to the extent certain of the Group’s portable lighting products are sold in the State of California, we would currently be subject to Title 20 of the California Code of Regulations. In the near future, the federal government and the governments of other states may implement policies promoting the use of energy efficient light bulbs, similar to Title 20.

OSHA is the primary federal law which governs occupational health and safety in the private sector and federal government in the U.S. Its main goal is to ensure that employers provide employees with an environment free from recognized hazards, such as exposure to toxic chemicals, excessive noise levels, mechanical dangers, heat or cold stress, or unsanitary conditions. Section 5 of OSHA contains the “general duty clause” and the “general duty clause” requires employers to (a) maintain conditions or adopt practices reasonably necessary and appropriate to protect workers on the job (b) be familiar with and comply with standards applicable to their establishments, and (c) ensure that employees have and use personal protective equipment when required for safety and health. Each state and locality will have various occupational safety laws that cover private sector workers.

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Title 20 took effect in 2010. In the event that a light bulb will be provided with a portable lighting unit, the legislation outlines five options for compliance, and one or more of the following requirements for the portable lighting unit should be met:

1. A fluorescent light fixture that meets the requirements of the U.S. Environmental Protection Agency's "Energy Star Program for Residential Light Fixtures Version 4.2".
2. Equipped with only one or more GU-24 line voltage sockets, not be rated for use with incandescent lamps of any type (as defined in ANSI standards), and meet the requirements of the U.S. Environmental Protection Agency's "Energy Star Program for Residential Light Fixtures Version 4.2" including line voltage or low voltage.
3. An LED light fixture or a light fixture with an LED light engine and comply with the following set of minimum requirements:
 - (a) Minimum light output: 200 lumens (initial),
 - (b) Minimum LED light engine efficacy: 40 lumens/watt in fixtures that meet the minimum light fixture efficacy of 29 lumens/watt or, alternatively, a minimum LED light engine efficacy of 60 lumens/watt for fixtures that do not meet the minimum light fixture efficacy of 29 lumens per watt.
 - (c) All portable fixtures shall have a minimum LED light fixture efficacy of 29 lumens/watt and a minimum LED light engine efficacy of 60 lumens/watt by 1 January 2016.
 - (d) Colour Correlated Temperature: 2700K through 4000K
 - (e) Minimum Colour Rendering Index: 75
 - (f) Power factor equal to or greater than 0.70.
 - (g) Portable light fixtures that have internal power supplies shall have zero standby power when the light fixture is turned off.
 - (h) LED light sources shall deliver at least 70% of initial lumens for at least 25,000 hours.
4. Equipped with an ANSI-designated E12, E17, or E26 screw-based socket and be prepackaged and sold together with one screw-based compact fluorescent lamp or screw-based LED lamp for each screw-based socket on the light fixture.
5. Equipped with one or more single-ended, non-screw based halogen lamp sockets (line or low voltage), a dimmer control or high-low control, and be rated for a maximum of 100W.

To date, the Group, like most portable lighting manufacturers has not been directly affected by such legislation to date as their portable lighting products are not sold including pre-fitted light bulbs. In the instances where a customer does request a pre-fitted bulb and the Group believes the product will be sold in California the Group has included a unit equipped with an ANSI-designated E12, E17, or E26 screw-based socket and one screw-based compact fluorescent bulb or screw-based LED bulb for each screw-based socket on the light fixture. In the event that requirements similar to Title 20 are adopted by

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the federal government or other states, as some believe is likely to be the case, then such requirements would affect manufacturers equally and manufacturers, including the Group, would have to choose to have all their units comply with the new laws or choose not to include bulbs and require the retailer to add the bulbs if it so chooses.

For Replenishment Orders, the Group's U.S. customers take delivery from Mastercraft USA's warehouse. The Group does not participate in any onward redistribution process and cannot provide information on the percentage of its products that are ultimately transported to, or sold within, specific U.S. states or regions including California, where Title 20 applies.

Sections of the Energy Independence and Security Act of 2007 (the "Energy Bill") contain similar provisions to those contained in Title 20. The Energy Bill is intended to help the U.S. become energy independent and make better use of its resources. Under the Energy Bill, screw-based light bulbs will use less power for a similar lumen output. The standards are technology neutral, in that any type of bulb can be used as long as it meets the efficiency standards. Common household bulbs that traditionally use between 40 and 100 watts are required to use at least 27% energy by 2014. The law applies based on the manufacturing date of the bulb and will be phased in beginning with 100-watt light bulbs in January 2012 and ending with 40-watt bulbs in January 2014. As of the Latest Practicable Date, it is not clear how the Energy Bill will affect portable lighting manufacturers.

CANADIAN PRODUCT SAFETY STANDARDS

Under section 4 of the Standards Council of Canada Act, R.S.C. 1985, c. S-16, the Standards Council of Canada accredits and cooperates with standards organisations. The Standards Council of Canada lists UL and the Canadian Standards Association ("CSA") as accredited product and service certification bodies. UL and the CSA test products to verify compliance with relevant standards. For portable lighting, C22.2 No. 12-1982 (CSA publication) and UL 153 (UL publication) are very similar standards, both applying to similar types of portable electric lights.

UL and CSA issue listing reports to companies whose products are deemed to have passed applicable safety standards. The UL listing report may contain the names of companies qualified to use a CUL mark on products that comply with appropriate Canadian requirements and other important design information about products bearing the CUL mark. The CSA listing report discloses the model number of a product and its class number (which relates to the product's intended use). A technical description of the product is issued to the owner of the product and is confidential. The owner of the product may decide to issue additional instructions for public use.

Products must be tested or evaluated by CSA or UL laboratories before they can be sold bearing that organisation's product safety certification mark. A CSA mark on a product means that an authorised testing laboratory has evaluated a sample of the product to determine that it meets applicable national standards. A CUL mark on a product means that UL has tested and evaluated representative samples of that product and determined that they meet Canadian safety requirements.

HISTORY, DEVELOPMENT AND REORGANISATION

HISTORY AND DEVELOPMENT

The Company was incorporated as a company with limited liability in the Cayman Islands on 3 August 2011. It is headquartered in Hong Kong. The Group is principally engaged in the design and supply chain business of lighting and home furnishing products, the manufacture of which is outsourced to contract manufacturers in the PRC. The Group's customers are mainly U.S. based MMRs who import products designed and developed by the Group before reselling them, often under their own established brand names.

The Group commenced its business in 1994 when Mr. Leung and Mr. Strickland jointly established Mastercraft International to engage principally in the business of design and sale of lighting and home furnishing products. Mr. Leung and Mr. Strickland were friends prior to the establishment of the Group. At the time of the establishment of Mastercraft International, Mr. Leung and Mr. Strickland were mainly responsible for lighting product design and development. Mr. Strickland, having already gained several years of experience in trading with MMRs in the U.S., was responsible for sales and marketing on behalf of Mastercraft International. For further details of the backgrounds of Mr. Leung and Mr. Strickland, please refer to the paragraph headed "Executive Directors" under the section headed "Directors, senior management and employees" in this prospectus.

Following its establishment, Mastercraft International grew steadily, distributing its products mainly to MMRs in the U.S. To avoid the substantial investment costs associated with the operation of production facilities, Mastercraft International did not own or operate any mass production or manufacturing facilities. These functions were outsourced to contract manufacturers in the PRC.

In order to develop a more systematic product development operation, in 1999, Mastercraft China was incorporated in Hong Kong by Mr. Leung and Mr. Strickland, to engage mainly in product design and development for Mastercraft International.

The Group has grown from a small corporation when established into a medium size corporation with over 90 staff as at the Latest Practicable Date.

In 2011, the Group incorporated Mastercraft USA with the intention that Mastercraft USA would keep a limited inventory in terms of product range and quantities of the Group's products at a warehouse in the U.S. By developing a U.S. hub, the Group is positioned to meet short delivery lead-time orders from its U.S. customers.

In the same year, the Group also established Mastercraft WFOE to bring the Group's development capabilities entirely in-house. Previously, the Group's development team had cooperated with Yu Tai, a related party during the Track Record Period, to produce the Group's designs to prototype. Production of prototypes is primarily carried out at industrial buildings leased by Mastercraft China in Shenzhen, Guangdong Province, the PRC.

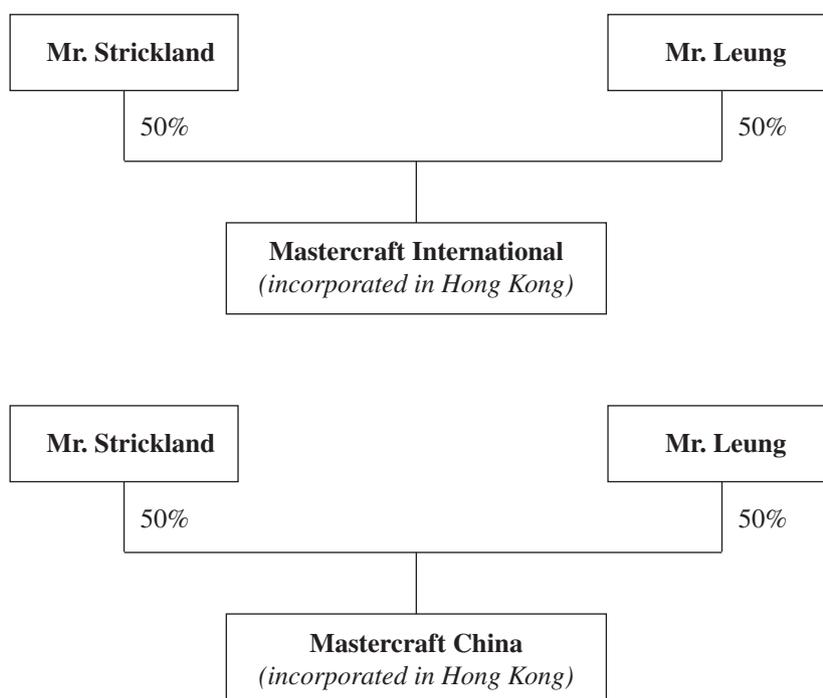
HISTORY, DEVELOPMENT AND REORGANISATION

CHANGES IN SHAREHOLDING AND GROUP STRUCTURE PRIOR TO THE REORGANISATION

Mastercraft International and Mastercraft China (formerly Twenty-Two Lighting Limited) were the sole operating companies of the Group from the beginning of the Track Record Period until the Reorganisation. Mastercraft International was incorporated in Hong Kong on 16 June 1994 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, one of which was issued at par to Mr. Leung and one of which was issued at par to Mr. Strickland. On 28 December 1998, Mastercraft International issued and allotted an additional 349,918 shares of HK\$1.00 each, of which 174,459 shares were allotted to Mr. Leung and 174,459 shares were allotted to Mr. Strickland. There were no further changes in the authorised and issued share capital of Mastercraft International prior to the Reorganisation.

Mastercraft China was incorporated in Hong Kong on 22 March 1999 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, two of which were issued for cash at par and were held equally among Mr. Leung and Mr. Strickland. There were no further changes in the authorised and issued share capital of Mastercraft China prior to the Reorganisation.

The following diagram shows the shareholding and corporate structure of the Group as it existed during the Track Record Period and immediately before the Reorganisation:



HISTORY, DEVELOPMENT AND REORGANISATION

REORGANISATION

In preparation for the Listing, the Company was incorporated in the Cayman Islands and the companies comprising the Group underwent a group reorganisation to rationalise the Group structure. The Reorganisation involved the following steps:

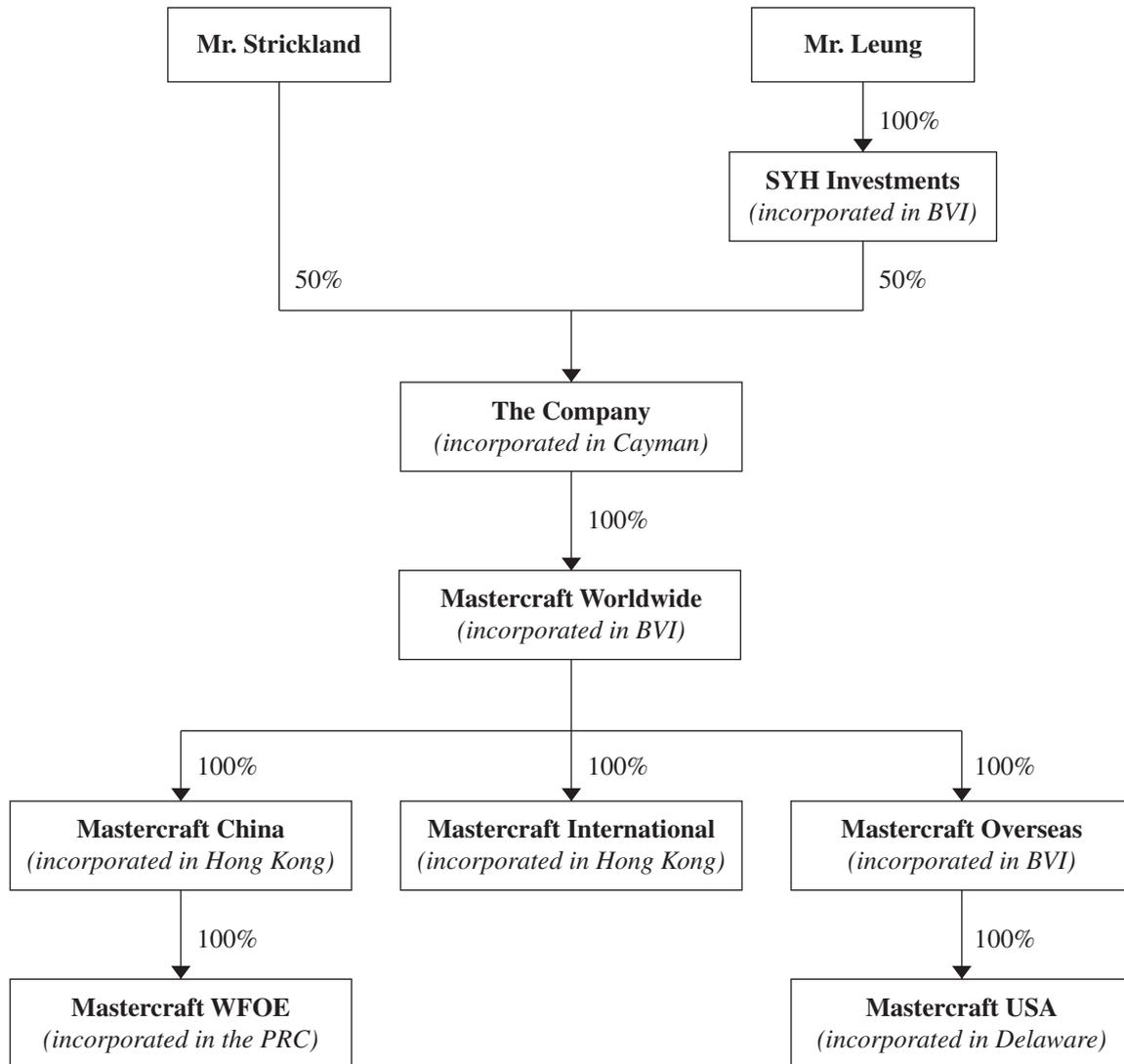
- The Company, which is the ultimate holding company of the Group, was incorporated in the Cayman Islands on 3 August 2011. As at the date of its incorporation, the Company had an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each, of which one share of the Company was allotted and issued nil paid to Codan Trust Company (Cayman) Limited, being the subscriber to the memorandum and articles of association of the Company. On 3 August 2011, the one share held by Codan Trust Company (Cayman) Limited was transferred to SYH Investments and an additional one share was allotted and issued nil paid to Mr. Strickland.
- On 18 May 2011, Twenty-Two Lighting Limited changed its name to “Mastercraft China Limited”.
- Mastercraft WFOE, a wholly foreign-owned enterprise, was established under the laws of the PRC on 30 August 2011, with a total investment of HK\$500,000 and a registered capital of HK\$500,000. Mastercraft WFOE is wholly owned by Mastercraft China. Mastercraft WFOE is principally engaged in development of the Group’s lighting products and other home furnishing products. The establishment of Mastercraft WFOE in the PRC did not bring the Group under the scope of the Regulations on the Merger with and Acquisitions of Domestic Enterprises by Foreign Investors as promulgated by the PRC Ministry of Commerce.
- On 7 July 2011, Mastercraft Worldwide, a limited liability company, was incorporated in the BVI. Mastercraft Worldwide is authorised to issue a maximum of 50,000 shares with a par value of US\$1.00 each. As at the date of its incorporation, the issued share capital of Mastercraft Worldwide comprised two fully paid shares of US\$1.00 each, of which one share (representing 50% of the issued share capital) was owned by Mr. Strickland and one share (representing 50% of the issued share capital) was owned by SYH Investments. Mastercraft Worldwide is an intermediate holding company and is principally engaged in investment holding.
- On 14 July 2011, Mastercraft Overseas, a limited liability company, was incorporated in the BVI. Mastercraft Overseas is authorised to issue a maximum of 50,000 shares with a par value of US\$1.00 each. Its issued share capital is one share of US\$1.00 which is fully paid up and owned by Mastercraft Worldwide. Mastercraft Overseas is also an intermediate holding company and is principally engaged in investment holding.
- On 12 September 2011, Mastercraft USA, a corporation, was incorporated in the State of Delaware in the U.S. Mastercraft USA has total authorised capital stock of 1,000 shares of capital stock with US\$0.001 par value. Mastercraft Overseas owns all of the 1,000 issued capital stock of Mastercraft USA. Mastercraft USA is principally engaged in wholesale distribution of lighting and home furnishing products.

HISTORY, DEVELOPMENT AND REORGANISATION

- On 30 September 2011, MIUSA (a company wholly owned by Mr. Strickland) as seller, Mastercraft USA as buyer, Mastercraft International and Mr. Strickland entered into an inventory purchase agreement, pursuant to which Mastercraft USA had acquired from MIUSA its inventories of the Group's products at a consideration of US\$1,807,871.77 (equivalent to approximately HK\$14,065,242.37). The consideration was determined based on the "free-on-board" (FOB) Yantian price of the inventory, freight costs and duty costs.
- On 20 March 2012, Mr. Leung as vendor, Mr. Strickland as vendor and Mastercraft Worldwide as purchaser, entered into a sale and purchase agreement whereby Mastercraft Worldwide acquired, and Mr. Leung and Mr. Strickland sold, the entire issued share capital of Mastercraft China at a total consideration of HK\$2.00, determined by reference to the net asset value of Mastercraft China, which was fully satisfied by Mastercraft Worldwide allotting and issuing one share of US\$1.00 in the capital of Mastercraft Worldwide to each of SYH Investments and Mr. Strickland.
- On 20 March 2012, Mr. Leung as vendor, Mr. Strickland as vendor and Mastercraft Worldwide as purchaser, entered into a sale and purchase agreement whereby Mastercraft Worldwide acquired, and Mr. Leung and Mr. Strickland sold, the entire issued share capital of Mastercraft International at a total consideration of HK\$16,735,214.43 determined by reference to the net asset value of Mastercraft International, which was fully satisfied by Mastercraft Worldwide allotting and issuing one share of US\$1.00 in the capital of Mastercraft Worldwide to each of SYH Investments and Mr. Strickland.
- On 20 June 2012, SYH Investments as vendor, Mr. Strickland as vendor and the Company as purchaser, entered into a sale and purchase agreement whereby the Company acquired, and SYH Investments and Mr. Strickland sold, the entire issued share capital of Mastercraft Worldwide at a consideration of HK\$18,327,934.78, which was determined by reference to the net asset value of Mastercraft Worldwide. The total consideration payable was satisfied by (A) the Company allotting and issuing 17,499,999 Shares to SYH Investments and 17,499,999 Shares to Mr. Strickland respectively; and (B) the Company crediting as fully paid at par the two nil paid Shares of the Company held by SYH Investments and Mr. Strickland. Upon completion of this acquisition, Mr. Strickland and SYH Investments each owned 50% of the Company.

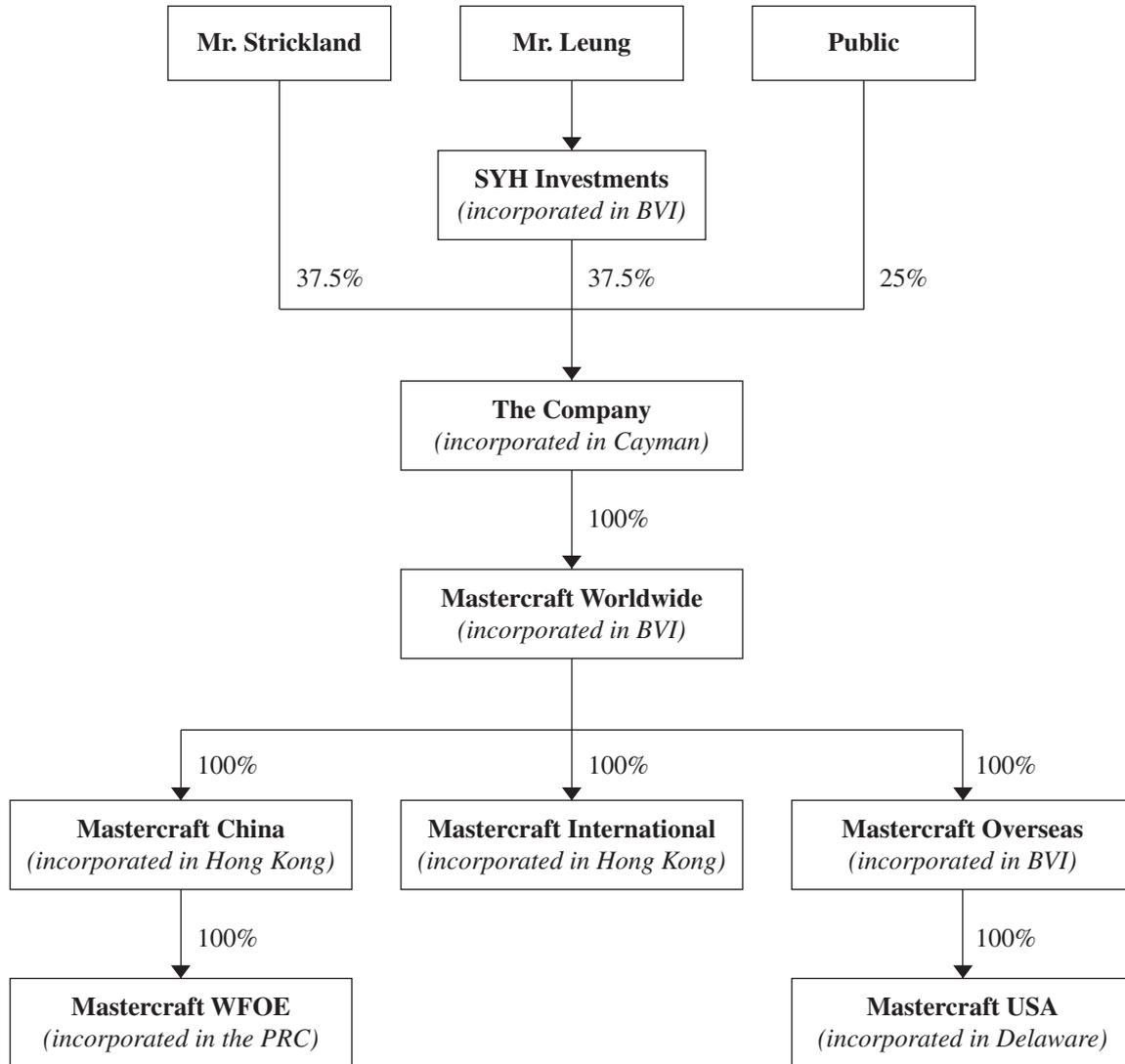
HISTORY, DEVELOPMENT AND REORGANISATION

The following diagram shows the shareholding and corporate structure of the Group immediately after the Reorganisation:



HISTORY, DEVELOPMENT AND REORGANISATION

The following diagram shows the shareholding and corporate structure of the Group as it will exist immediately after completion of the Placing and the Capitalisation Issue, but without taking into account any options which may be granted under the Share Option Scheme:



BUSINESS

OVERVIEW

The Group is principally engaged in the design and development of portable lighting products, shades and furniture sets and other home accessories, the manufacture of which is outsourced to contract manufacturers in the PRC. The Group's customers include MMRs, home furnishing stores, furniture stores, Specialty Stores and a distributor in the U.S., Canada and other overseas markets, who import products designed and developed by the Group before re-selling them, often under their own established brand-names. The Group provides its customers with comprehensive "all-in-one" product design and product development services. As well as producing designs up to the prototype stage, the Group provides added value to its customers by overseeing the process of production outsourcing and quality control, logistics and packaging services. Finished products are exported overseas to North America and other overseas markets.

The Group develops its successful outsourcing operations to complement its design and product development capabilities. The Group creates new designs based on its appreciation of market trends so as to be able to offer its customers attractive product designs according to their requirements. The Group's in-house product development team also works with the Group's customers on their proposed product designs and liaising with them on production feasibility. The Directors believe these capabilities coupled with the extensive career experience of the Group's founders, Mr. Leung and Mr. Strickland, give the Group a competitive advantage in the market over other outsourcing companies, design and development companies or ODM manufacturers that cannot match the suite of value-added design and development services offered by the Group. For this reason, the Directors believe that the Group can maintain its position of strength in a competitive and fragmented market that might ordinarily be described as having low-barriers to entry.

The Group outsources the entire production process to independent third-party contract manufacturers. The Directors believe that as the manufacturing process has been outsourced to its contract manufacturers, the Group can focus on value-added areas such as product design and development, marketing and quality control. The Group has been therefore able to reduce capital investments and operating costs associated with the ownership of production facilities.

The Group places a strong emphasis on its product quality by implementing a comprehensive quality control system. As at the Latest Practicable Date, nine staff are employed in the quality control division of the Group. Quality control procedures have been established throughout the entire production process so as to ensure that the Group's products are manufactured to a consistent, reliable and high quality standard. The Group has obtained "UL certification" for its portable lighting products marketed in the U.S., confirming that such products have met the recognized safety standards issued by UL. Other certifications obtained by the Group include "CUL certification" (also provided by UL) for products marketed in Canada and "ETL certification" for products marketed in the U.S. and Canada, provided by Intertek Testing Services.

Mastercraft USA keeps a limited inventory of the Group's products at the Group's leased premises in Arkansas, the U.S. The Group is therefore positioned to meet short delivery lead-time orders from its U.S. customers. The Group's ability to supply products direct to its U.S. customers from a U.S. hub in shorter "delivery lead" times is another advantage it has over its competitors employing more conventional business models.

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The establishment of Mastercraft USA on 12 September 2011, which commenced business on 1 October 2011, has led to increased sales during the Track Record Period and meant the Group could benefit from the higher margins charged on Replenishment Orders previously earned by MIUSA. Furthermore the establishment of Mastercraft USA will allow the Group to implement its future business objectives and strategies, specifically to capitalise on its recurring business in the design and development of portable lighting, shades, furniture sets and other home accessory products while targeting further expansion in selected overseas markets, and particularly to increase its market share in the U.S. and Canadian markets. The Company also considered that it was commercially advantageous to bring this U.S. distribution business in-house as it allowed for better control and management of orders and inventory and eliminated the continuing connected transaction with MIUSA.

The maintenance and operation of Mastercraft USA's warehouse involves inventory risks and additional costs. For further details, please refer to the section headed "Risk factors — The Group has established a U.S. distribution hub the operation of which involves additional risk". Operating costs incurred by Mastercraft USA from its commencement of business to 31 December 2011 were approximately HK\$3.4 million. The Group estimates that the operation and administration costs attributable to Mastercraft USA for the year ending 31 December 2012 will be approximately HK\$13.6 million.

In 2011, the Group also established Mastercraft WFOE to bring the Group's development capabilities entirely in-house. Previously, the Group's development team had cooperated with Yu Tai, a related party during the Track Record Period, to produce the Group's designs to prototype. By bringing the Group's development capabilities entirely in-house the Group is better able to control its development costs and improve management oversight.

The maintenance and operation of Mastercraft WFOE involves additional costs including, but not limited to, employee related costs (inclusive of salaries, staff welfare, medical and pension benefits) and couriers services expenses. Operating costs incurred by Mastercraft WFOE from its commencement of business to 31 December 2011 were approximately HK\$0.6 million. The Group estimates that the total operation and administration costs for Mastercraft WFOE in 2012 (from January 2012 to December 2012) will be approximately HK\$3.4 million.

COMPETITIVE STRENGTHS

The Directors attribute the Group's past success and potential for future growth to the following principal factors:

The Group has an experienced, innovative and professional management team with an entrepreneurial spirit and a proven track record

The Group companies have professional management teams with extensive experience, innovative thinking, a culture of entrepreneurship and proven track records.

A majority of the members of the management teams of the Group companies have more than 20 years of experience in the industry. They come from diverse backgrounds and possess varied and complementary skill sets.

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The Group has invested in building an experienced management team across all of its business units. The Group believes that the dedication and vision of its management teams have been key to its success, and will continue to be critical to its success in the future.

The members of the Group's senior management teams (comprising the Group's head of product development and marketing, head of operations, factory compliance manager and accountant) have demonstrated a loyal, continuing and enthusiastic commitment to the Group. A majority of the members of the Group companies' senior management teams have served the Group for more than 12 years. The Group's founders, Mr. Leung and Mr. Strickland, who established the Group in 1994, are currently the Company's executive directors, and are responsible for providing the strategic vision for the Group and overseeing its development, which includes playing an active role in day to day management.

The Group has established relationships with key and prestigious customers

Over the years of operations, the Group has established strong and close working relationships with key customers. The Directors believe that one of the attributes of the Group's success is its ability to secure and maintain long-term relationships with customers who own internationally recognised brand names.

For the year ended 31 December 2011, the Group's business relationships with its five largest customers ranged from nine months to thirteen years. The Directors believe that its long-standing relationships stem from customers' recognition of the quality of the Group's products, timely completion of orders, adherence to delivery schedules and short production lead times. The enduring nature of these relationships is a reflection of customer loyalty to the Group. The Directors believe that it is through the maintenance of these long-standing relationships that the Group will ensure commitments from its customers to place orders in the future.

The Directors believe that the key to maintaining profitable relationships with customers is an understanding of their needs and concerns about changing market trends. This understanding enables the Group to provide its customers with product design and development and outsourced manufacturing capability, as well as additional value-added services such as advice on the in-store placement of portable lighting products, which may help reduce customers' costs, thereby enhancing their competitiveness in the market.

The Group maintains long established relationships with its contract manufacturers

Since commencing operations, the Group has established strong and close working relationships with the contract manufacturers who manufacture the Group's products. The Group enjoyed business relationships with four of its top five suppliers for the year ended 31 December 2011 for five years or more.

The Directors believe that as the manufacturing process has been outsourced to its contract manufacturers, the Group can focus on value-added areas such as product design and development, marketing and quality control. The Group has been therefore able to reduce capital investments and operating costs associated with the ownership of production facilities. The Group does not have long-term contracts for steady orders, and has not entered into any fixed-term or exclusive agreements or

BUSINESS

arrangements to purchase from any suppliers. The Directors believe that it is not necessary for the Group to enter into long fixed-term agreements with either customers or suppliers, as the Group maintains strong business relationships with them.

The Group's products meet the high design and development and quality standards of customers

As of the Latest Practicable Date, the Group's design and development team had 23 employees, who focus on the development of the Group's products. For the two years ended 31 December 2010 and 2011, the Group's expenditures for design and development capabilities were approximately HK\$4.5 million and HK\$5.2 million, respectively, accounting for approximately 2% of the Group's total revenue during each of the relevant periods. The Group also intends to use approximately HK\$4.9 million (representing 20%) of the net proceeds from the Placing to establish a product development centre in Dongguan Province, the PRC, equipped with the necessary machinery and equipment to increase the number of designs and prototypes offered to existing and potential customers. The Group's product design and development capabilities enable it to transform product concepts into commercially viable products. The Group has the capability to translate ideas or concepts described by its customers — as well as its own ideas and concepts — into tangible designs with the necessary technical drawings and specifications. The Group's early involvement with customers during the product development stage allows for feedback and suggestions on product design and manufacturability, so that the Group is able to design and procure the production of quality products that meet the requirements of the Group's customers. During the Track Record Period, the Group provided its customers with over 3,500 new designs for portable lighting, shades, furniture sets and other home accessories each year.

The Directors believe that by leveraging their and their senior management's deep knowledge of market trends and customers' needs in addition to their close collaborative relationships with both customers and contract manufacturers, the Group has been able to transform product concepts into commercially viable products in an efficient and effective manner.

The Group also places a strong emphasis on its product quality by implementing a comprehensive quality control system. As at the Latest Practicable Date, nine staff are employed in the quality control division of the Group. Quality control procedures have been established throughout the entire production process so as to ensure that the Group's products are manufactured to a consistent, reliable and high quality standard. For further details of the Group's quality control procedures, please see the sub-section headed "Quality Control" below.

The Group has established a U.S. distribution hub to meet orders from its U.S. customers in shorter delivery lead times

Mastercraft USA keeps a limited inventory in terms of product range and quantities of the Group's products in the U.S. The Group is therefore positioned to meet short delivery lead-time orders from its U.S. customers. The Group's ability to supply products direct to its U.S. customers from a U.S. hub in shorter delivery lead times is another advantage it has over its competitors who do not operate a U.S. hub. Further details of the ordering process for the Group's products are set out in the sub-sections headed "Sales and marketing — Order processing" and "Delivery — Comparison of current and historical operation in the U.S." below.

BUSINESS

PRODUCTS

The Group's products can be divided into three major categories, namely portable lighting, shades and furniture sets and other home accessory products (such as candleholders, picture frames and sculptures), each of which are described in more detail below. The following table sets out the breakdown of the Group's revenue for each product segment during the years indicated.

	Year ended 31 December			
	2010		2011	
	Percentage		Percentage	
	Sales	of total sales	Sales	of total sales
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Portable lighting	144,663	72.9	173,815	65.7
Shades	33,130	16.7	68,593	25.9
Furniture sets and other home accessory products	20,724	10.4	22,074	8.4
Revenue	198,517	100.0	264,482	100.0

Portable lighting

The Group's portable lighting products form the core of its business. Currently, there are primarily five product lines within the portable lighting category.

Table lamps

Table lamps include standard table lamps, bankers' lamps and tiffany lamps. Table lamps are usually placed on desks, tables or nightstands and are designed to provide light for both decorative and illumination purposes. Bankers' lamps are functional and designed to assist with reading and typically feature a metal base and a cased glass shade. Tiffany lamps are a style of traditional handcrafted lamp which feature a glass shade made by soldering colourful stained glass pieces together.

The Group offered around 980 different designs of table lamp in 2011. The Group also offers table lamps in different materials, including acrylic, ceramic, crystal, glass, metal, plastic, polyresin and wood for standard table lamps and metal, polyresin and wood for tiffany table lamps.

Sales of table lamps for the years ended 31 December 2010 and 2011 were HK\$73.6 million and HK\$84.9 million, representing approximately 37.1% and 32.1%, respectively, of the Group's revenue.

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Floor lamps

Floor lamps include standard floor lamps and torchière lamps. Floor lamps are self-supporting luminaries often used as reading lamps or as auxiliary light sources in a living room or office space. Most floor lamps use a weighted base for support with a centralised pole holding the individual light fixtures. A torchière lamp is a type of floor lamp topped with an inverted shade that directs light towards the ceiling.

The Group offered around 50 different designs of floor lamps and torchière lamps in 2011. It offers floor lamps in different materials including glass, metal, polyresin and wood.

Sales of floor lamps for the years ended 31 December 2010 and 2011 were HK\$36.8 million and HK\$27.5 million, representing approximately 18.5% and 10.4%, respectively, of the Group's revenue.

Accent lamps

Accent lamps are home lighting options used as decoration and ornamentation and to create "mood lighting" in a room rather than providing illumination in a specific space. In general, the Group's accent lamps are relatively small devices (usually no more than 20 inches in height).

The Group offers a diverse selection of accent lamps in about 100 different design styles and different materials including acrylic, ceramic, crystal, glass, metal, polyresin and wood.

Sales of accent lamps for the years ended 31 December 2010 and 2011 were HK\$9.6 million and HK\$42.7 million, representing approximately 4.8% and 16.1%, respectively, of the Group's revenue.

Buffet lamps

Buffet lamps are recognisable by their long, narrow stands and small shades that are designed to focus the light down at a desired spot. Buffet lamps are designed to take up little room on a table while at the same time providing sufficient light. The Group offers a diverse selection of buffet lamps in about 30 different design styles and different materials including metal, polyresin and wood.

Sales of buffet lamps for the years ended 31 December 2010 and 2011 were HK\$17.8 million and HK\$16.2 million, representing approximately 9.0% and 6.1%, respectively, of the Group's revenue.

Lamp sets

Lamp sets are usually a co-ordinated set of lamps that include a floor lamp and two table lamps. The Group currently offer around 10 different styles of lamp sets.

Sales of lamp sets for the years ended 31 December 2010 and 2011 were HK\$6.9 million and HK\$2.0 million, representing approximately 3.5% and 0.7%, respectively, of the Group's revenue.

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Breakdown of the Group's revenue for portable lighting

The following table sets out the breakdown of the Group's revenue for each portable lighting category.

	Year ended 31 December			
	2010	Percentage	2011	Percentage
	Revenue	of total	Revenue	of total
	HK\$'000	lighting	HK\$'000	lighting
		%		%
Lighting				
Table lamp	73,593	50.9	84,871	48.8
Floor lamp	36,792	25.4	27,490	15.8
Accent lamp	9,583	6.6	42,664	24.5
Buffet lamp	17,831	12.3	16,150	9.3
Lamp set	6,864	4.8	1,979	1.2
Lamp part	—	—	409	0.3
Pendant lamp	—	—	252	0.1
	144,663	100.0	173,815	100.0
Total lighting	144,663	100.0	173,815	100.0

Shades

The Group offers a selection of shades which are sold separately and can be paired with most lamps of various styles and sizes. Shades are lined and framed and typically fit over a lamp to cover the lighting source. Shades serve both decorative and practical purposes. The Group offers a diverse selection of shades in about 210 different design styles.

Sales of shades for the two years ended 31 December 2010 and 2011 were HK\$33.1 million and HK\$68.6 million, representing approximately 16.7% and 25.9%, respectively, of the Group's revenue.

Furniture sets and other home accessories

The Group offers ready-to-assemble furniture sets that are designed and sold unassembled to be put together by the end-customer. The sets are packed with a pair of table lamps and co-ordinated home accessories, such as candleholders, vases, trays or picture frames. The Group's ready-to-assemble furniture sets are primarily living room furniture, including coffee tables and end tables. The Group also offers a small selection of home accessories, including candleholders, picture frames, vases, pillows and sculptures.

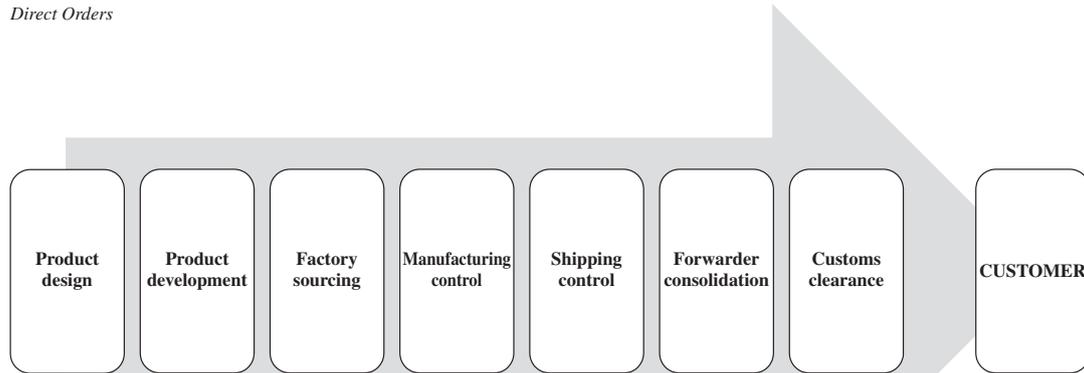
Sales of furniture sets and other home accessory products for the years ended 31 December 2010 and 2011 were HK\$20.7 million and HK\$22.1 million, representing approximately 10.4% and 8.4%, respectively, of the Group's revenue.

BUSINESS

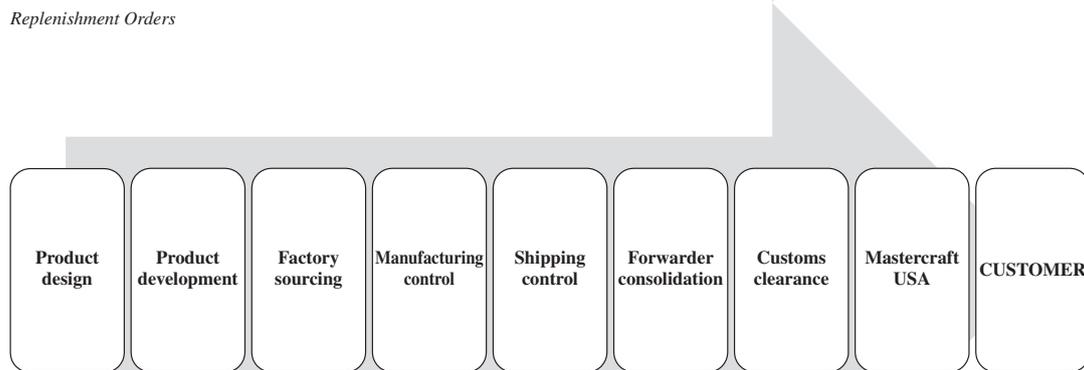
THE GROUP'S BUSINESS MODEL

The Group's business model is based on an ODM model, whereby the Group designs and develops products for its customers, before outsourcing production of those products to a number of contract manufacturers. The finished products are marketed to consumers under the brand name of the Group's customers. The following diagrams illustrate the Group's business model for Direct Orders and Replenishment Orders, respectively:

Direct Orders



Replenishment Orders



The Directors believe that the Group's outsourced production arrangements are more cost-efficient and enable it to avoid operational and financial risks and costs associated with the production of such outsourced products. This allows the Group to focus on added value product development and design, marketing, quality control, logistics and delivery handling services.

Product design and development

Product design and development plays a crucial role in the Group's business and transforming ideas into products. In addition, the Group's product development team is able to produce prototypes, allowing it to roll out new products for increased customer choice. In August 2011, the Group also established Mastercraft WFOE to bring the Group's development capabilities entirely in-house.

Design and development capability

As at the Latest Practicable Date, the product design and development department consisted of 23 employees. The team is responsible for product design and development and the creation of product prototypes. The Group's head of product development and marketing has over 20 years of experience in the lighting and home furnishings industry.

Product design and development is primarily carried out at industrial buildings in Shenzhen, Guangdong Province, the PRC. The Group is also planning to develop a new product development centre in Dongguan Province, the PRC (which the Directors currently anticipate to be established during the first half of 2013). Further details of the Group's strategy to strengthen design and development capabilities are set out in the section headed "Statement of business objectives" in this prospectus.

Prior to the commencement of business of Mastercraft WFOE, the Group's design and development team co-operated with Yu Tai, a related party during the Track Record Period, to develop the Group's designs to the prototype stage. All of the Yu Tai's product design employees were offered employment with Mastercraft WFOE. Of the 44 staff employed by Mastercraft WFOE, 40 were formerly employed by Yu Tai. The Group has therefore managed to ensure continuity in design and development expertise and capabilities while simultaneously bringing its design and development entirely in-house.

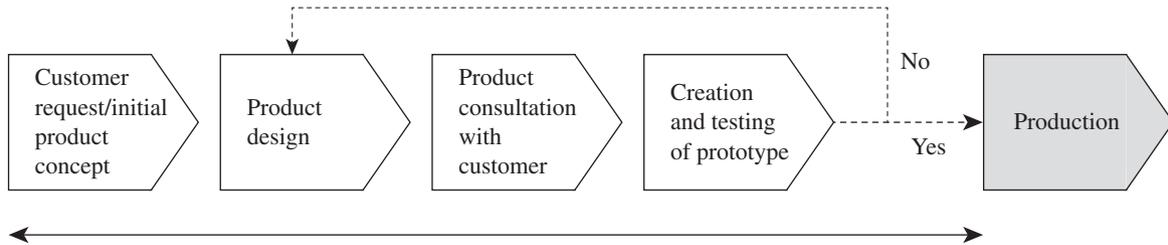
Product design and development process

The Group's product design and development team works closely with its customers to create designs that accommodate customer preferences, shifting trends and consumer tastes.

BUSINESS

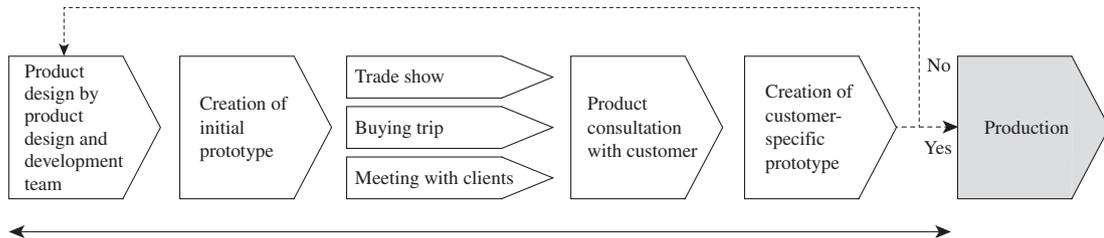
The design and development team also liaises with customers on design issues, technical matters and production feasibility of proposed products. The product design and development process consists of several steps from the initial product concept and production of design sketches to the creation and testing of prototypes. The following diagram outlines two scenarios typical of the Group's product design and development process:

Product design and development in cooperation with customer:



During the customer initiated product design and development, the Group's product design and development team works closely with the customer to realise the customer's design aspirations. Members of the Group's product design and development team create drawings based on their consultations with the customer. The customer is presented with the rendered designs and selects those it wishes to be developed into prototypes in the Group's Shenzhen workshop. If the customer is satisfied with the initial prototype it will consult further with the product design and development team in order to perfect the product to conform to the customer's specific design specifications. The new design can then be put into mass production by a contract manufacturer.

Group initiated product design and development:



Group initiated product design and development is initiated by the Group's product design and development team. Team members render new designs on the basis of their industry expertise and understanding of consumer tastes. Prototypes are then created for presentation to customers at trade shows, on buying trips or in one-on-one meetings. The Group's product design and development team consults with customers who express interest in the Group's designs. Prototypes are then created on the basis of the customer's unique design specifications. If the customer is satisfied with the prototype the product can then be put into mass production.

The Group's product design and development team designs and creates products on a regular basis with a view to expanding its product range, keeping pace with market trends and realising its marketing plans.

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Throughout the entire product design and development process, product designs are subject to multiple evaluations which include safety and reliability testing. Taking customers' comments and feedback into account, the Group revises and resubmits design sketches and prototypes until the customer is satisfied with the product.

During the Track Record Period, the product design and development team produced, on average, 294 product samples per month.

SALES AND MARKETING

Marketing

The Group adopts an active marketing strategy, which includes meetings with customers and trade fairs in the U.S., as well as through its website.

The Group's founders, Mr. Strickland and Mr. Leung, are also responsible for exploring and developing new markets and fostering business relationships with the Group's existing customers.

Service representatives

Roles of service representatives

The roles of the service representatives are to (i) assist Mr. Strickland to approach customers identified by the Group with new designs and the prototype products; (ii) liaise between the Group and its customers to provide information on the pricing and payment terms determined by the Group; (iii) liaise between the Group and its customers to provide feedback on prototypes and designs; (iv) present customers with quotations drawn up by the Group; (v) liaise between the Group and its customers to provide particulars of purchase orders; and (vi) liaise between the Group and its customers regarding order fulfillment. Once the details of purchase orders are finalised, customers place purchase orders directly with the Group. These representatives are not considered employees of the Group. As confirmed by the Directors, as customers of the Group are located in different U.S. states, the service representatives are able to liaise with customers to attend to their needs and queries in a faster and more responsive way. The Directors confirm that it was a decision between engaging service representatives or employing staff to perform the aforesaid services, and the Directors finally decided to engage service representatives to perform such services.

Commissions

The Group paid a total of HK\$5.3 million and HK\$3.3 million respectively in commissions to service representatives during the years ended 31 December 2010 and 2011, respectively. Some of the Group's services representatives ceased to provide services to the Group in the second half of the year ended 31 December 2010. As a result, commissions paid by the Group to services representatives decreased by approximately HK\$ 2.0million from HK\$5.3million to HK\$3.3million for the years ended 31 December 2010 and 2011, respectively. The average rate of commission paid (being the commission paid as a percentage of the Group's revenue attributable to orders followed-up by service representatives) for the years ended 31 December 2010 and 2011, respectively was 3.8% and 3.8% respectively. The number of service representatives serving the Group's customers decreased from five

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as at 31 December 2010 to three as at 31 December 2011. The revenue of the Group increased by approximately 33.2% from approximately HK\$198.5 million to HK\$264.5 million in the years ended 31 December 2010 and 2011, respectively.

The Directors confirm that all payments to service representatives were on normal commercial terms. Historically, the Group entered into relationships with service representatives on an informal and explorative basis. The Group did not expect that these relationships would prove to be long standing. The Directors confirm that it is the industry practice to engage such service representatives without executing formal agreements and the terms of engagement including the commission rates were agreed verbally between the service representatives and the Group prior to the placement of a purchase order by the customer. As a result, formal written agreements with such service representatives were not considered necessary. However, in view of the proposed listing, and in view of the findings contained in the internal control review conducted by Baker Tilly Hong Kong Business Services Limited the Group has executed formal agreements with all of its service representatives as of March 2012.

During the Track Record Period, the commission paid by the Group to the service representatives was calculated by reference to the profit margins of the products the sale of which the service representatives facilitated. High profit margin products may attract commissions of up to 13% of the net invoice price of the relevant purchase order. Products with a profit margin of less than 10% attract nil commission and products with a gross profit margin of not less than 32% may attract the maximum commission rate of 13%. 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. Instances of nil commissions attributable to one particular order may arise but in limited circumstance only i.e. where an order was comprised exclusively of low profit margin products.

The Group calculates commission in this manner to effectively manage its costs.

At the time when the Group negotiates the selling price of each product with the customers, the management of the Company will agree the commission rate on each class of product with the service representative who helps the Group to handle the particular customer. Once the commission rate is verbally agreed, the rate will not be changed unless there is a change in the selling price of that product. The Group then provides the commission based on their agreed rate.

The Group sends a monthly commission report to the service representative based on their verbal agreement and makes payment accordingly. Except for the claim regarding the termination of services as disclosed in note 26 of Accountants' Report, there is no dispute on the commission paid in the previous years.

Based on past experience and the relationship with sales representatives, the Directors consider that the expected commission expense provided at the time of sales is estimated reliably and in accordance with IAS 37 "Provisions, contingent liabilities and contingent assets".

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Service representatives engaged by the Group

The table below sets out the number of service representatives acting as intermediaries between the Group and its customers during the Track Record Period.

	As at 31 December	
	2010	2011
Number of service representatives	5	3

As at 31 December 2010, the five service representatives acting as intermediaries between the Group and its customers were Global Top Development Limited, Todd Miller Inc., service representative A, Daisy Inc. and service representative B. As at 31 December 2011, the three service representatives acting as intermediaries between the Group and its customers were Global Top Development Limited, Todd Miller Inc. and Daisy Inc.

Global Top Development Limited, a service representative was responsible for one of the Group's MMR customers.

Todd Miller Inc. was appointed as a service representative for the Group in 2009. It is principally responsible for sales to home furniture stores. Todd Miller Inc. is a related party of Mr. Strickland, a Controlling Shareholder and executive Director of the Company. Service representative A was appointed as a service representative for the Group in 2009. He was principally responsible for sales to home furniture stores. He ceased his relationship with the Group of his own accord and not as a result of a dispute with the Group in 2011. Daisy Inc. was appointed as a service representative for the Group in 2009. Service representative B was appointed as a service representative for the Group in 2010. He was principally responsible for one of the Group's MMR customers. The Group terminated its relationship with service representative B in 2011 due to the Group's concerns regarding his performance.

The Directors confirm that other than Todd Miller Inc., none of the Group's service representatives have any past or present relationship with the Company, its subsidiaries and their respective shareholders, directors, senior managers and any of their respective associates.

As at the Latest Practicable Date, all sales of the Group are sourced by the Group. Service representatives, such as Global Top Development Limited, Daisy Inc. and Todd Miller Inc., play the liaison role between the Group and its customers. Commissions are payable on orders followed-up by the aforementioned service representatives. More than one service representative may be appointed to liaise with the same customer of the Group. In such circumstances, commissions may be shared by more than one service representative on any given order.

Customers

During the Track Record Period, the Group provided its products to approximately 40 customers. The majority of these customers are based in the U.S. Customers in the U.K. and Kuwait placed orders with the Group during the year ended 31 December 2011 only. The Group's products are manufactured on an ODM basis for its customers.

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The Group sells its products to the MMR customers, home furnishing stores, furniture stores, distributor and Specialty Stores.

The following table sets out, among other things, revenue and sales quantities attributable to each category of the Group's customers during the Track Record Period.

	Year ended 31 December							
	2010				2011			
	Revenue <i>HK'000</i>	Percentage of total revenue %	Quantities	Number of customers	Revenue <i>HK'000</i>	Percentage of total revenue %	Quantities	Number of customers
MMRs	139,249	70.1	4,668,818	3	169,794	64.2	5,822,259	3
Home furnishing stores	31,000	15.6	261,544	5	22,873	8.6	204,711	6
Furniture stores	18,642	9.4	52,741	27	19,762	7.5	75,149	26
Distributors	—	—	—	—	37,624	14.2	1,418,997	1
Specialty Stores	7,733	3.9	151,924	3	13,516	5.1	331,064	2
Others	1,893	1.0	1,570	2	913	0.4	826	2
Total	<u>198,517</u>	<u>100.0</u>	<u>5,136,597</u>	<u>40</u>	<u>264,482</u>	<u>100.0</u>	<u>7,853,006</u>	<u>40</u>

For the year ended 31 December 2010, the Group's customer base comprised of 3 MMR customers, 5 home furnishing stores, twenty-seven furniture stores and 3 Specialty Stores. For the year ended 31 December 2011, the Group's customer base comprised of 3 MMR customers, 6 home furnishing stores, twenty-six furniture stores, 1 distributor and 2 Specialty Stores.

Revenue attributable to the Group's MMR customers increased by approximately HK\$30.6 million from HK\$139.2 million for the year ended 31 December 2010 to HK\$169.8 million for the year ended 31 December 2011, while the percentage of revenue attributable to the Group's MMR customers decreased from approximately 70.1% to 64.2% during the same year. The increase in sales was primarily due to the increase of sales for portable lighting products and shades from two of the Group's major MMR customers from the year ended 31 December 2010 to the year ended 31 December 2011.

Sales attributable to home furnishing stores decreased by approximately HK\$8.1 million from HK\$31.0 million for the year ended 31 December 2010 to HK\$22.9 million for the year ended 31 December 2011 while the percentage of revenue attributable to home furnishing stores decreased from approximately 15.6% to 8.6% during the same year. The decrease of sales to home furnishing stores was primarily due to the decrease in sales for portable lighting in the year ended 31 December 2011.

Revenue attributable to furniture stores increased by approximately HK\$1.2 million from HK\$18.6 million for the year ended 31 December 2010 to HK\$19.8 million for the year ended 31 December 2011 while the percentage of revenue attributable to furniture stores decreased from approximately 9.4% to 7.5% over the same period.

On 1 January 2011, in response to certain of the Group's U.S. customers preference for short delivery lead-time orders, the Group engaged MIUSA as a distributor to distribute the Group's products from a U.S. hub to those customers. The total sales and net sales by the Group to MIUSA for the year ended 31 December 2011 were approximately HK\$49.4 million and HK\$37.6 million, respectively, equivalent to approximately 14.2% of the Group's total revenue for the year ended 31 December 2011.

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Revenue attributable to Specialty Stores increased by approximately HK\$5.8 million from HK\$7.7 million for the year ended 31 December 2010 to HK\$13.5 million for the year ended 31 December 2011 while the percentage of revenue attributable to Specialty Stores increased from approximately 3.9% to 5.1% during the same year. This increase was primarily due to increased sales for portable lighting.

Currently, the Group does not have its own brand. The Group's customers on-sell the Group's products under their own brands and this applies to all customers. The Group selects its customers based on various factors such as recognition of their brands, sales and distribution networks, business strategies and visions, and financial condition, as well as their ability to continue to be market leaders (or their potential to become the market leaders).

Details of the duration of the relationships with the Group's top five customers for the year ended 31 December 2011 are set out below.

Name of Customer	Percentage of total revenue year ended 31 December 2011	Duration of relationship with the Group
Customer A ¹	31.3%	12 years
Customer B ²	16.8%	13 years
Customer C ³	16.1%	3 years
MIUSA	14.2%	9 months
Customer D ⁴	5.1%	9 years
	83.5%	
Others	16.5%	
	100.0%	

1 Customer A is listed on the New York Stock Exchange. It is an MMR. It is one of the largest discount retailers in the U.S., selling an assortment of general merchandise including food. For the years ended 31 December 2010 and 2011, it was the largest customer of the Group.

2 Customer B is listed on the New York Stock Exchange. It is an MMR. It operates retail stores. For the two years ended 31 December 2010 and 2011, it was the Group's third largest and second largest customer, respectively.

3 Customer C is listed on the New York Stock Exchange. It is an MMR. It is one of the largest discount retailers in the U.S. selling an assortment of general merchandise. For the year ended 31 December 2010, it was the second largest customer of the Group. For the year ended 31 December 2011, it was the third largest customer of the Group.

4 Customer D is a Specialty Store, which sells arts and craft suppliers, handicrafts and home-decorating accessories. For the year ended 31 December 2011, it was the fifth largest customer of the Group.

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Out of the approximately HK\$49.4 million total sales to MIUSA in the nine months ended 30 September 2011, approximately HK\$37.6 million were sold on to the Group's U.S. customers. The net sales by the Group to MIUSA for the nine months ended 30 September 2011 were HK\$37.6 million. The estimated breakdown of sales of the Group's products through MIUSA to the Group's U.S. customers during the nine months ended 30 September 2011 were approximately 91.7% to "Customer B", approximately 6.7% to "Customer E" and approximately 1.6% to other customers of the Group. The distribution services provided by MIUSA to the Group were discontinued at the end of September 2011 and such distribution services have been taken up by Mastercraft USA, an indirect wholly owned subsidiary of the Company which was incorporated on 12 September 2011. Adjusting for the above sales made through MIUSA, the top five customers of the Group for the year ended 31 December 2011 were as follows:

Name of Customer	Percentage of total revenue	Duration of relationship with the Group
Customer A	31.3%	12 years
Customer B	29.8%	13 years
Customer C	16.1%	3 years
Customer D	5.1%	9 years
Customer E ⁵	3.7%	10 years
	86.0%	
Others	14.0%	
	100.0%	

To compare the Group's top five customers, the tables below provide details of sales as a percentage of Group's total revenue for the year ended 31 December 2010, as well as their respective length of business relationship with the Group.

⁵ Customer E is a home furnishing store in the U.S. and also operates stores in a number of other countries. For the year ended 31 December 2010, it was the Group's fifth largest customer.

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Top five customers for year 2010:

Name of Customer	Percentage of total revenue for year ended 31 December 2010	Duration of relationship with the Group
1. Customer A	33.1%	12 years
2. Customer C	21.7%	3 years
3. Customer B	15.3%	13 years
4. Customer F ⁶	5.4%	10 years
5. Customer E	5.3%	10 years
	80.8%	
Others	19.2%	
	100.0%	

For the years ended 31 December 2010 and 2011, the Group's top five customers accounted for approximately 80.8% and 83.5%, respectively, of the Group's revenue. During the same period, the largest customer of the Group accounted for about 33.1% and 31.3%, respectively, of the Group's revenue.

The Group's business relationships with its top five largest customers (excluding MIUSA) for the year ended 31 December 2011 ranged from three to thirteen years. The Directors believe that such long-standing relationships stem from the recognition of the quality of the Group's products and timely completion of customers' orders under delivery schedules and short production lead times. Such relationships help preserve the loyalty of customers and reinforce the commitment of such customers to place further orders with the Group.

The Directors expect to continue to grow the Group's business with MMR customers, as these customers are the largest contributors to the Group's revenue, and also to develop the business with and increase the customer base of Specialty Stores and home furnishing stores due to their higher gross profit margin compared to other customer categories.

The Group has not entered into any exclusivity agreements with any of its customers.

The Directors confirm that none of the Directors, chief executive or substantial shareholders of the Company or their respective associates has any interest in any of the Group's top five customers for the year ended 31 December 2010. For the nine months ended 30 September 2011, the total sales by the Group to MIUSA were approximately HK\$49.4 million. MIUSA sold approximately HK\$37.6 million of such products onwards to the Group's U.S. customers. The Group repurchased MIUSA's inventory as at 30 September 2011 at the same price amounting to approximately HK\$11.8 million. The net sales by the Group to MIUSA for the nine months ended 30 September 2011 was therefore HK\$37.6 million, representing 22.2% of total revenue of the Group for the same period or 14.2% of the total revenue of

⁶ Customer F is a subsidiary of a company listed on New York Stock Exchange. Customer F is a home furnishing store. For the year ended 31 December 2010, it was the Group's fourth largest customer.

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the Group for the year ended 31 December 2011. Please refer to the sub-section headed “Delivery — U.S. distribution hub” below for further information. MIUSA is a company wholly owned by Mr. Strickland, a Controlling Shareholder and executive Director of the Company. During the Track Record Period, other than MIUSA, all the other major customers were Independent Third Parties.

Pursuant to an inventory purchase agreement dated 30 September 2011 entered into between Mastercraft USA, Mastercraft International, Mr. Strickland and MIUSA, Mastercraft USA acquired from MIUSA its inventories of the Group’s products. Subsequent to such acquisition, MIUSA has ceased to purchase any products from the Group.

Note on MIUSA

From 1 January 2011 to 30 September 2011, MIUSA served as a distributor of the Group’s products in the U.S. MIUSA offered 50 days credit terms to its MMR customer as this customer purchased products from MIUSA within the U.S. The distribution role of MIUSA was assumed by Mastercraft USA as of 1 October 2011. Please refer to the sub-section headed “Delivery — U.S. distribution hub” below for further information on MIUSA.

For customers who purchase directly from the Group, the payment terms of the mandates include letters of credit, documentary collection against payment and open accounts. For the year ended 31 December 2010, approximately 49.5%, 15.6% and 34.9% respectively of the Group’s revenue was settled by open credit accounts with 30 to 60 days’ settlement payable either by letter of credit, cheque or telegraphic transfer, depending on the Group’s relationship with the customer and the customer’s credit record. For the year ended 31 December 2011, approximately 48.9%, 8.6% and 42.5% respectively of the Group’s revenue was settled by open credit accounts with 30 to 60 days’ settlement payable either by letter of credit, cheque or telegraphic transfer, depending on the Group’s relationship with the customer and the customer’s credit record. Please refer to the sub-section headed “Sales and marketing — Payment terms and credit policy” below for further information.

The arrangement with MIUSA as the Group’s distributor was to satisfy the purchasing preference of the Group’s customers. Customers were provided with the choice to take delivery either from MIUSA in the U.S. or directly from the Group at a designated PRC port. The Directors confirm that the Group sold the same product directly to its customers and MIUSA at the same price. However, if a customer places an exceptionally large quantity order for a product, a discount would be offered to this customer and such large quantity orders are normally placed with Mastercraft International. This is the only circumstance in which the selling price of a product to a customer could be different from that offered to MIUSA and/or Mastercraft USA. MIUSA would add on its margin before selling onwards to the Group’s customers. Based on the management accounts of MIUSA for the nine months ended September 2011, the margin added on to the cost of sales, which was inclusive of freight and transportation costs, by MIUSA in respect of products purchased from the Group and subsequently onward sold to customers was approximately 24.5%. Therefore, there was no transfer pricing issue. Following the design and development of a new product, members of the design and development team (together with Mr. Strickland) would market that product to customers. If the customer decided to purchase the new product, the customer would initially place an order with the Group for direct import (with six to eight weeks lead time). Thereafter, customers had the option to continue to order from the Group for direct import or order the same products from MIUSA for delivery in the U.S. with short delivery lead-times.

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The U.S. distribution hub function and short delivery lead time option has now been moved in-house and are being carried out by Mastercraft USA. The Directors believe that providing additional delivery choices has improved the Group's relationship with its customers.

MIUSA carried inventory of the Group's products in the U.S. to facilitate customers, which required short delivery lead-time. The Group only held minimal inventory of finished goods in practice until the establishment of Mastercraft USA.

Up to 30 April 2012, the Group's subsequent sales and usage of the repurchase inventories acquired from MIUSA at 30 September 2011 totaled approximately HK\$12.0 million representing approximately 99.2% of the said inventory.

Principal markets

The following table illustrates the breakdown of the Group's revenue by geographical area by customer location for the years ended 31 December 2010 and 2011. A number of the Group's customers based in North America operate overseas subsidiaries. During the year ended 31 December 2011, a European subsidiary of one of the Group's MMR customers placed an order with the Group.

	Revenue from customers	
	Year ended 31 December	
	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
North America		
— U.S.	186,842	258,406
— Canada	<u>11,675</u>	<u>4,352</u>
	198,517	262,758
Others (<i>Note</i>)	<u>—</u>	<u>1,724</u>
	<u><u>198,517</u></u>	<u><u>264,482</u></u>

Note: Others include Kuwait and the United Kingdom (U.K.). For the year ended 31 December 2011, sales to Kuwait and the U.K. amounted to approximately HK\$0.6 million and HK\$1.1 million respectively.

BUSINESS

For the two years ended 31 December 2010 and 2011, 94.1% and 97.7% of the Group's revenues were derived from sales to customers in the U.S. The Group is, therefore, presently dependent on sales within this geographic region, and any impairment to the Group's ability to do business in the region may adversely impact its sales revenues, business and results of operations. Although the Group has begun to evaluate the potential of other markets with a view to diversifying its business geographically and expand its presence in regions beyond U.S., the Directors anticipate that sales to the U.S. market will continue to represent a significant portion of the Group's revenue for the foreseeable future. The Group's sales are dependent on the health of the U.S. retail market and levels of discretionary consumer spending in general which is in turn influenced by a number of factors some of which are beyond the Group's control, including, amongst others, the recent economic downturn. Beginning in 2008 and continuing into throughout 2009 and 2010, the economic situation in the U.S. deteriorated significantly. The effect of the deterioration of the economy was reflected in part by the decline of the Group's net sales, prior to the Track Record Period. The Group's sales to the U.K. and Kuwait in 2011 were one off in nature. The Company does not expect to have significant sales to either the U.K or Kuwait, although it will consider all possible business opportunities on a case-by-case basis as they arise. The review and evaluation of the potential of overseas markets is one of the Group's business objectives.

For further details, please refer to the risk factors headed "The Group is dependent on sales in a single geographic region, and any impairment to its ability to do business in that region may adversely affect its business or results of operations" and "The recent global market fluctuations and economic downturn may materially and adversely affect the Group's business, financial condition and results of operations" in the section headed "Risk factors" in this prospectus.

Payment terms and credit policy

The methods of determining the selling prices of the Group's products and decisions as to whether sales orders made by customers are accepted by the Group are determined on a case-by-case basis with reference to the guidelines as set out in the Group's sales and receivables policy manual ("Sales and Receivables Policy Manual"). Relevant factors include the cost of manufacturing, the size of order, the complexity of the production process, length of relationship with the customer and the expectation of future re-order.

All of the Group's sales were invoiced in U.S. dollars for the two years ended 31 December 2011.

The payment terms for the Group's products include letters of credit, documentary collection against payment and open accounts. For the year ended 31 December 2010, approximately 49.5%, 15.6% and 34.9% respectively of the Group's revenue was settled by open credit accounts with 30 to 60 days' settlement payable either by letter of credit, cheque or telegraphic transfer, depending on the Group's relationship with the customer and the customer's credit record. For the year ended 31 December 2011, approximately 48.9%, 8.6%, 42.5% respectively of the Group's revenue was settled by open credit accounts with 30 to 60 days' settlement payable either by letter of credit, cheque or telegraphic transfer, depending on the Group's relationship with the customer and the customer's credit record.

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The Group regularly reviews the settlement records of its customers to determine the credit terms to be offered to them in order to minimise its credit risk.

The Group assesses each instance of credit default on a case by case basis to determine whether or not the outstanding trade receivables are collectible. For the year ended 31 December 2011, trade receivables written-off by the Group amounted to approximately HK\$410,000 and the business relationship started in February 2010 and ended in June 2010. The total sales to the said customer was approximately HK\$1.7 million. No further sales was made to the said customer subsequent to June 2010. The said customer was not one of the Group's major customers, and the amount of approximately HK\$410,000 written-off, represented approximately 0.2% of the Group's revenue in year ended 31 December 2010. Transactions with this customer were initially based on document against payment, however, the last three shipments totalling approximately HK\$850,000 were not settled in full resulting in the write-off of approximately HK\$410,000 in 2011. The said customer was making defective claims against the products of the Group and withheld payment. The amount was overdue for more than one year and the recoverability was considered low and therefore written off and the claim has been closed. This bad debt was attributable to a single customer, a home furniture importer based in Canada. There was no bad debt write-off of trade receivables for the year ended 31 December 2010. The Group has not experienced any other difficulties in collecting payment.

The Company's management reviews the Group's current and non-current receivables at the end of each reporting period to determine whether there is objective evidence of impairment. If objective evidence of impairment, which includes observable data, comes to the attention of the Group, the amount of impairment and loss will be determined and recognised.

During the global financial crisis, particularly in the second half of 2008, the Group applied a prudent approach in its dealings with its customers. Measures included (i) opening discussions aimed at shortening the credit period offered; and (ii) requesting settlement of letters of credit instead of open account.

Order processing

During the Track Record Period, the Group's customers had the option of placing Direct Orders or Replenishment Orders. Direct Orders are those placed with Mastercraft International and shipped to customers according to the agreed shipping terms whereas Replenishment Orders are second or subsequent purchase orders for a product placed with Mastercraft USA by certain customers in the U.S. Delivery lead times for Direct Orders are generally between 6 to 12 weeks depending on the agreed shipping terms. Delivery lead time are generally within one week for Replenishment Orders. In order for Mastercraft USA to satisfy Replenishment Orders, Mastercraft USA maintains Replenishment Inventory. Replenishment Inventory is comprised of the Group's products held in Mastercraft USA's warehouse in Arkansas, the U.S. on the basis of estimates and commitments (non-legally binding) previously received from customers.

Following the design and development of a new product, members of the design and development team (together with Mr. Strickland) market the Group's products to existing and potential customers. For the year ended 31 December 2010, all orders for the Group's products were Direct Orders. In the nine months ended 30 September 2011, customers were offered the additional option of being able to take delivery from MIUSA in the U.S. in addition to placing Direct Orders. On 1 October 2011, through

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Mastercraft USA, a wholly owned subsidiary of the Group, commenced business as the Group's U.S. distribution hub, and all of the Group's customers had the option of placing Direct Orders or Replenishment Orders.

If an order is from certain MMR customers, the Group will source a contract manufacturer with manufacturing facilities that meet the MMR's social accountability and safety standards. Otherwise, the Group retains discretion as to selection of contract manufacturer. For further details, please see the subsection headed "Production and outsourcing" below. At this stage, the Group will also assist customers in in-store product placement upon request.

Ordering process from 1 January 2011 to 30 September 2011

From 1 January 2011 to 30 September 2011, manufacturing orders provided by the Group to contract manufacturers were based on Direct Orders from customers or purchase orders from MIUSA.

For the year ended 31 December 2010, all orders for the Group's products were Direct Orders. In the nine months ended 30 September 2011, MIUSA purchased goods from the Group so as to be in a position to offer customers the option of taking delivery from the MIUSA warehouse in the U.S., which allowed for short delivery lead times of one week compared to Direct Orders. Manufacturing orders placed by the Group for MIUSA's inventory were based on purchase orders from MIUSA.

As at the Latest Practicable Date, products manufactured pursuant to Directs Orders continue to be based on purchase orders from customers.

Ordering process from 1 October 2011 onwards

To make Replenishment Inventory available to satisfy Replenishment Orders, the Group places manufacturing orders with contract manufacturers on the basis of item commitments (non-legally binding) previously received from a customer. These commitments (non-legally binding) are the customer's estimated weekly demands by stores looking ahead 52 weeks. The commitments (non-legally binding) and volume estimates are adjusted during the course of a season as sales profiles emerge, and to take into account the actual sales demand at the time. On that basis, the Directors believe that Mastercraft USA and the Group can anticipate with a high degree of confidence the inventory levels required as Replenishment Inventory.

The Group's customer monitors its own sales and estimate the number of products required. These sales figures and estimates, or in certain circumstance historical sales information, are provided to the Group, predominantly but not exclusively via the Group's customer's online platforms which the Group can access via a unique password. This facility allows the Group to monitor sales information for the Group's products. The financial controller of Mastercraft USA is responsible for managing the Group's Replenishment Inventory levels. The financial controller utilizes the sales information accessed online together with the commitments (non-legally binding) previously provided by the customer (which are the customer's best estimate based on the projected 52-week volume and store count for the item) together with customer forecasts. A demand planner is produced by the Group to track inventory available and on hand on a week by week basis. The financial controller approves the decision to place an order with Mastercraft International which in turn places an order with one of the Group's contract manufacturers.

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The Group endeavours to maintain Replenishment Inventory sufficient to meet six weeks' demand. This is comprised of inventory maintained at the warehouse of Mastercraft USA sufficient to meet two weeks' estimated demand and additional inventory in transit sufficient to meet four weeks' estimated demand. The Group manages inventory replenishment in ten week cycles. The Group's planning is designed to allow for an additional four weeks for design and manufacturing. The production of a demand planner and the practice of utilizing ten week planning cycles allows the Group to manage inventory risk as delays and other contingencies can be accounted for.

The financial controller also works with customer's "replenishment" managers in order to arrange the delivery of remaining inventory held by Mastercraft USA prior to the ordering of further inventories. Manufacturing orders for Replenishment Inventory are determined according to the sales performance of the product items and are adjusted on an ongoing basis throughout the season as a sales profile develops.

The financial controller updates data relating to the Group's inventory levels and when necessary liaises directly (as opposed to using the Group's customer's online platform) with the Group's customer to ascertain their Replenishment Inventory requirements.

For the three months ended 31 December 2011 (i.e. the period since Mastercraft USA commenced its business), manufacturing orders based on commitments (non-legally binding) and customer's projections accounted for approximately 25.9% of the total contract manufacturing orders from the Group for that period.

The Group does not require customers to pay deposits when ordering products. As a result, if a customer cancels a purchase order or refuses to accept delivery of the Group's products in breach of the customer's agreement with the Group, the Group may, failing other alternatives, need to commence litigation in order to recover damages. The Directors confirm that as a contingency against the Group's customers not placing Replenishment Orders against Replenishment Inventory it will re-package the un-ordered Replenishment Inventory and make it available for sale to other customers of the Group. The products do not need to be physically altered. Packaging materials will be procured in the U.S. The re-packaging will be undertaken by Mastercraft USA's warehouse staff. The cost of re-packaging will be borne by the Group. The Group's customers do not own any intellectual property rights associated with the products produced by the Group. Since the commencement of business of Mastercraft USA until the Latest Practicable Date, the Group has not had to implement its contingency plan.

Subject to certain cancellation rights, customers become legally bound to purchase the Group's products upon the Group accepting an order from the customer. Title to the products passes to customers pursuant to the shipping terms contained in the purchase order (or alternatively in a relevant supplier agreement with a particular customer). Normal commercial shipping terms typically provide that title passes upon delivery at the designated delivery location. In respect of the Group, these delivery locations are primarily designated ports in the PRC (such as at Yantian Port) or at Mastercraft USA's warehouse in the U.S. For further details, please refer to the sub-section headed "Delivery" in this section of the prospectus.

The Group's supplier agreements with its customers are generally governed by the laws of the jurisdiction in which the relevant customers do business, have their headquarters or are incorporated. For example, the Group's supplier agreement with Customer B is governed by the laws of the State of Arkansas in the U.S. In the U.S., contracts for the sale of goods are generally governed by Article 2 of

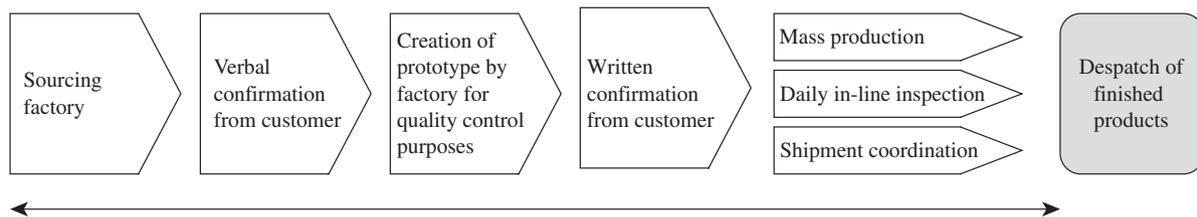
BUSINESS

the Uniform Commercial Code (“UCC”). Since the supplier agreement with Customer B is governed by the laws of the State of Arkansas, the supplier agreement with Customer B would be governed by the version of the UCC enacted in Arkansas. Accordingly, in the event Customer B wrongfully rejects or revokes acceptance of goods, then the Group would have several remedies available to it pursuant to the Arkansas UCC, which generally include: (i) withholding delivery of the goods; (ii) stoppage of delivery of the goods; (iii) resale of the goods and recovery of damages; or (iv) recovery of damages for nonacceptance or for the price of the goods. A court may provide the remedy of specific performance in such situations where the goods are considered unique, or in other circumstances.

To date, the Group has not experienced any instances where a customer did not take delivery or proceed with a specific purchase from the Group without justification.

PRODUCTION AND OUTSOURCING

The Group outsources the entire production process to independent third-party contract manufacturers in the PRC in order to minimise operating costs. The following diagram summarizes the order and production flow:



Currently, the Group outsources production to over 20 contract manufacturers, the majority of which are located in Guangdong Province, the PRC. The Group has established stable and long-term business relationships with its principal contract manufacturers.

During the year ended 31 December 2010 the Group engaged a total of 20 contract manufacturers. During the year ended 31 December 2011 the Group ceased using 5 and engaged 8 new contract manufacturers resulting in a total of 23 contract manufacturers relied upon by the Group as at 31 December 2011. Factors taken into account by the Group when deciding on the engagement of contract manufactures include their experience in the lighting products or home furnishings industry, management capabilities, production capabilities, financial and logistical resources and production costs. The Group may terminate a relationship with certain contract manufacturers in favour of other contract manufacturers depending on such factors. During the Track Record Period, the Group did not terminate its relationship with any of its contract manufacturers as a direct result of any breach of supplier agreement or quality issue.

For the year ended 31 December 2011, purchases from the Group’s top five contract manufacturers amounted to approximately HK\$180.5 million. For each of the two years ended 31 December 2010 and 2011, the top five contract manufacturers utilised by the Group accounted for approximately 91.3% and 85.9% of its total purchases, respectively. All of the Group’s contract manufactures are PRC based companies, the majority of which are primarily involved in production of lighting products, shades, furniture sets and other home accessories. During the Track Record Period, all of the Group’s contract manufacturers were Independent Third Parties.

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The Group enjoyed business relationships with four of its top five manufacturers for the year ended 31 December 2011 for five years or more.

Name of contract manufacturer	% of total purchase year ended 31 December 2011	Duration of relationship with the Group
1. Supplier A	58.1%	5 years
2. Supplier B	13.9%	5 years
3. Supplier C	4.9%	5 years
4. Supplier D	4.8%	1 years
5. Supplier E	4.2%	6 years

The Group generally enters into suppliers' agreements with contract manufacturers and orders under those contracts are placed according to the Group's customers' production needs. Under the suppliers' agreements, the Group's contract manufacturers are not permitted to manufacture or market portable lighting and home furnishing products using the Group's know-how. The contracts entered into between the contract manufacturers and the Group typically stipulate that the Group provides its contract manufacturers with the designs and specifications for the products. The contract manufacturers, in turn, provide raw materials, labour, factory premises and necessary equipment for production purposes. The contracts also typically stipulate that all intellectual property rights in connection with the designs, manufacturing equipment or materials provided by the Group under the contracts belong to the Group. Transfer or disclosure of technical information in whole or in any part to third parties is not permitted without the Group's prior consent. During the Group's co-operation with Yu Tai prior to the establishment of Mastercraft WFOE all intellectual property rights in connection with the design of the Group's products and prototypes remained the sole property of the Group.

The Group pays its contract manufacturers a fee based on the quantity of products produced. Credit periods range from 30 to 60 days after delivery of the finished products. The total cost of outsourced production was approximately HK\$150.7 million and HK\$210.0 million representing around 94.2% and 97.0%, respectively, of the Group's total cost of sales for the years ended 31 December 2010 and 2011, respectively. Although the Group's contract manufacturers do not provide a breakdown of their production costs, the Directors believe that the fluctuation in manufacturing costs during the Track Record Period is primarily due to fluctuations in the prices of raw materials and increased labour costs in the PRC. The Group is not in the position to enforce cost control measures on its contract manufacturers. The Group's sales and receivables policy manual specifies a minimum gross profit margin for sales orders. Approval must be obtained from the head of product development and marketing and the head of operations if the gross profit margin of a sales order falls below that of the initial quotation. Approval must be obtained from an executive Director to accept sales orders, which the gross profit margin falls below the said minimum.

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The Group selects contract manufacturers following rigorous inspection and assessment, including sample product testing, in accordance with the Group's standard outsourcing administration measures. The Group considers a range of factors when selecting its contract manufacturers, in particular the following:

- Experience in the lighting products or home furnishings industry
- Management capabilities
- Production capabilities
- Financial and logistical resources
- Production costs

During production, the Group monitors the performance of its contract manufacturers on a daily basis to ensure compliance with its quality standards, timely product delivery and that it meets the social accountability and safety standards required by the Group's MMR customers (as described below). The Group's account management team conducts on-site inspections of work-in-progress at the production points of its contract manufacturers during the processing, manufacturing, assembly and packaging phases. In addition, the Group's quality control team will conduct a random quality control inspection on the final batch of products. Products which are determined not to have met the Group's design and quality control specifications during final inspection are subject to a second evaluation by the management of the Group's quality control team. Products which do not meet the Group's design and quality control specifications following this second evaluation by management are not accepted by the Group. If the Group has any reservations concerning product quality, it requests the relevant contract manufacturer to provide guarantees, although the receipt of such guarantees is not a pre-requisite for engagement.

If high defective rates are found to exist in relation to a particular product, the Group may seek compensation from the relevant contract manufacturer. It is the Group's policy to negotiate compensation owed to it on a case by case basis. The Group prefers to negotiate practical solutions with its contract manufacturers whereby, for example, it will accept staged re-payment for losses incurred or discounts against further invoices. Pursuant to the supplier agreements entered into between the Group and the contract manufacturers, the Group in general is entitled to seek compensation from the manufacturers for any loss arising from defective products. As at the Latest Practicable Date, the Group has not been forced to litigate any disputes with its contract manufacturers in relation to liability arising out of their production of defective products.

The Directors confirm that during the Track Record Period and up to the Latest Practicable Date, to the best knowledge of the Directors, there had been no material quality control issues encountered in respect of contract manufacturers to whom production had been outsourced. The Directors have confirmed that during the Track Record Period and up to the Latest Practicable Date, there have been no disputes between the Group and contract manufacturers in relation to the Group's implementation of its quality control measures during all stages of the manufacturing and finished products inspection processes.

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Most of the Group's MMR customers require the Group to select contract manufacturers with manufacturing facilities that can meet their social accountability and safety standards. The Directors believe that these approved contract manufacturers have successfully passed a factory/production audit by one or more of the Group's MMR customers. Once contract manufacturers have been approved, the manufacturer will still be subject to periodic inspections by the relevant MMR customer(s).

The Group has put in place internal control measures to prevent corrupt practices in the procurement of contract manufacturers, as follows:

Obtaining quotations: Under the Group's procedures for obtaining quotations for particular purchase orders (set out in the Group's established policy and procedures on purchases and payables (the "Policies and Procedures")), (1) an account manager should obtain at least two quotations from suppliers and compare such quotations; (2) an account manager should pass the quotations obtained to the head of product development and marketing for approval; and (3) an account manager should then prepare a final quotation sheet including product descriptions, cost components, proposed selling price, commission rate and gross profit margin for the approval of the chief operating officer.

Segregation of duties: The Group's purchase order procedures also provide for a segregation of duties among contract procurement staff. The procedures require that (1) an operation assistant is responsible for preparing purchase orders for the approval of the operations manager before issuing; (2) purchase orders are to be generated by the Microsoft Dynamics system; (3) the operation manager is responsible for issuing purchase orders to suppliers; and (4) orders in excess of US\$500,000 are to be approved by the chief operating officer.

Management supervision and approval: All suppliers' quotations and purchase orders are approved by the relevant responsible management executives in accordance with their authority limit specified on the authorization matrix set out in the Policy and Procedures.

Management monitoring: The Group appraises the performance of suppliers on an annual basis to ensure that the Group can enjoy good quality of products and services provided by suppliers at reasonable prices.

Taking into account the above control measures, the Directors believe that adequate controls to prevent various forms of corrupt practices in the procurement of contract manufacturers have been established.

The Directors confirm that there was no instance of failure in the internal control systems of the Group during the Track Record Period and up to the Latest Practicable Date. Based on the review (and follow up review) of the Group's internal control systems performed by Baker Tilly Hong Kong Business Services Limited, the Sponsor and Directors are satisfied that the Group's internal control systems are adequate.

All the contract manufacturers used by the Group for mass production during the Track Record Period and up to the Latest Practicable Date were and are (as at the Latest Practicable Date) Independent Third Parties and the terms of the outsourcing arrangements are negotiated on an arm's length basis and include normal commercial terms comparable with those agreed with other independent contract manufacturers.

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The ability of third-party contract manufacturers to produce products for the Group is limited by their production capacity. None of the Group's contract manufacturers are contractually bound to allocate a fixed amount of production capacity to the Group. The Group does not have any fixed-term agreements with any of its contract manufacturers and it typically places orders on an individual order-by-order basis, depending on the level of purchase orders it receives from its customers. Pursuant to the supplier agreements with the Group's contract manufacturers, products manufactured by the Group's contract manufacturers according to designs and specifications provided by the Group must be supplied to the Group on an exclusive basis. The Group's supplier agreements with its contract manufacturers do not contain any legally binding obligations leading to sales. The Group's contract manufacturers may still act as suppliers of other products to other customers and may allocate their production capacities to other customers during times of production capacity shortages. Any shortfall in available production capacity could significantly affect the Group's ability to deliver its products on time, which may result in a loss of revenue and could damage its relationships with its customers. For further details, please refer to the risk factor headed "The Group outsources a significant proportion of its production to certain manufacturers in the PRC who have limited production capacity" in the section headed "Risk factors" in this prospectus.

The Directors believe that alternative manufacturers who can offer similar terms as the Group's existing manufacturers are available on the market. However, each new contract manufacturer supplying products to one of the Group's MMR customers is required to comply with the relevant manufacturing guidelines of the relevant MMR customers. The Group's MMR customers expect contract manufacturers to, amongst other things, hold all appropriate business licenses and certifications, to have established appropriate factory rules and regulations, to execute individual labour contracts with employees, to provide employees with medical and first aid training, to have in place policies relating to the provision of employee handbooks, the minimum wage, staff training, staff security checks, document control systems, product handling, loading and labeling procedures, site and container security, the handling of hazardous materials, and waste water treatment. The Group's business strategy is to continually source additional contract manufacturers (including in areas of the PRC where operating costs are lower) and to assist such contract manufacturers to meet key customers' social, safety and environmental compliance requirements so that those manufacturers will be approved to manufacture products for the Group's MMR customers. The Group's factory compliance manager carries out assessments of prospective contract manufacturers to determine their conformance with standards expected by the Group's MMR customers and suitability to become one of the Group's contract manufacturers. There is no specific time frame for the MMR customers to approve a new contract manufacturer. MMR customers will also appoint inspection agents to audit periodically approved contract manufacturers to renew their approved status. The Group's factory compliance manager makes regular visits to approved contract manufacturers to monitor continued compliance with the specified standards as well as the progress in respect of any remedial actions prescribed by the MMR customers' inspection agents, where applicable. The Directors believe the Group's strategy of expanding its panel of MMR-customer approved contract manufacturers will mitigate the risk of reliance on the Group's key contract manufacturers and also help to avoid potential production capacity shortages in the future. As the Group's contract manufacturers must be pre-approved by its MMR customers it has no other contingency plans to mitigate for the loss of some of its major contract manufacturers or shortfalls in production capacity.

As at the Latest Practicable Date, the Group has never experienced capacity shortages that resulted in default, delay in delivery or other adverse consequences to the Group.

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If products manufactured by the Group's contract manufacturers are unfit for the end users' intended use or contain design or manufacturing defects, the Group and/or the Group's contract manufacturers may face product liability claims from the Group's customers or end users of the Group's products. The products may also be subject to mass recall and the Group may also have to spend significant resources and time to defend itself if legal proceedings for product liability are instituted against it. The Directors confirm that as of the Latest Practicable Date no material claims have been made against the Group under its product liability insurance. Pursuant to the supplier agreements, the Group's contract manufacturers have expressly warranted the quality and fitness of the products supplied to the Group. In addition the Group's PRC legal advisers, JunZeJun Law Offices, have advised that under the Product Quality Law and the Tort Liability Law, if the Group has paid compensation to a claimant in respect of a defective product for which the manufacturer is responsible, the Group will have the right to seek an indemnity from the manufacturer after paying the compensation amount.

The Directors have confirmed that none of the Directors, chief executive or substantial shareholder(s) of the Company or their associates has any interest in any of the Group's five largest contract manufacturers for each of the years ended 31 December 2010 and 2011.

Manufacturing planning and control

Prior to commencing mass production, the Group requires contract manufacturers to produce samples for reference and inspection.

The Group's quality assurance manager arranges quality inspections at contract manufacturers' factories and performs daily "in-line" inspection during mass production to ensure product quality. The Group also arranges for inspection of finished products by its customers. For details, please see the sub-section headed "Quality control" below.

Raw materials

The Group insists that all materials used in the manufacturing process meet a satisfactory standard.

Upon appointment, the Group provides the selected contract manufacturer with the specifications of the product to be produced. The Group does not procure raw materials — the production price agreed with its contract manufacturers includes a raw material component. The contract manufacturers source raw materials at their own cost. This is beneficial to the Group as, once the price of the finished product has been agreed upon with the contract manufacturer, the Group will have certainty over its costs. It also means that the Group will be effectively insulated against fluctuations in the price of raw materials.

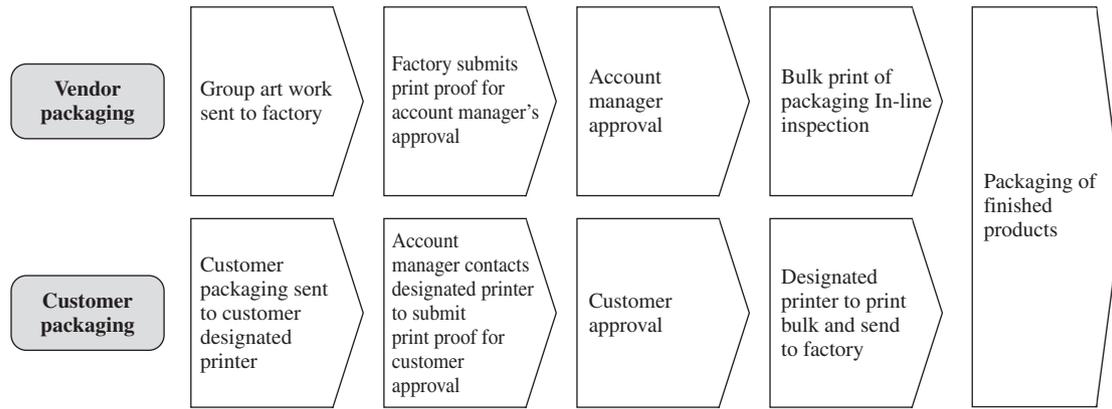
The Group's account management team closely monitors the production status during the entire production process. Raw materials which fail to meet the Group's standards will not be accepted. For further details, please see the sub-section headed "Quality control" below.

Packaging

There are two types of product packaging for the Group's finished products, namely "customer packaging" and "vendor packaging". The Directors believe that in the case of customer packaging, the Group's customers create their own package design and have their own designated printing company. The Group will coordinate the process by requesting the customer's designated printing company to

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provide the print proof for customer’s approval. A final inspection of the finished packaging is conducted by both the Group’s and customer’s quality control teams. In the case of vendor packaging, the Group provides the package design and arranges for the printing company to produce label tags, colour boxes and shade labels. A final inspection of the packaging is then carried out by the Group’s quality control team. Flow charts showing the two different packaging processes are set out below.



QUALITY CONTROL

The Directors believe that the Group’s commitment to product quality is a key factor in the Group’s success, helping to strengthen recognition and trust among its customers. The Group therefore places a strong emphasis on product quality by implementing a comprehensive quality control system in order to maintain its competitive edge.

Quality control is implemented by the Group’s quality control department, which as at the Latest Practicable Date was comprised of nine staff (including one Quality Control Manager). The Group applies stringent quality control procedures to monitor the entire production process, including “work-in-progress” control by the account management team and a final inspection of the products by the quality control team at the factories of the Group’s contract manufacturers.

In order to maintain a consistently high standard of quality across its product range, the Group imposes high standards on its contract manufacturers. As well as “work-in-progress” monitoring of products throughout the manufacturing process, the Group also includes terms in orders to contract manufacturers, where necessary, to ensure contract manufacturers meet the Group’s quality requirements or compensate the Group if the products fail to meet such requirements. Whenever a new item is launched into production, the Group will provide guidance to the relevant contract manufacturer in respect of quality standards required for the new product.

Certification

The Group is obliged to ensure that products sold into North America comply with applicable product safety requirements. In the U.S., all lighting products sold by the Group must conform to the UL standards of safety. UL is an independent non-profit safety testing and certification organisation which has been testing products for public safety for more than a century. The majority of the Group’s products are subject to the General Coverage UL standard for portable luminaries (UL153). Other

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certifications obtained by the Group include “CUL certification” (also provided by UL) for products marketed in Canada. “ETL certification” is also accepted for products marketed in the U.S. and Canada, and is provided by Intertek Testing Services.

To gain a UL certification, a product sample is submitted to UL for certification and will be tested and evaluated. If UL considers that the product fulfills all applicable requirements, it authorises the contract manufacturer to apply a UL certification mark to the finished products, or issues a certificate of notification that the product is now certified by UL. The Group’s customers in North America require that all of the Group’s portable lighting products be UL certified. Therefore, such certifications allow the Group to sell its portable lighting products, which meet the UL prescribed standards, to customers who require UL certification.

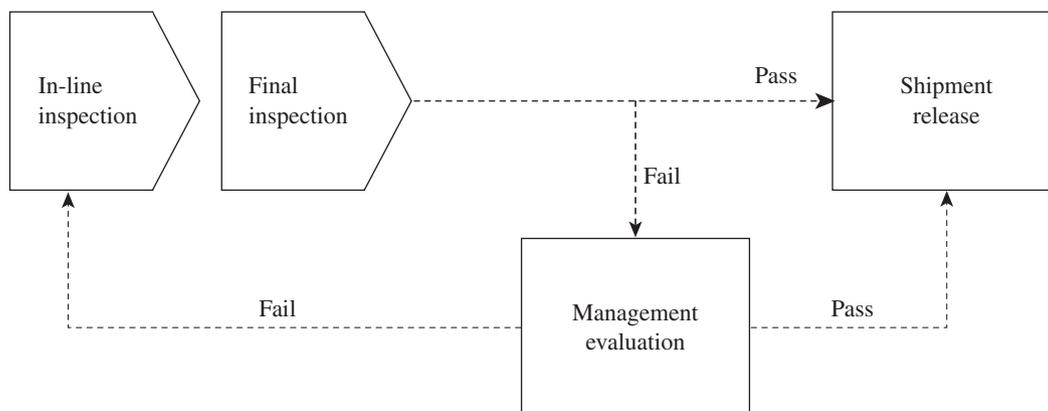
The Group’s product design and development department is careful to ensure that the designs of the Group’s portable lighting products are in line with UL requirements and will therefore not encounter problems during the UL certification procedure. To further minimize the risk of non-compliance with relevant UL requirements, the Group employs a compliance manager who inspects every product sample to ensure that it complies with the relevant UL regulations before it is sent for UL certification. The compliance manager also visits each of the contract manufacturers’ factories to ensure that, among other things, products are being manufactured in accordance with specifications.

According to UL, a UL mark means that products are being manufactured in a way that is in compliance with UL standards and UL will do sample check on the Group’s products.

In addition to the inspections conducted by UL, the Group’s customers will also send representatives to the factories of the Group’s contract manufacturers and inspect the quantity of the products.

Quality control procedures

The flowchart below provides an overview of the Group’s quality control procedures.



In-line inspection

The Group’s quality control team carries out inspections (on a sampling basis) at each stage of the production process to ensure that products comply with initial design and quality control specifications and are free from major defects.

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Inspection of finished products

Finished samples of the Group's products are inspected on a sampling basis, by comparing a sample from each finished batch with the original sample.

Customer inspectors may also visit factories, prior to their orders being despatched, to inspect the batch of products stored in the factory warehouse.

Quality control reports

The Group's quality control department assesses the standard of products using quality control reports, which are presented to management and provide details of substantial defects found on finished or semi-finished products during the production process.

Defective rates

The actual defective rates for the Group's products during each of the two years ended 31 December 2010 and 2011 were 2% and 2%, respectively. There have been no recalls of the Group's products. The quality control team makes recommendations to contract manufacturers so as to avoid similar defects reoccurring in the future.

Sales return and defective claim policy

The Group's sales return and defective claim policy for all sales stipulates that service representatives or customers are required to report the reasons for defective products to the chief operations officer. The chief operations officer is required to assign a service representative to physically inspect the products and to estimate whether the value of the returned products is in excess of US\$20,000. Service representatives are required to report to the chief operations officer in respect of the saleability of the returned products. The chief operations officer will then decide whether products should be physically returned to the Group's U.S. warehouse. Approximately 95.4% of sales returns experienced by the Group during the Track Record Period were in respect of defective product claims. Sales returns and defective claims for the years ended 31 December 2010 and 2011 were approximately HK\$3.7 million and HK\$5.6 million, respectively, accounting for approximately 1.9% and 2.1% of the Group's total revenue for the same periods. The amount of provisions for defective claims charged to the Group's profit or loss account for the years ended 31 December 2010 and 2011 were approximately HK\$2.6 million and HK\$3.4 million, respectively. The Directors confirm that the Group does not provide any product warranties to its customers.

Typically, a customer's claim for defective products on a case-by-case basis amounts to a small percentage of any given shipment of the Group's products. The Directors further confirm that due to, amongst other things, (i) the *ad hoc* and fragmented nature of such claims, (ii) the small number of products typically involved, (iii) difficulties in apportioning responsibility for the product defects (the Group's contract manufacturers are not likely to accept responsibility for defects incidental to shipment or those which they believe have been caused by the Group's customers or end-users), (iv) the cost of having the small quantities of defective products returned to the contract manufacturers in the PRC, and (v) the low unit cost nature of the Group's products, the Group chooses not to make any claim under indemnities offered by its contract manufacturers or under the Tort Liability Law and the Product Quality Law, which may prove uneconomical to pursue.

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During the Track Record Period and up to the Latest Practicable Date there has been no recall of the Group's products. However if a material percentage of products were to prove to be defective or the Group's products were required to be recalled, the Directors confirm that they would take steps to claim compensation under a contractual indemnity provided by a contract manufacturer or under the Tort Liability Law and the Product Quality Law.

As of the Latest Practicable Date, three product liabilities claims made against the Company remain open. The amount payable by the Group under its relevant insurance policy is US\$5,000 per claim and amounts in excess of US\$5,000 per claim are payable by the Group's insurance company (to the extent that the relevant claim or liability is covered by the Group's insurance policy) up to a maximum of US\$5,000,000.

The three outstanding product liability claims are in relation to (i) an allegation that one of the Group's lamps caught fire; (ii) an allegation that one of the Group's lamps caused a light bulb to explode causing injury; and (iii) an allegation that one of the Group's lamps caused electricity leakage causing electric shock to a boy. Based on the terms of the insurance policy the Directors confirm that for each of the three outstanding product liability claims, the Group will be liable to pay the deductible amount of US\$5,000 per claim at the maximum in each case if the claim is determined to be valid by the insurance company.

The Directors believe that such claims are generally not due to faults in the products of the Group on the basis that (i) the Group's products always go through its own testing and inspection procedures; The Group carries out in-line inspection and final inspection on a sampling basis to ensure the quality of the products conform with the relevant standards. (For further details, please also refer to the section: "Business — Quality Control — Quality control procedures" of the prospectus) and (ii) in the U.S. all lighting products sold by the Group's must conform to the UL standards of safety. The UL inspectors carry out sample check on the Group's products. The Group's customer will also send representatives to the factories or appoint an independent inspector to check the quality of the products. (For further details please refer to the section: "Business — Quality Control — certification" of the prospectus)

The portable lighting products sold by the Group into the U.S. must conform to UL standards of safety. Pursuant to Section 8 of the UL 153 manual, any portion of a portable luminaire that is detachable, shall be accompanied by assembly instructions. The Group is not otherwise required to provide user manuals or instructions for pre-assembled products.

DELIVERY

Title to the relevant goods will normally pass to the customer pursuant to the applicable shipping terms stated in the purchase order (or in a supplier agreement with the customer) and shipping terms normally provide that title passes upon delivery at the designated delivery location (such as at Port Yantian in the PRC for Direct Orders or at Mastercraft USA's warehouse in the U.S. for Replenishment Orders). Subject to certain cancellation rights, customers generally become legally committed to buy goods from the Group upon the Group accepting an order from the customer. The Group's products are generally shipped to its customers on a "free on board" (FOB) (Yantian) basis. Under FOB Yantian, the title to the finished product passes to the customers immediately when the product passes ship's rail at Yantian Port, Shenzhen, Guangdong, the PRC. As the Group's sales to customers are mainly FOB Yantian, the Group endeavours to negotiate corresponding agreements with contract manufacturers obliging them to deliver finished products to Yantian Port. In such cases, the Group's contract

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manufacturers bear the risk for loss or damage to the Group's products during the transport of the products from the contract manufacturers' factories until they pass the ship's rail. During this period contract manufacturers retain the title to the relevant products. The customer pays the cost of export clearance, marine freight transport, insurance, unloading, broker, import duty and local transport when the products arrive at the port of un-loading.

The Group also arranges for delivery of its products on "free carrier" ("FCA") terms, whereby customers collect the finished products at the warehouses of the Group's contract manufacturers. In addition, the Group arranges for delivery on "cost, insurance and freight" ("CIF") terms, whereby the Group is obliged to deliver the finished product to the specific entry port requested by its customers (in such cases the Group pays the cost of marine freight transport, insurance, unloading, broker, import duty and transportation from the port of loading to the destination port). The Group maintains marine insurance to cover circumstances where it is required to deliver products to customers on a CIF basis. For further details, please refer to the sub-section headed "Insurance" below.

Revenue from sale of goods is recognised when the goods are delivered and title has passed, as summarized in the table below. The Group issues sales invoices upon the delivery of the goods to the customers and not upon acceptance of the orders of the customers.

Delivery method	Title/risk transfer and revenue recognition
FOB (named port of shipment)	When the goods pass the ship's rail at named port of shipment (e.g. Yantian)
FCA (named place)	When the goods have been collected by the buyer at the named place (e.g. collected at the contract manufacturer's premises)
CIF (named port of destination)	When the goods pass the ship's rail at named port of destination

The Group's supplier agreements with its customers are generally governed by the laws of the jurisdiction in which the relevant customers do business or have their headquarters or place of incorporation. For further details, please refer to the section headed "Risk factor — The Group does not require customers to pay deposits when ordering products and does not receive deposits from its customers prior to submitting manufacturing orders to its contract manufacturers". The Directors confirm that to date, the Group has not experienced any instances where a customer did not take delivery or proceed with a specific purchase from the Group without justification.

As mass manufacturing is carried out by third party contract manufacturers, no accounting entries are made during the order processing, manufacturing or manufacturing completion phases. If a customer places a Direct Order, the Group will account for increase in stock and increase in accounts payable in its accounting records when the contract manufacturer delivers the products and invoices the Group. Title to the products transfers to the Group's customer pursuant to the shipping terms agreed between the Group and that customer. The Group then accounts for an increase in its accounts receivable and a decrease in its stock and accounts for an increase in its cost of sales and an increase in its sales in its accounting records.

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If a customer places a Replenishment Order, generally the products are required to be made available at Mastercraft USA's warehouse in the U.S. The Group's customers take delivery of products from Mastercraft USA's warehouse and make their own distribution arrangements at their own cost. When a contract manufacturer delivers products and invoices the Group, the Group accounts for its increase in stock and increase in accounts payable in its accounting records. At the time when a customer takes delivery of the Replenishment Order, the Group accounts for its increase in accounts receivable and decrease in stock and accounts for an increase in its cost of sales and sales in its accounting records.

U.S. distribution hub

Mastercraft USA, incorporated on 12 September 2011, currently operates as the Group's U.S. distribution hub in place of MIUSA and has done so since 30 September 2011. At present, Mastercraft USA keeps a limited inventory of the Group's products at the Group's leased premises in Arkansas, the U.S.

Reasons for establishing a U.S. distribution hub and engaging MIUSA

As confirmed by the Directors, in the second half of 2010, certain U.S. customers approached the Group to request to take delivery of the Group's products in the U.S. On 1 January 2011, in order to meet the purchase preference as requested by certain U.S. customers, which required products to be already imported into the U.S. resulting in shorter delivery lead-time, the Group engaged MIUSA, a company wholly owned by Mr. Strickland, as a distributor to distribute the Group's products to these customers.

The Directors confirm that the sole reason for the Group to provide customers with the option of taking delivery in the U.S. by establishing a U.S. distribution hub, was due to requests by certain U.S. customers.

The Directors confirm that the setting up of the U.S. distribution hub was not part of its business development plan at the time and it was entirely driven by the request of the relevant U.S. customers. The Directors further confirm that in making such a decision, they have taken into consideration past business transactions and relationships with these U.S. customers and the importance of maintaining business relationship with these customers.

The Directors confirm that the Group had not set up a similar hub in the U.S. before, the Group has no relevant past experience and in response to the request of the relevant U.S. customers, the management of the Group decided to ascertain the feasibility of such delivery option by first utilising MIUSA, the business facilities of Mr. Strickland in the U.S., to ascertain whether the U.S. distribution hub was a viable arrangement for the Group before setting up a permanent arrangement for the Group.

The Directors believe that the temporary engagement of MIUSA as the Group's U.S. distributor was, at the time, the most expedient short term option available to the Group in order to satisfy customers' requests to purchase inventories from a U.S. distribution hub. In the nine months ended 30 September 2011, sales of portable lighting, shades and furniture sets and other accessories to MIUSA in the nine months ended 30 September 2011 amounted to approximately HK\$29.2 million, HK\$16.8

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million, and HK\$3.4 million, respectively, resulting in total sales and net sales to MIUSA of approximately HK\$49.4 million and HK\$37.6 million respectively for that period. In the nine months ended 30 September 2011, the Group sold 1,870,368 product units to MIUSA.

The Group adopted the same commercial principles for determining the selling price of products sold to MIUSA as those used when determining the selling price of products sold to the Group's customers. The payment terms and selling price contained in the distribution arrangement entered into between the Group and MIUSA were also comparable to the payment terms and selling price at which the Group sells to its customers. However, the Group granted MIUSA a longer credit period based on the fact that MIUSA was required to maintain adequate inventories to fulfill the needs of the Group's customers. The Directors are of the view that the distribution arrangement with MIUSA was entered into on normal commercial terms and on an arm's length basis.

However, the Directors did not consider that the ongoing engagement of MIUSA as the Group's U.S. distributor after Listing was commercially viable on the following basis:

- MIUSA offered 30 to 50 days credit terms to its customers in the U.S., and the Group offered 90 days credit terms from invoice issuance to MIUSA. The difference in credit terms effectively resulted in the Group financing MIUSA's working capital to a certain extent;
- bringing the U.S. distribution business in-house was considered to be the best way to ensure effective control and management over the Group's U.S. operations; and
- as MIUSA was wholly owned by Mr. Strickland, the engagement of MIUSA constituted a continuing connected transaction under the GEM Listing Rules.

Incorporation of Mastercraft USA and acquisition of MIUSA's assets

Based on the Group's sales to MIUSA, and the onward sales by MIUSA to the U.S. customers during the seven months period ended July 2011, the Directors were of the view that the U.S. delivery option appeared to be a viable arrangement for the Group. The management of the Group therefore decided to form Mastercraft USA in August 2011, so as to (i) bring the business in-house for better control and management of orders and inventory, and (ii) avoid a continuing connected transaction between the Group and MIUSA after Listing. Following the incorporation of Mastercraft USA as its indirect wholly-owned subsidiary, the Company re-purchased inventories from MIUSA and such inventories were then available to be delivered to the customers by the Group.

The engagement of MIUSA was subsequently terminated at the end of September 2011 and the Group repurchased the inventories from MIUSA pursuant to an inventory purchase agreement entered into between Mastercraft USA, Mastercraft International, Mr. Strickland and MIUSA. The repurchase comprised portable lighting, shades and furniture sets and other home accessory products in the amounts of approximately HK\$6.8 million, HK\$4.3 million and HK\$0.7 million, respectively, totaling approximately HK\$11.8 million. The Group purchased from MIUSA 451,371 product units, being MIUSA's inventory of products as at 30 September 2011 (i.e. approximately 24.1% of total number of product units which the Group had sold to MIUSA), as a result of which the net sales attributable to sales by the Group to MIUSA in the nine months ended 30 September 2011 were HK\$37.6 million,

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representing approximately 22.2% of the Group's total sales during/for the relevant period. The difference in the number of product units sold and re-purchased was due to U.S. customers purchasing the Group's products from MIUSA.

The quantity of products purchased by Mastercraft USA from MIUSA represented MIUSA's inventory of the Group's products which the Group's customers had not taken delivery of as at 30 September 2011, which was procured through the Group from contract manufacturers based on commitments (non-legally binding) received from the Group's customers. Such inventory was available from 1 October 2011 onwards to fulfill delivery orders to the Group's customers so as to ensure operational continuity.

Up to 30 April 2012, the Group's customers took delivery of approximately HK\$12.0 million, representing 99.2% of the inventory purchased by the Group from MIUSA as at 30 September 2011. The Group repurchased inventory from MIUSA at the same price (approximately HK\$11.8 million) as the inventory was sold to MIUSA by the Group. The Group also reimbursed MIUSA approximately HK\$2.3 million in respect of costs incurred by MIUSA as a result of importing the inventory into the U.S. The total consideration was therefore approximately HK\$14.1 million. The inventories remained at the warehouse formerly leased by MIUSA and subsequently leased by Mastercraft USA from 1 October 2011. For further details please refer to the section headed "Connected transactions — Lease Agreement with MCP Investments, LLC" in this prospectus.

Comparison of current and historical operations in the U.S.

A summary of the current and historical operation in the U.S. before and after the establishing of the U.S. distribution hub during the Track Record Period is set out below:

a. U.S. operation prior to 1 January 2011

- i. Customers placed Direct Orders with the Group via Mastercraft International in Hong Kong.
- ii. The Group placed back-to-back orders with contract manufacturers in the PRC.
- iii. Title to the products transferred to the Group's customer pursuant to the shipping terms agreed between the Group and that customer. Depending on the agreed shipping terms, the customer is typically, but not in all cases, responsible for the costs associated with shipping the products to the U.S., including freight charges, customs charges and import duties. For further details of the shipping terms under which the Group's products are generally shipped to its customers please refer to the beginning of this sub-section headed "Delivery" in this section of the prospectus.

b. U.S. operation from 1 January 2011 to 30 September 2011

- i. Customers placed Direct Orders with the Group via Mastercraft International in Hong Kong or Replenishment Orders with MIUSA which in turn placed orders with Mastercraft International in Hong Kong.
- ii. The Group placed orders with contract manufacturers in the PRC.

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- iii. When a customer of the Group placed Direct Orders, title to the products transferred to the Group's customer pursuant to the shipping terms agreed between the Group and that customer. Depending on the agreed shipping terms, the customer is typically, but not in all cases, responsible for the costs associated with shipping the products to the U.S., including freight charges, customs charges and import duties. For further details of the shipping terms under which the Group's products are generally shipped to its customer, please refer to the beginning of this sub-section headed "Delivery" in this section of the prospectus.
 - iv. To make the Inventory available to satisfy short delivery lead times required by customers of the Group, the Group's contract manufacturers in the PRC delivered the finished products to a designated port in the PRC, where the title passed to MIUSA. Under this arrangement MIUSA was responsible for the costs associated with the shipping of the products to the U.S., including freight charges, customs charges and import duties. The customer took delivery of the product(s) at MIUSA's warehouse. The Group sold the same products at the same price to MIUSA and its other customers. MIUSA included a margin before selling these products onwards to the Group's customers. The Group offered MIUSA 90 days credit terms. The Group offered its customers 30 to 60 days credit terms payable either by letter of credit, cheque or telegraphic transfer depending on the Group's relationship with the customer and the customer's credit history.
 - v. MIUSA offered the Group's customers 30 to 50 days credit terms when selling onwards to customers.
- c. *U.S. operation from 1 October 2011 onwards*
- i. Customers place Direct Orders with Mastercraft International in Hong Kong or Replenishment Orders with Mastercraft USA which in turn places orders with Mastercraft International in Hong Kong.
 - ii. Mastercraft International places orders with contract manufacturers in the PRC.
 - iii. When a customer of the Group places a Direct Order, title to the products transfers to the Group's customer pursuant to the shipping terms agreed between the Group and that customer. Depending on the agreed shipping terms, the customer is typically, but not in all cases, responsible for the costs associated with shipping the products to the U.S., including freight charges, customs charges and import duties. For further details of the shipping terms under which the Group's products are generally shipped to its customers please refer to the beginning of this sub-section headed "Delivery" in this section of the prospectus.
 - iv. In order to ensure that it has sufficient levels of Replenishment Inventory on hand to meet Replenishment Orders, Mastercraft USA places orders with Mastercraft International prior to receiving firm purchase orders from customers, and Mastercraft International in turn places manufacturing orders with contract manufacturers. Mastercraft USA's orders are based on previously received item commitments (non-legally binding) from the customer, as well as other factors. The Group's contract manufacturers in the PRC deliver finished products to a designated port in the PRC, where title to the products passes to Mastercraft USA. Under this arrangement Mastercraft USA is responsible for the costs associated with the shipping of the

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products to the USA, including freight charges, customs charges, and import duties. The products ordered by the customer are warehoused by Mastercraft USA prior to customers' taking delivery as required.

- v. Mastercraft International sells the same products at the same price to Mastercraft USA and its other customers. For Replenishment Orders, Mastercraft USA includes a margin before selling the Group's products on to the customers of the Group. The Group offers Mastercraft USA 90 days credit terms.
- vi. The customers of the Group take delivery of the Replenishment Inventory from Mastercraft USA's warehouse in the U.S. as required. Mastercraft USA offers 30 to 50 days credit terms from invoice issuance to the Group's customers.

Comparison of current and historical operation in the U.S.

Comparison of current and historical tax position

- (a) For the year ended 31 December 2010: HK\$2.8 million
- (b) For the nine months ended 30 September 2011: HK\$2.0 million
- (c) For the three months ended 31 December 2011: HK\$1.0 million

Comparison of current and historical profit margin

- (a) For the year ended 31 December 2010: 7.1%
- (b) For the nine months ended 30 September 2011: 3.4% or 6.1% excluding Listing expenses
- (c) For the three months ended 31 December 2011: 4.0 % or 6.5% excluding Listing expenses

Comparison of current and historical inventory balance

- (a) As at 31 December 2010: HK\$0.9 million
- (b) As at 30 September 2011: HK\$12.9 million
- (c) As at 31 December 2011: HK\$14.7 million

Operation of Mastercraft USA after the execution of the inventory purchase agreement

Following the execution of the inventory purchase agreement, the Group no longer sells products to MIUSA and the Group does not envisage any further transactions with MIUSA. The re-purchase of inventory by the Group from MIUSA is complete and all amounts owing to the Group from MIUSA have been paid.

Mastercraft USA endeavours to maintain sufficient inventories to cover Replenishment Orders only. The Group's customers take delivery of products from Mastercraft USA's warehouse and make their own U.S. inland freight arrangements at their own cost. Inventories are calculated by reference to

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forecasts provided by the Group's MMR customers. Mastercraft USA places orders with Mastercraft International which will continue to design and develop the Group's products. Since the establishment of Mastercraft USA, the Group's U.S. customers continue to place Direct Orders with Mastercraft International in Hong Kong. The total operating costs of Mastercraft USA were approximately HK\$3.4 million from its commencement of business until 31 December 2011.

In terms of operation, Mastercraft USA leases a warehouse and office facilities in Arkansas, the U.S. from MCP Investments, LLC ("MCP") and currently employs 31 persons. MCP is a company incorporated in the U.S. and the entire issued share capital of MCP is owned by Mr. Strickland, a Controlling Shareholder and an executive Director of the Company. Accordingly, MCP is an associate of Mr. Strickland and a connected person of the Company under the GEM Listing Rules. Therefore, the transactions contemplated under the lease agreement with Mastercraft USA will constitute a continuing connected transaction under the GEM Listing Rules upon the Listing. Further details of the continuing connected transaction with MCP are set out in the section of the prospectus headed "Connected transactions — Non-exempt continuing connected transactions — (a) Lease Agreement with MCP Investments, LLC".

Growth in revenue attributable to Mastercraft USA

The growth in revenue attributable to Mastercraft USA from October to December 2011 is attributable to the following:

1. From 1 October 2011, Mastercraft USA assumed the role of operating the Group's distribution hub in the U.S. From January 2011 to 30 September 2011 this role had been performed by MIUSA. During this period, the Group sold products to MIUSA under FOB terms. Shipping costs, U.S. import duty and custom charges arising out of the transport of the Group's products to the U.S. were borne by MIUSA. From 1 October 2011, Mastercraft USA bore such costs. The price the Group charged for its products were inclusive of these costs together with the margin of Mastercraft USA. During the Track Record Period, the margin added on to the cost of sales, which is inclusive of freight and transportation costs, by Mastercraft USA was approximately 25%. The Directors confirm that the final price paid by the U.S. based customers to Mastercraft USA and MIUSA for the same product was the same. The Group earned increased revenues through making its products available via its U.S. distribution hub under Replenishment Orders as compared with Direct Orders. The Group's revenue attributable to Mastercraft USA under Replenishment Orders was approximately HK\$25.5 million or 26.9% of the Group's total revenue for the three months ended 31 December 2011, while the revenue attributable to Direct Orders was approximately HK\$69.3 million or 73.1% of the Group's total revenue for the same period.
2. By establishing a U.S. distribution hub, firstly through MIUSA and latterly through its wholly owned subsidiary Mastercraft USA, the Group has progressively increased sales to the U.S.
3. The average quarterly revenue of the Group for the first three quarters of 2010 was HK\$48.4 million per quarter. The revenue of the Group for the three months ended 31 December 2010 was HK\$53.3 million. This quarterly difference arose due to the seasonality of demand for the Group's products. The Group's products were similarly affected by seasonality of demand in 2011.

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Mastercraft USA's profit before tax up until 31 December 2011 was approximately HK\$141,000. This sum is subject to the state income tax of 6.4% and federal income tax of 35%. It is permitted to include state income tax as a deduction when computing federal income tax. The amount of state income tax up until 31 December 2011 was approximately HK\$9,000. The amount of federal income tax was approximately HK\$46,000.

Advantages and costs of setting up a U.S. distribution hub

The advantages of setting up a U.S. distribution hub include the following:

- the Group is positioned to meet the purchase preference as requested by certain U.S. customers in relation to short delivery lead time, as a result of which the Group will be:
 - able to maintain its business relationships with the U.S. customers who requested the setting up of a U.S. distribution hub; and
 - in a more competitive position than its competitors in fulfilling customers' requests in relation to short delivery lead time in the U.S.;
- having a distribution hub in the U.S. allows the Group to have better in-house control and management of orders and inventory in the U.S.; and
- utilising the existing distribution hub in the U.S., the Group will be able to further expand its overseas markets, in particular, targeting to expand its market share in the U.S. and Canadian markets.

The costs of setting up a distribution hub in the U.S. include:

- maintenance and operation costs including, but not limited to, employee related costs (including salaries, staff welfare, medical and pension benefits), rent, bank charges and traveling expenses;
- possible costs incurred in maintaining the distribution hub in circumstances where the Group fails to sell all its inventories which may affect the Group's cash flow position and liquidity (for further details, please refer to the section of the prospectus headed "Risk factors — The Group has established a U.S. distribution hub the operation of which involves additional risk"); and
- possible costs incurred in closing the distribution hub in the U.S. in circumstances when the Group determines that there is no further justification to maintain the distribution hub (for further details, please refer to the section of the prospectus headed "Risk factors — The Group has established a U.S. distribution hub the operation of which involves additional risk").

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Mastercraft Distribution USA Inc.**Statement of financial position***As at 31 December 2011*

	<i>HK\$'000</i>
Current Assets	
Inventory	16,831
Trade and other receivables	16,301
Bank balances	45
Amount due from immediate holdings	<u>—</u>
	33,177
Current Liabilities	
Trade and other payables	(1,319)
Provision	(566)
Amount due to Mastercraft International	(31,151)
Tax payables	<u>(55)</u>
	(33,091)
Net assets	<u><u>86</u></u>
Capital and reserve	
Issued capital	—
Retained Earnings	<u>86</u>
	<u><u>86</u></u>

BUSINESS

Mastercraft Distribution USA Inc.

Statement of comprehensive income

From commencement of business (1 October 2011) to 31 December 2011

	<i>HK\$'000</i>
Turnover	25,462
Cost of sales	<u>(21,914)</u>
Gross profit	3,548
Other revenue	—
Selling expenses	(2,025)
Administrative expense	<u>(1,383)</u>
Profit before tax	141
Income tax expenses	<u>(55)</u>
Profit for the period	<u><u>86</u></u>

COMPETITION

The Group faces competition from other ODM manufacturers in respect of lighting products, shades, furniture sets and other home décor accessories, as the entry barrier to the industry are relatively low. The Group's major competitors include sourcing and design companies in the PRC and other parts of the world with similar competitive cost advantages.

Although the barriers to entry to the markets in which the Group operates are relatively low, the strict requirements of large retailers (including many of the Group's MMR customers) in sourcing suppliers is expected to create additional difficulties to entry for new operators. The Group's MMR customers expect contract manufacturers to, amongst other things, hold all appropriate business licences and certifications, to have established appropriate factory rules and regulations, to execute individual labour contracts with employees, to provide employees with medical and first aid training, to have in place policies relating to the provision of employee handbooks, the minimum wage, staff training, staff security checks, document control systems, product handling, loading and labeling procedures, site and container security, the handling of hazardous materials, and waste water treatment. The Directors believe that the Group's proven track record in assisting contract manufacturers comply with the strict social accountability and safety standards required by MMR customers, is an advantage it has over competitors who cannot match the Group's proven track record in this regard. The Directors further believe that the Group has established a strong reputation and benefits from customer loyalty in the product markets in which it operates, and that the Group's proven track record in the areas of market research, product development and design capability, reliability in meeting product delivery schedules, product quality, product range and ability to meet consumer preferences will be the key contributing factors to its ability to continue to compete successfully in the future. The Directors confirm that the keeping of inventory in the U.S. to satisfy short delivery lead-time orders from its U.S. customers does not affect the Group's satisfying the strict social accountability and safety standards required by those MMR customers.

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The Directors are of the view that, going forward, the Group will compete with its competitors in its overseas markets on the basis of the quality and pricing of the Group's designs and products.

SAFETY MATTERS

The Group has established procedures to provide its workers with a safe and healthy working environment including the establishment of work safety procedures. The Group has experienced no significant incidents or accidents in relation to workers' safety or non-compliance with the applicable laws and regulations relevant health and safety during the Track Record Period.

INTELLECTUAL PROPERTY

The Group has registered the copyright in certain of its designs. In addition, the Group has registered "M", "M" and "R-M-S" trademarks in the U.S and "M", "M", "M" and "M" trademarks in Hong Kong. Further details of the Group's intellectual property rights are set in the sub-section headed "Intellectual property rights of the Group" in Appendix V to this prospectus.

The product cycle for the Group's products is typically one to two years. The Group takes the view that having regard to the relatively short product cycle of the Group's products and the fact that the average processing times of the U.S. Copyright Office for copyright applications filed electronically or by paper is 3 months and 10 months, respectively, it is not commercially viable to register all of the Group's designs. However, the Group will consider on a case by case basis whether to register a design (in the PRC and elsewhere), for example if the design is considered to have a particular value, or extra costs were incurred in creating the design.

Supplier agreements entered into with contract manufacturers contain provisions to protect the Group's intellectual property and, in particular, requiring such manufacturers to keep the Group's proprietary designs confidential and not to allow the manufacture or marketing of portable lighting and home furnishing products using the Group's intellectual property.

The Directors confirm that the Group has obtained the necessary consent and authorization to use its customers' logos on its products. The Directors further confirm they are not aware of any instance or any complaint or claim against the Group relating to plagiarism or infringement of its intellectual property rights.

TAXATION

Hong Kong profits tax

The Group carries on its primary business in Hong Kong and is subject to Hong Kong profits tax in respect of profits arising in or derived from its business in Hong Kong. As at the Latest Practicable Date, the corporate profits tax rate in Hong Kong is 16.5% (effective from the year of assessment 2008/2009). Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for the Track Record Period.

PRC income tax

Pursuant to a certification issued by Shenzhen Municipal State Taxation Bureau (深圳市國家稅務局) and Shenzhen Municipal Local Taxation Bureau (深圳市地方稅務局) on 5 September 2011, Mastercraft WFOE is required to pay 25% of its net profits as income tax. Mastercraft WFOE has made all necessary efforts to comply with the tax laws, and regulations in the PRC. According to confirmations obtained from the Longgang Office of Shenzhen Municipal State Taxation Bureau (深圳市龍崗區國家稅務局) and Shenzhen Municipal Local Taxation Bureau (深圳市地方稅務局), Mastercraft WFOE had no record of non-compliance from 30 August 2011 to 9 February 2012 and from 30 August 2011 to 31 December 2011 respectively. As confirmed by the Directors, as of the Latest Practicable Date, Mastercraft WFOE has made all tax declarations and paid all tax and has not violated any tax provision.

U.S. Federal Income Taxes

Mastercraft USA is a Delaware corporation and, therefore, is subject to U.S. corporate federal income tax on all of its income (after giving effect to applicable deductions) generally at the current maximum tax rate of 35%. In the absence of an applicable income tax treaty that reduces the rate of withholding or otherwise provides for an exemption, distributions (to the extent of Mastercraft USA's current and accumulated earnings and profits as determined under U.S. tax rules) made by Mastercraft USA to a foreign shareholder will generally be treated as a dividend and will be subject to a U.S. gross withholding tax at a rate of 30%. As Mastercraft USA's sole shareholder is an intermediate holding company incorporated in the British Virgin Islands treated as a foreign corporation for U.S. tax purposes, and the U.S. does not have an income tax treaty with the British Virgin Islands, distributions (to the extent of Mastercraft USA's current and accumulated earnings and profits as determined under U.S. tax rules) to its sole shareholder, will be subject to a U.S. gross withholding tax at a rate of 30%. At the U.S. federal level, Mastercraft USA will also be liable for the employer's share of certain payroll taxes (Social Security and Medicare) payable with respect to its employees.

U.S. State and Local Income Taxes

In addition to U.S. federal income taxes, Mastercraft USA will generally be subject to U.S. state and local income taxes generally depending on the jurisdictions in which the Company is considered to be doing business or otherwise is considered to have nexus. Mastercraft USA may also be subject to other state and local taxes, such as franchise taxes for the privilege of doing business in a state, sales taxes and real estate taxes, and employment and payroll taxes. State and local tax laws, including income tax rates, generally differ. In general, state and local income taxes are deductible by the Company for U.S. federal income tax purposes.

Mastercraft USA's headquarters are located in the State of Arkansas. Arkansas imposes an annual income tax on foreign corporations (such as Mastercraft USA, which was incorporated in Delaware) doing business in Arkansas. This tax is generally imposed on a foreign corporation's proportionate share (determined under the laws of Arkansas) of entire net income allocable to Arkansas at the rate of 6.5%. If a corporation derives income from business activities carried on both within Arkansas and other states, the business income (allocable and subject to corporate income tax in Arkansas after taking into account allowable deductions under Arkansas law) is generally determined under a three factor apportionment formula based on sales (50%), property (25%) and payroll (25%) within Arkansas versus

property, sales, property and payroll in other states in which Mastercraft USA carries on business or is otherwise subject to corporate income tax. Arkansas also generally imposes a franchise tax on corporations doing business in the state.

LEGAL PROCEEDINGS AND COMPLIANCE

U.S. litigation

At the date of this prospectus, Mastercraft International, a subsidiary of the Company, together with Mr. Strickland and certain companies controlled by him, are involved in a litigation in the U.S. (the “U.S. Litigation”), details of which are set out below.

Claim by a former service representative

An action by a former service representative (the “Plaintiff”) has been commenced in Minnesota, the U.S. against Mr. Strickland, MIUSA, Mastercraft International, and Jerry Strickland Inc.^(Note) (together, the “Defendants”). The action was initiated by the Plaintiff because the Defendants terminated their relationship with the Plaintiff on or about 9 July 2010. The Plaintiff claims that its termination was a breach of contract and that it violated Minnesota Statutes 325E.37.

The Plaintiff alleges it was the manufacturer/service representative for the Defendants and it is owed commission for all sales of the Defendants which pre-date 9 July 2010 and commissions on an ongoing basis from one of the Group’s principal customers in an amount “to be determined following discovery”. The Plaintiff has also alleged that it is entitled to its attorneys’ fees under two different U.S. statutes.

As at the Latest Practicable Date, the Plaintiff and the Defendants have come to an agreement to settle the case and the Defendants have further agreed that the total settlement sum will be borne by Mr. Strickland solely. The Directors therefore consider that the case will not have any adverse material impact on the financial position of the Group.

Compliance

The Directors confirm that, as at the Latest Practicable Date, the Group has complied with all applicable laws and regulations in the jurisdictions in which it operates (including all labour laws in the PRC, Hong Kong and the U.S.) and has obtained all the necessary permits, certificates and licences for its operation during the Track Record Period.

As the Company outsources its entire production to third party contract manufactures in the PRC. The Company’s annual cost of compliance with environment obligations both under law or other voluntarily adopted measures is not significant.

Note: Jerry Strickland Inc. is a company incorporated in the State of Arkansas, the U.S., and is wholly owned by Mr. Strickland. Mr. Strickland has confirmed that Jerry Strickland Inc. is a sales company which acted as a representative of Mastercraft International for selling the Group’s products to one of the Group’s MMR customers until 2008.

Internal control review

In preparation for the Listing of the Shares of the Company, the Group's internal control review consultant Baker Tilly Hong Kong Business Services Limited ("BTHKBS"), identified certain internal control weakness during the normal course of an internal control review from 6 June 2011 to 16 June 2011 with the review period from 1 June 2010 to 31 May 2011. BTHKBS made 28 recommendations; 4 recommendations were categorised as being of "low" risk level, 11 recommendations were of "low to medium" risk level and 13 recommendations were of "medium" risk level. There was no weakness categorised higher than "medium" risk level. A follow-up review was carried out from 7 March 2012 to 9 March 2012 for the review period from the date of implementation to 7 March 2012 for the purpose of assessing the progress of the Group in addressing the recommendations of BTHKBS as a result of the internal control review. Of the 13 recommendations categorised as "medium" risk level, two recommendations, one in the area of information technology and general control cycle relating to the lack of regular review on users accounts and access rights, and another in the area of human resources and payroll cycle for strengthening the documentation of the recruitment procedures, were not fully implemented at the time of the follow-up review. The Directors confirm that as at the Latest Practicable Date, all the recommendations from the internal control review and follow-up review have been implemented.

BTHKBS is a firm rendering internal control review services, which has been previously engaged in various internal control review projects for a number of listed companies. Its engagement team includes member(s) who have qualifications including, but not limited to fellow membership of The Association of Chartered Certified Accountants ("FCCA") and membership of The Institute of Chartered Accountants of England and Wales ("ACA").

RELATED PARTY TRANSACTIONS

Details of historical related party transactions during the Track Record Period are set out in note 27 to the accountants' report of the Group set out in Appendix I to this prospectus.

INSURANCE

The Group maintains different types of insurance policies, including product liability, marine insurance, property insurance, fire insurance and office insurance. The Group has a low record of insurance claims under any of the Group's insurance policies since the commencement of the Track Record Period and up to the Latest Practicable Date. Please refer to the section headed "Risk factors — The Group may be exposed to product liability claims in the U.S. and any other markets in which the Group's products are sold" for further details of the Group's product liability and other insurance coverage. The amount payable by the Group under the group's general commercial form insurance policy is US\$5,000. Amounts exceeding US\$5,000 are payable by the Group's insurance company. The policy has an occurrence limit of US\$5,000,000 and a completed operations aggregate limit of US\$5,000,000.

PROPERTY INTERESTS

Owned Property in Hong Kong

The Group's headquarters in Hong Kong are located at Unit 503, 5th Floor, Tower B, Hunghom Commercial Centre, No. 37 Ma Tau Wai Road, Kowloon. The property has a saleable area of approximately 2,031 square feet. The property interest owned and occupied by the Group has been valued at HK\$10.2 million as at 30 April 2012. The valuation was carried out by BMI Appraisals Limited, an independent firm of valuers. The text of their letter, summary of valuation and valuation certificate are set out in Appendix III to this prospectus.

The property is held under a government lease for a term of 75 years renewable for 75 years commencing on 15 September 1897. As at 31 December 2010 and 2011, the Group has pledged its property to secured banking facilities granted to the Group.

Leased Properties

PRC

Pursuant to a tenancy agreement (the "Tenancy Agreement") entered into between Mastercraft China as the lessee and an individual Independent Third Party as the lessor, the property in Shenzhen located at No. 28 Mabu Road, Bainikeng Village, Pinghu Town, Longgang District, Shenzhen City, Guangdong Province, the PRC with a gross floor area of approximately 1,600 square metres is leased to Mastercraft China as the product design and development facilities of Mastercraft WFOE for a term of two years commencing on 1 August 2011 and expiring on 31 July 2013. The relevant lease has been registered and recorded at the Rental Management Office of Longgang District, Shenzhen City. According to the Company's PRC legal advisers, the lessor for the above mentioned property has been unsuccessful in obtaining the ownership certificate for such property. As a result, the Tenancy Agreement may be revoked in which case the Group would need to relocate its product design and development facilities in Shenzhen.

The Directors do not consider that a temporary suspension of the Group's product design and development facilities in Shenzhen while the Group relocates such facilities would have a significant operational or financial impact of the Group. The Director's consider that the Group would be able temporarily to transfer design and development functions to the Group's new facilities in Dongguan or outsource such functions to a suitable third party. Any suspension and relocation of facilities would also have limited impact on the Group's results of operations as the facilities do not currently contribute any revenue to the Group. Finally, the Directors estimate that the cost of re-locating the Group's design and development facilities would be approximately RMB102,580.

BUSINESS

U.S.

On 1 October 2011, Mastercraft USA, an indirect wholly-owned subsidiary of the Company, as lessee and MCP Investments, LLC (“MCP”) as lessor entered into a lease agreement, pursuant to which MCP agreed to lease to Mastercraft USA the premises located at 3506 Airport Road, Jonesboro, Arkansas, the U.S. with a gross floor area of approximately 105,234 square feet, for a monthly rental price of US\$26,250 (equivalent to approximately HK\$204,000) for use as the office and warehouse of Mastercraft USA. The term of the lease commenced on 1 October 2011 and will expire on 31 December 2013. Mastercraft USA is in exclusive possession of the leased premises.

Property analysis

As at the Latest Practicable Date, the Group owned one property in Hong Kong and leased a total of two properties in the PRC and the U.S. respectively, with an aggregate floor area of 11,565 square metres, each ranging from a floor area of 189 square metres to 9,776 square metres. The Group does not have any property interest that forms part of property activities as defined under Rule 8.01(2) of the GEM Listing Rules and section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice as at the Latest Practicable Date so that the aggregate carrying amount of such property interest does not exceed 10% of the Group’s consolidated total assets as at the Latest Practicable Date.

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus has complied with the conditions specified in section 6(3) of the said notice and is therefore exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which require a valuation report with respect to the Group’s interest in the Group’s leased properties, for the reason that as of 31 December 2011, each of the Group’s leased properties has a carrying amount of less than 15% of the Group’s consolidated total assets. The Directors confirm that none of the Group’s leased properties is individually material to the Group in terms of revenue contribution and/or rental expense. An overview of the properties leased and occupied by the Group which are not covered in “Appendix III — Property Valuation” is set out below:

No.	General description of the property	Gross floor area (sq.ft.)	Lessor	Lessee	Uses	Expiry Date	Year of completion	No. of storey of the building	No. of storey of the property	Monthly rent
1.	3506 Airport Road, Jonesboro, Arkansas 72401, U.S.	105,234	MCP Investments, LLC	Mastercraft Distribution USA Inc.	Warehouse and Office	31 December 2013	2002	1	1	US\$26,250 exclusive of all relevant outgoings
2.	Two industrial buildings located at No. 28 Mabu Road, Bainikeng Village, Pinghu Town, Longgang District, Shenzhen City, Guangdong Province, The PRC	17,222.4	An individual Independent Third Party	Mastercraft China Limited	Industrial	31 July 2013	2001	2	2	RMB27,776 exclusive of all relevant outgoings

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The Board is responsible and has general powers for the management and conduct of the Group's business. Saved as disclosed below, none of the Directors has any other directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

The table below shows certain information in respect of members of the Board:

Name	Age	Position	Responsibilities	Date of appointment
LEUNG Yuen Ho Simon (梁遠豪)	49	Executive Director	Overall strategic planning and management of the Group	3 August 2011
Jerry Denny STRICKLAND Jr.,	61	Executive Director	Overseeing sales and marketing	3 August 2011
LAI Kin, Jerome (黎健)	63	Independent Non-Executive Director	Overseeing and advising on the financial aspects of the Group's business, chairman of the Audit Committee	21 June 2012
HAU Chi Hung (侯智雄)	59	Independent Non-Executive Director	Providing general business management advice to the Board, chairman of the Remuneration Committee	21 June 2012
TANG Thomas Bong (鄧邦)	62	Independent Non-Executive Director	Providing general business management advice to the Board, chairman of the Nomination Committee	21 June 2012

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

EXECUTIVE DIRECTORS

Mr. LEUNG Yuen Ho Simon (梁遠豪), aged 49, was appointed as Director on 3 August 2011. He is the Company's managing Director. He has over 25 years' of production and sales experience in the lighting industry. Mr. Leung has been engaged in the lighting industry since he established Tai Pan Lighting Corporation, a company incorporated in Canada, with an Independent Third Party in 1985. Tai Pan Lighting Corporation is a wholesaler supplying lighting products to furniture and lighting retailers in Canada and a distributor of lamps products to hotels in Canada and the U.S. and Mr. Leung acted as the vice president of the company. In August 2011, Mr. Leung resigned as the vice president of Tai Pan Lighting Corp. and sold all of his shares in Tai Pan Lighting Corp. to an Independent Third Party. Mr. Leung also co-founded (with Mr. Strickland) Mastercraft International in 1994 and Mastercraft China in 1999. Since the establishment of Mastercraft International and Mastercraft China, Mr. Leung has been involving in overall strategic planning and management of the Group. He is also in charge of financial and operation departments of the Group. Mr. Leung is also a director of Bainikeng, a company previously engaged in manufacturing lighting products. Mr. Leung was appointed as a director of Bainikeng on 28 September 2005.

Mr. Jerry Denny STRICKLAND Jr., aged 61, was appointed as Director on 3 August 2011. He is the Company's Director of sales and marketing. Mr. Strickland has more than 25 years of sales experience in the lighting industry. Mr. Strickland began working in the lighting industry in his early twenties; initially for Jimco Lamp Co. and later for the Elite Lamp Co. Recognising that direct imports would represent the future of the portable lighting industry, Mr. Strickland co-founded (with Mr. Leung) Mastercraft International in 1994 and Mastercraft China in 1999. Since the establishment of Mastercraft International and Mastercraft China, Mr. Strickland has been responsible for overall management of the sales and marketing of the Group and is responsible for coordinating and monitoring the Group's customers. He is also responsible for the Group's product development and heading the Group's product development team to design new products for customers. Mr. Strickland is also a director of Bainikeng, a company previously engaged in manufacturing lighting products. Mr. Strickland was appointed as a director of Bainikeng on 28 September 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAI Kin Jerome (黎健), aged 63, was appointed as Independent Non-Executive Director of the Company on 21 June 2012. Mr. Lai graduated in 1974 from the University of Toronto with a Bachelor of Commerce degree. He became a chartered accountant of The Institute of Chartered Accountants of Ontario in 1976 and a member of the Hong Kong Institute of Certified Public Accountants in 2006. Mr. Lai has over 30 years of experience in accounting. He served as chief financial officer and executive director at SPG Land (Holdings) Limited between 2006 and 2008 and as an non-executive of the company from 2008 to 2011. Mr. Lai was senior vice president of the finance, treasury and administration functional unit of Hong Kong Exchanges and Clearing Limited between 2000 and 2003 and executive director of the finance and management services division of the Stock Exchange between 1997 and 2000. Mr. Lai is currently serving as an independent non-executive director on the board of PC Partner Group Limited, a company listed on the Stock Exchange.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. HAU Chi Hung (侯智雄), aged 59, was appointed as an Independent Non-Executive Director of the Company on 21 June 2012. Mr. Hau received a degree in Computer Science in 1975 and a Master of Business Administration in 1976 from the University of Alberta (Canada). He was the operations manager of GE Commercial Finance (Hong Kong) Limited (formerly known as Heller Factoring (Hong Kong) Limited in 1982 and 1983) and became a managing director of the same company in 1983. In 1987, he was appointed as a vice-president of Heller Overseas Corporation, responsible for North Asia which encompassed Hong Kong, Taiwan and South Korea. He was later seconded to Thailand and was appointed as the managing director of Kasikorn Factoring and Equipment Co. Ltd. (formerly known as Thai Farmers Heller Factoring Co. Ltd.). He later became the vice president of Korn/Ferry International (H.K.) Limited. From 1994, Mr. Hau has been a director of American Pacific Medical Group Ltd, a healthcare provider that builds and operates specialised hospitals in China.

Mr. TANG Thomas Bong (鄧邦), aged 62, was appointed as an Independent Non-Executive Director of the Company on 21 June 2012. Mr. Tang has over 25 years' experience in education management. During the period between 1986 and 1991, he was a director of Getton Investments Limited, which operated a branch under the name S.E.A. Canadian Overseas Secondary School. In 1989, he founded the Canadian International School (Singapore), and holds the position of chief executive officer at the school. In 2000, he founded the Schoolhouse by the Bay Pte. Ltd. and The Learning Ladder in Singapore. Also in 2000 Mr. Tang established the Learning Society, a public service organisation that aims to promote and support progressive education programmes for adults and children, educational research, curriculum development, operation of educational institutions, contribution to educational and academic publications and charitable acts in education.

Save as disclosed above, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there were no other matters with respect to the appointment of the Directors that needs to be brought to the attention of the Shareholders and there was no information relating to the Directors that is required to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules as at the Latest Practicable Date.

SENIOR MANAGEMENT

Mr. HUI Chung Ming Gary (許鐘銘), aged 43, the head of product development and marketing, is responsible for the product development and marketing functions of the Group. He joined the Group in 1998 as marketing manager and took up the position of the head of product development and marketing at the end of 2001. He oversees the overall operation of the product design and development department and helps develop the marketing strategies of the Group. Prior to joining the Group, Mr. Hui worked as a product manager for Hung Tai Brass & Metal Wares Factory Limited between 1991 and 1997. His was principally responsible for communicating with customers and suppliers to ensure product quality, including lighting parts and components. He has more than 20 years of experience in the lighting and home furnishings industry. He obtained a higher diploma in translation and interpretation from City Polytechnic (now City University) of Hong Kong in 1990.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Ms. CHIU Shuk Ching (趙淑貞), aged 48, is the head of operations of the Group and is responsible for monitoring the operations team and co-ordinating factories and suppliers to ensure production operations are carried out efficiently and effectively. She joined the Group in 1997 as an operation manager. She has over 22 years of operations-related experience. Prior to joining the Group, Ms. Chiu worked as a recruitment manager in Alpha Personnel Consultant from 1994 to 1996. Ms. Chiu has approximately 10 years' merchandising experience. She worked at Streambrook Company Limited from 1983 to 1987 and from 1989 to 1994, initially as a clerk before being promoted to assistant merchandiser in 1984, and then senior merchandiser in 1994. Ms. Chiu was employed by Dodwell Hong Kong Buying Office Limited briefly from 1988 to 1989 initially as an assistant merchandiser before being promoted as a senior merchandiser. Ms. Chiu received a Bachelor of Business Administration degree from University of Western Sydney via long distance learning in 2005.

Ms. WONG Shuk Fong (黃淑芳), aged 28, is the financial controller and company secretary of the Group. She is responsible for financial and corporate governance matters of the Group. She is also responsible for overseeing compliance with the Group's internal controls systems. From 2006 to 2010, Ms. Wong worked in CCIF CPA Limited, initially as auditor before being promoted to assistant manager. During that time, Ms. Wong was involved in handling initial public offerings, auditing and substantial corporate transactions for listed companies in Hong Kong. In 2010, she established her own business in Hong Kong providing advice on tax matters and assistance to listed companies in the preparation of public financial reports and corporate announcements. Ms. Wong obtained a Bachelor of Business (Accounting and Finance) degree from University of Technology, Sydney in 2005 and a Master of Commerce (Accounting) degree from University of New South Wales in 2006. She was accredited as a certified public accountant by CPA Australia in 2010.

Ms. KU Mung Chun (古夢珍), aged 43, is responsible for overseeing the accounting function of the Group. She joined the Group in 1996. Prior to joining the Group, Ms. Ku was employed by Norden Company Ltd from 1990 to 1993 initially as a shipping clerk, and then as an accounting clerk supervisor. Ms. Ku was then employed by TWD (Hong Kong) Ltd from 1994 to 1995 as an accounts supervisor. She received an advanced diploma in Accounting from the University of Hong Kong in 2005. She also obtained a Bachelor of Business Administration (major in accounting) from 東北財經大學 (Dongbei University of Finance and Economics) in 2007.

Mr. FONG Chi Chung (方志忠), aged 53, is the Group's factories compliance manager. He joined the Group in 1995 as an inspector and became factories compliance manager in 2006. In 2011 he was also appointed to act as the legal representative of Mastercraft WFOE. Prior to joining the Group, Mr. Fong was employed by Tai Pan Lighting Corporation from 1985 to 1995 as a production technician responsible for lighting component finishing and gained knowledge in product safety. He is responsible for monitoring the entire system flows of the Group's contract manufacturers to ensure such contract manufacturers comply with applicable laws and regulations as well as specific requirements of the Group's customers. He is also responsible for day-to-day operations of Mastercraft WFOE. Mr. Fong has more than 25 years of experience in the lighting industry, in particular production and factory set-up matters.

None of the Group's senior managers has any other directorship in any other public companies the securities of which are or have been listed on any securities market in Hong Kong or overseas in the past three years.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

AUDIT COMMITTEE

The Company established an Audit Committee on 21 June 2012 which comprises Mr. HAU Chi Hung, Mr. LAI Kin Jerome and Mr. TANG Thomas Bong, with Mr. LAI Kin Jerome being the chairman of the committee. The Audit Committee has adopted the written terms of reference in compliance with paragraph C3.3 of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules. Among other things, the primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The committee will be assisted by the professional accounting firm engaged by the Group, which will conduct regular internal audits and report to the committee.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee on 21 June 2012 which comprises Mr. HAU Chi Hung, Mr. LAI Kin Jerome and Mr. TANG Thomas Bong, with HAU Chi Hung being the chairman of the committee. The Remuneration Committee has adopted written terms of reference in compliance with paragraph B1.3 of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules. Among other things, the primary duties of the Remuneration Committee include the evaluation of the performance and the making of recommendations on the remuneration package of the Directors and senior management.

Following the Listing, and according to the terms of reference of the remuneration committee adopted by the Company, the remuneration committee of the Company will make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration, a significant portion of which will be linked to corporate and individual performance.

NOMINATION COMMITTEE

The Company established a Nomination Committee on 21 June 2012 which comprises Mr. HAU Chi Hung, Mr. LAI Kin Jerome and Mr. TANG Thomas Bong, with Mr. TANG Thomas Bong being the chairman of the committee. The Nomination Committee has adopted written terms of reference in compliance with paragraph A4.5 of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules. The primary duties of the Nomination Committee include nominating potential candidates for directorship, reviewing the nomination of directors and making recommendations to the Board on terms of such appointment.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

COMPLIANCE ADVISER

The Company is expected to appoint WAG Worldsec Corporate Finance Limited as its compliance adviser in accordance with Rule 6A.19 of the GEM Listing Rules. The compliance adviser will advise the Company on on-going compliance requirements and other issues under the GEM Listing Rules and other applicable laws and regulations in Hong Kong after the Listing. The material terms of the compliance adviser's agreement entered into between the Company and the compliance adviser are summarised as follows:

- (a) the Company will appoint WAG Worldsec Corporate Finance Limited as compliance adviser for a period commencing on the Listing Date and ending on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the Listing Date, that is, 20 July 2012, or until the agreement is terminated, whichever is the earlier;
- (b) the compliance adviser shall provide the Company with guidance and advice as to compliance with the requirements under the GEM Listing Rules and applicable laws, rules, codes and guidelines;
- (c) the Company will indemnify the compliance adviser for certain actions against it and losses incurred by it arising out of or in connection with the performance by the compliance adviser of its duties under the agreement; and
- (d) the Company shall have the right, without compensation to terminate the appointment of the compliance adviser under the agreement only if the compliance adviser's work is of an unacceptable standard or if there is a material dispute (which cannot be resolved within thirty days) over fees payable by the Company to the compliance adviser as permitted by Rule 6A.26 of the GEM Listing Rules. The compliance adviser shall have the right to resign or terminate its appointment as a compliance adviser in accordance with the terms of the agreement.

COMPLIANCE OFFICER

Mr. LEUNG Yuen Ho Simon is the compliance officer of the Company. For details of his biography, please refer to the paragraph headed "Executive Directors" in this section of the prospectus.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

EMPLOYEES

As at the Latest Practicable Date, the Group had 96 employees, including a total of 21 employees located in Hong Kong, 44 employees in the PRC and 31 employees in the U.S. The following table shows a breakdown of the Group's employees by function during the Track Record Period and as at the Latest Practicable Date:

Functions	Number of employee		
	Year ended	As at Latest	
	31 December	Practicable	
	2010	2011	Date
Management, finance, human resources and administration	8	44	45
Sales and marketing	3	17	19
Quality control	2	10	9
Design and development	1	23	23
Total	14	94	96

Save for the employment by Mastercraft WFOE of certain staff previously employed by Yu Tai, as more particularly described in the sub-section entitled "The Group's business model — Product design and development" in the section headed "Business" in this prospectus and the employment by Mastercraft USA of certain staff previously employed by MIUSA, there has been no material change in the number of people employed by the Group during the Track Record Period. During the Track Record Period, Mastercraft WFOE employed 40 staff that were previously employed by Yu Tai and Mastercraft USA hired 26 staff that were previously employed by MIUSA. As at the Latest Practicable Date the 31 staff of Mastercraft USA are broadly divided into administrative, sales, sales support and warehouse functions. The staff include a logistics coordinator, accounting staff, an inventory analyst, a human resources manager, account managers, product development managers, a designer, a showroom coordinator, a customer service representative and sale assistant, warehouse floor workers and a warehouse manager. Of the 31 staff, 10 of such staff work full-time and the rest are employed on an hourly basis. Three of the Mastercraft USA staff are associates of Mr. Strickland. Save as aforesaid, none of the Mastercraft USA employees are associates of any of the Directors. The Directors confirmed that none of the employees of Mastercraft USA whether they are employed on full-time or hourly basis work for any parties or companies (other than members of the Group) related to or associated with Mr. Leung and/or Mr. Strickland.

The Directors confirm that apart from the 40 former employees of Yu Tai and 26 former employees of the MIUSA, none of the employees of Mastercraft WFOE or Mastercraft USA was previously employed by related parties.

During the Track Record Period, the Group had not experienced any significant difficulties in recruiting employees, and had not experienced any significant staff revenue or labour disputes. The Director's believe that the Group's employee relations are satisfactory in general, and that the Group's

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

management policies, working environment, career prospects and benefits extended to its employees have contributed to building a good employee relations and employee retention.

The Group's staff costs include salaries, wages and other benefits, retirement benefit scheme contributions as well as termination compensation to staff. For the years ended 31 December 2010 and 2011, the Group's total staff costs were approximately HK\$4.7 million and HK\$10.6 million respectively. Approximately HK\$0.4 million and HK\$2.9 million were attributable to Mastercraft WFOE and Mastercraft USA respectively for the year ended 31 December 2011.

REMUNERATION OF DIRECTORS AND STAFF

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years with effect from the Listing Date, which will continue thereafter until terminated by not less than three months' prior notice in writing. Further details of the terms of the service agreements entered into with the Directors are set out in the section headed "Further information about Directors, senior management and substantial shareholders — Particulars of service agreements" in Appendix V to this prospectus.

During the year ended 31 December 2011, the aggregate emoluments (including director's fee, salaries and other benefits, discretionary bonus and contributions to retirement benefits scheme) paid by the Group to the Directors were approximately HK\$1.3 million. Further information in respect of the Directors' remuneration is set out in Appendix I to this prospectus. It is expected that an aggregate of approximately HK\$3.6 million will be paid as remuneration to the Directors by the Group in respect of the year ending 31 December 2012 pursuant to the present arrangement.

The aggregate amounts of remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses) paid by the Group to its five highest paid individuals for the years ended 31 December 2010 and 2011 were approximately HK\$1.7 million and HK\$3.4 million.

No remuneration was paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office during the Track Record Period. Further, none of the Directors had waived any remuneration during the same period.

Under the Group's arrangements currently in force, the aggregate remuneration (including fees, salaries, contributions to pension schemes, bonus payables and other allowances and benefits in kind) of the Directors for the year ended 31 December 2012 is estimated to be approximately HK\$3.6 million.

The Company's policy concerning the remuneration of the Directors is that the amount of remuneration is determined by reference to the relevant Director's experience, income generation, responsibilities, workload and the time devoted to the Group. Details of the terms of the service agreements are set out in the section headed "Further information about Directors, senior management and substantial shareholders — Particulars of service agreements" in Appendix V to this prospectus.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

SHARE OPTION SCHEME

The Company has also conditionally adopted the Share Option Scheme on 21 June 2012. As at the Latest Practicable Date, no option had been granted under the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the section headed “Share Option Scheme” in Appendix V to this prospectus, respectively.

RETIREMENT BENEFIT SCHEMES

Hong Kong

In Hong Kong, the Group has participated in the mandatory provident fund prescribed by the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong). The total cost charged to the combined statements of comprehensive income of approximately HK\$0.2 million and HK\$0.2 million for the years ended 31 December 2010 and 2011 respectively, represent contribution payable to the scheme.

PRC

In the PRC, the Group has participated in the pension insurance, medical insurance, unemployment insurance, occupational injury insurance schemes, maternity insurance prescribed by the Social Insurance Law of the People’s Republic of China (《中華人民共和國社會保險法》) which was promulgated on 28 October 2010 and became effective on 1 July 2011, and housing fund prescribed by the Interim Measures on Housing Fund of Shenzhen Municipality (《深圳市住房公積金管理暫行辦法》) which were promulgated on 24 November 2010 and became effective on 20 December 2010.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND NON-COMPETITION UNDERTAKINGS

GENERAL BACKGROUND

Immediately upon completion of the Placing and the Capitalisation Issue, Mr. Strickland and Mr. Leung will each be directly or indirectly interested in 37.5% of the Company's entire issued share capital, without taking into account any options which may be granted under the Share Option Scheme. The Group has full rights to make decisions on, and to carry out, its own business operations independently. The Group holds all relevant licences necessary to carry on its operations and has sufficient capital, equipment and employees to operate its business independently from the Controlling Shareholders. The Group's operational decisions are made by the executive Directors and senior management, most of whom are experienced in the portable lighting, shades and home furnishing industry.

BUSINESS OF CONTROLLING SHAREHOLDERS

During the Track Record Period, the Group had business dealings with certain companies associated with or controlled by the Controlling Shareholders.

Dynamic Resources International Limited (“Dynamic Resources”)

Dynamic Resources is a company incorporated under the laws of Hong Kong which is owned by Mr. Leung and his wife, in equal shares. Dynamic Resources provided representative services to the Group by handling the Group's MMR customers during the Track Record Period. The commission expenses paid by the Group to Dynamic Resources for the year ended 31 December 2010 was HK\$481,428. Commission payable on individual orders ranged from 0% to 5% of the order value, depending on the kind of profit margin on the products being sold. Dynamic Resources ceased to provide such representative services in February 2010 to avoid having continuing connected transactions between the Group and Dynamic Resources after Listing. After ceasing the business relationship with Dynamic Resources, the Group's MMR customers previously handled by Dynamic Resources are now handled by employees of the Group.

Mr. Leung has confirmed that Dynamic Resources is now an investment holding company and does not and will not conduct any business which competes with the Group. Since Dynamic Resources is holding certain assets not related to the operation of the Group, it was not injected into the Group pursuant to the Reorganisation.

Mastercraft International USA, Inc. (“MIUSA”)

MIUSA was a company incorporated under the laws of the State of Arkansas, the U.S., and was wholly-owned by Mr. Strickland. The principal activity of MIUSA was acting as a wholesale distributor of lighting and home décor products. In response to the request of certain of the Group's customers for the Group to maintain adequate inventories in the U.S. to meet short delivery lead-time orders, commencing from January 2011, the Group engaged MIUSA as its U.S. domestic distributor to supply the Group's products to these customers. For the nine months ended 30 September 2011, the total sales and net sales by the Group to MIUSA were approximately HK\$49.4 million and HK\$37.6 million respectively, representing approximately 22.2% of total sales of the Group for the relevant period.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND NON-COMPETITION UNDERTAKINGS

The management of the Group had not considered acquiring MIUSA due to the amount of work that would be involved in conducting due diligence in relation to acquiring MIUSA, and the fact that other liabilities and business engaged in by MIUSA not related to portable lighting would be acquired under such acquisition.

In order to assume full control of the Group's U.S. business, the management of the Group decided to enter into the following agreements, as a result of which certain assets and business of MIUSA would be acquired without taking up its liabilities and unrelated business:

- (a) the inventory purchase agreement entered into among Mastercraft USA, MIUSA, Mastercraft International and Mr. Strickland, under which Mastercraft USA acquired all inventories related to the Group's business from MIUSA; and
- (b) the deed of non-competition entered into among the Company and each of Mr. Leung, Mr. Strickland and SYH Investments, pursuant to which each of Mr. Leung, Mr. Strickland and SYH Investments undertakes that they, and all companies and associates controlled by/related to them, shall not engage in business competing with the Group.

The distribution arrangement between the Group and MIUSA ceased in September 2011 following the incorporation of Mastercraft USA, so as to avoid having continuing connected transactions between the Group and MIUSA after Listing. After ceasing the business relationship with MIUSA, the Group's MMR customer previously handled by MIUSA are now handled by Mastercraft USA. Further details of the Group relationship with MIUSA are set out in the section of the prospectus head "Business — Delivery — U.S distribution hub".

Following the establishment of Mastercraft USA, a wholly-owned subsidiary of the Group, to serve as the Group's distribution hub in the U.S., the management of the Group considered that the customers of the Group in the U.S. may be confused as to whether MIUSA was part of the Group. As a result, by a memorandum of board and shareholder action of MIUSA dated 28 December 2011, Mr. Strickland, being the director and shareholder of MIUSA, resolved to effect the dissolution of MIUSA. In respect of the businesses engaged by MIUSA that are not related to the Mastercraft Group of companies, Mr. Strickland has confirmed that he has transferred all the business activities to companies owned/controlled by him.

Furthermore, the Company and the Controlling Shareholders entered into a deed of non-competition, pursuant to which Mr. Strickland has undertaken with the Company that he shall, and shall procure that his associates (other than members of the Group) shall not engage in any business, which competes with the Group. For further details, please refer to the paragraph headed "Non-Competition Undertakings" under the section headed "Relationship with Controlling Shareholders and Non-competition Undertakings".

Mr. Strickland has confirmed that MIUSA was dissolved under the laws of the State of Arkansas, the U.S. effective as of 29 December 2011 and therefore does not and will not conduct any business which competes with the Group.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND NON-COMPETITION UNDERTAKINGS

Yu Tai

Yu Tai, a related party during the Track Record Period, is a company incorporated under the laws of Hong Kong. As at 31 January 2012, the date to which the latest annual return was made up, Yu Tai was wholly owned by Mr. Leung's father who transferred over 99.9% of the issued share capital of Yu Tai to two Independent Third Parties pursuant to instruments of transfer dated 14 February 2012. Yu Tai provided exclusive prototype production services to the Group through a supplied materials processing factory established by Yu Tai in the PRC. The scope of business of the processing factory included processing bronze, hardware, porcelain, lighting and resin craft products. Prior to the commencement of business of Mastercraft WFOE, the Group's design and development team co-operated with Yu Tai to develop the Group's designs to the prototype stage. All of Yu Tai's product design employees were offered employment with Mastercraft WFOE. Of the 44 staff employed by Mastercraft WFOE, 40 were formerly employed by Yu Tai. The Group has therefore managed to ensure continuity in design and development expertise and capabilities while simultaneously bringing its design and development entirely inhouse. Since Yu Tai is not controlled by Mr. Leung, it was not injected into the Group pursuant to the Reorganisation.

Bainikeng

Bainikeng was incorporated on 15 November 2002 under the laws of Hong Kong to manufacture lighting and lighting accessory products. Bainikeng ceased operation in June 2010 and has been approved for deregistration by the Companies Registry of Hong Kong. Prior to Bainikeng ceasing its operations, it had three shareholders each owning one-third of Bainikeng's equity capital. Mr. Leung and Mr. Strickland, the executive Directors and Controlling Shareholders of the Company were directors and shareholders of Bainikeng. Mr. Leung and Mr. Strickland confirmed that they were not involved in the day-to-day management or the decision making process of Bainikeng and Bainikeng was run by an Independent Third Party shareholder and director of Bainikeng.

Between December 2002 and April 2008, Bainikeng was one of the Group's contract manufacturers supplying it with lighting and lighting accessory products. From December 2002 to April 2008, the Group purchased approximately HK\$ 105.6 million worth of products from Bainikeng. The majority of these purchases were paid for on delivery.

In 2006, the Mastercraft International decided to engage Bainikeng to produce polyresin based lighting products, the manufacture of which required specific manufacturing moulds. Between March and October 2006, Mastercraft International paid to Bainikeng approximately HK\$ 3.6 million deposits for the production of these moulds. The deposits were offset against payments for finished goods purchased by the Group. The unspent amount of approximately HK\$ 0.49 million was returned to Mastercraft International in 2006.

In June 2008, Bainikeng decided to cease its operations in the manufacturing of lighting products for the mass retail market. Mastercraft International was therefore no longer able to offset the remaining balance of the deposits against future purchases. Under the circumstances and in accordance with the Group's accounting policy, the outstanding balance of approximately HK\$2.2 million due from Bainikeng was written off in the financial statements of Mastercraft International in 2009.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND NON-COMPETITION UNDERTAKINGS

Since Bainikeng has ceased operation and has been approved for deregistration by the Companies Registry of Hong Kong, the Directors are of the view that Bainikeng will not pose as the Group's competitor or a threat to its independence. The Directors believe that having been the directors and shareholders of Bainikeng does not affect Mr. Leung and Mr. Strickland's suitability as Directors of the Company.

The Controlling Shareholders have provided non-competition undertakings to the Company. For details, please refer to the paragraph headed "Non-competition undertakings" in this section of the prospectus. Based on the above and the non-competition undertakings given by the Controlling Shareholders, the Directors (including the independent non-executive Directors) are of the view that Dynamic Resources, MIUSA, Yu Tai and Bainikeng will not compete with the Group after the Listing and the Group does not and will not rely on these companies going forward.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

The Group is capable of carrying on its business independently from the Controlling Shareholders after Listing for the reasons as below:

Management and functions of the Group

The Group has its own management team with in-depth experience in the manufacturing and sale of portable lighting, shades and home furnishing products. The Group has established its own management, sales and marketing, administration, finance, product design and development and quality control divisions which are responsible for daily operations of the Group.

Customers of the Group

During the years ended 31 December 2010 and 2011, the Group's top five customers accounted for an aggregate of approximately 80.8% and 83.5% of total sales respectively while the largest customer accounted for approximately 33.1% and 31.3% respectively of the Group's total revenue. As confirmed by the Directors, none of the Directors, their respective associates or Shareholders who owns more than 5% of the issued share capital of the Company immediately following the completion of the Placing and Capitalisation Issue without taking into account any Shares falling to be issued pursuant to the exercise of any options which has been or may be granted under the Share Option Scheme, had any interest in any of the five largest customers of the Group for the two years ended 31 December 2011. The Group has its own access to its customers independently from the Controlling Shareholders.

For the nine months ended 30 September 2011, the total sales and net sales by the Group to MIUSA were approximately HK\$49.4 million and HK\$37.6 million, respectively, representing approximately 22.2% of total sales of the Group for the relevant period. MIUSA is a company wholly owned by Mr. Strickland, a Controlling Shareholder and executive Director of the Company.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND NON-COMPETITION UNDERTAKINGS

Pursuant to an inventory purchase agreement dated 30 September 2011 entered into between Mastercraft USA, Mastercraft International, Mr. Strickland and MIUSA (a company wholly owned by Mr. Strickland), Mastercraft USA had acquired from MIUSA its inventories of the Group's products. Subsequent to such acquisition, MIUSA has ceased to purchase any products from the Group.

Further details of the Group's relationship with MIUSA and the inventory purchase agreement are set out in the section of the prospectus headed "Business — Delivery — U.S. distribution hub".

Suppliers

During the years ended 31 December 2010 and 2011, the procurement from the Group's top five contract manufacturer suppliers accounted for an aggregate of approximately 91.3% and 85.9% of total products sourced by the Group while the largest supplier accounted for approximately 62.5% and 58.1% respectively of the Group's total purchases. As confirmed by the Directors, none of the Directors, their respective associates or Shareholders who own more than 5% of the issued share capital of the Company immediately following the completion of the Placing and Capitalisation Issue without taking into account the exercise of any Shares which may be issued as a result of any options which have been or may be granted under the Share Option Scheme, had any interest in any of the five largest suppliers of the Group for the two years ended 31 December 2011. The Group has its own access to its suppliers independently from the Controlling Shareholders.

Ownership and leasing of properties

The Group owns its headquarters in Hong Kong. Its subsidiary Mastercraft China leases a workshop facility in Shenzhen, Guangdong Province, the PRC. The Group's workshop facility in Shenzhen has been registered and recorded at the Rental Management Office of Longgang District, Shenzhen City.

The Group leases a warehouse and office facility in Arkansas, the U.S., from MCP Investments, LLC ("MCP") pursuant to a lease agreement entered into on 1 October 2011 (the "Lease Agreement"). MCP is wholly owned by Mr. Strickland, a Controlling Shareholder and executive Director of the Company. The term of the lease commenced on 1 October 2011 and will expire on 31 December 2013. 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, the valuer appointed by the Company in connection with the Listing, 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 as at the date of the Lease Agreement and comparable to the prevailing market rates for similarly sized and located premises in the U.S. Further details of the Lease Agreement are set out in the section headed "Connected transactions" in this prospectus.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND NON-COMPETITION UNDERTAKINGS

Financial independence

All outstanding balances due from related parties including amounts due from the Controlling Shareholders of the Company as at the Latest Practicable Date have been settled prior to the Listing. All personal guarantees and security provided by the Controlling Shareholders have been released. As at 31 December 2010 and 2011, the Group had general banking facilities of HK\$5 million and HK\$3.5 million respectively. The banking facilities were secured by the Group's property in Hong Kong, together with letters of guarantee with a maximum amount of up to HK\$5,000,000 issued by Mr. Leung, one of the Company's Controlling Shareholders and an executive Director. The guarantee was released upon cancellation of the above mentioned banking facilities during the year ended 31 December 2011. The Group's current overdraft and foreign currency banking facilities are secured by a charge over the Group's property in Hong Kong.

In view of the above facts, the Group is considered independent from the Controlling Shareholders in terms of management, financial and operations in all material aspects.

The Controlling Shareholders and the Directors confirm that they do not have any interest in any business apart from the Group which competes or is likely to compete, directly or indirectly, with the Group's business under Rule 11.04 of the GEM Listing Rules.

NON-COMPETITION UNDERTAKINGS

In connection with the Placing, each of the Controlling Shareholders (collectively, the "Covenantors" and each a "Covenantor") entered into a deed of non-competition with the Company on 21 June 2012 pursuant to which each of the Covenantors has, among other things, undertaken with the Company that at any time during the Relevant Period (as defined below), such Covenantor shall not, and shall procure (other than the Group) that neither the Covenantors nor their respective associates and/or companies controlled by the Covenantors (other than the Group) will, directly or indirectly, be interested in or engaged in any form of business, including but not limited to any joint venture, alliance, cooperation, partnership which competes or is likely to compete directly or indirectly with the Group's business as set out in this Prospectus, in any area (including but not limited to the U.S., Canada, Hong Kong and the PRC) in which the Group carries or may carry on business ("Restricted Activity") from time to time.

Notwithstanding the above restrictions, each of the Covenantors and their respective associates (excluding members of the Group) may hold securities of any company which conducts or is engaged in any Restricted Activity provided that (a) such securities are listed on a recognised stock exchange; (b) the total number of securities held by the Covenantors and/or their respective associates do not amount to more than 5% of the issued shares of such company; and (c) the Covenantors and/or their respective associates are not entitled to appoint a majority of the directors or management of that company.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS AND NON-COMPETITION UNDERTAKINGS

Under the deed of non-competition, the Covenantors further undertake to the Company the following:

- (i) the Covenantors shall allow the independent non-executive Directors to review, at least on an annual basis, the Covenantors' compliance with the deed of non-competition, and the options, pre-emptive rights or first rights of refusals provided by the Covenantors on their existing or future competing business;
- (ii) the Covenantors shall, upon demand, promptly provide all information necessary for the annual review by the independent non-executive Directors;
- (iii) without prejudicing the generality of paragraph (i) above, the Covenantors shall provide to the Company with a declaration annually for inclusion by the Company in its annual report, in respect of their compliance with the terms of the deed of non-competition;
- (iv) the Company shall disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the deed of non-competition (including without limitation the exercise of options or first rights of refusal, if any) either through the annual report, or by way of announcements to the public;
- (v) in the event the Covenantors or their associates (excluding members of the Group) were given any business opportunity that is or may involve direct or indirect competition with the business of the Group, the Covenantors shall refer the business opportunity to the Group and shall, and shall procure their relevant associates to, assist the Group in obtaining such business opportunity on the terms being offered to the Covenantors or their relevant associates, or more favourable terms being acceptable to the Group provided that the Covenantors shall not proceed, and shall procure their associates not to proceed, with such opportunity should the Group decline to accept such offer; and
- (vi) each of the Covenantors agrees to indemnify and keep indemnified the Company and the Group against any loss suffered by the Company and the Group (as relevant) arising out of any breach of any of the Covenantor's undertakings under the deed of non-competition.

When any business opportunity as referred to in sub-paragraph (v) above is referred to the Group, the Directors will convene a Board meeting at which to consider such opportunity. Pursuant to the Articles, if the Covenantor is materially interested in such opportunity, then the Covenantor who has referred such business opportunity to the Group shall not be counted in the quorum and must abstain from voting on matters relating to such business opportunity when such business opportunity is being considered at a Board meeting. Such Covenantor shall also excuse himself from Board meetings at which such matters are discussed, unless expressly requested to attend by a majority of the independent non-executive Directors.

For the above purpose, the "Relevant Period" means the period commencing on the Listing Date and expiring on the earlier of (i) the date on which the Covenantors (together with their respective associates), whether directly or indirectly, cease to be interested in, in aggregate, 30% or more of the issued share capital of the Company; and (ii) the date on which the Shares cease to be listed on GEM.

**RELATIONSHIP WITH CONTROLLING SHAREHOLDERS
AND NON-COMPETITION UNDERTAKINGS**

The independent non-executive Directors will review, at least on an annual basis, the compliance with the deed of non-competition by the Covenantors, and if applicable, the options, pre-emptive rights or first rights of refusals provided by the Covenantors on its existing or future competing businesses.

STATEMENT OF BUSINESS OBJECTIVES

BUSINESS OBJECTIVES

The Group intends to capitalise on its recurring business in the design and development of portable lighting, shades, furniture sets and other home accessory products while targeting further expansion in selected overseas markets, and particularly to increase its market share in the U.S. and Canadian markets, where the Directors see the greatest near-future potential for the Group's products. The Group further intends to remain competitive through the cost-effective outsourcing of the production of its existing and future products.

BUSINESS STRATEGIES

The key strategic initiatives that the Group plans to implement in the near future are set out below:

Implementation plan

The Group has formulated the following business plan to implement the strategies during the time periods as set out below. The Group's implementation plan is based on certain bases and assumptions as set out in the paragraph headed "Bases and key assumptions of the Group's implementation plan" below.

A. Increase sales in North American markets

The Group intends to increase sales in North American markets (particularly the U.S.) through expanding both its Replenishment Orders business and Direct Orders business.

The Group plans to utilise its wholly owned subsidiary Mastercraft USA. The Group, through Mastercraft USA, also plans to meet customer demand by offering customers the choice of Replenishment Orders as well as Direct Orders utilising Mastercraft International. Mastercraft USA will purchase the Group's products at prices equivalent to those paid by the Group's third party U.S. customers. Mastercraft USA will continue to maintain Replenishment Inventory to enable it meet customer demand for Replenishment Orders.

The Group also plans to increase sales and marketing in relation to its Direct Orders business. The Group will endeavour to strengthen its relationships with its existing customers to secure additional orders and will attempt to broaden its customer base. It will specifically target U.S. based MMRs.

The Group established its U.S. distribution hub to meet purchase preferences as requested by certain U.S. customers. The Group does not necessarily plan to substantially increase the proportion of sales achieved through Replenishment Orders. The Group's business is driven by demand preferences of its customers.

B. Evaluate other overseas markets

The Group intends to further collaborate with its existing customers to develop its target markets, as well as identifying additional international brand owners or experienced local distributors to increase penetration into those target markets.

STATEMENT OF BUSINESS OBJECTIVES

The Group also intends to enter into new markets either by working with leading brand owners in those markets or promoting its own brands where it deems appropriate.

C. Evaluate the potential of the PRC hotel and motel market

The Group intends to enter into the hotel and motel portable lighting market in the PRC. The hotel and motel portable lighting market differs from the Group's existing business. The Group will be required to design products according to the unique specifications demanded by the industry. Hotel and motel groups purchase portable lighting directly from design manufacturers or through third party suppliers who specialise in hotel furnishings. Typically, hotels and motels and specialist third party suppliers require lower volumes of products than the Group's existing customers. The Group may retain additional sales persons with experience of the PRC hotel and motel portable lighting market to assist with its expansion.

D. Source additional contract manufacturers, strengthen strategic relationships with key contract manufacturers and continue to improve quality control

The Group will continue sourcing and procuring a larger pool of reliable contract manufacturers for future business expansion. In addition to sourcing new contract manufacturers and enhancing relationships with existing contract manufacturers, the Group will also focus on improving quality control across all production. The Group also plans to explore the possibility of sourcing third-party contract manufacturers in areas of the PRC where operating costs are lower than those parts of the PRC where its current suppliers are based.

E. Strengthen design and development capabilities

The Group will develop its capabilities in product design and development by investing in equipment and/or software if necessary to assist in producing advanced technical drawings, as well as mock-up samples for new products. The Group also will strengthen its design and development team by engaging additional staff and enhancing internal training programmes. In particular, the Group will establish a new product development centre in Dongguan Province, the PRC, equipped with the necessary machinery and equipment to increase the number of designs and prototypes the Group can offer to existing and potential and customers.

1. For the period from the Latest Practicable Date to 31 December 2012

- | | |
|--|--|
| Increase sales in North American markets | <ul style="list-style-type: none">● Strengthen effectiveness of current communication channels with existing customers in the U.S. and Canada● Enhance the Group's profile, in particular through participation in trade shows, events, exhibitions and fairs● Evaluate and update websites for the Group and distribute corporate brochures and marketing materials● Identify additional independent service representatives and additional staff in order to expand sales and marketing team in North America |
| Evaluate other overseas markets | <ul style="list-style-type: none">● Evaluate and explore potential new markets for the Group's products |

STATEMENT OF BUSINESS OBJECTIVES

- Study market preferences and trends in overseas markets based on information gathered from target markets and online sources and perform preliminary assessment in respect of target markets
 - Strengthen effectiveness of current communication channels with existing or potential customers in selected overseas markets
- Evaluate the potential of the PRC hotel and motel market
- Study market preferences and trends in the PRC hotel and motel market based on information gathered from the market and online sources and perform preliminary assessment in respect of target market
- Source additional contract manufacturers, strengthen strategic relationships with key contract manufacturers and continue to improve quality control
- Determine other potential locations in China in which to engage additional contract manufacturers
 - Evaluate performance of current contract manufacturers
 - Review and evaluate the Group's quality control procedures
- Strengthen design and development capabilities
- Evaluate potential locations and source machinery in connection with establishment of new product development centre in Dongguan Province, the PRC

STATEMENT OF BUSINESS OBJECTIVES

2. For the six-month period from 1 January 2013 to 30 June 2013

- | | |
|--|--|
| Increase sales in North American markets | <ul style="list-style-type: none">● Continue to enhance the Group's profile, in particular through participation in trade shows, events, exhibitions and fairs● Expand the sales and marketing team by hiring additional independent contractors and employing additional staff focused on North American markets, if necessary● Evaluate operation of U.S. hub and consider increasing inventory levels if necessary depending on customers' preferences● Evaluate product mix● Strengthen relationships with existing customers● Expand customer base in North American markets |
| Evaluate other overseas markets | <ul style="list-style-type: none">● Liaise with current customers to establish contacts in their subsidiaries/affiliated companies in identified overseas markets● Research any regulatory and/or certification requirements● Expand the sales and marketing team by hiring additional independent contractors and employing additional staff focused on selected overseas markets, if necessary● Strengthen relationships with existing or potential customers in selected overseas markets● Evaluate product mix |
| Evaluate the potential of the PRC hotel and motel market | <ul style="list-style-type: none">● Update information on market conditions in the PRC including market demand and trading regulations based on information gathered from the local market and online sources● Targeted marketing to hotel and motel chains in the PRC through distribution of corporate brochures and marketing materials |
| Source additional contract manufacturers, strengthen strategic relationships with key contract manufacturers and continue to improve quality control | <ul style="list-style-type: none">● Look for manufacturers in identified additional locations in the PRC● Establish contacts and seek further information and request product samples and prices● Strengthen relationships with key contract manufacturers for the Group● Provide training to quality control staff |
| Strengthen design and development capabilities | <ul style="list-style-type: none">● Establish new product development centre in Dongguan Province and rent premises, hire and train staff and purchase machinery |

STATEMENT OF BUSINESS OBJECTIVES

3. For the six-month period from 1 July 2013 to 31 December 2013

- | | |
|--|---|
| Increase sales in North American markets | <ul style="list-style-type: none">● Continue to enhance the Group's profile, in particular through participation in trade shows, events, exhibitions and fairs● Evaluate performance of service representatives and internal sales and marketing staff team and make additional appointments/hires if necessary● Continue to strengthen relationships with existing customers● Continue to expand customer base in North American markets● Evaluate level of inventory currently maintained at U.S. hub |
| Evaluate other overseas markets | <ul style="list-style-type: none">● Prepare feasibility study for expansion of sales into identified overseas markets● Continue to strengthen relationships with existing customers in selected overseas markets and expand customer base in selected overseas markets |
| Evaluate the potential of the PRC hotel and motel market | <ul style="list-style-type: none">● Continue targeted marketing to PRC hotel and motel chains● Enhance Group's profile, in particular through participation in trade shows, events, exhibitions and fairs● Evaluate and update websites for the Group and distribute corporate brochures and marketing materials● Identify independent service representatives and additional staff to target sales to PRC hotel and motel chains, as necessary |
| Source additional contract manufacturers, strengthen strategic relationships with key contract manufacturers and continue to improve quality control | <ul style="list-style-type: none">● Engage and provide quality control training to new contract manufacturers● Appoint additional quality control staff if necessary● Provide training to quality control staff |
| Strengthen design and development capabilities | <ul style="list-style-type: none">● Assess the adequacy of resources invested in the design and development team● Purchase additional machinery and advanced equipment for design and development if necessary● Provide training to design and development staff● Appoint additional design and development staff if necessary |

STATEMENT OF BUSINESS OBJECTIVES

4. For the six-month period from 1 January 2014 to 30 June 2014

- | | |
|--|--|
| Increase sales in North American markets | <ul style="list-style-type: none">● Continue to enhance the Group's profile, in particular through participation in trade shows, events, exhibitions and fairs● Continue to strengthen relationships with existing customers● Continue to expand customer base in North American markets● Evaluate level of inventory maintained at U.S. hub |
| Evaluate other overseas markets | <ul style="list-style-type: none">● Enhance the Group's profile in overseas markets, in particular through participation in trade shows, events, exhibitions and fairs● Continue to expand customer base in selected overseas markets● Strengthen relationships with existing customers in selected overseas markets● Assess feasibility of establishing inventory hub in selected overseas markets, depending on level of demand |
| Evaluate the potential of the PRC hotel and motel market | <ul style="list-style-type: none">● Commence sales to PRC hotel and motel chains● Continue to enhance Group's profile, in particular through participation in trade shows, events, exhibitions and fairs |
| Source additional contract manufacturers, strengthen strategic relationships with key contract manufacturers and continue to improve quality control | <ul style="list-style-type: none">● Evaluate performance of all contract manufacturers● Appoint additional quality control staff if necessary● Provide training to quality control staff |
| Strengthen design and development capabilities | <ul style="list-style-type: none">● Purchase additional machinery and advanced equipment for design and development if necessary● Provide training to design and development staff● Appoint additional design and development staff if necessary |

STATEMENT OF BUSINESS OBJECTIVES

5. For the six-month period from 1 July 2014 to 31 December 2014

- | | |
|--|---|
| Increase sales in North American markets | <ul style="list-style-type: none">● Continue to enhance the Group's profile, in particular through participation in trade shows, events, exhibitions and fairs● Continue to strengthen relationships with existing customers● Continue to expand customer base in North American markets● Evaluate level of inventory maintained at U.S. hub |
| Evaluate other overseas markets | <ul style="list-style-type: none">● Commence sales in new overseas markets● Strengthen relationships with existing customers in selected overseas markets● Continue to expand customer base in selected overseas markets |
| Evaluate the potential of the PRC hotel and motel market | <ul style="list-style-type: none">● Continue to enhance the Group's profile, in particular through participation in trade shows, events, exhibitions and fairs● Continue to expand customer base in the PRC hotel and motel market |
| Source additional contract manufacturers, strengthen strategic relationships with key contract manufacturers and continue to improve quality control | <ul style="list-style-type: none">● Continue to evaluate performance of all contract manufacturers● Appoint additional quality control staff if necessary● Provide training to quality control staff |
| Strengthen design and development capabilities | <ul style="list-style-type: none">● Provide training to design and development staff● Appoint additional design and development staff if necessary● Purchase additional machinery and advanced equipment for design and development if necessary |

Bases and key assumptions of the Group's implementation plan

The business objectives of the Group stated above are based on the following bases and assumptions:

- there will be no material changes in the existing political, legal, fiscal or economic conditions in Hong Kong, the PRC, the U.S., Canada, the Cayman Islands or any other place in which any member of the Group carries on or will carry on business;

STATEMENT OF BUSINESS OBJECTIVES

- there will be no material changes in the bases or rates of taxation in Hong Kong, the U.S., the PRC or in any other place in which any member of the Group operates or will operate or is incorporated;
- the Placing will be completed in accordance with and as described in the section headed “Structure and conditions of the Placing” in this prospectus;
- the Group is able to maintain its existing alliances, partnerships and working relationships with its principal business partners;
- the Group is able to retain its key management, including all the executive Directors;
- the Group will obtain equity and/or debt capital for its future growth when it becomes necessary;
- the Group will not be materially affected by any risk factors set out in the section headed “Risk factors” in this prospectus; and
- the Group will be able to continue its operation in substantially the same manner as it has been operating during the Track Record Period, and the Group will also be able to carry out its development plans without disruptions.

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Directors believe that the listing of the Shares on GEM could enhance the Group’s profile and the net proceeds from the Placing will strengthen the Group’s financial position and enable the Group to implement its business plans set out in this section. Furthermore, a public listing status on GEM will offer the Group access to capital markets for future corporate finance exercises to assist in future business development and strengthen its competitiveness.

The gross proceeds from the Placing are estimated to be approximately HK\$42 million, and the net proceeds of the Placing after deduction of underwriting fees and expenses payable by the Company in relation to the Placing, are estimated to be approximately HK\$24.2 million. The Company currently intends to use the net proceeds from the Placing as follows:

- approximately HK\$12.1 million to fund the development and operations of the Group’s U.S. distribution hub, Mastercraft USA;
- approximately HK\$4.9 million to establish a product development centre in Dongguan Province, the PRC equipped with the necessary machinery and equipment to increase the number of designs and prototypes offered to existing and potential customers;
- approximately HK\$2.4 million to conduct feasibility studies in respect of the portable lighting and home furnishing industry in overseas markets and in particular the PRC hotel and motel market. The Group will explore opportunities in the PRC based on the results of the findings of the feasibility study to be commissioned out of the proceeds of the Listing. The contents of the feasibility study will be decided pursuant to the advice of the feasibility

STATEMENT OF BUSINESS OBJECTIVES

study consultant. Typically such studies contain information on economic trends, major competitors, and customer preferences, design and quality assessments, background checks on potential customers and information on relevant laws regulations in target markets;

- approximately HK\$2.4 million to expand the operation and marketing team;
- approximately HK\$2.4 million to be used for general working capital and other general corporate purposes.

To the extent that the new proceeds from the Placing are not immediately applied, it is the present intention of the Directors that they will be placed on short-term deposits with financial institutions.

In summary, the implementation of the Group's business plans for the period from the Latest Practicable Date to 31 December 2014 will be funded as follows:

	From the Latest Practicable Date to 31 December 2012 (HK\$ million)	Six months ending 30 June 2013 (HK\$ million)	Six months ending 31 December 2013 (HK\$ million)	Six months ending 30 June 2014 (HK\$ million)	Six months ending 31 December 2014 (HK\$ million)	Total (HK\$ million)
Increase domestic sales in the U.S.	—	7.0	2.6	2.5	—	12.1
Expand product development team	0.5	2.0	1.0	1.4	—	4.9
Conduct feasibility studies	—	0.6	0.6	0.6	0.6	2.4
Expand operation and marketing team	—	1.2	1.2	—	—	2.4
General working capital	0.6	0.6	0.6	0.6	—	2.4
Total	1.1	11.4	6.0	5.1	0.6	24.2

CONNECTED TRANSACTIONS

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following transactions have been carried out by the Group and its connected persons during the Track Record Period and are expected to be continued following the Listing. The transactions will constitute continuing connected transactions which are not exempt from the reporting, annual review and announcement requirements set out in Chapter 20 of the GEM Listing Rules.

(a) Lease Agreement with MCP Investments, LLC

On 1 October 2011, Mastercraft USA, an indirect wholly-owned subsidiary of the Company, as lessee and MCP Investments, LLC (“MCP”) as lessor entered into a lease agreement (the “Lease Agreement”), pursuant to which MCP agreed to lease unto Mastercraft USA the premises located at 3506 Airport Road, Jonesboro, Arkansas, the U.S. (the “Leased Premises”) with a gross floor area of approximately 105,234 square feet, for a monthly rental of US\$26,250 (equivalent to approximately HK\$204,000) for use as the office and warehouse of Mastercraft USA. The term of the lease commenced on 1 October 2011 and will expire on 31 December 2013.

During the Track Record Period, some of the Group’s products were sold to MIUSA, a company wholly owned by Mr. Strickland, a controlling shareholder and executive Director of the Company, for distribution to customers in the U.S. The Leased Premises had been used by MIUSA, as its office and warehouse during the Track Record Period. Pursuant to an inventory purchase agreement dated 30 September 2011 entered into between Mastercraft USA, Mastercraft International, Mr. Strickland and MIUSA, Mastercraft USA had acquired from MIUSA its inventories of the Group’s products. Following such acquisition, MIUSA ceased to purchase any products from the Group.

The Directors (including the independent non-executive Directors) consider that it is in the interest of the Group to lease the Leased Premises from MCP 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.

Historical figures

Mastercraft USA was incorporated on 12 September 2011 and commenced its business on 1 October 2011. Therefore, no rental payment has been made by Mastercraft USA to MCP during the Track Record Period prior to 1 October 2011, being the effective commencement date of the Lease Agreement. The rental paid by the Group under the Lease Agreement for the year ended 31 December 2011 was US\$78,750 (equivalent to approximately HK\$613,000). For the nine months ended 30 September 2011, the rental paid by MIUSA to MCP for the Leased Premises was US\$230,000 (equivalent to approximately HK\$1,789,000.00).

Annual caps

The rental payable by the Group under the Lease Agreement for each of the two years ending 31 December 2012 and 2013 will be US\$315,000 (equivalent to approximately

CONNECTED TRANSACTIONS

HK\$2,451,000). The annual caps for the two years ending 31 December 2012 and 2013 are set out below:

	For the year ending	
	31 December	
	2012	2013
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
The rental payable by the Group under the Lease Agreement	2,451	2,451

The rental under the Lease Agreement was determined by the Directors with reference to (i) the historical rental paid by MIUSA to MCP for the Leased Premises and (ii) the prevailing market rates for similar properties in the vicinity. BMI Appraisals Limited, the valuer appointed by the Company in connection with the Listing, 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 as at the date of the Lease Agreement and comparable to the prevailing market rates for similarly sized and located premises in the U.S.

GEM Listing Rules implications

MCP is a company incorporated in the U.S. It is an associate of Mr. Strickland, a controlling shareholder and an executive Director, and a connected person of the Company under the GEM Listing Rules. Therefore, the transactions contemplated under the Lease Agreement will constitute a continuing connected transaction of the Company under the GEM Listing Rules upon the Listing.

Since the applicable percentage ratios (other than the profit ratio) will be less than the 25% threshold stipulated in Rule 20.34(2) of the GEM Listing Rules and the aggregate annual rentals payable by the Group to MCP under the Lease Agreement for the two years ending 31 December 2012 and 2013 are expected to be less than HK\$10,000,000, the Lease Agreement will be exempt from the independent Shareholders' approval requirement set out in Rule 20.48 of the GEM Listing Rules and will only be subject to the reporting and announcement requirements set out in Rule 20.45 to Rule 20.47 of the GEM Listing Rules, the annual review requirements set out in Rule 20.37 to Rule 20.40 of the GEM Listing Rules, and the requirements set out in Rules 20.35(1) and 20.35(2) of the GEM Listing Rules.

(b) Service Agreement with Todd Miller Inc.

During the Track Record Period, Mastercraft International, an indirect wholly-owned subsidiary of the Company, engaged Todd Miller Inc. ("Todd Miller") as one of the non-exclusive representatives of Mastercraft International for the sale of the Group's products to furniture stores in the U.S. (the "Representative Service") in August 2009. Mastercraft International paid a commission in respect of each purchase order of the Group's products handled by Todd Miller at a rate up to 13% of the net invoice price of the relevant purchase order during the Track Record Period. During Track Record Period, the commission paid by the Group to its

CONNECTED TRANSACTIONS

service representatives is calculated by reference to the profit margins of the products the sale of which the service representatives had facilitated. High profit margin products attracted commissions of up to 13% of the net invoice price of the relevant purchase order. Products with a profit margin of less than 10% attracted nil commission. Typically service representative 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. Instances of nil commissions attributable to one particular order may arise but in limited circumstance only, i.e. where an order was comprised exclusively of low profit margin products. According to the service agreement between the Group and Todd Miller, the maximum commission rate payable by the Group to Todd Miller is 13% of the net invoice price.

During the Track Record Period, other than Todd Miller, Mastercraft International had appointed one other non-exclusive service representative (the "Independent Representative") to provide the Representative Services for furniture store customers in August 2009. As confirmed by the Directors, the Independent Representative is an independent third party to the Group. In May 2011, the Independent Representative ceased his relationship with the Group of his own accord. The commission rates paid by Mastercraft International to Todd Miller were determined on terms no less favourable than those available to other independent non-exclusive representatives of Mastercraft International. Following the resignation of the Independent Representative, Todd Miller has become the only service representative providing the Representative Services in respect of furniture store customers since June 2011.

No formal written agreement was entered into between Mastercraft International and Todd Miller in relation to the Representative Services during the Track Record Period. In order to formalise the relationship between Mastercraft International and Todd Miller, a service agreement (the "Service Agreement") was entered into between Mastercraft International and Todd Miller on 3 March 2012. Pursuant to the Service Agreement, Mastercraft International appointed Todd Miller as a non-exclusive service representative of Mastercraft International in the United States to provide the Representative Services for a period commenced from the date of the Service Agreement until 31 December 2013. The commission payable by Mastercraft International to Todd Miller in respect of each purchase order will be at a rate to be mutually agreed by 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 representative of Mastercraft International for similar products at the material time.

Todd Miller had provided the Representative Services to Mastercraft International throughout the Track Record Period and had built up a good relationship with the customers handled by Todd Miller. The Directors (including the independent non-executive Directors) consider that it is in the interest of the Group to continue to engage Todd Miller to provide the Representative Services to the Group.

CONNECTED TRANSACTIONS

Historical figures

The total sales attributable to furniture stores and the sales amount (and % of total sales) handled by Todd Miller and the Independent Representative for the three years ended 31 December 2009, 2010 and 2011 are set out below:

	For the years ended 31 December		
	2009	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The total sales attributable to furniture stores	9,250	18,642	19,762
The sales amount (and % of total sales) handled by Todd Miller and the Independent Representative	6,100 (66%)	18,200 (98%)	15,800 (80%)

The commissions paid by the Group to Todd Miller and the Independent Representative for each quarter of 2010 and 2011 are set out below:

	2010				Total
	For the period from January to March	For the period from April to June	For the period from July to September	For the period from October to December	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Todd Miller	142	163	158	174	637
The Independent Representative	402	233	179	220	1,034
Total	544	396	337	394	1,671

CONNECTED TRANSACTIONS

	For the period from January to March <i>HK\$'000</i>	For the period from April to June <i>HK\$'000</i>	2011 For the period from July to September <i>HK\$'000</i>	For the period from October to December <i>HK\$'000</i>	Total
Todd Miller	57	386	477	322	1,242
The Independent Representative	123	167	—	—	290
Total	180	553	477	322	1,532

The average individual and combined commission paid by the Group as well as average commission rate offered to Todd Miller and the Independent Representative are set out below:

	For the year ended 31 December			
	2010	Average commission rate ¹ (%)	2011	Average commission rate ¹ (%)
	Commission paid <i>(HK\$'000)</i>		Commission paid <i>(HK\$'000)</i>	
Todd Miller ^{2,3}	637	3.5	1,242	7.9
The Independent Representative ^{2,3}	1,034	6.9	290	6.3
The combined amounts ^{4/} combined average commission rates ⁴	1,671	9.2	1,532	9.7

Notes:

1. The commission rates refer to the percentage of the net invoice price that the service representatives are entitled to for their service. The average commission rate is the commission paid as a percentage of the value of sales orders that the service representatives entitled to. The average commission rate paid to all the Group's service representatives for the years ended 31 December 2010 and 2011 were approximately 3.8% and 3.8% respectively.
2. Todd Miller and Independent Representative followed-up on orders for products with higher gross profit margin, which attracted higher commission.
3. After the Independent Representative ceased its business relationship with the Group, Todd Miller took up most of the work of the Independent Representative since they served on the same customers and shared the commission paid by the Group for the services rendered to such customers and therefore, the average individual commission rate of Todd Miller for the year ended 31 December 2011 is higher than that of the year ended 31 December 2010.

CONNECTED TRANSACTIONS

4. The combined average commission rates refer to the percentage of the commission monies paid to both representatives compared with the net invoice price for the products handled by both representatives. As advised by the Directors, some customers were jointly handled by Todd Miller and the Independent Representative. In the event that both Todd Miller and the Independent Representative served on the same customers, the total commissions paid by the Group for the services rendered to such customers were shared between Todd Miller and the Independent Representative. Accordingly, the combined average commission rates were higher than the average individual commission rates for Todd Miller and the Independent Representative.

Annual caps

The annual caps are determined by the Directors with reference to (i) the historical total sales attributable to furniture stores and the sales amounts handled by Todd Miller and the Independent Representative; (ii) the historical commissions paid by the Group to Todd Miller and the Independent Representative; (iii) the historical average individual and overall commission rates paid by the Group to Todd Miller and the Independent Representative; and (iv) the expected growth rates of the Group's business.

According to the Group's management records, in the first quarter of 2012, sales handled by and commissions paid to Todd Miller amounted to HK\$2,733,000 and HK\$277,000 respectively. In comparison to the commission of approximately HK\$57,000 paid to Todd Miller and total commission of approximately HK\$180,000 paid to Todd Miller and the Independent Representative in the first quarter of 2011, this represents an increase of 386% and 54% respectively.

Irrespective of such encouraging sales results to the furniture stores in the first quarter of 2012, assuming that the commissions payable to Todd Miller for the remaining three quarters of 2012 would be the same as the total commissions paid to it in the last three quarters of 2011, the estimated amount of commission for Todd Miller would be approximately HK\$1,629,000 for the full year of 2012.

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. In 2010, the Group recorded a 101.5% increase of sales to this sector over the previous year. However, the growth was hindered by the production capacity of existing contract manufacturers. As a result, only a moderate sales growth of 6.1% was recorded in 2011.

Due to the attractive profit margins of furniture sets and other home accessory products, the Directors decide to further develop this sector by identifying more suitable contract manufacturers to enhance the product 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 furniture stores sector will be around 10% in each of 2012 and 2013.

CONNECTED TRANSACTIONS

Based on this 10% estimated growth rate for each of the years of 2012 and 2013, and assuming the average overall commission rate will remain at the same level of 9.7% as in the year 2011, the estimated commissions payable to Todd Miller for the years of 2012 and 2013 would be approximately HK\$1,686,000 and HK\$1,854,000 respectively. It is therefore proposed that the annual caps for the commissions payable by the Group to Todd Miller for the two years ending 31 December 2012 and 2013 are as follows:

Annual Caps	For the years ended	
	31 December	
	2012	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Commissions payable to Todd Miller	1,700	1,900

GEM Listing Rules implications

Todd Miller is a company owned by Mr. Todd Miller, who is a brother-in-law of Mr. Strickland, a Controlling Shareholder and executive Director of the Company. Accordingly, Todd Miller is an associate of Mr. Strickland and a connected person of the Company under the GEM Listing Rules. Therefore, the transactions contemplated under the Service Agreement will constitute a continuing connected transaction of the Company under the GEM Listing Rules upon the Listing.

Since the applicable percentage ratios (other than the profit ratio) will be less than the 25% threshold stipulated in Rule 20.34(2) of the GEM Listing Rules and the aggregate annual commissions payable by the Group to Todd Miller under the Service Agreement for each of the two years ending 31 December 2012 and 2013 are expected to be less than HK\$10,000,000, the Service Agreement will be exempt from the independent Shareholders' approval requirement set out in Rule 20.48 of the GEM Listing Rules and will only be subject to the reporting and announcement requirements set out in Rule 20.45 to Rule 20.47 of the GEM Listing Rules, the annual review requirements set out in Rule 20.37 to Rule 20.40 of the GEM Listing Rules, and the requirements set out in Rules 20.35(1) and 20.35(2) of the GEM Listing Rules.

CONFIRMATION FROM THE SPONSOR AND THE DIRECTORS

The Directors (including the independent non-executive Directors) are of the view that the non-exempt continuing connected transactions described above have been entered into in the ordinary and usual course of business of the Group and on normal commercial terms. The terms and conditions of the Lease Agreement and the Service Agreement (including their respective annual caps for each of the two years ending 31 December 2012 and 2013) are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

CONNECTED TRANSACTIONS

Based on the documents, information and historical figures provided by the Company and participation in due diligence and discussions with the Company, the Sponsor is of the view that the entering into of and the transactions contemplated under each of non-exempt continuing connected transactions described above are in the ordinary and usual course of business of the Group and on normal commercial terms. The terms and conditions of the Lease Agreement and the Service Agreement (including their respective annual caps for each of the two years ending 31 December 2012 and 2013) are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

WAIVER FROM THE STOCK EXCHANGE

Given the transactions contemplated under the Lease Agreement and the Service Agreement will be carried out on a continuing basis following the Listing, the Directors consider that compliance with the announcement requirements under the GEM Listing Rules would be unduly burdensome, which may involve unnecessary administrative costs to the Company.

The Company has therefore applied to the Stock Exchange and the Stock Exchange has granted to the Company a waiver from strict compliance with the announcement requirement under Rule 20.47 of the GEM Listing Rules in respect of the transactions contemplated under the Lease Agreement and the Service Agreement on the conditions that:

1. the transactions contemplated under the Lease Agreement and the Service Agreement have been and will be entered into:
 - (a) in the ordinary and usual course of business of the Company;
 - (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to and from (as appropriate) independent third parties;
 - (c) on terms that are fair and reasonable so far as the Shareholders are concerned;
 - (d) the aggregate rental payable by the Group under the Lease Agreement and for each of the financial years ending 31 December 2012 and 2013 will not exceed US\$310,000 (equivalent to approximately HK\$2,451,000); and
 - (e) the aggregate value of commissions payable by the Group under the Service Agreement for each of the years ending 31 December 2012 and 2013 will not exceed HK\$1,700,000 and HK\$1,900,000 respectively.
2. details of the transactions, including the date, the parties to the transactions and a description of the connected relationship, a brief description of the transactions and their purpose, the total consideration and terms, and the nature and extent of each connected person's interest in the transactions as set out in Rule 20.45 of the GEM Listing Rules, will be disclosed in the Company's annual report;

CONNECTED TRANSACTIONS

3. the independent non-executive Directors will review the continuing connected transactions and confirm in the annual report and accounts that the transactions have been entered into:
 - (a) in the ordinary and usual course of business of the Company;
 - (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to and from (as appropriate) independent third parties; and
 - (c) in accordance with the Lease Agreement and the Service Agreement respectively and are on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
4. the auditors will review annually the transactions and provide the Directors with a letter stating that the transactions:
 - (a) have received the approval of the Board;
 - (b) have been entered into in accordance with the Lease Agreement and the Service Agreement respectively; and
 - (c) have not exceeded the annual caps set out under paragraphs 1(d) and (e) above;
5. for the purpose of the above review by the Company's auditors, the Company will provide and will procure MCP and Todd Miller to provide the auditors with sufficient access to its records;
6. the Company will promptly notify the Stock Exchange if it knows or has reason to believe that the independent non-executive Directors and/or the auditors will not be able to confirm the matters set out in Rules 20.37 and/or 20.38 of the GEM Listing Rules respectively. The Company may have to re-comply with Rules 20.35(3) and (4) of the GEM Listing Rules and any other conditions the Stock Exchange considers appropriate in respect of the said non-exempt continuing connected transactions; and
7. in the event that any of the above-mentioned annual caps applicable to the connected transactions is exceeded or if any terms of the Lease Agreement or the Service Agreement described above is materially altered or if the Group intends to renew the Lease Agreement or the Service Agreement or enter into any new agreement with any connected persons in the future or upon expiration of the waiver of the Stock Exchange, the Company will comply with the provisions of Chapter 20 of the GEM Listing Rules (as amended from time to time) in dealing with such connected transactions.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

CONTROLLING SHAREHOLDERS

The Directors confirm that, immediately following completion of the Placing and the Capitalisation Issue but without taking into account any Shares which may be allotted and issued pursuant to the exercise of any option that may be granted under the Share Option Scheme, the following persons individually and/or collectively are entitled to exercise or control the exercise of 30% or more of the voting power at the general meeting of the Company and are able, as a practical matter, to control the composition of a majority of the Board and are therefore regarded as Controlling Shareholders under the GEM Listing Rules:

Name	Capacity nature of interest	Number of Shares (Note 1)	Approximate percentage of interest in the Company
Mr. Strickland	Beneficial owner	180,000,000 (L)	37.5%
Mr. Leung (Note 2)	Interest of controlled corporation	180,000,000 (L)	37.5%
SYH Investments (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 is deemed to be interested in 180,000,000 Shares held by SYH Investments under the SFO.
3. SYH Investments, 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 as at the Latest Practicable Date.

UNDERTAKINGS

Undertakings under the GEM Listing Rules

Pursuant to Rule 13.16A of the GEM Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange that except pursuant to the Placing he/she/it shall not and shall procure that the relevant registered holder(s) shall not:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/she/it is shown by this prospectus to be the beneficial owner (whether direct or indirect); or
- (b) in the period of six months commencing on the date on which the period referred to in (a) above expires, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances such Controlling Shareholders would cease to be a Controlling Shareholder.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

Each of the Controlling Shareholders has also undertaken to the Stock Exchange and the Company that:

- (i) when any of the Controlling Shareholders, within the period under paragraphs (a) and/or (b) above, pledges or charges any securities of the Company beneficially owned by such Controlling Shareholder in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform the Company thereafter, disclosing the details of the (1) number and class of securities being pledged or charged; (2) purpose for which the pledge or charge is made and (3) any other relevant details;
- (ii) when any of the Controlling Shareholders, within the period under paragraphs (a) and/or (b) above, is granted the waiver or right by the Stock Exchange under exceptional circumstances to dispose of Shares contrary to paragraph (a) and/or (b) above, immediately inform the Company thereafter, disclosing the details of the (1) number and class of securities being disposed, pledged or charged; (2) purpose for which the disposal, pledge or charge is made and (3) any other relevant details; and
- (iii) when any of the Controlling Shareholders receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities referred to in paragraph (i) and/or (ii) above will be disposed of, immediately inform the Company of such indications and the details of the same including the number of securities affected or to be affected.

The Company will inform the Stock Exchange as soon as it has been informed of such matters and must forthwith publish an announcement giving details of the same in accordance with the requirements of Rule 17.43 of the GEM Listing Rules.

Undertakings under the Underwriting and Placing Agreement

Each of the Company and the Controlling Shareholders has given certain undertakings in respect of the Shares to the Company, the Sponsor and the Underwriters, details of which are set out under the paragraph headed “Undertakings” in the section headed “Underwriting” in this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following the completion of the Placing, but taking no account of any Shares which may be allotted and issued pursuant to the exercise of any options that were granted or may be granted under the Share Option Scheme or repurchased by the Company pursuant to the mandate as referred to in the paragraph headed “Further information about the Company” in Appendix V to this prospectus, no persons/entities other than the Controlling Shareholders will have interests and/or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register of the Company required to be kept under Section 336 of the SFO or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

SIGNIFICANT SHAREHOLDERS

The Directors confirm that, so far as the Directors are aware, save for the persons disclosed above under the paragraphs headed “Controlling Shareholders” and “Substantial Shareholders” in this section, there is no other person or entity who will immediately following completion of the Placing and the Capitalisation Issue but without taking into account any Shares which may fall to be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme be directly or indirectly interested in 5% or more of the voting power at the general meetings of the Company and are therefore regarded as significant shareholders of the Company under the GEM Listing Rules.

SHARE CAPITAL

SHARE CAPITAL

The following is a description of the authorized and issued share capital of the Company as of the date of this prospectus and immediately after completion of the Placing. The tables below assume that the Placing becomes unconditional.

<i>Authorised share capital</i>	<i>HK\$</i>
800,000,000 Shares	HK\$8,000,000.00

The total number of Shares immediately following the Placing will be as follows:

<i>Shares issued and to be issued, fully paid or credited as fully paid</i>	<i>HK\$</i>
35,000,000 Shares in issue	350,000.00
325,000,000 Shares to be issued under the Capitalisation Issue	3,250,000.00
120,000,000 Shares to be issued under the Placing	<u>1,200,000.00</u>
480,000,000 Shares in total	<u><u>4,800,000.00</u></u>

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of the Listing and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of 25% of the issued share capital of the Company in the hands of the public (as defined in the GEM Listing Rules).

RANKING

The Placing Shares will rank equally with all the Shares in issue and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus except in respect of the Capitalisation Issue.

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme, the major terms of which are set out in the sections headed “Share Option Scheme” in Appendix V to this prospectus. No options have been granted under the Share Option Scheme as at the Latest Practicable Date.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to allot and issue and deal with the unissued Shares with an aggregate nominal value of not more than the sum of:

- (a) 20% of the aggregate nominal value of the share capital of the Company in issue immediately following the completion of the Capitalisation Issue and the Placing (not including Shares which may be allotted and issued pursuant to the exercise of options granted or which may be granted under the Share Option Scheme); and
- (b) the aggregate nominal value of the share capital of the Company repurchased by the Company (if any) pursuant to the general mandate to repurchase Shares as described below.

The Directors may, in addition to the Shares which they are authorised to issue under the general mandate, allot, issue and deal in the Shares pursuant to a rights issue, scrip dividends or similar arrangements or options to be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

This general mandate will remain in effect until:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the Company's next annual general meeting is required to be held by the Articles or any applicable law of the Cayman Islands; or
- (iii) the time when such mandate is revoked, varied or renewed by an ordinary resolution of the Shareholders in a general meeting,

whichever occurs the earliest.

Further information on this general mandate is set forth under the section headed "Further information about the Company" in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the conditions set forth in the section headed "Structure and conditions of the Placing" in this prospectus being fulfilled, the Directors have been granted a general mandate to exercise all the powers of the Company to purchase on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate nominal value of the Shares in issue immediately following completion of the Placing and the Capitalisation Issue.

This mandate only relates to purchases made on GEM, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and requirements of the GEM Listing Rules.

SHARE CAPITAL

This general mandate to repurchase Shares will remain in effect until:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the Company's next annual general meeting is required to be held by the Articles or any applicable law of the Cayman Islands; or
- (iii) the time when such mandate is revoked, varied or renewed by an ordinary resolution of the Shareholders in a general meeting,

whichever occurs the earliest.

Further information on this general mandate is set forth under the paragraph headed "Repurchase by the Company of its own securities" under the section headed "Further information about the Company" in Appendix V to this prospectus.

FINANCIAL INFORMATION

You should read the following discussion and analysis of the Group's financial condition and results of operations together with its combined financial statements for the two years ended 31 December 2010 and 2011 together with the accompanying notes included in the Accountants' Report set out in Appendix I to this prospectus. The Accountants' Report has been prepared in accordance with HKFRSs. Potential investors should read the whole of the Accountants' Report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the sections headed "Risk factors" and "Forward looking statements" in this prospectus.

OVERVIEW

The Group is principally engaged in the design, development and sale of portable lighting and shades designed by the Group's in-house product development team. To complement the range of portable lighting products, the Group also offers furniture sets and other home accessory products including candleholders, picture frames and sculptures. The Group's products are sold on an ODM basis to retailers mainly based in the U.S. and Canada. These retailers typically market the Group's products under their own respective brand names or portfolio of brand names that are sold and distributed in their chain stores.

For each of the two years ended 31 December 2010 and 2011, the Group recorded revenues of approximately HK\$198.5 million and HK\$264.5 million respectively. During the same years, the net profits attributable to the owners of the company were approximately HK\$14.1 million and HK\$9.6 million respectively.

BASIS OF PRESENTATION

The financial information set out in Appendix I to this prospectus (the "Financial Information") of the Group has been prepared on the basis as if the Company had always been the holding company of the Group using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting under Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The combined statements of comprehensive income, combined statements of changes in equity and the combined statements of cash flow of the Group have been prepared as if the business combination had occurred from the date combining entities or business first came under the control of the Controlling Shareholders. The combined statements of financial position of the Group as at 31 December 2010 and 2011 have been prepared in accordance with the principles of merger accounting to present assets and liabilities of the companies now comprising the Group as if the group structure upon completion of the Reorganisation had been in existence as at those dates.

FINANCIAL INFORMATION

FACTORS AFFECTING THE RESULTS OF OPERATIONS OF THE GROUP

Demand for the Group's products

U.S. consumer demand is one of the key drivers of the Group's current profitability and future prospects. The level of the consumer demand in the U.S. is largely dependent on a number of factors including, but not limited to, general economic conditions in the area, the level of U.S. household debt, consumer confidence, the growth of private consumption per head, discretionary spending as well as their consumer expenditure on household products and home furnishings including portable lighting products in the respective retail markets.

Any change in consumption patterns of consumers or a drop in consumer spending on portable lighting products in the U.S. may materially and adversely affect the Group's financial condition and results of operations.

Product mix

The Group's revenues are also affected by the selling prices of the Group's products and the mixture of product types. The Group's product mix is made up of products designed and brought to the market by the Group as well as products the Group produces in response to specific customer requests. The profit margin of each type of products produced by the Group is different. Although the Directors believe that revenue contributions from each of the three principal product lines (portable lighting products, shades and furniture sets and other home accessory products) to the total revenue and the product mix within each product line will continue to readjust in the medium term, the Group is committed to optimising its product lines or product mix in a combination which would maximize revenues and gross profits. As the Group adjusts product lines or product mix, the revenue, gross profit margin and gross profit will be affected correspondingly.

Costs of production in the PRC

The Group does not procure raw materials for the manufacture of its products directly (except for procurement of insignificant amounts for the manufacture of prototypes by the Group itself). The Group's contract manufacturers use various inputs including fabrics, poly-resins and metals as the major raw materials for the manufacture of its products. The Group pays its third-party contract manufacturers a pre-agreed fee based on the quantity of products produced. The Group's third-party contract manufacturers source raw materials at their own cost. Fluctuations in the price of raw materials and the increase in labour costs may cause a significant increase in the costs of production. If the cost of the Group's production outsourcing increases and the Group is unable to pass on such higher costs to its customers, the Group's profit margins may be significantly reduced and may therefore adversely affect its financial performance and results of operations.

Please refer to the paragraph headed "The Group's business operations may be affected by increases in the costs of production in the PRC" under the section headed "Risk factors" in this prospectus for further details.

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Market trends

The results of operations of sellers in the portable lighting manufacturing industry will be affected by political, economic and financial conditions. Changes in national product safety, environmental or energy efficiency rules or regulations may adversely affect sellers in the industry. The consumption of products sold and designed by the Group is changing in line with prevailing trends and lifestyles. There is a need for frequent product development and enhancement of products to meet new requirements and specifications from customers. If the Group is unable to satisfy the specification requirements of its customers at a competitive price in response to the changing market conditions or customers' requirements, the Group's business may be adversely affected. Please refer to the paragraphs headed "The Group's products are subject to laws, regulations and industry standards of various states in the U.S. and Canada. Failure to comply with these rules and standards or failure to make timely adjustments in response to changes in such rules and standards would have a material effect on the Group's business and results of operation", "The Group's profitability and prospects may depend on its ability to design and develop products acceptable to its customers" and "Demand for the Group's products is sensitive to changes in trends in U.S. residential construction" in the section headed "Risk factors" in this prospectus for further details.

Competition

The Directors consider that the Group faces potential competition from other portable lighting suppliers in the PRC and other parts of the world with similar competitive cost advantages to those enjoyed by the Group. Should the Group fail to compete with other portable lighting suppliers in the PRC, maintain its competitive advantages or respond rapidly to a fast changing business environment and customers' preferences, its operations could be adversely affected. Any increase in competition can adversely affect the Group's market share, which may lead to price reductions and an increase in the Group's spending on business development activities. Any of these events could have a material adverse effect on the Group's financial condition, results of operations and prospects. Please refer to the paragraph headed "Competition" under the section headed "Business" in this prospectus for further details.

SIGNIFICANT ACCOUNTING POLICIES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the Group's financial statements requires the Group to make judgments in selecting the appropriate estimates and assumptions that affect the amounts reported in the Group's financial statements. Actual results may differ from these estimates under different assumptions and conditions. The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Group's consolidated financial information. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on, among other things, the Group's experience, the Group's observance of trends in the industry, and information available from outside sources, as appropriate. There can be no assurance that the Group's judgments will prove correct or that actual results reported in future periods will not differ from the Group's expectations reflected in the Group's accounting treatment of certain items. The significant

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accounting policies are set out in detail in note 4 to the Accountants' Report in Appendix I to this prospectus. The Group has identified the policies below as critical to the business operations and the understanding of the Group's financial condition and results of operations.

The Group reviews its estimates and underlying assumptions on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The Financial Information has been prepared on historical cost basis except for certain financial instruments, which are measured initially at fair value, as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with accounting policies which conform with HKFRS issued by HKICPA. In addition, the Financial Information includes applicable disclosures required by the GEM Listing Rules and by the Companies Ordinance.

Significant accounting policies

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of allowance for sales returns and trade discounts. The (i) adjustments on actual sales return made by customers and the (ii) estimation of the sales discounts on goods sold by the management at the end of the reporting period based on past experience and other relevant factors, are recognised against the revenue.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, revenue from sale of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administration purposes are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any. Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating leases payments are recognised as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

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Financial instruments

Financial assets and financial liabilities are recognised in the combined statement of financial position when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that from an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from directors and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets (including trade receivables)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately.

Key source of estimation uncertainty

The key assumptions concerning the future, and other key source of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

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Estimated impairment of trade receivables

Where there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash inflows from the outstanding trade receivables. The amount of impairment loss is measured on the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2010 and 2011, the carrying amounts of trade receivables of the Group were approximately HK\$27.5 million and HK\$50.5 million respectively.

Useful lives and impairment assessment of property, plant, and equipment

The Group's management determines the estimated useful lives, the residual value, and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. In addition, management assess impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. Management will increase the depreciation charge where useful lives are expected to be shorter than expected, or will write off or write-down obsolete or non-strategic assets that have been abandoned or sold. As at 31 December 2010 and 2011, the carrying amounts of property, plant and equipment are approximately HK\$2.9 million and HK\$3.1 million respectively.

Estimated provision of sales discounts and defective claims

For the provision of sales discounts and defective claims, other than sales agreements entered with a customer, there is no fixed terms of sale discounts and defective claims entered with customers. The amount is based on the management's estimation by reference to the historical experience on sales discounts and defective claims from customers. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions change, it may lead to a change in the provision of sales discounts and defective claims. As at 31 December 2010 and 2011, the amounts of provision of sales discounts and defective claims are approximately HK\$10.2 million and HK\$8.7 million respectively.

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PRINCIPAL STATEMENT OF COMPREHENSIVE INCOME COMPONENTS

Revenue

The Group's revenue was principally derived from the design and sales of portable lighting, shades, furniture sets and other home accessory products. For the two years ended 31 December 2010 and 2011, the Group's revenue amounted to approximately HK\$198.5 million and HK\$264.5 million respectively.

The following table sets out the breakdown of the Group's revenue by product segment during the Track Record Period:

	Year ended 31 December					
	2010			2011		
	<i>Revenue</i> <i>HK\$'000</i>	<i>Percentage</i> <i>of total</i> <i>revenue</i> <i>%</i>	<i>Quantities</i> <i>units/sets</i>	<i>Revenue</i> <i>HK\$'000</i>	<i>Percentage</i> <i>of total</i> <i>revenue</i> <i>%</i>	<i>Quantities</i> <i>units/sets</i>
Portable lighting	144,663	72.9	2,577,535	173,815	65.7	3,478,006
Shades	33,130	16.7	2,356,948	68,593	25.9	3,962,299
Furniture sets and other home accessory products	<u>20,724</u>	<u>10.4</u>	<u>202,114</u>	<u>22,074</u>	<u>8.4</u>	<u>412,701</u>
Total	<u>198,517</u>	<u>100.0</u>	<u>5,136,597</u>	<u>264,482</u>	<u>100.0</u>	<u>7,853,006</u>

The Group believes that revenue increased during the Track Record Period due to, among other things, the development of the Group's U.S. business and the development by the Group of its product mix in response to customers' requirements. The revenue derived from sales of portable lighting accounted for approximately 72.9% and 65.7% of total revenue for the year ended 31 December 2010 and 2011 respectively. At present the Group's principal portable lighting products are table lamps, floor lamps, accent lamps, buffet lamps and lamp sets.

The following table sets out the number of items sold by the Group for each of its product categories:

Quantities	Year ended 31 December	
	2010	2011
	<i>units or sets</i>	<i>units or sets</i>
Portable Lighting	2,577,535	3,478,006
Shades	2,356,948	3,962,299
Furniture sets and other home accessory products	<u>202,114</u>	<u>412,701</u>
Total	<u>5,136,597</u>	<u>7,853,006</u>

The total quantity of products sold to the Group's customers increased by approximately 2.8 million units from 5.1 million units for the year ended 31 December 2010 to 7.9 million units for the year ended 31 December 2011, representing an increase of 54.9%. This was primarily due to the increase in sales of portable lighting and shades by approximately 0.9 million units and 1.6 million

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units, respectively. The increases were due to, among other things, (1) increases of sales to two of the Group's MMR customers for the year ended 31 December 2011; and (2) sales to MIUSA from January 2011 to September 2011, the products of which were sold onwards to the Group's U.S. customers (please refer to the section of the prospectus headed "Business — Delivery — U.S. distribution hub" for more information in respect of the Group's relationship with MIUSA.)

The sales derived from each of the Group's product segments continued to grow while the growth in shades was faster than the other two segments, which resulted in the increasing percentage of revenue attributable to shades during the Track Record Period. As customers tend to purchase more shades than other products and with shades being a higher profit margin product when compared to portable lighting, the Group's product mix is responsive to meet customers' requirements and market opportunities. As a result, the relative percentage of revenue attributable to the sales of portable lighting and furniture sets and other home accessory products decreased during the Track Record Period.

The following table sets out the range of the Group's selling price of each of the Group's product line during the Track Record Period:

	Year ended 31 December	
	2010	2011
	<i>HK\$</i>	<i>HK\$</i>
Portable lighting	21.0~369.6	17.1~369.6
Shades	6.2~39.4	6.2~53.0
Furniture sets and other accessory products	5.1~1,569.6	5.1~1,703.8

The following table sets out details of customers contributing over 10% of the Group's total revenue during the Track Record Period:

	Year ended 31 December			
	2010		2011	
	<i>Revenue</i>	<i>Percentage</i>	<i>Revenue</i>	<i>Percentage</i>
	<i>HK\$'000</i>	<i>of total</i>	<i>HK\$'000</i>	<i>of total</i>
		<i>revenue</i>		<i>revenue</i>
		<i>%</i>		<i>%</i>
Customer A	65,735	33.1%	82,862	31.3%
Customer B	30,431	15.3%	44,373	16.8%
Customer C	43,083	21.7%	42,558	16.1%
MIUSA	N/A		37,624	14.2%
	139,249	70.1%	207,417	78.4%
Others	59,268	29.9%	57,065	21.6%
Total revenue	<u>198,517</u>	<u>100.0%</u>	<u>264,482</u>	<u>100.0%</u>

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Customers A, B and C are MMR customers, who have relationships with the Group for approximately 12 years, 13 years and 3 years, respectively. MIUSA was engaged as a distributor by the Group for the nine month period ended 30 September 2011. Further details of MIUSA's relationship with the Group are set out in the section of the Prospectus headed "Business — Delivery — U.S. distribution hub".

Customer A contributed an average of approximately 32.1% of the Group's total revenue during the Track Record Period. The sales to Customer A increased by approximately HK\$17.2 million from HK\$65.7 million to HK\$82.9 million in the years ended 31 December 2010 and 2011, respectively, which was mainly due to the increase in sales of portable lighting and shades by approximately HK\$9.0 million and HK\$9.1 million, respectively, as a result of a significant increase in sales quantities for portable lighting by 230,495 units or 36.9% and for shades by 557,852 units or 84.3% from the year ended 31 December 2010 to the year ended 31 December 2011.

The sales contributed by Customer B to the Group increased by approximately HK\$14.0 million from HK\$30.4 million to HK\$44.4 million in the years ended 31 December 2010 and 2011 respectively, which was mainly due to the increase in sales of shades by approximately HK\$13.8 million. Customer B began to purchase shades from the Group in October 2011.

The sales to Customer C slightly decreased by approximately HK\$0.5 million from HK\$43.1 million to HK\$42.6 million in the years ended 31 December 2010 and 2011, respectively, which was mainly due to the decrease in sales of shades. This decrease was partially offset by the increase in sales of portable lighting for the year ended 31 December 2011.

The Group engaged MIUSA as a distributor to meet the purchase preference as requested by certain U.S. customers, which required products to be already imported into the U.S, which resulted in the total sales of approximately HK\$49.4 million and net sales of approximately HK\$37.6 million to MIUSA from the Group in the nine months ended 30 September 2011. Such products were sold onwards to the customers of the Group.

Results of operation for Mastercraft USA

The Group's revenue attributable to Mastercraft USA was approximately HK\$25.5 million, representing 26.9% of the Group's total revenue for the three months ended 31 December 2011. Selling and administrative costs associated with Mastercraft USA included, but were not limited to, employee related costs (inclusive of salaries, staff welfare, medical and pension benefits), rent, bank charges and traveling expenses, which amounted to approximately HK\$3.4 million for the three months ended 31 December 2011. The profit before tax of Mastercraft USA was approximately HK\$141,000, which was subject to both federal income tax and state income tax. The amount of state income tax and federal income tax up until 31 December 2011 were approximately HK\$9,000, and approximately HK\$46,000 respectively. As a result, the profit after tax of Mastercraft USA was approximately HK\$86,000 for the three months ended 31 December 2011.

Cost of sales

The Group's cost of sales consists of purchases, expenses relating to quality control, including laboratory testing fees, insurance, and distribution costs.

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Purchases consist of payments made by the Group to contract manufacturers for finished products. Purchases accounted for approximately 94.2% and 97.0% of the Group's total cost of sales for the two years ended 31 December 2010 and 2011 respectively.

The following table sets out the breakdown of the Group's cost of sales by product segment during the Track Record Period:

	Year ended 31 December	
	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of sales		
Portable lighting	121,638	146,187
Shades	24,100	53,852
Furniture sets and other home accessory products	14,237	16,402
	159,975	216,441

For the two years ended 31 December 2010 and 2011, the Group's cost of sales was approximately HK\$160.0 million and HK\$216.4 million respectively. The increase in cost of sales during the Track Record Period was in line with the increase in revenue. The increase was due to, among other things, the increase in the costs charged by the Group's contract manufacturers in the PRC.

The following table sets out the breakdown of the Group's cost of sales ("COS") by component during the Track Record Period:

	Year ended 31 December			
	2010		2011	
	<i>COS</i>	<i>Percentage of</i>	<i>COS</i>	<i>Percentage of</i>
	<i>HK\$'000</i>	<i>total cos</i>	<i>HK\$'000</i>	<i>total cos</i>
		<i>%</i>		<i>%</i>
Purchase	150,707	94.2%	210,021	97.0%
Quality control	3,098	1.9%	3,643	1.7%
Distribution cost	6,170	3.9%	2,777	1.3%
	159,975	100%	216,441	100%

The Group's purchases increased by approximately HK\$59.3 million or 39.3% from HK\$150.7 million to HK\$210.0 million in the years ended 31 December 2010 and 2011 respectively. The growth in purchases was largely a result of the growth in sales. In addition, the Group's cost of purchases also, among other things, increased during the year due to a general increase in labour costs, the appreciation of the RMB and an increase in the rate of inflation in the PRC.

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Gross profit and gross profit margin

The following table sets out the breakdown of the Group's gross profit and gross profit margin by product category during the Track Record Period:

	Year ended 31 December			
	2010		2011	
	Gross profit	Gross profit	Gross profit	Gross profit
	margin	margin	margin	margin
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Portable lighting	23,025	15.9	27,628	15.9
Shades	9,030	27.3	14,741	21.5
Furniture sets and other home accessory products	6,487	31.3	5,672	25.7
Total	38,542	19.4	48,041	18.2

For the two years ended 31 December 2010 and 2011, the gross profit of the Group was approximately HK\$38.5 million and HK\$48.0 million, respectively. For the two years ended 31 December 2011, the gross profit margin of the Group was approximately 19.4% and 18.2%, respectively. The Group believes that the decrease in the gross profit margin by 1.2 percentage points was due to, among other things, the increase in costs charged by contract manufacturers in the PRC during the Track Record Period. The increase in cost of purchase cannot be fully passed on to the Group's customers due to pressure exerted by customers bargaining for lower prices resulting in lower gross profit margin.

Other income

Other income principally consists of gains on disposal of property, plant and equipment, exchange gain, bank interest income and other sundry income. For the two years ended 31 December 2010 and 2011, the Group recorded other income of approximately HK\$298,000, and HK\$192,000 respectively. It accounted for 0.2% and 0.1% of the Group's total revenue for the years ended 31 December 2010 and 2011 respectively.

Selling expenses

The Group's selling expenses principally consist of service commission, courier expenses, staff costs, and promotional and marketing related expenses. The Group's selling expenses were approximately HK\$9.4 million and HK\$10.1 million, constituting approximately 4.7% and 3.8% of the revenue, respectively for the two years ended 31 December 2010 and 2011. The decrease of selling expenses as a percentage of revenue for the year ended 31 December 2011 was principally due to the decrease in commission paid to service representatives as a result of the reduction in the number of service representatives as part of their function was brought in-house and added to the scope of duties of the Group's account managers.

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Administration expenses

The Group's administration expenses principally consist of staff costs, professional fees, bank charges, courier expenses, traveling and other general administrative expenses. Staff costs contributed approximately 32.1% and 43.8% of the administration expenses for the two years ended 31 December 2010 and 2011 respectively.

Research and development expenses

During the Track Record Period, the Group's research and development expenses principally consisted of prototype production costs, staff costs, and other research and development related costs. The Group's research and development expenses were approximately HK\$4.5 million and HK\$5.2 million for the two years ended 31 December 2010 and 2011. The prototype production costs were principally comprised of material costs, staff costs, rent and other expenses. Prototype production costs accounted for 71.9% and 63.7% of total research and development expenses and the total research and development cost constituted 2.3% and 2.0% of the Group's revenue for the two years ended 31 December 2010 and 2011 respectively. The Group's increase in research and development expenses was due to, among other things, increased labour costs in the PRC during the Track Record Period as well as increased staff salaries in Hong Kong for the year 2011.

Listing expenses

The listing expenses for the year ended 31 December 2011 were approximately HK\$7.0 million. These expenses were principally comprised of legal and other professional fees incurred during the year ended 31 December 2011.

Income tax expenses

Income tax expenses primarily consisted of Hong Kong profit tax for current year and deferred tax.

The following table sets out the breakdown of the Group's income tax in the statement of comprehensive income during the Track Record Period:

	Year ended 31 December	
	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current taxation:		
– Hong Kong Profits Tax	2,651	3,697
– Overseas tax	<u>—</u>	<u>55</u>
	2,651	3,752
Deferred tax	<u>160</u>	<u>(712)</u>
	<u><u>2,811</u></u>	<u><u>3,040</u></u>

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The Company is tax exempt under the laws of the Cayman Islands. The Group's 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 year at the rates of taxation prevailing in the relevant jurisdictions.

The income tax expense for the year can be reconciled to the profit before tax per the combined statement of comprehensive income as follows:

	Year ended 31 December	
	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before tax	<u>16,915</u>	<u>12,649</u>
Tax at Hong Kong Profit Tax rate at 16.5%	2,791	2,087
Tax effect of expenses not deductible for tax purpose	—	1,150
Tax effect of tax losses not recognized	20	147
Tax effect of different tax rate of subsidiaries in other jurisdiction	<u>—</u>	<u>(344)</u>
Income tax expense for the year	<u>2,811</u>	<u>3,040</u>

For the two years ended 31 December 2010 and 2011, the Group's effective tax rates were 16.6% and 24.0% respectively. The significant increase in the Group's effective tax rate in the year ended 31 December 2011 was primarily due to an increase in non-tax deductible expenses of approximately HK\$7.0 million in respect of listing expenses, which were disallowable for tax purposes.

For the three months ended 31 December 2011, since the commencement of business of Mastercraft USA, its profit before tax was approximately HK\$141,000, which is subject to the state income tax of 6.4% and federal income tax of 35%. The amount of state income tax and federal income tax up until 31 December 2011 was approximately HK\$9,000 and HK\$46,000 respectively. As a result, the total amount of U.S tax was approximately HK\$55,000 for the three months ended 31 December 2011.

Mastercraft USA had taxable profits of approximately HK\$141,000 and the effect of different tax rate on this profit before elimination was approximately HK\$34,000. As at 31 December 2011, there were inventories sold by Mastercraft International to Mastercraft USA which had not yet been sold to ultimate customers, resulting in an unrealised profit of approximately HK\$2,292,000 to be eliminated on consolidation. A deferred tax asset of approximately HK\$756,000 was recognised on this unrealised profit which was calculated based on the U.S. tax rate. As a result, there was a tax effect of different tax rates of approximately HK\$378,000 which represented the difference between tax rate applicable for current tax (i.e. HK profits tax of 16.5%) and the U.S. tax rate applicable to Mastercraft USA (who is the seller) for the recognition of deferred tax assets arising from the elimination of unrealized intragroup transactions. As a result, the tax effect of different tax rate of subsidiaries in other jurisdictions amounted to approximately HK\$-344,000.

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RESULTS OF OPERATIONS

	Year ended 31 December	
	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue		
Portable lighting	144,663	173,815
Shades	33,130	68,593
Furniture sets and other home accessory products	<u>20,724</u>	<u>22,074</u>
	198,517	264,482
Cost of sales	<u>(159,975)</u>	<u>(216,441)</u>
Gross profit	38,542	48,041
Other income	298	192
Selling expenses	(9,417)	(10,089)
Administration expenses	(8,022)	(13,310)
Research and development expenses	(4,486)	(5,216)
Listing expenses	<u>—</u>	<u>(6,969)</u>
Profit before tax	16,915	12,649
Income tax expense	<u>(2,811)</u>	<u>(3,040)</u>
Profit for the year	<u>14,104</u>	<u>9,609</u>
Other comprehensive expenses:		
Exchange differences arising on translating foreign operation	<u>(7)</u>	<u>(11)</u>
Total comprehensive income for the year	<u><u>14,097</u></u>	<u><u>9,598</u></u>
Earnings per share		
Basic (<i>HK\$ cents</i>)	<u><u>3.9 cents</u></u>	<u><u>2.7 cents</u></u>

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YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2011 compared to year ended 31 December 2010

Revenue

The table below shows a breakdown of total revenue by product category:

	Year ended 31 December	
	2010	2011
	<i>HK'000</i>	<i>HK'000</i>
Portable lighting	144,663	173,815
Shades	33,130	68,593
Furniture sets and other home accessory products	20,724	22,074
Total	198,517	246,482

The Group's total revenue for the year ended 31 December 2011 increased by approximately HK\$66.0 million or 33.2% compared to the year ended 31 December 2010 from HK\$198.5 million to HK\$264.5 million. The sales of portable lighting, shades, furniture sets and other home accessory products increased by approximately HK\$29.1 million, HK\$35.5 million and HK\$1.4 million respectively from the year 2010 to the year 2011.

Portable lighting

Portable lighting revenue increased by HK\$29.1 million or 20.1% from HK\$144.7 million for the year ended 31 December 2010 to HK\$173.8 million for the year ended 31 December 2011. This increase was mainly due to (1) the sales of HK\$22.4 million to MIUSA, with such products being sold onwards to the Group's U.S. customers (please refer to the section in the prospectus headed "Business — Delivery — U.S. distribution hub" for more details of sales to MIUSA); (2) an increase in sales orders from the Group's MMR customers; and (3) further development of the U.S business as a result of establishing Mastercraft USA as the Group's U.S distribution hub to better meet customers' delivery requirements. The total number of portable lighting products sold to the Group's customers increased from 2,577,535 units for the year ended 31 December 2010 to 3,478,006 units for the year ended 31 December 2011.

Shades

The Group's sales of shades for the year ended 31 December 2011 increased by approximately HK\$35.5 million or 107.3% to HK\$68.6 million from HK\$33.1 million for the year ended 31 December 2010. The increase was mainly due to (1) an increase in sales in shades of approximately HK\$13.8 million to an MMR customer, who started to purchase shades from the Group in October 2011; (2) a significant increase in sales of shades to the Group's largest customer in year 2011, which is also a MMR customer. Sales of shades to this customer increased by HK\$9.2 million from HK\$16.1 million for the year ended 31 December 2010 to HK\$25.3 million for the year ended 31 December 2011; and (3) sales of shades of approximately HK\$12.5 million to MIUSA. Such shades were then sold onwards to the Group's U.S customers (please refer to the section in the prospectus headed "Business —

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Delivery — U.S. distribution hub” for more details of sales to MIUSA). The Group believes that the increase in demand for shades can be attributable to an increasing tendency amongst end users to mix and match shades for portable lighting products. The total number of shades sold to the Group’s customers increased from 2,356,948 units for the year ended 31 December 2010 to 3,962,299 units for the year ended 31 December 2011.

Furniture sets and other home accessory products

The Group’s sales of furniture sets and other home accessory products for the year ended 31 December 2011 increased by approximately HK\$1.4 million or 6.8% to HK\$22.1 million from HK\$20.7 million for the year ended 31 December 2010. The increase was mainly due to an increase in sales of other home accessory products by approximately HK\$5.2 million and was partially offset by the decrease in sales of furniture sets by approximately HK\$3.8 million. The increase in sales of other home accessory products was due to, among other things, the increase in sales orders from one of the Group’s MMR customers which changed its purchase preferences in the beginning of the year 2011, requiring some products to already be imported in to the U.S. Furniture sets have a longer development time while they are normally sold in smaller volumes compared to portable lighting or shades. During 2011, the Group concentrated more on the development of shades, which, among other things, also lead to a decrease in sales of furniture sets. The total number of the furniture sets sold to the Group’s customers decreased from 18,814 units for the year ended 31 December 2010 to 12,944 units for the year ended 31 December 2011, while the total number of the other home accessory products sold to the Group’s customers increased from 183,300 units for the year ended 31 December 2010 to 399,757 units for the year ended 31 December 2011.

Cost of sales

The Group’s cost of sales for the year ended 31 December 2011 increased by approximately HK\$56.4 or 35.3% to HK\$216.4 million from HK\$160.0 million for the year ended 31 December 2010. The increase was generally in line with the increase in sales. However, during 2011, the Group experienced an increase in purchase costs from contract manufacturers in the PRC. The Group believes that contract manufacturers were affected by the increase in labour costs in the PRC, the appreciation of the RMB and the increase in the rate of inflation in the PRC.

Gross profit and gross profit margin

The Group’s overall gross profit for the year ended 31 December 2011 increased by approximately HK\$9.5 million or 24.7% to HK\$48.0 million from HK\$38.5 million for the year ended 31 December 2010. The increase in gross profit was mainly contributed by the increase of gross profit from portable lighting and shades by approximately HK\$4.6 million and HK\$ 5.7 million respectively.

The Group’s gross profit margin dropped slightly from 19.4% for the year ended 31 December 2010 to 18.2% for the year ended 31 December 2011. The slight decrease for the year was due to, amongst other things, the continued effects of increases in the costs charged by the Group’s contract manufacturers in the PRC.

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Portable lighting

The gross profit attributable to sales of portable lighting products increased from approximately HK\$23.0 million for the year ended 31 December 2010 to HK\$27.6 million for the year ended 31 December 2011, representing an increase of approximately 20.0%. The gross profit margin of portable lighting products remained stable at approximately 15.9% for the two years ended 31 December 2010 and 2011.

The average unit selling price for portable lighting products decreased by approximately 10.9% from approximately HK\$56.1 to HK\$50.0, in the years ended 31 December 2010 and 2011, respectively. The average unit cost of portable lighting products decreased by approximately 11.0% from approximately HK\$47.2 to HK\$42.0, in the years ended 31 December 2010 and 2011, respectively. The variation in average unit selling price and unit cost were attributable to, among other things, varying requirements of the Group's customers.

Shades

The gross profit attributable to sales of shades increased from HK\$9.0 million for the year ended 31 December 2010 to HK\$14.7 million for the year ended 31 December 2011, representing an increase of approximately 63.3%. The gross profit margin of shades decreased from approximately 27.3% for the year ended 31 December 2010 to 21.5% for the year ended 31 December 2011.

The average unit selling price of shades increased by approximately 22.7% from approximately HK\$14.1 to HK\$17.3, in the years ended 31 December 2010 and 2011, respectively. The average unit cost of shades increased by approximately 33.3% from approximately HK\$10.2 to HK\$13.6, in the years ended 31 December 2010 and 2011, respectively. The variation in average unit selling price and unit cost were attributable to, among other things, (1) varying requirements of the Group's customers; and (2) the manufacturing costs demanded by contract manufacturers. The rate of increase in average unit selling price was lower than the rate of increase of average unit cost by approximately 31.8%, resulting in a decrease in gross profit margin of shades.

Furniture sets and other home accessory products

The gross profit attributable to the sales of furniture sets and other home accessory products decreased from HK\$6.5 million for the year ended 31 December 2010 to HK\$5.7 million for the year ended 31 December 2011, representing a decrease of approximately 12.3%. The gross profit margin of furniture sets and other home accessory products decreased from approximately 31.3% for the year ended 31 December 2010 to 25.7% for the year ended 31 December 2011.

The average unit selling price of furniture sets increased by approximately 11.7% from approximately HK\$884.4 to HK\$988.2, in the years ended 31 December 2010 and 2011, respectively. The average unit cost of furniture sets increased by approximately 20.0% from approximately HK\$582.3 to HK\$699.0, in the years ended 31 December 2010 and 2011, respectively. The average unit selling price of other home accessory products increased by approximately 4.0% from approximately HK\$22.3 to HK\$23.2, in the years ended 31 December 2010 and 2011, respectively. The average unit cost of other home accessory products increased by approximately 2.8% from approximately HK\$17.9 to HK\$18.4, in the years ended 31 December 2010 and 2011, respectively. The variation in average unit selling prices and unit costs were attributable to, among other things, varying requirements of the

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Group's customers, especially in respect of product mix of the furniture sets. The rates of increase in average unit selling price for furniture sets was lower than the rate of increase of average unit cost by approximately 41.5%, resulting in a decrease in gross profit margin for furniture sets. The rates of increase in average unit selling price for other home accessory products exceeded that of average unit cost by approximately 42.9%, resulting in an increase in gross profit margin for other home accessory products.

Other Income

Other income for the year ended 31 December 2011 was primarily comprised of bank interest income, gains on disposal of property, plant and equipment, exchange gain and other sundry income.

The Group's other income decreased from approximately HK\$298,000 for the year ended 31 December 2010 to HK\$192,000 for the year ended 31 December 2011. The decrease was mainly due to the decrease in sundry income and was partially offset by gains on disposals for the year ended 31 December 2011.

Selling expenses

Selling expenses slightly increased by approximately HK\$0.7 million from HK\$9.4 million for the year ended 31 December 2010 to HK\$10.1 million for the year ended 31 December 2011, representing an increase of approximately 7.4%. The increase in selling expenses was mainly due to an increase in staff costs arising from the Group's U.S. distribution hub, Mastercraft USA, after the commencement of business in October 2011, and an increase in other promotional and marketing expenses for some MMR customers as well as an increase in courier expenses. The increase was partially offset by the decrease in commission paid to the Group's service representatives primarily due to the decrease in the number of service representatives.

The Group's selling expenses accounted for approximately 4.7% and 3.8% of total revenue for the year ended 31 December 2010 and 2011, respectively. The decrease in selling expenses as a percentage of total revenue was principally due to the decrease in commission paid to service representatives, as some of service representatives left the Group in the second half year of 2010. Please refer to the section of this prospectus headed "Business — Sales and marketing — Service representatives" for more information.

Administrative expenses

Administrative expenses increased by approximately HK\$5.3 million from HK\$8.0 million for the year ended 31 December 2010 to HK\$13.3 million for the year ended 31 December 2011, representing an increase of approximately 66.3%. The increase was mainly attributable to the increase in staff costs (which accounted for approximately 61.5% of the increase) as well as the increase in other certain general administrative expenses.

Research and development expenses

The Group's research and development expenses for the year ended 31 December 2011 primarily consisted of staff costs for the Group's product and development team as well as the costs of prototype production. Research and development expenses increased by approximately HK\$0.7 million from

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HK\$4.5 million for the year ended 31 December 2010 to HK\$5.2 million for the year ended 31 December 2011, amongst other things, due to an increase in staff costs of the product development team, which accounted for approximately HK\$0.6 million, as well as costs arising from prototype production.

Income tax expenses

Income tax increased by approximately HK\$0.2 million from HK\$2.8 million for the year ended 31 December 2010 to HK\$3.0 million for the year ended 31 December 2011. The profit before tax dropped from HK\$16.9 million for the year ended 31 December 2010 to HK\$12.6 million for the year ended 31 December 2011 while listing expenses of approximately HK\$7.0 million for the year ended 31 December 2011 were considered as non-deductible expenses for tax purpose, hence the assessable profit for the year ended 31 December 2011 was HK\$19.6 million. Consequently, the effective tax rate increased from 16.6% for the year ended 31 December 2010 to 24.0% for the year ended 31 December 2011.

Profit for the year

Net profit decreased by approximately HK\$4.5 million from HK\$14.1 million for the year ended 31 December 2010 to HK\$9.6 million for the year ended 31 December 2011, representing a decrease of approximately 31.9%. In terms of the Group's net profit margin, it decreased from 7.1% for the year ended 31 December 2010 to 3.6% for the year ended 31 December 2011. The decrease was primarily due to a decrease in gross profit margin, professional fees incurred as part of the listing expenses, as well as an increase in staff costs primarily attributable to the payment of a year-end bonus, and the establishment of Mastercraft WFOE and Mastercraft USA for the year ended 31 December 2011.

LIQUIDITY AND CAPITAL RESOURCES

The Group has historically funded its operations primarily from cash flows from operating activities. The Group requires cash primarily for its working capital needs.

The following table is a summary of the Group's cash flow data for the periods indicated:

	Year ended 31 December	
	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash generated		
from/(used in) operating activities	18,894	866
Net cash used in investing activities	(8,741)	(3,166)
Cash used in financing activities	—	(6,824)
Net increase/(decrease) in cash and cash equivalents	10,153	(9,124)
Cash and cash equivalents at beginning of year	2,366	12,504
Effect of foreign exchange rate change	(15)	(16)
Cash and cash equivalents at the end of year	12,504	3,364

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Cash flows from operating activities

The Group derives its cash inflows from operating activities principally from the receipt of payments from sales of its products. The Group's cash outflows from operating activities are principally the payment for purchases of finished goods and other operating expenses.

For the year ended 31 December 2011, net cash generated from operating activities was approximately HK\$0.9 million. Cash generated from operations primarily reflected the profit before income tax of HK\$12.6 million, as adjusted for profit or loss items with no operating cash effect and the increase in working capital. The increase in working capital was mainly due to the increase in inventories and trade and other receivables by approximately HK\$13.9 million and HK\$21.3 million respectively, as well as the decrease in the amount due to related companies by approximately HK\$0.2 million and the decrease in provision for sales discounts and defective claims by HK\$1.4 million. The increase was partially offset by the increase in trade and other payables by approximately HK\$24.1 million. The increase in trade receivables and trade payables was primarily due to the increase in sales and purchase. Mastercraft USA, which was established in September 2011, commenced business in October 2011 as the U.S. distribution hub to better meet customers' preference for taking delivery of products which had already been imported into the U.S. as well as to further develop the Group's domestic sales in the U.S. Mastercraft USA's activities require the Group to carry a limited quantity of inventory. As a result, the Group's inventory increased from approximately HK\$0.9 million as at 31 December 2010 to HK\$14.7 million as at 31 December 2011.

For the year ended 31 December 2010, net cash generated from operating activities was HK\$18.9 million, consisting of cash generated from operations of HK\$19.5 million and profit tax paid of HK\$0.6 million. Cash generated from operations primarily reflected the profit before income tax of HK\$16.9 million, as adjusted for income statement items with no operating cash effect and the decrease in working capital. The decrease in working capital was mainly due to the decrease in trade and other receivables by HK\$6.1 million, which decrease was partially offset by the decrease in trade and other payables and provision of sales discounts and defective claims by HK\$2.4 million and HK\$0.5 million respectively, as well as the increase in inventories by HK\$0.7 million. The Group believes that the decrease in trade and other receivables was, among other things, the result of an increase in sales to a MMR customer which offers the Group more favourable payment terms compared to the Group's other MMR customers. The Group was therefore able to settle vendor accounts more promptly which was among the factors contributing to the decrease in the Group's trade and other payables.

Cash flows from investing activities

The Group's cash outflows for investing activities are principally comprised of advances made to directors and monies spent on the purchase of property, plant and equipment.

For the year ended 31 December 2011, the net cash used in investing activities was approximately HK\$3.2 million, which was principally comprised of advances made to Directors and monies spent on the purchases of property, plant and equipment of approximately HK\$2.7 million and HK\$0.8 million respectively, and was partially offset by proceeds received on the disposal of property, plant and equipment of approximately HK\$0.1 million and the repayment from directors of HK\$0.2 million.

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For the year ended 31 December 2010, the net cash used in investing activities was HK\$8.7 million, which was principally comprised of advances made to directors and monies spent on the purchase of property, plant and equipment of HK\$9.0 million and HK\$1.6 million respectively, and which was partially offset by a repayment from directors of HK\$1.9 million.

Cash flows from financing activities

For the year ended 31 December 2011, cash used for the payment of dividends amounted to approximately HK\$6.8 million. The Group declared a dividend of approximately US\$2.6 million (equivalent to HK\$19.9 million) during the year ended 31 December 2011 and approximately HK\$13.0 was offset against current accounts with the Directors.

The Group did not use cash for financing activities for the year ended 31 December 2010.

CAPITAL EXPENDITURE

The following table sets out the historical capital expenditure of the Group during the Track Record Period:

	Year ended 31 December	
	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Historical capital expenditure		
Property, plant and equipment	<u>1,597</u>	<u>825</u>
Total capital expenditure	<u><u>1,597</u></u>	<u><u>825</u></u>

The Group's capital expenditure for the two years ended 31 December 2010 and 2011 principally consisted of expenditure on property, plant and equipment.

The Group plans to finance future capital expenditures primarily through the net proceeds of the Placing as well as from cash flows generated from operations. As the Group continues to expand, it may incur additional capital expenditures. In the future, the Group may also consider debt or equity financing, depending, amongst other things, on market conditions, the Group's financial performance and capital.

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NET CURRENT ASSETS

The following table sets out details of the Group's current assets and current liabilities as at the dates indicated:

	As at 31 December		As at
	2010	2011	30 April
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(unaudited)
Current assets			
Inventories	861	14,703	16,264
Trade and other receivables	30,248	51,132	44,601
Amounts due from directors	10,584	—	—
Bank balances and cash	12,504	3,364	7,559
	54,197	69,199	68,424
Current liabilities			
Trade and other payables	17,165	41,265	41,471
Provision	10,153	8,711	8,942
Amounts due to related companies	433	257	370
Tax payables	4,704	8,456	2,377
	32,455	58,689	53,160
Net current assets	21,742	10,510	15,264

As at 31 December 2011, the net current assets of the Group were approximately HK\$10.5 million. The components of the Group's current assets as at such date included inventories of HK\$14.7 million, trade and other receivables of HK\$51.1 million and bank balances and cash of HK\$3.4 million. The components of the Group's current liabilities as at such date included trade and other payables of HK\$41.3 million, provision of HK\$8.7 million, amounts due to related companies of HK\$0.3 million and tax payables of HK\$8.5 million.

The decrease in the Group's net current assets by approximately HK\$11.2 million from HK\$21.7 million as at 31 December 2010 to HK\$10.5 million as at 31 December 2011 was the net result of an increase in the Group's current assets by HK\$15.0 million and an increase in current liabilities by HK\$26.2 million. The increase in the Group's current assets was primarily attributable to the increase in trade and other receivables due to the increase in revenue as well as the increase in inventory as a result of Mastercraft USA (the Group's U.S. distribution hub) carrying limited inventory commencing in October 2011, but this increase was partially offset by the decrease in bank balances and cash due to the increase in inventories, payment of dividends and listing expenses, as well as the decrease in the

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amounts due from directors, which was offset by the dividend declared during the year ended 31 December 2011. The increase in the Group's current liabilities was primarily attributable to the increase in trade and other payables as a result of the increase in purchases.

INVENTORY ANALYSIS

The value of the Group's inventories accounted for approximately 1.6% and 21.2% of its total current assets as at 31 December 2010 and 2011 respectively.

The following table is a summary of the Group's balance of inventories as at the dates indicated:

	As at 31 December	
	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Inventories		
Finished goods	861	14,703
Total	861	14,703

The amount of inventories recognised as an expense for the two years ended 31 December 2010 and 2011 were HK\$150.7 million and HK\$210.0 million respectively.

The Group's inventory increased by approximately HK\$13.8 million from HK\$0.9 million as at 31 December 2010 to HK\$14.7 million as at 31 December 2011, as a result of the inventory carried by the Group's newly established U.S distribution hub, Mastercraft USA, which commenced business in October 2011.

The following table sets out the Group's average inventory turnover days for the Track Record Period:

	Year ended 31 December	
	2010	2011
Average inventory turnover days (<i>Note</i>)	1.2	13.1

Note: Average inventory turnover days equals average of the beginning and ending balance of inventories for the year divided by cost of sales for the period, multiplied by 365 days for each of the years ended 31 December 2010 and 2011.

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The Group's inventory turnover days increased significantly from approximately 1.2 days for the year ended 31 December 2010 to 13.1 days for the year ended 31 December 2011, which was mainly due to the inventory carried by Mastercraft USA.

Up to 30 April 2012, the Group's subsequent sales and usages of the inventories as at 31 December 2011 totaled approximately HK\$14.1 million, representing 95.9% of its outstanding balance.

Prior to the commencement of business of Mastercraft USA in October 2011, the Group held minimal inventory of finished products. Therefore, inventory turnover days as disclosed in the Financial Information of the Group for the two years ended 31 December 2010 and 2011 may not be indicative of future performance. Investors should therefore exercise caution when assessing historical data using the stock turnover days ratio.

TRADE AND OTHER RECEIVABLES ANALYSIS

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

The Group's trade and bill receivables net of allowance for doubtful debts as at 31 December 2010 and 2011 were HK\$28.2 million and HK\$50.6 million respectively, accounting for approximately 52.0% and 73.2%, respectively, of the Group's total current assets. The Group's trade and bills receivables were primarily related to the sale of its products to its customers. The increase in trade and other bill receivables was, due to higher sales recorded in the year of 2011 and the credit terms generally 50 days, offered by Mastercraft USA for Replenishment orders. Up to 30 April 2012, the Group's subsequent settlement of trade and other bill receivables as at 31 December 2011 totaled approximately HK\$50.2 million, representing 99.0% of its outstanding balance. Up to 30 April 2012, the Group's subsequent settlement of trade and other bill receivables aged over 61 days as at 31 December 2011 totaled approximately HK\$8.9 million, representing 96.7% of its outstanding balance.

All of the trade receivables are expected to be recovered within one year.

The following table sets out the aging analysis presented based on invoice date of the Group's trade and bill receivables at the end of each of the reporting dates:

	As at 31 December	
	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
1–30 days	10,199	26,047
31–60 days	13,016	15,451
61–90 days	3,993	8,263
Over 90 days	964	892
	28,172	50,653

The Group allows a credit period of 30 to 90 days from invoice issuance to its trade customers.

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Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK\$7.7 million and HK\$8.7 million as at 31 December 2010 and 2011, respectively, which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

The following table sets out the Group's average trade receivables turnover days for the Track Record Period:

	Year ended 31 December	
	2010	2011
Average trade receivables turnover days (<i>Note</i>)	58.8	54.4

Note: Average trade receivables turnover days equals the average of the opening and closing balance of trade receivables for the year divided by total revenue for the year, multiplied by 365 days for each of the years ended 31 December 2010 and 2011.

During the year ended 31 December 2011, the Group tightened the credit calibration control. Senior management was required to review customers' aging reports in a weekly basis, which resulted in the improvement on the trade receivables' turnover days. As a result, trade receivables turnover days dropped from approximately 59 for the year ended 31 December 2010 to 54 for the year ended 31 December 2011.

Up to 30 April 2012, the Group's subsequent settlement of trade receivables as at 31 December 2011 totaled approximately HK\$50.2 million, representing 99.0% of its outstanding balance.

Note on MIUSA

From 1 January 2011 to 30 September 2011, MIUSA served as a distributor of the Group's products in the U.S. MIUSA offered credit terms of 30 to 50 days to the the Group's customers as they purchased products from MIUSA within the U.S. The role of MIUSA was replaced by Mastercraft USA since 1 October 2011. Please refer to the section in the prospectus headed "Business — Delivery — U.S. distribution hub" for further information on MIUSA.

For customers which ask for Direct Orders, the payment terms of the mandates include letters of credit, documentary collection against payment and open accounts. For the year ended 31 December 2010, approximately 49.5%, 15.6% and 34.9% respectively of the Group's revenue was settled by open credit accounts with 30 to 60 days' settlement payable either by letter of credit, cheque or telegraphic transfer, depending on the Group's relationship with the customer and the customer's credit record. For the year ended 31 December 2011, approximately 48.9%, 8.6% and 42.5% respectively of the Group's revenue was settled by open credit accounts with 30 to 60 days' from invoice issuance settlement payable either by letter of credit, cheque or telegraphic transfer, depending on the Group's relationship with the customer and the customer's credit record. Please refer to the section in the prospectus headed "Business — sales and marketing — payment terms and credit policy" for further information.

The arrangement whereby MIUSA acted as the Group's distributor was implemented in order to satisfy the purchasing preference of the Group's customers. Customers were provided with the choice to take delivery of the Group's products either from MIUSA in the U.S. or directly from the Group at a designated PRC port. The Directors confirm that the Group sold the same product directly to its

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customers and MIUSA at the same price. However, if a customer placed an exceptionally large quantity order of a product, a discount would be offered to such customer. Such large quantity orders are normally placed with Mastercraft International. This is the only exception where the selling price of the same product to a customer could be different from that to MIUSA and/or Mastercraft USA. MIUSA would add on its margin before selling onwards to the Group's customers. Therefore, there was no transfer pricing issue. Following the design and development of a new product, members of the design and development team (together with Mr. Strickland) would market the products to customers. If the customer decided to purchase the new product, the customer would initially place an order with the Group for direct import (with six to eight weeks lead time). Thereafter, customers would have had the option to continue to order from the Group for direct import or order the same products from MIUSA for delivery in the U.S. with short delivery lead-times. The U.S. distribution hub function and short delivery lead time option have now been moved in-house and are being carried out by Mastercraft USA. The Directors believe that providing additional delivery choices has improved the Group's relationship with its customers.

MIUSA carried inventory of the Group's products in the U.S. to facilitate customers which required short delivery lead-times. Prior to the commencement of business of Mastercraft USA in October 2011, the Group held minimal inventory of finished products.

Up to 30 April 2012, the Group's subsequent sales of the repurchased inventories acquired from MIUSA at 30 September 2011 totaled approximately HK\$12.0 million representing approximately 99.2% of the said inventory. For further details of the repurchase of inventories from MIUSA by the Group, please refer to the section of the prospectus headed "Business — Delivery — U.S. distribution hub".

TRADE AND OTHER PAYABLES ANALYSIS

Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

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The following table sets out the aging analysis of the Group's trade payables as at the dates indicated:

	As at 31 December	
	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
1-30 days	8,315	17,760
31-60 days	4,257	12,848
61-90 days	1	2,688
Over 90 days	296	310
	12,869	33,006

The following table sets out the Group's average trade payables turnover days for the Track Record Period:

	Year ended 31 December	
	2010	2011
Average trade payables turnover days (<i>Note</i>)	31.4	39.2

Note: Average trade payables turnover days equals the average of the opening and closing balance of trade payables for the year divided by the cost of sales for the year, multiplied by 365 days for each of the years ended 31 December 2010 and 2011.

Credit periods granted by the Group's suppliers are in general in the range of 30 to 60 days.

Trade payables' turnover days increased from approximately 31 days for the year ended 31 December 2010 to 39 days for the year ended 31 December 2011, in order to bring the trade payables turnover days closer to the median of the credit period granted by the Group's suppliers.

Up to 30 April 2012, the Group's subsequent settlement of trade payables as at 31 December 2011 totaled approximately HK\$33.4 million, representing 99.4% of its outstanding balances.

OTHER MAJOR FINANCIAL RATIOS ANALYSIS

Current ratio:

	As at 31 December	
	2010	2011
Current assets/Current liabilities:	1.7	1.2

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The current ratio of the Group decreased from approximately 1.7 as at 31 December 2010 to 1.2 as at 31 December 2011. The decrease was, among other things, attributable to (1) a decrease in bank balances and cash due to the payment of dividend and listing expenses; and (2) a decrease in the amounts due from directors, which was offset by the dividend declared during the year ended 31 December 2011.

Quick ratio:

	As at 31 December	
	2010	2011
(Current assets — inventories)/Current liabilities	1.6	0.9

The quick ratio of the Group decreased from approximately 1.6 as at 31 December 2010 to 0.9 as at 31 December 2011. The decrease was, among other things, due to the decrease in the current ratio and an increase in inventory by approximately HK\$13.8 million from HK\$0.9 million for the year 2010 to HK\$14.7 million for the year 2011 as a result of the inventory carried by the Group's newly established U.S distribution hub, Mastercraft USA, which commenced business in October 2011.

Return on Equity:

	Year ended 31 December	
	2010	2011
Net Profit/Shareholders equity x 100% ⁽¹⁾	80.9%	49.7%

Note:

1. Return on equity equals the profit for each year divided by the average balance of total equity as at the end of the respective year.

The significant decrease in net return on equity from approximately 80.9% in the year ended 31 December 2010 to 49.7% in the year ended 31 December 2011 was the net result of a decrease in the Group's net profit by approximately 31.9% and an increase of approximately 11.0% in the average balance of equity attributable to owners of the Company. The decrease in net profit was mainly due to the listing expenses incurred in year 2011. The profit after tax if excluding the listing expenses incurred during the year ended 31 December 2011 would be HK\$16.6 million, which approximates to a 17.7% increase compared to the year ended 31 December 2010. The increase in average balance of the equity attributable to the owners of the Company was, among other things, due to the increased in average balances of accumulated profits during the period.

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Return on Total Assets:

	Year ended 31 December	
	2010	2011
Net Profit/Total Assets x 100% ⁽¹⁾	<u>27.9%</u>	<u>14.8%</u>

Note:

1. Return on total assets equals to the profit for each year divided by the average balance of total assets as at the end of the respective years.

The return on total assets decreased significantly from approximately 27.9% in the year ended 31 December 2010 to 14.8% in the year ended 31 December 2011, which was the net result of a decrease in net profit by approximately 31.9% and an increase in average balance of total assets by approximately 28.5% in the year ended 31 December 2011. The decrease in the Group's net profit was principally due to the increase in staff related costs as well as an increase in listing expenses primarily consisting of professional fees incurred during the year 2011. The increase in average balance of total assets was principally due to an increase in trade receivables as well as an increase in inventory as a result of the inventory carried by the Group's newly established U.S distribution hub — Mastercraft USA during the year 2011.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, the Group has not entered into any off-balance sheet transactions.

INDEBTEDNESS

As at 31 December 2010, the Group held general banking facilities to the value of approximately HK\$5.0 million. The banking facilities were secured against the Group's land and buildings, together with letters of guarantee to a value of HK\$5 million provided by Mr. Leung. The guarantee was released upon cancellation of the abovementioned banking facilities during the year ended 31 December 2011. At 31 December 2011, the Group obtained general facilities of approximately HK\$3.5 million and the banking facilities were secured by the Group's land and building.

Apart from intra-group liabilities and as disclosed in the section headed "Financial information — Contingent liabilities", as at 30 April 2012, being the date for determining the Group's indebtedness, the Group did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

The Directors confirm that there has been no material adverse change in indebtedness since 30 April 2012, being the date for determining the Group's indebtedness.

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WORKING CAPITAL

The Directors are of the opinion that after taking into account the cash flow generated from operating activities, the existing financial resources available to the Group including internally generated funds, the available banking facilities and the estimated net proceeds of the Placing, the Company and the Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this prospectus.

CONTINGENT LIABILITIES

In February 2011 a former service representative (the “Plaintiff”) issued an action in the district court in Minnesota, U.S. against Mr. Strickland, MIUSA, Mastercraft International, and Jerry Strickland Inc. (the “Defendants”), for damages in excess of US\$50,000 for an alleged breach of contract arising from the termination in July 2010 of their relationship with the Plaintiff. The Plaintiff is also seeking special damages for the Defendants’ failure to pay, in a timely manner, the full amount of commissions due to it for sales referred to the Defendants in 2010. As at the Latest Practicable Date, the Plaintiff and the Defendants have come to an agreement to settle the case and the Defendants have agreed that the total settlement sum will be borne by Mr. Strickland solely. As such, the Directors consider that the case will not have any adverse material impact on the financial position of the Group.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT MARKET RISKS

Currency risk

During the Track Record Period all sales of the Group were invoiced in U.S. dollars and all purchases from contract manufacturers were also invoiced in U.S. dollars. As the amounts of other foreign currencies involved are insignificant, management of the Company is of the opinion that the Company’s exposure to foreign exchange risk is minimal.

Interest rate risk

The Company’s cash flow interest rate risk is primarily related to interest bearing bank deposits and bank overdrafts. However, the cash flow interest rate risk on the interest bearing bank deposits and overdrafts is insignificant as they are all short term.

Credit risk

As at the end of each reporting period, the Group’s and the Company’s maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position and the Company’s statements of financial position.

In order to minimise the credit risk, the management of the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group’s credit risk is significantly reduced.

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The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

The Group has significant concentration of credit risk. As of 31 December 2010 and 2011, 58% and 30% of the total trade receivables was due from the Group's largest customer, while 77% and 89% of the total trade receivables was due from the Group's five largest customers at 31 December 2010 and 2011, respectively.

Liquidity risk

In the management of liquidity risk, the Group's management monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Liquidity and interest risk tables

The following tables detail the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate %	Repayable on demand or less than 3 months HK\$'000	Undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
At 31 December 2010				
Non-derivative financial liabilities				
Trade and other payables	—	13,181	13,181	13,181
Amounts due to related companies	—	433	433	433
		13,614	13,614	13,614

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	Weighted average interest rate %	Repayable on demand or less than 3 months HK\$'000	Undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
At 31 December 2011				
Non-derivative financial liabilities				
Trade and other payables	—	33,705	33,705	33,705
Amounts due to related companies	—	257	257	257
		25,870	25,870	25,870

DIVIDEND AND DIVIDEND POLICY

Prior to the Reorganisation, Mastercraft International declared a dividend in amount of US\$2.6 million (equivalent to HK\$19.9 million) to its then shareholders during the year ended 31 December 2011. This dividend was settled prior to the date of this prospectus. A portion of the dividend in the amount of HK\$13.0 million was offset against the current accounts with directors and the remainder was paid in cash out of the internal resources of the Group.

The declaration of future dividends will be subject to the discretion of the Directors and will depend on, among others, the Group's earnings, financial condition, cash requirements and availability, and other factors as the Directors may deem relevant. Accordingly, potential investors should note that the above dividend payments should not be regarded as an indication of future dividend policy.

RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set out in this prospectus, the Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to the Group than terms available to independent third parties and were fair and reasonable and in the interest of the Shareholders as a whole.

DISTRIBUTABLE RESERVES

As at 31 December 2011, there were no reserves available for distribution to the Shareholders of the Company.

PROPERTY INTERESTS AND PROPERTY VALUATION

For the purpose of the Listing, land and building held by the Group were valued as at 30 April 2012 by an independent property valuer, BMI Appraisals Limited. Details of the valuation are summarised in Appendix III to this prospectus.

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PROPERTY VALUATION

Note: Rule 8.30 of the GEM Listing Rules provides that the effective date as at which the land and building was valued must not be more than three months before the date on which the relative listing document or circular is issued and if such effective date is not the same as the end of the last period reported on by the reporting accountants (i.e. 31 December 2011), the prospectus must include a statement reconciling the valuation figure with the figure included in the statement of financial position as at the end of that period.

A reconciliation of the carrying values of the property interests of the Group as at 31 December 2011 and the valuation of such property interests as required under Rule 8.30 of the GEM Listing Rules is set out below.

	<i>HK\$'000</i>
Valuation of land and building with certificate as at 30 April 2012 as set out in the valuation report included in Appendix III to this prospectus	10,200
Carrying values of the following land and building as at 31 December 2011 as set out in the Accountants' Report included in Appendix I to this prospectus — Properties, plant and equipment	1,224
Less: Depreciation of land and building during the period from 1 January 2012 to 30 April 2012	(25)
Carrying values of land and building as at 30 April 2012	1,199
Revaluation surplus (<i>Note</i>)	9,001

Note: The revaluation surplus will not be recorded in the combined financial statements as the Group's property interests are stated at cost less accumulated depreciation.

DISCLOSURE REQUIRED UNDER CHAPTER 17 OF THE GEM LISTING RULES

The Directors have confirmed that there are no circumstances which, had they been required to comply with Rules 17.15 to 17.21 in Chapter 17 of the GEM Listing Rules, would have given rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that, up to this Prospectus date, there has been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2011, being the date on which the latest financial information of the Group was reported in the Accountants' Report set out in Appendix I to this prospectus.

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UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted combined net tangible assets prepared in accordance with Rule 7.31 of the GEM Listing Rules are set out below to illustrate the effect of the Placing on the Group's net tangible assets as at 31 December 2011 as if the Placing had taken place on that date. The unaudited pro forma adjusted combined net tangible assets of the Group have been prepared for illustrative purpose only and, because of their hypothetical nature, they may not give a true picture of the Group's net tangible assets had the Placing been completed as at 31 December 2011 or at any future date. The unaudited pro forma adjusted combined net tangible assets are calculated based on the Group audited combined net liabilities attributable to owners of the Company as at 31 December 2011, as shown in the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus, and is adjusted as described below.

	Audited combined net tangible assets attributable to owners of the Company as at 31 December 2011 HK'000 (Note 1)	Add: Estimated net proceeds from Placing HK'000 (Note 2)	Unaudited pro forma adjusted net tangible assets HK'000	Unaudited pro forma adjusted net tangible assets per Share HK\$ (Note 3)
Based on the Placing Price of HK\$0.35 per Placing Share	14,200	31,179	45,379	0.09

Notes:

1. The audited combined net tangible assets attributable to owners of the Company as at 31 December 2011 has been extracted from the Accountants' Report set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Placing are based on the Placing Price of HK\$0.35 per Placing Share, after deduction of relevant estimated underwriting fees and other related fees and expenses.
3. The unaudited pro forma adjusted net tangible assets per Share are determined after the adjustments as described in notes 1 and 2 above and on the basis that 480,000,000 Shares are issued and outstanding as set out in the section headed "Share Capital" in this prospectus.
4. By comparing the valuation of the Group's property interests of approximately HK\$10,200,000 as set out in Appendix III to this prospectus, and the carrying amounts of the Group's property interests as at 30 April 2012, the net valuation surplus is approximately HK\$9,001,000 which has not been included in the above combined net tangible assets attributable to owners of the Company. The valuation surplus will not be incorporated in the Group's financial statements because it is the Group's accounting policy to state the property interests, classified under the sub-sections headed "Property, plant and equipment" in Appendix I to this prospectus, at cost less accumulated depreciation and impairment rather than at revalued amounts. If the valuation surplus was recorded in the Group's financial statements, an additional depreciation of approximately HK\$360,000 per annum would have been incurred.

UNDERWRITING

UNDERWRITERS

WAG Worldsec Corporate Finance Limited
6th Floor, New Henry House
10 Ice House Street
Central
Hong Kong

Luen Fat Securities Company Limited
6th Floor, New Henry House
10 Ice House Street
Central
Hong Kong

Sanfull Securities Limited
Suite 2001–6, 20/F, Cosco Tower
183 Queen’s Road Central
Hong Kong

Luk Fook Securities (HK) Limited
Room 505–6, 5/F Grand Millennium Plaza
181 Queen’s Road Central
Hong Kong

DL Brokerage Limited
1/F Wing’s Building
110–116 Queen’s Road Central
Hong Kong

Good Harvest Securities Company Limited
7/F Harbour Commercial Building
122–124 Connaught Road Central
Hong Kong

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting and Placing Agreement

Pursuant to the Underwriting and Placing Agreement, the Company is offering the Placing Shares for subscription by way of Placing at the Placing Price, on and subject to the terms and conditions in the Underwriting and Placing Agreement and of this prospectus. Subject to, among other conditions, the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and to certain other conditions set out in the Underwriting and Placing Agreement, the Underwriters have agreed severally to subscribe or procure subscribers for (as the case may be) their respective applicable proportions of the Placing Shares on the terms and conditions of the Placing.

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Grounds for termination

If, in the sole and absolute discretion of the Sponsor, any of the following events occurs at or prior to 8:00 a.m. on the Listing Date, then the Sponsor (for itself and on behalf of the Underwriters) may, at its sole and absolute discretion, upon giving notice in writing to the Company (with a copy of such notice to Luen Fat and each of the Underwriters) in accordance with the Underwriting and Placing Agreement, terminate the Underwriting and Placing Agreement with immediate effect:

1. there has come to the notice of the Sponsor:
 - (i) that any statement contained in this prospectus was, when it was issued, or has become, untrue, incorrect or misleading in any material respect or that any forecast, expression of opinion, intention or expectation expressed therein is not, in the sole and absolute opinion of the Sponsor, in all respects fair, and honest and based on reasonable assumptions, when taken as a whole; or
 - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom; or
 - (iii) any breach of any of the obligations imposed upon any party (other than the Sponsor, Luen Fat or any Underwriters) to the Underwriting and Placing Agreement (other than on the part of the Sponsor, the Luen Fat or any of the Underwriters); or
 - (iv) any event, act or omission which gives or is likely to give rise to any liability of any of the “Warrantors” named in the Underwriting and Placing Agreement pursuant to the indemnity provision in the Underwriting and Placing Agreement; or
 - (v) any change or development involving a prospective material adverse change in the conditions, assets, liabilities, business affairs, prospects, profits, losses, the risks relating to or the financial or trading position or performance of any member of the Group (each a “Group Company”); or
 - (vi) any breach of, or any event rendering untrue or incorrect in any material respect, any of the warranties contained in the Underwriting and Placing Agreement; or
 - (vii) the approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares is refused or not granted, other than subject to customary conditions, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
 - (viii) the Company withdraws, inter alia, this prospectus (or any other documents used in connection with the Placing) or the Placing; or
 - (ix) any person (other than the Sponsor, Luen Fat and any of the Underwriters) has withdrawn or sought to withdraw its consent to being named as an expert in this prospectus, or to the issue of this prospectus.

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2. there shall develop, occur, exist or come into effect:
- (i) any event, or series of events beyond the reasonable control of the Underwriters (including, without limitation, acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases or epidemics including Severe Acute Respiratory Syndrome, pandemic influenza, avian influenza (including H5N1), influenza A (H1N1) or such related or mutated forms or interruption or delay in transportation); or
 - (ii) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, regional, national, international, financial, economic, political, military, industrial, fiscal, regulatory, currency or market conditions (including without limitation any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange, or a material fluctuation in the exchange rate of the Hong Kong dollar against any foreign currency, or any interruption in monetary or trading or securities settlement or clearance services or procedures in or affecting Hong Kong or anywhere in the world); or
 - (iii) any new law, rule, statute, ordinance, regulation, guideline, opinion, notice, circular, order, judgement, decree or ruling of any public, regulatory, taxing, administrative or governmental agency or authority, any self-regulatory organisation or any securities exchange authority, other authority and any court at the national, provincial, municipal or local level of all relevant jurisdictions, including (without limitation) Hong Kong, the Cayman Islands, the British Virgin Islands, the United States, Canada and the PRC (as the case may be) (“Laws” and “Law” includes any one of them) or any change or development involving a prospective change in existing Laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of Hong Kong, the PRC, the United States or any other jurisdictions relevant to any Group Company (the “Specific Jurisdictions”); or
 - (iv) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary of Hong Kong and/or the Hong Kong Monetary Authority or otherwise), New York (imposed at the United States federal or New York state level or otherwise) or the PRC or a material disruption in commercial banking or securities settlement or clearance services in any of the Specific Jurisdictions; or
 - (v) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for the United States or the European Union (or any member thereof) on any of the Specific Jurisdictions; or

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- (vi) a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment Laws in any of the Specific Jurisdictions or affecting an investment in the Shares; or
- (vii) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk factors” in this prospectus; or
- (viii) any litigation or claim of any third party being threatened or instigated against any Group Company or any “Warrantors” named in the Underwriting and Placing Agreement; or
- (ix) a Director being charged with an indictable offence or prohibited by operation of Law or otherwise disqualified from taking part in the management of a company; or
- (x) the chairman or chief executive officer of the Company vacating his office; or
- (xi) the commencement by any governmental, regulatory or political body or organisation of any public action against a Director in his or her capacity as such or an announcement by any governmental, regulatory or political body or organisation that it intends to take any such action; or
- (xii) a contravention by any Group Company of the Companies Ordinance or any of the GEM Listing Rules or the applicable Laws; or
- (xiii) a prohibition on the Company for whatever reason from allotting the Placing Shares to be offered pursuant to the terms of the Placing; or
- (xiv) non-compliance of, inter alia, this prospectus, (or any other documents used in connection with the subscription of the Placing Shares) or any aspect of the Placing with the Companies Ordinance, the GEM Listing Rules or any other applicable Law; or
- (xv) other than with the approval of the Sponsor and Luen Fat, the issue or requirement to issue by the Company of a supplementary prospectus (or any other documents used in connection with the subscription of the Placing Shares) pursuant to the Companies Ordinance or the GEM Listing Rules; or
- (xvi) a valid demand by any creditor for repayment or payment of any indebtedness of any Group Company or in respect of which any Group Company is liable prior to its stated maturity; or
- (xvii) any material loss or damage sustained by any Group Company (howsoever caused and whether or not the subject of any insurance or claim against any person); or
- (xviii) a petition or an order is presented for the winding-up or liquidation of any Group Company, or any Group Company makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the

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winding-up of any Group Company, or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any Group Company, or anything analogous thereto occurs in respect of any Group Company,

which in each case or in aggregate in the sole and absolute opinion of the Sponsor (for itself and on behalf of the Underwriters):

- (a) is or will or could be expected to have an adverse effect on the general affairs, management, business, financial, trading or other condition or prospects or risks of the Company or the Group or any Group Company or on any present or prospective Shareholder in his, her or its capacity as such; or
- (b) has or will have or could be expected to have an adverse effect on the success, marketability or pricing of the Placing or the level of interest under the Placing; or
- (c) makes it inadvisable, inexpedient or impracticable for the Placing to proceed or to market the Placing; or
- (d) would have the effect of making any part of the Underwriting and Placing Agreement incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Placing or pursuant to the underwriting thereof.

The Company undertakes to each of the Sponsor, Luen Fat and the Underwriters that, and each of the executive Directors and the Controlling Shareholders undertakes to procure that, inter alia, the Company will comply in all respects with the terms and conditions of the Placing and, except pursuant to the Placing and the exercise of options granted under the Share Option Scheme or with the prior written consent of the Sponsor and Luen Fat (for itself and on behalf of the Underwriters) and unless in compliance with the requirements of the GEM Listing Rules, the Company will not allot or issue, or agree to allot or issue, Shares or other securities of the Company (including warrants or other convertible or exchangeable securities) or grant or agree to grant any options, warrants or other rights to subscribe for Shares or securities that are convertible or exchangeable into Shares or other securities of the Company or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of any Shares or offer to or agree to do any of the foregoing or announce any intention to do so during the six months immediately following the Listing Date and in the event of the Company doing any of the foregoing by virtue of the aforesaid exceptions or during the period of six months immediately following the expiry of the first six months period after the Listing Date, it will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of the Company.

Each of the Controlling Shareholders has jointly and severally undertaken to each of the Sponsor, Luen Fat, the Company and the Underwriters that:

- (i) during the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the "First Period"), he/it shall not, and shall procure that the relevant registered holder(s) and his/its associates and companies controlled by him/it and any nominee or trustee holding in trust for him/it shall not,

UNDERWRITING

without the prior written consent of the Sponsor, or pursuant to the Placing as contemplated in, inter alia, this prospectus or the Underwriting and Placing Agreement, or otherwise in compliance with the requirements of the GEM Listing Rules, (a) offer, pledge, charge (except permitted under the Underwriting and Placing Agreement), sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of the Shares or any securities convertible into or exercisable or exchangeable for, or that represent the right to receive any such Shares or such securities of the Company disclosed in this prospectus to be beneficially owned by him/it or any of his/its associates or companies controlled by him/it or any nominee or trustee holding in trust for him/it (the “Controlling Shareholders’ Relevant Securities”); (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences or benefit of ownership of the Controlling Shareholders’ Relevant Securities, whether any of the foregoing transactions is to be settled by delivery of Shares or such other securities, in cash or otherwise; (c) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (a) or (b) above; or (d) announce any intention to enter into or effect any of the transactions referred to in (a), (b) or (c) above;

- (ii) he/it shall not, and shall procure that the relevant registered holder(s) and his/its associates or companies controlled by him/it and any nominee or trustee holding in trust for him/it shall not, without the prior written consent of the Stock Exchange in the six-month period commencing on the expiry of the First Period set out in paragraph (i) above (the “Second Period”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of the Controlling Shareholders’ Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he/it would cease to be a controlling shareholder (as defined in the GEM Listing Rules) of the Company or would together with the other Controlling Shareholders cease to be a controlling shareholder (as defined in the GEM Listing Rules) of the Company;
- (iii) in the event of a disposal of any Shares or securities of the Company or any interest therein within the Second Period, he/it shall take all reasonable steps to ensure that such a disposal shall not create a disorderly or false market for any Shares or other securities of the Company; and
- (iv) he/it shall, and shall procure that his/its associates and companies controlled by him/it and nominees or trustees holding in trust for him/it shall, comply with all the restrictions and requirements under the GEM Listing Rules on the sale, transfer or disposal by him/it or by the registered holder controlled by him/it of any Shares.

UNDERWRITING

Each of the Controlling Shareholders has further undertaken under the Underwriting and Placing Agreement to each of the Company, the Sponsor, Luen Fat and the Underwriters that, within the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholders is made in this prospectus and ending on the date which is 12 months from the Listing Date, it will:

- (i) when it pledges or charges any securities or interests in the Relevant Securities or the Controlling Shareholders' Relevant Securities (as the case may be) beneficially owned by it in favour of any authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform the Company, the Sponsor and Luen Fat in writing of such pledges or charges (as the case may be) together with the number of Shares or securities and nature of interest so pledged or charged; and
- (ii) when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of the Company will be sold, transferred or disposed of, immediately inform the Company, the Sponsor and Luen Fat in writing of such indications.

The Company will inform the Stock Exchange as soon as the Company has been informed of the above matters (if any) by any of the Controlling Shareholders and disclose such matters by way of an announcement.

Commission and expenses

The Underwriters will receive an underwriting commission of 2.5% of the aggregate Placing Price in respect of their respective Placing Shares, out of which they will meet all (if any) sub-underwriting commissions. The Sponsor will receive a sponsor's fee in relation to the Listing.

The aggregate underwriting commissions and fees, together with listing fees, the SFC transaction levy and the Stock Exchange trading fee, legal and other professional fees, and printing and other expenses relating to the Placing are estimated to amount to approximately HK\$18 million and will be payable by the Company.

Underwriters' interests in the Company

Save for the Underwriters' obligations under the Underwriting and Placing Agreement and save as otherwise disclosed in this prospectus, none of the Sponsor, Luen Fat and the Underwriters is legally or beneficially interested in any Shares of any member of the Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of the Group or any interest in the Placing.

Sponsor's independence

The Sponsor satisfies the independence criteria applicable to the sponsor as set out in Rule 6A.07 of the GEM Listing Rules.

STRUCTURE AND CONDITIONS OF THE PLACING

PLACING PRICE

The Placing Price is HK\$0.35 per Share. Based on the Placing Price plus 1% brokerage fee, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee, one board lot of 6,000 Shares will amount to a total of HK\$2,121.17.

CONDITIONS OF THE PLACING

The Placing will be conditional upon, among others:

- (i) the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Placing or otherwise described in this prospectus; and
- (ii) the obligations of the Underwriters under the Underwriting and Placing Agreement becoming unconditional and the obligations under the Underwriting and Placing Agreement not being terminated in accordance with their terms or otherwise, prior to 8:00 a.m. on the day on which the Shares commence trading on the GEM,

in each case on or before the dates and times specified in the Underwriting and Placing Agreement (unless and to the extent that the relevant deadline is extended or the relevant conditions, where applicable, are waived on or before such dates and times) and in any event not later than the 30th day after the date of this prospectus.

In the event that the Placing lapses, notice of the lapse will be published by the Company on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.mastercraft Holdings.com on the next Business Day following such lapse.

THE PLACING

120,000,000 Placing Shares are being offered pursuant to the Placing, representing in aggregate 25% of the enlarged issued share capital of the Company immediately after the Capitalisation Issue and completion of the Placing.

The Placing is fully underwritten by the Underwriters, subject to the terms and conditions of the Underwriting and Placing Agreement. Pursuant to the Placing, it is expected that the Underwriters, on behalf of the Company, will conditionally place 120,000,000 Placing Shares at the Placing Price to selected individual, professional and institutional investors in Hong Kong.

BASIS OF ALLOCATION

Allocation of the Placing Shares to selected individual, professional and institutional investors will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investors are likely to purchase further Shares or hold or sell their Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and the Shareholders as a whole. In particular, the Placing Shares will be allocated pursuant to

STRUCTURE AND CONDITIONS OF THE PLACING

Rule 11.23(8) of the GEM Listing Rules, that not more than 50% of the Shares in public hands at the time of Listing will be owned by the three largest public Shareholders. There will not be any preferential treatment in the allocation of the Placing Shares to any persons.

No allocations will be permitted to nominee companies unless the name of the ultimate beneficiary is disclosed, without the prior written consent of the Stock Exchange. Details of the Placing will be announced in accordance with Rules 10.12(4), 16.08 and 16.16 of the GEM Listing Rules.

COMMENCEMENT OF DEALINGS

Dealings in the Shares on GEM are expected to commence on 20 July 2012. The Shares will be traded in board lots of 6,000 each.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus on GEM and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on GEM or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

In respect of the dealings in the Shares which may be settled through CCASS, investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company.

Deloitte.

德勤

10 July 2012

The Directors
Mastercraft International Holdings Limited
WAG Worldsec Corporate Finance Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) regarding Mastercraft International Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the two years ended 31 December 2011 (the “Relevant Periods”) for inclusion in the prospectus of the Company, dated 10 July 2012 (the “Prospectus”) in connection with the proposed listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated in the Cayman Islands on 3 August 2011 as an exempted company with limited liability under the Company Law of the Cayman Islands. The Company is an investment holding company and has not carried on any other business since its incorporation. Pursuant to a group reorganisation (“the Reorganisation”), as more fully explained in the paragraph headed “Corporate Reorganisation” in Appendix V to the prospectus, the Company became the holding company of the Group on 20 June 2012.

At the end of each respective reporting period and at the date of this report, the Company has direct and indirect interests in the following subsidiaries:

Name of subsidiaries	Place of incorporation/ establishment	Date of incorporation/ establishment	Issued and fully paid share/ registered capital	Proportion of nominal value of issued share capital/registered capital attributable to the Group			Principal activities
				At 31 December 2010	2011	At the date of this report	
Mastercraft Worldwide Limited ("Mastercraft Worldwide")	The British Virgin Islands ("BVI")	7 July 2011	US\$6 Ordinary shares	N/A	100%	100%	Investment holding
Mastercraft International Limited ("Mastercraft International") 馬仕達國際有限公司	Hong Kong	16 June 1994	HK\$348,900 Ordinary shares	100%*	100%*	100%*	Design and supply chain business of lightings and home furnishing products
Mastercraft China Limited ("Mastercraft China") 馬仕達中國有限公司 (formerly known as "Twenty-Two Lighting Limited")	Hong Kong	22 March 1999	HK\$2 Ordinary shares	100%*	100%*	100%*	Productions of prototypes for lightings and home furnishing products
Mastercraft Home Furnishing Development (Shenzhen) Limited ("Mastercraft WFOE") 馬仕達家飾研發(深圳)有限公司	The People's Republic of China (the "PRC")	30 August 2011	HK\$500,000 Registered Capital	N/A	100%*	100%*	Productions of prototypes for lightings and home furnishing products
Mastercraft Overseas Limited ("Mastercraft Overseas")	BVI	14 July 2011	US\$1 Ordinary share	N/A	100%*	100%*	Investment holding
Mastercraft Distribution USA Inc. ("Mastercraft USA")	The United States of America ("USA")	12 September 2011	US\$1 Common stock	N/A	100%*	100%*	Wholesale distribution of lighting and home furnishing products

* Indirectly held through subsidiaries

For year 2010 and 2011, the financial year end date of the subsidiaries of the Company existed as at those years except for Mastercraft China is 31 December. Prior to 31 March 2010, Mastercraft China adopted 31 March as its financial year end date. The financial year end date of Mastercraft China has been changed from 31 March to 31 December. No audited statutory financial statements have been prepared for the Company, Mastercraft Worldwide, Mastercraft Overseas and Mastercraft USA since their respective dates of incorporation as there is no statutory requirement to do so in their jurisdictions.

No audited statutory financial statements have been prepared for Mastercraft WFOE as its first statutory financial statements are not yet to be issued.

For the purpose of this report, we have reviewed all the relevant transactions of the Company, Mastercraft Worldwide, Mastercraft WFOE, Mastercraft Overseas and Mastercraft USA since their respective dates of incorporation/establishment to the date of this report and carried out procedures as we considered necessary for the inclusion in the Financial Information of the Group.

The statutory financial statements of other subsidiaries subject to statutory audit requirements were prepared in accordance with the Hong Kong Financial Reporting Standard (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and were audited by the following auditors:

Name of subsidiary	Financial year	Name of auditor
Mastercraft International	For each of the years ended 31 December 2010 and 2011	Deloitte Touche Tohmatsu
Mastercraft China	For the year ended 31 March 2010 and nine months ended 31 December 2010	Chui & Kwok Certified Public Accountants
	For the year ended 31 December 2011	Deloitte Touche Tohmatsu

For the purpose of this report, the directors of Mastercraft China have prepared the financial statements of the Mastercraft China for the year ended 31 December 2010 in accordance with HKFRSs (referred to the “Mastercraft Audited Financial Statements”). We have undertaken an independent audit on the Mastercraft Audited Financial Statements in accordance with the Hong Kong Standards on Auditing issued by the HKICPA. We have examined the Mastercraft Audited Financial Statements, audited financial statements of Mastercraft International for each of the years ended 31 December 2010 and 2011, audited financial statements of Mastercraft China for the year ended 31 December 2011 and where necessary, the management accounts of the companies now comprising the Group (“Underlying Financial Statements”) in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in note 2 of Section A below, after making such adjustments as we consider appropriate for the purpose of preparing our report for the inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the relevant companies who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 2 of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2010 and 2011, and of the Company as at 31 December 2011 and of the combined results and combined cash flows of the Group for the Relevant Periods.

A. FINANCIAL INFORMATION

Combined Statements of Comprehensive Income

	<i>Notes</i>	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Revenue	8	198,517	264,482
Cost of sales		<u>(159,975)</u>	<u>(216,441)</u>
Gross profit		38,542	48,041
Other income		298	192
Selling expenses		(9,417)	(10,089)
Administration expenses		(8,022)	(13,310)
Research and development expenses		(4,486)	(5,216)
Listing expenses		<u>—</u>	<u>(6,969)</u>
Profit before tax	9	16,915	12,649
Income tax expense	12	<u>(2,811)</u>	<u>(3,040)</u>
Profit for the year		<u>14,104</u>	<u>9,609</u>
Other comprehensive expenses:			
Exchange differences arising on translating foreign operation		<u>(7)</u>	<u>(11)</u>
Total comprehensive income for the year		<u>14,097</u>	<u>9,598</u>
Earnings per share HK Cents — Basic	13	<u>3.9 cents</u>	<u>2.7 cents</u>

Statements of Financial Position

	<i>Notes</i>	THE GROUP		THE
		2010	2011	COMPANY
		<i>HK\$'000</i>	<i>HK\$'000</i>	2011
				<i>HK\$'000</i>
Non-current assets				
Property, plant and equipment	14	2,886	3,134	—
Deferred tax assets	15	—	756	—
		<u>2,886</u>	<u>3,890</u>	<u>—</u>
Current assets				
Inventories	16	861	14,703	—
Trade and other receivables	17	30,248	51,132	—
Amounts due from directors	27(a)	10,584	—	—
Bank balances and cash	18	<u>12,504</u>	<u>3,364</u>	<u>—</u>
		<u>54,197</u>	<u>69,199</u>	<u>—</u>
Current liabilities				
Trade and other payables	19	17,165	41,265	—
Provision	20	10,153	8,711	—
Tax payable		4,704	8,456	—
Amounts due to related companies	27(b)	<u>433</u>	<u>257</u>	<u>—</u>
		<u>32,455</u>	<u>58,689</u>	<u>—</u>
Net current assets		<u>21,742</u>	<u>10,510</u>	<u>—</u>
Total assets less current liabilities		24,628	14,400	—
Non-current liability				
Deferred tax liabilities	15	<u>156</u>	<u>200</u>	<u>—</u>
Net assets		<u>24,472</u>	<u>14,200</u>	<u>—</u>
Capital and reserves				
Share capital	21	349	349	—
Reserves		<u>24,123</u>	<u>13,851</u>	<u>—</u>
		<u>24,472</u>	<u>14,200</u>	<u>—</u>

Combined Statements of Changes in Equity

	Share capital <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2010	<u>349</u>	<u>2</u>	<u>10,024</u>	<u>10,375</u>
Profit for the year	—	—	14,104	14,104
Other comprehensive expenses for the year	<u>—</u>	<u>(7)</u>	<u>—</u>	<u>(7)</u>
Total comprehensive (expenses) income for the year	<u>—</u>	<u>(7)</u>	<u>14,104</u>	<u>14,097</u>
At 31 December 2010 and 1 January 2011	<u>349</u>	<u>(5)</u>	<u>24,128</u>	<u>24,472</u>
Profit for the year	—	—	9,609	9,609
Other comprehensive expenses for the year	<u>—</u>	<u>(11)</u>	<u>—</u>	<u>(11)</u>
Total comprehensive (expenses) income for the year	<u>—</u>	<u>(11)</u>	<u>9,609</u>	<u>9,598</u>
Dividend recognised as distribution (<i>note 10</i>)	<u>—</u>	<u>—</u>	<u>(19,870)</u>	<u>(19,870)</u>
At 31 December 2011	<u><u>349</u></u>	<u><u>(16)</u></u>	<u><u>13,867</u></u>	<u><u>14,200</u></u>

Combined Statements of Cash Flows

	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
OPERATING ACTIVITIES		
Profit before tax	16,915	12,649
Adjustments for:		
Depreciation of property, plant and equipment	333	582
Gain on disposal of property, plant and equipment	—	(120)
Write-off of inventories	—	34
Bad debts written off of trade receivables	—	410
Interest income	<u>(1)</u>	<u>(1)</u>
Operating cash flows before movements in working capital	17,247	13,554
Increase in inventories	(665)	(13,876)
Decrease (increase) in trade and other receivables	6,065	(21,294)
(Decrease) increase in trade and other payables	(2,351)	24,100
Decrease in provision	(468)	(1,442)
Decrease in amounts to related companies	<u>(306)</u>	<u>(176)</u>
Cash generated from operations	19,522	866
Hong Kong Profits Tax paid	<u>(628)</u>	<u>—</u>
NET CASH FROM OPERATING ACTIVITIES	<u>18,894</u>	<u>866</u>
INVESTING ACTIVITIES		
Proceeds on disposal of property, plant and equipment	—	120
Interest received	1	1
Purchase of property, plant and equipment	(1,597)	(825)
Advance to directors	(9,017)	(2,678)
Repayment from directors	<u>1,872</u>	<u>216</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(8,741)</u>	<u>(3,166)</u>
CASH USED IN FINANCE ACTIVITY		
Dividend paid to shareholders	<u>—</u>	<u>(6,824)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,153	(9,124)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	2,366	12,504
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>(15)</u>	<u>(16)</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	<u>12,504</u>	<u>3,364</u>

Notes to the Financial Information

1. GENERAL INFORMATION

The Company is a limited company incorporated in the Cayman Islands. The address of the registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Caymans Islands, and the address of the principal place of business is Room 503, 5th Floor, Tower B, Hungghom Commercial Centre, 37 Ma Tau Wai Road, Hungghom, Kowloon, Hong Kong.

The Company is an investment holding company. The principal activities of the Group are in the business of design and supply chain of lightings and home furnishing products.

The Financial Information is presented in Hong Kong dollars ("HK\$"), which is different from the functional currency of the Company, United States dollars ("US\$"), as the directors of the Company consider that HK\$ is more appropriate in view of the place of the Company's shares to be listed is Hong Kong.

2. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Before the group restructuring, the operation of the Group is carried out by Mastercraft International and Mastercraft China. The issued share capital of Mastercraft International and Mastercraft China was owned as to 50% by Mr. Jerry Strickland and 50% by Mr. Simon Yuen Ho Leung. After the group restructuring, the operation of the Group is mainly carried out by Mastercraft International, Mastercraft USA, Mastercraft China and Mastercraft WFOE.

The Company was incorporated in the Cayman Islands on 3 August 2011. As at the date of its incorporation, the Company has an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each, of which one share of the Company was allotted and issued nil paid to Condan Trust Company (Cayman) Limited, being the subscriber to the memorandum and articles of the Company. On 3 August 2011, one share held by Codan Trust Company (Cayman) Limited was transferred to SYH Investments Limited (the "SYH Investments"), a limited liability company incorporated in the BVI on 30 May 2011 which is wholly owned by Mr. Simon Yuen Ho Leung, and an additional one share was allotted and issued to Mr. Jerry Strickland.

Mastercraft Worldwide is a limited liability company incorporated in the BVI on 7 July 2011. Mastercraft Worldwide is authorised to issue a maximum of 50,000 shares with a par value of US\$1 each. As at the date of its incorporation, its issued share capital was US\$2 and 2 shares of US\$1 each have been issued and fully paid up, of which 1 share (representing 50% of the issued share capital) was owned by Mr. Jerry Strickland and 1 share (representing 50% of the issued share capital) was owned by SYH Investments.

Mastercraft Overseas is a limited liability company incorporated in the BVI on 14 July 2011. Mastercraft Overseas is authorised to issue a maximum of 50,000 shares with a par value of US\$1 each. As at the date of its incorporation, its issued share capital was US\$1 and 1 share of US\$1 each has been issued and fully paid up and owned by Mastercraft Worldwide.

Mastercraft WFOE is a wholly foreign-owned enterprise established under the laws of the People Republic of China ("PRC") on 30 August 2011 with registered capital of HK\$500,000. Mastercraft WFOE is wholly owned by Mastercraft China.

Mastercraft USA was a limited liability company incorporated in the USA on 12 September 2011. Mastercraft USA has a total authorised capital stock of 1,000 shares of common stock with US\$0.001 par value all of which have been purchased and fully paid up. Mastercraft Overseas owns all of the capital stock of Mastercraft USA.

On 20 March 2012, Mr. Jerry Strickland and Mr. Simon Yuen Ho Leung sold their aggregate 100% interest in Mastercraft International to Mastercraft Worldwide by issuing one share of US\$1 in the capital of Mastercraft Worldwide to each SYH Investments (at Mr. Simon Leung Yuen Ho's direction) and Mr. Jerry Strickland.

On 20 March 2012, Mr. Jerry Strickland and Mr. Simon Yuen Ho Leung sold their aggregate 100% interest in Mastercraft China to Mastercraft Worldwide at a consideration of HK\$2, determined by reference to the net asset value of Mastercraft China, which was fully satisfied by Mastercraft Worldwide allotting and issuing one share of US\$1 in the capital of Mastercraft Worldwide to each SYH Investments (at Mr. Simon Leung Yuen Ho's direction) and Mr. Jerry Strickland.

On 20 June 2012, the Company as purchaser, and SYH Investments and Mr. Jerry Strickland as sellers, entered into a sale and purchase agreement whereby the Company acquired, and SYH Investments and Mr. Jerry Strickland sold, the entire issued share capital of Mastercraft Worldwide. The total consideration payable was satisfied by (A) the Company allotting and issuing 17,499,999 shares to SYH Investments and 17,499,999 shares to Mr. Jerry Strickland respectively; and (B) the Company crediting as fully paid at par the two nil paid Shares of the Company held by SYH Investments and Mr. Strickland. The Company then became the holding company of the companies now comprising the Group since 20 June 2012, the date of completion of reorganisation ("Group Reorganisation").

The Group comprising the Company and its subsidiaries resulting from the Group Reorganisation is regarded as a continuing entity. The Group was under the common control of Mr. Jerry Strickland and Mr. Simon Yuen Ho Leung (together referred to "Controlling Equity Holders").

The Financial Information of the Group has been prepared on the basis as if the Company had always been the holding company of the Group using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting under Common Control Combinations" issued by HKICPA. The combined statements of comprehensive income, combined statements changes in equity and combined statements of cash flow of the Group have been prepared as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation or establishment, where is a shorter period.

The combined statements of financial position of the Group as at 31 December 2010 and 2011 have been prepared in accordance with the principles of merger accounting to present assets and liabilities of the companies now comprising the Group as if the group structure upon completion of the Group Reorganisation had been in existence as at those dates.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information for the Relevant Periods, the Group has consistently applied Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards ("HKFRSs"), amendments and related Interpretations, which are effective for the accounting period beginning on 1 January 2011 throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following new and revised Standards, Amendments and Interpretations which are not yet effective. The Group has not early applied these standards or amendments.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle ²
Amendments to HKFRS 7	Disclosures — Transfers of Financial Assets ¹
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities ²
HKFRS 9	Financial Instruments ³
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
HKAS 1 (Revised)	Presentation of Financial Statements ⁴
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ⁵
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets ⁴
HKAS 19 (Revised 2011)	Employee Benefits ²
HKAS 27 (Revised 2011)	Separate Financial Statements ²
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures ²
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ⁶
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine ²

- 1 Effective for annual periods beginning on or after 1 July 2011
- 2 Effective for annual periods beginning on or after 1 January 2013
- 3 Effective for annual periods beginning on or after 1 January 2015
- 4 Effective for annual periods beginning on or after 1 January 2012
- 5 Effective for annual periods beginning on or after 1 July 2012
- 6 Effective for annual periods beginning on or after 1 January 2014

The directors of the Company anticipate that the application of the new and revised Standards, Amendments and Interpretations will have no material impact on the Financial Information of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on historical cost basis, as explained in the accounting policies set out below which confirm with HKFRS.

In addition, the Financial Information includes applicable disclosures required by 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.

Basis of combination

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Relevant Periods (other than business combination involving entities under common control) are included in the combined statements of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on combination.

Merger accounting for business combination involving entities under common control

The Financial Information incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statements of comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the combined financial statements are presented as if the entities or businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of allowance for sales returns and trade discounts. The adjustments on estimation of sales return made by customers and the sales discounts on goods sold by the management based on past experience and other relevant factors, are recognised against the revenue.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, revenue from sale of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administration purposes are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating leases payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

Foreign currencies

In preparing financial statements of each individual group entities, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the end of each reporting period, and their income and expenses are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme or state-managed retirement benefit scheme or defined contribution scheme are charged as an expense when employees have rendered services entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit during the year. Taxable profit differs from profit as reported in the combined statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against

which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax recognised in profit or loss.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the combined statements of financial position when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that from an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from directors and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or equity according to the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Financial liabilities

Financial liabilities including trade and other payables and amounts due to related companies are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Equity instruments

Equity instruments issued by a group entity are recorded at the proceeds received, net of direct issue costs.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately.

Provision

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of time value of money is material).

5. KEY SOURCE OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key source of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimated impairment of trade receivables

Where there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash inflows from the outstanding trade receivables. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2010 and 2011, the carrying amounts of trade receivables of the Group are approximately HK\$27,455,000 and HK\$50,536,000, respectively.

Useful lives and impairment assessment of property, plant and equipment

The management determines the estimated useful lives, the residual value, and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. In addition, management assess impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. Management will increase the depreciation charge where useful lives are expected to be shorter than expected, or will write off or write-down obsolete or non-strategic assets that have been abandoned or sold. As at 31 December 2010 and 2011, the carrying amounts of property, plant and equipment are approximately HK\$2,886,000 and HK\$3,134,000, respectively.

Estimated provision of sales discounts and defective claims

For the provision of sales discounts and defective claims, other than sales agreements entered with a customer, there is no fixed terms of sale discounts and defective claims entered with customers. The amount is based on the management's estimation by reference to the historical experience on sales discounts and defective claims from customers. Management estimates and assumptions are reviewed periodically and are adjusted if necessary. Should any of the estimates and assumptions change, it may lead to a change in the provision of sales discounts and defective claims. As at 31 December 2010 and 2011, the carrying amounts of provision of sales discounts and defective claims are approximately HK\$10,153,000 and HK\$8,711,000, respectively.

6. CAPITAL RISK 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 throughout the Relevant Periods.

The capital structure of the Group consists of cash and cash equivalents, and equity attributable to owners of the Company comprising issued capital and retained profits.

The directors of the Company review the capital structure regularly, taking into the cost of capital and the risks associated with the capital.

7. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2010 HK\$'000	2011 HK\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	<u>51,303</u>	<u>54,117</u>
Financial liabilities		
Amortised cost	<u>13,614</u>	<u>33,962</u>

b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from directors and bank balances and cash, trade and other payables and amounts due to related companies. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Currency risk*

The carrying amounts of the Group's foreign currency denominated monetary assets at each reporting date are as follows:

	Assets	
	2010 HK\$'000	2011 HK\$'000
HK\$	<u>89</u>	<u>177</u>

Assets denominated in HK\$ mainly represented bank balances placed with banks held by a group entity with US\$ as functional currency. As HK\$ is pegged to US\$, the exposure to fluctuations in exchange rate of HK\$ against US\$ is considered insignificant, and thus the management of the Group is of the opinion that the Group's exposure to such foreign exchange risk is minimal.

(ii) *Interest rate risk*

The Group's cash flow interest rate risk is primarily related to interest bearing bank balances. However, the cash flow interest rate risk on the interest bearing bank balances is insignificant as they are all short term.

Credit risk

At the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the combined statements of financial position.

In order to minimise the credit risk, the management of the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

The Group has significant concentration of credit risk. At 31 December 2010 and 2011, 58% and 30% of the total trade receivables was due from the Group's largest customer, while 77% and 89% of the total trade receivables was due from the Group's five largest customers at 31 December 2010 and 2011, respectively.

Liquidity risk

In the management of liquidity risk, the Group's management monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

THE GROUP

	Weighted average interest rate %	Repayable on demand HK\$'000	Less than 3 months HK\$'000	Undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
At 31 December 2010					
Non-derivative financial liabilities					
Trade and other payables	—	—	13,181	13,181	13,181
Amounts due to related companies	—	433	—	433	433
		<u>433</u>	<u>13,181</u>	<u>13,614</u>	<u>13,614</u>

	Weighted average interest rate %	Repayable on demand HK\$'000	Less than 3 months HK\$'000	Undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
At 31 December 2011					
Non-derivative financial liabilities					
Trade and other payables	—	—	33,705	33,705	33,705
Amounts due to related companies	—	257	—	257	257
		<u>257</u>	<u>33,705</u>	<u>33,962</u>	<u>33,962</u>

c. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their fair value.

8. SEGMENT INFORMATION

Information reported to the Board of 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. Information relating to assets and liabilities in each segment is not included in the internal report regularly reviewed by the Board of Directors of the Company.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

1. Portable lighting (*Note 1*)
2. Shade (*Note 2*)
3. Furniture set and other home accessory products (*Note 3*)

Notes:

1. Portable lighting represented a selection of portable lighting products (e.g. Table lamps, floor lamps, accent lamps, buffet lamps etc.).
2. Shade represents a selection of shades for the lamps sold by the Group. Shades are complementary goods and a flames that typically fit on the top of a lamp and cover the lighting source.
3. 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.

(a) Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

For the year ended 31 December 2010

	Portable lighting	Shade	Furniture set and other home accessory products	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
SEGMENT REVENUE				
External sales	<u>144,663</u>	<u>33,130</u>	<u>20,724</u>	<u>198,517</u>
Segment profit	<u>23,025</u>	<u>9,030</u>	<u>6,487</u>	38,542
Unallocated income				298
Unallocated expense				
— Selling expenses				(9,417)
— Administration expenses				(8,022)
— Research and development expenses				<u>(4,486)</u>
Profit before tax				<u>16,915</u>

For the year ended 31 December 2011

	Portable lighting <i>HK\$'000</i>	Shade <i>HK\$'000</i>	Furniture set and other home accessory products <i>HK\$'000</i>	Total <i>HK\$'000</i>
SEGMENT REVENUE				
External sales	<u>173,815</u>	<u>68,593</u>	<u>22,074</u>	<u>264,482</u>
Segment profit	<u>27,628</u>	<u>14,741</u>	<u>5,672</u>	48,041
Unallocated income				192
Unallocated expense				
— Selling expenses				(10,089)
— Administration expenses				(13,310)
— Research and development expenses				(5,216)
— Listing expenses				<u>(6,969)</u>
Profit before tax				<u>12,649</u>

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit represents the profit earned by each segment without allocation of certain income and expense (including other income, selling expenses, administration expenses, research and development expenses and listing expenses.) This is the measure reported to the chief operating decision maker, the Board of Directors of the Company, for the purposes of resources allocation and assessment of segment performance.

(b) Geographical information

The Group's operations are located in Hong Kong, the PRC and North America.

The following table summarises the Group's revenue from customers and information about its non-current assets by geographical locations:

	Revenue from external customers		Non-current assets (other than deferred tax assets)	
	Year ended 31 December		At 31 December	
	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Hong Kong (country of domicile)	—	—	2,675	2,984
PRC	—	—	211	150
USA	186,842	258,406	—	—
Canada	11,675	4,352	—	—
Others	<u>—</u>	<u>1,724</u>	<u>—</u>	<u>—</u>
Total revenue	<u>198,517</u>	<u>264,482</u>	<u>2,886</u>	<u>3,134</u>

(c) Information about major customers

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

	Year ended 31 December	
	2010	2011
	HK\$'000	HK\$'000
Customer A (Note 1)	65,735	82,862
Customer B (Note 2)	30,431	44,373
Customer C (Note 3)	43,083	42,558
Customer D (Note 4)	N/A	37,624

(Note 1) The revenue from Customer A involved in portable lighting, shade and furniture sets and other home accessory products segments.

(Note 2) The revenue from Customer B involved in portable lighting, and furniture sets and other home accessory products segments.

(Note 3) The revenue from Customer C involved in portable lighting and shade segments.

(Note 4) The revenue from Customer D involved in portable lighting, shade and furniture sets and other home accessory products segments. The corresponding revenue from Customer D does not contribute over 10% of the total revenue of the Group in the year ended 31 December 2010.

9. PROFIT BEFORE TAX

	Year ended 31 December	
	2010	2011
	HK\$'000	HK\$'000
Profit before tax has been arrived at after charging (crediting):		
Write-off of inventories	—	34
Bad debt written off of trade receivables	—	410
Auditor's remuneration	417	382
Cost of inventories recognised as expenses	150,707	214,877
Depreciation of property, plant and equipment	333	582
Net foreign exchange loss	35	86
Staff costs, including directors' remuneration (note 11)		
Salaries, wages and other benefits	4,569	9,810
Retirement benefits scheme contributions	176	294
Termination compensation to staff	—	544
	4,745	10,648
Less: amount included in research and development expenses	(769)	(1,342)
	3,976	9,306
Gain on disposal of property, plant and equipment	—	(120)
Interest income	(1)	(1)

10. DIVIDENDS

No dividend has been paid or proposed by the Company since its date of incorporation.

Prior to the Group Reorganisation, Mastercraft International had declared dividend in an amount of US\$2,554,000 (equivalent to HK\$19,870,000) to its then shareholders during the year ended 31 December 2011.

The rate of dividend and the number of shares ranking for dividend are not presented as such information is not meaningful having regard to the purpose of this report.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Details of the emoluments paid/payable to the directors of the Company are as follow:

	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Directors' fee	—	—
Other emoluments		
— salaries and other benefits	462	1,200
— contributions to retirement benefits scheme	12	57
	<u>474</u>	<u>1,257</u>

The emoluments of the directors on a named basis are as follows:

For the year ended 31 December 2010

	Mr. Leung Yuen Ho, Simon <i>HK\$'000</i>	Mr. Jerry Strickland <i>HK\$'000</i>	Total <i>HK\$'000</i>
Directors' fee	—	—	—
Other emoluments			
— salaries and other benefits	462	—	462
— contributions to retirement benefits scheme	12	—	12
	<u>474</u>	<u>—</u>	<u>474</u>

For the year ended 31 December 2011

	Mr. Leung Yuen Ho, Simon <i>HK\$'000</i>	Mr. Jerry Strickland <i>HK\$'000</i>	Total <i>HK\$'000</i>
Directors' fee	—	—	—
Other emoluments			
— salaries and other benefits	840	360	1,200
— contributions to retirement benefits scheme	12	45	57
	<u>852</u>	<u>405</u>	<u>1,257</u>

The five highest paid individuals of the Group included one director, for the years ended 31 December 2010 and 2011. The remunerations of the remaining four individuals for the years ended 31 December 2010 and 2011 are as follows:

	2010 HK\$'000	2011 HK\$'000
Employees		
— salaries and other benefits	1,217	1,629
— discretionary bonus (<i>Note</i>)	—	500
— contributions to retirement benefits scheme	<u>48</u>	<u>47</u>
	<u>1,265</u>	<u>2,176</u>

Note: The discretionary bonus is determined by the Board of Directors of the Company based on the Group's performance for the relevant year.

The emoluments of each of the five highest paid individuals in the Group for the years ended 31 December 2010 and 2011 were below HK\$1,000,000.

During the Relevant Periods, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors waived any emoluments during the Relevant Periods.

12. INCOME TAX EXPENSE

	2010 HK\$'000	2011 HK\$'000
Current taxation:		
— Hong Kong Profits Tax	2,651	3,697
— Overseas taxation	<u>—</u>	<u>55</u>
	2,651	3,752
Deferred tax (<i>note 15</i>)	<u>160</u>	<u>(712)</u>
	<u>2,811</u>	<u>3,040</u>

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 year at the rates of taxation prevailing in the relevant jurisdictions.

The income tax expense for the year can be reconciled to the profit before tax per the combined statements of comprehensive income as follows:

	2010 HK\$'000	2011 HK\$'000
Profit before tax	<u>16,915</u>	<u>12,649</u>
Tax at Hong Kong Profits Tax rate at 16.5%	2,791	2,087
Tax effect of expenses not deductible for tax purpose	—	1,150
Tax effect of tax losses not recognised	20	147
Tax effect of different tax rate of subsidiaries in other jurisdictions	<u>—</u>	<u>(344)</u>
Income tax expense for the year	<u>2,811</u>	<u>3,040</u>

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company and 360,000,000 ordinary shares of the Company, taking into account the effect of capitalisation issue as detailed in "Corporate Reorganisation" section under Appendix V to the Prospectus.

No dilute earnings per share is presented as there were no potential ordinary shares in issue during the Relevant Periods.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings <i>HK\$'000</i>	Leasehold improvement <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST					
At 1 January 2010	1,910	58	3,364	2,850	8,182
Exchange adjustment	—	2	38	—	40
Additions	—	15	564	1,018	1,597
At 31 December 2010	1,910	75	3,966	3,868	9,819
Exchange adjustment	—	3	41	—	44
Additions	—	60	63	702	825
Disposal	—	—	(290)	(470)	(760)
At 31 December 2011	1,910	138	3,780	4,100	9,928
ACCUMULATED DEPRECIATION					
At 1 January 2010	534	19	3,165	2,850	6,568
Exchange adjustment	—	1	31	—	32
Provided for the year	76	14	129	114	333
At 31 December 2010 and 1 January 2011	610	34	3,325	2,964	6,933
Exchange adjustment	—	2	37	—	39
Provided for the year	76	15	170	321	582
Eliminated on disposal	—	—	(290)	(470)	(760)
At 31 December 2011	686	51	3,242	2,815	6,794
CARRYING VALUES					
At 31 December 2010	1,300	41	641	904	2,886
At 31 December 2011	1,224	87	538	1,285	3,134

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Land and buildings	4%
Leasehold improvement	20% or over the lease term of rented properties, whichever is shorter
Furniture and fixtures and equipment	20%
Motor vehicles	20%

The carrying value of land and building comprises:

	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Land and building situated in Hong Kong under medium-term leases	<u>1,300</u>	<u>1,224</u>

As at 31 December 2010 and 2011, the Group has pledged its land and building with carrying value of approximately HK\$1,300,000 and HK\$1,224,000, respectively, to secure general banking facilities granted to the Group.

15. DEFERRED TAXATION

The following are the major deferred tax assets (liabilities) recognised and movements thereon during the Relevant Periods:

	Accelerated tax depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Temporary difference on unrealised profits on intra-group transaction <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2010	1	3	—	4
(Charge) credit to profit or loss	<u>(170)</u>	<u>10</u>	<u>—</u>	<u>(160)</u>
At 31 December 2010 and 1 January 2011	(169)	13	—	(156)
(Charge) credit to profit or loss	<u>(37)</u>	<u>(7)</u>	<u>756</u>	<u>712</u>
At 31 December 2011	<u>(206)</u>	<u>6</u>	<u>756</u>	<u>556</u>

The following is the analysis of the deferred tax balances for financial reporting purpose:

	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Deferred tax assets	—	756
Deferred tax liabilities	<u>(156)</u>	<u>(200)</u>
	<u>(156)</u>	<u>556</u>

Certain subsidiaries of the Company have unused tax losses of approximately HK\$355,000 and HK\$1,202,000 at 31 December 2010 and 2011, respectively, which available for offset against future profits. A deferred tax assets was recognised in respect of tax loss of HK\$80,000 and HK\$36,000 at 31 December 2010 and 2011. No deferred tax asset has been recognised in respect of the remaining HK\$275,000 and HK\$1,166,000 at 31 December 2010 and 2011 due to the unpredictability of the future profits streams of these subsidiaries.

16. INVENTORIES

	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Finished goods	<u>861</u>	<u>14,703</u>

17. TRADE AND OTHER RECEIVABLES

	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Trade receivables	27,455	50,536
Bill receivables	<u>717</u>	<u>117</u>
	28,172	50,653
Other receivables and prepayments	<u>2,076</u>	<u>479</u>
	<u><u>30,248</u></u>	<u><u>51,132</u></u>

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

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

	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
1 to 30 days	10,199	26,047
31 to 60 days	13,016	15,451
61 to 90 days	3,993	8,263
Over 90 days	<u>964</u>	<u>892</u>
	<u><u>28,172</u></u>	<u><u>50,653</u></u>

Before accepting any new customer, the Group has assessed the credit quality of each potential customer and defines credit rating and limit for each customer. In addition, the Group has reviewed the repayment history of receivables by each customer with reference to the payment terms stated in contracts to determine the recoverability of a trade receivable.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of approximately HK\$7,705,000 and HK\$8,716,000 at 31 December 2010 and 2011, respectively, which are past due for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired:

	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Overdue by:		
1 to 30 days	6,134	7,824
31 to 60 days	503	35
61 to 90 days	107	49
Over 90 days	<u>961</u>	<u>808</u>
	<u><u>7,705</u></u>	<u><u>8,716</u></u>

For the year ended 31 December 2011, trade receivable of HK\$410,000 was written off as the directors of the Company had determined that the amount was irrecoverable.

18. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.01% to 0.10% per annum and 0.01% to 0.10% per annum as at 31 December 2010 and 2011, respectively.

19. TRADE AND OTHER PAYABLES

	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	12,869	33,606
Accrued sales commission	1,248	1,268
Other payables and accruals	<u>3,048</u>	<u>6,391</u>
	<u><u>17,165</u></u>	<u><u>41,265</u></u>

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

	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
1–30 days	8,315	17,760
31–60 days	4,257	12,848
61–90 days	1	2,688
Over 90 days	<u>296</u>	<u>310</u>
	<u><u>12,869</u></u>	<u><u>33,606</u></u>

20. PROVISION

The balance represents the provision of sales discounts and defective claims recognised, and the following are the movements thereon during the Relevant Periods:

	<i>HK\$'000</i>
At 1 January 2010	10,621
Charge to profit or loss	2,647
Utilisation of provision	<u>(3,115)</u>
At 31 December 2010 and 1 January 2011	10,153
Charge to profit or loss	3,433
Utilisation of provision	<u>(4,875)</u>
At 31 December 2011	<u><u>8,711</u></u>

Other than sales agreements entered with a customer, there is no fixed term of provision of sales discounts and defective claims that is stated in the sales agreements entered with customers. The amount of provision is based on the management's estimation by reference to the historical experience. The Group accrued liability for potential sales discounts and defective claims at the time of sale to cover potential liabilities that could arise under these sales transactions.

21. SHARE CAPITAL

	THE COMPANY	
	Number of shares	Share capital <i>HK\$</i>
Authorised:		
Ordinary shares of HK\$0.01 each at date of incorporation and at 31 December 2011	<u>38,000,000</u>	<u>380,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each at date of incorporation and at 31 December 2011	<u>2</u>	<u>0.02</u>
		<i>HK\$'000</i>
Shown on the statement of financial position		<u>—</u>

On 3 August 2011, the Company was incorporated in the Cayman Islands with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each, of which one share of the Company was allotted and issued to Codan Trust Company (Cayman) Limited, being the subscriber to the Company. On 3 August 2011, the one share held by Codan Trust Company (Cayman) Limited was transferred to SYH Investments and an additional one share was allotted and issued to Mr. Jerry Strickland.

For the purpose of this report, share capital in the combined statements of financial position represent the aggregate amount of issued share capital of Mastercraft International and Mastercraft China as at 31 December 2010, and represent the aggregate amount of issued share capital of the Company, Mastercraft Worldwide, Mastercraft International and Mastercraft China at 31 December 2011.

22. OPERATING LEASES

The Group as lessee

	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Minimum lease payments paid under operating leases in respect of rented premises during the year	<u>281</u>	<u>956</u>

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Within one year	—	2,857
In the second to fifth years inclusive	<u>—</u>	<u>2,789</u>
	<u>—</u>	<u>5,646</u>

Operating lease payments represents rentals payable by the Group for certain of its office premises.

For the year ended 31 December 2010, the rental agreement was entered into and signed by 深圳市龍崗區平湖白坭坑裕泰鋼器五金廠 (“裕泰五金廠”), a factory owned by Yu Tai Brass and Metal Wares Factory Limited (“Yu Tai”), located in the PRC, hence, the Group had no operating lease commitment as at 31 December 2010. During the years ended

31 December 2010 and 2011, Yu Tai was a related company which was controlled by family members of Mr. Simon Yuen Ho Leung, a director and shareholder of the Company. During the year ended 31 December 2011, the old agreement was terminated and replaced by a new rental agreement signed by Mastercraft China with the landlord.

During the year ended 31 December 2011, Mastercraft USA entered into a lease agreement with MCP Investment, LLC ("MCP") for a period from 1 October 2011 to 31 December 2013 with monthly rental of US\$26,250 (equivalent to approximately HK\$204,000). MCP is a related company controlled by Mr. Jerry Strickland, a director and shareholder of the Company.

Leases are negotiated and rentals are fixed for an average lease term of 2 years.

23. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiary is required to contribute 10% of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The Group's subsidiary in USA operates a defined contribution scheme. Contributions to the defined contribution scheme are made at a certain percentage of the employee's payroll.

The total cost charged to the combined statements of comprehensive income of approximately HK\$176,000 and HK\$294,000 for the years ended 31 December 2010 and 2011, respectively, represent contributions payable to these schemes.

24. BANK FACILITIES

At 31 December 2010 and 2011, the Group has general banking facilities of HK\$5,000,000 and HK\$3,500,000, respectively. The banking facilities are secured by the Group's land and building, having carrying value of approximately HK\$1,300,000 and HK\$1,224,000 as at 31 December 2010 and 2011, respectively.

At 31 December 2010, the banking facilities were also secured by letters of guarantee with maximum amount of HK\$5,000,000 issued by Mr. Simon Yuen Ho Leung, a director of the Company. The guarantee was released during the year ended 31 December 2011.

25. CAPITAL COMMITMENTS

As at 31 December 2010 and 2011, the Group does not have any significant capital commitments.

26. CONTINGENT LIABILITIES

In February 2011, a service representative of Mastercraft International located in the USA, filed a court case against Mastercraft International and its related parties Mr. Jerry Strickland, Jerry Strickland Inc., and Mastercraft International USA Inc ("Mastercraft International USA"), which is wholly owned by Mr. Jerry Strickland, in the district court in Minnesota, USA for breach of contract in an amount in excess of US\$50,000 in regard of immediate termination of contract with that service representative in July 2010. That service representative is also claiming for special damages from Mastercraft International, Mr. Jerry Strickland, Jerry Strickland Inc., and Mastercraft International USA, for failing to timely pay the full amount of commissions due to that service representative for the sales referred by that service representative in 2010. Subsequent to the year ended 31 December 2011, a settlement agreement has been reached between that service representative and Mastercraft International, Mr. Jerry Strickland, Jerry Strickland Inc. and Mastercraft International USA to settle the case. Furthermore, an agreement has been reached between Mastercraft International, Mr. Jerry Strickland, Jerry Strickland Inc. and Mastercraft USA that the full amount of settlement is borne by Mr. Jerry Strickland. No material financial impact is liable to the Group.

Furthermore, in April 2011, another service representatives company and its owner (the "Service Representatives") located in the USA filed a court case against Mastercraft International, Mr. Jerry Strickland, Jerry Strickland Inc., and Mastercraft International USA, with the district court in Minnesota, USA in regard of the termination of business relationship between the Service Representatives and Mastercraft International with amount of claim for in excess of US\$50,000. At 31 December 2011, US\$88,000 has been provided and included in accrued sales commission (note 19). On 25 May 2012, this case has been settled with settlement amount not materially different to the accrual made.

27. RELATED PARTY DISCLOSURES

(a) Amounts due from directors

The amounts due from directors are non-trade related, unsecured, interest-free and repayable on demand. The amounts have been settled during the year ended 31 December 2011.

	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Mr. Simon Yuen Ho Leung	5,517	—
Mr. Jerry Strickland	<u>5,067</u>	<u>—</u>
	<u>10,584</u>	<u>—</u>

The maximum amount outstanding in respect of amounts due from directors disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

	Year ended 31 December	
	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Mr. Simon Yuen Ho Leung	5,517	6,227
Mr. Jerry Strickland	<u>5,067</u>	<u>6,819</u>

(b) Amounts due to related companies

Amounts due to related companies are as follows:

	2010	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
裕泰五金廠 (Note 1)	233	27
Todd Miller Inc. (Note 2)	<u>200</u>	<u>230</u>
	<u>433</u>	<u>257</u>

Notes:

- The amount represents the trade payables due to 裕泰五金廠 which is trading in nature. The balance as at 31 December 2011 has been fully settled in January 2012.
- The amount represented the commission expense due to Todd Miller Inc. Todd Miller Inc. is controlled by Mr. Todd Miller, who is a relative of Mr. Jerry Strickland, a director of the Company.

The following is an aged analysis of amounts due to related companies presented based on the invoice date at the end of each reporting period:

	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
1–30 days	<u>433</u>	<u>257</u>

All the balances are unsecured, interest free and repayable on demand.

(c) **Transactions with related companies**

Save as disclosed in the combined statements of financial position and in notes 11, 22, 24 and 28, the Group had also entered into the following transactions with related parties:

Name of related parties	Nature of transactions	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Dynamic Resources International Limited (“Dynamic Resources”)	Commission expenses (<i>Note 1</i>)	481	—
裕泰五金廠	Moulds disposal (<i>Note 2</i>)	1	4
裕泰五金廠	Purchase of raw materials	189	82
裕泰五金廠	Recharge of research and development expenses (<i>Note 3</i>)	3,037	2,964
裕泰五金廠	Recharge of administrative expenses (<i>Note 4</i>)	501	818
Mastercraft International USA	Sales of finished goods	—	37,624
Todd Miller Inc.	Commission expenses (<i>Note 5</i>)	637	1,207
MCP	Rental expenses	<u>—</u>	<u>613</u>

Notes:

- (1) The commission expenses paid to Dynamic Resources for the year ended 31 December 2010 was for the provision of handling services to customers of the Group during the year. The amount was calculated based on the percentage ranged up to 5% of sales, depending on the kind of products being sold to the customers. Mr. Simon Yuen Ho Leung, a director of the Company, has control over Dynamic Resources.
- (2) Mould disposal represents proceeds from disposal of moulds to 裕泰五金廠 at cost.
- (3) Research and development expenses, including raw material cost, staff cost, rental expenses, utilities, insurance etc. recharged at cost.
- (4) Administrative expenses recharged at cost.
- (5) The commission expenses paid to Todd Miller Inc. for the year ended 31 December 2010 and 2011 were for the provision of handling services to customers of the Group during these years. The amount was calculated based on the percentage range up to 13% of sales, depending on the kind of products being sold to the customers.

As disclosed in note 22, during the years ended 31 December 2010 and 2011, 裕泰五金廠 entered into and signed the old rental agreements on behalf of the Group for certain of its office premises. The old rental agreement was terminated and replaced by a new rental agreement signed by Mastercraft China during the year ended 31 December 2011.

In the opinion of directors, except for the transaction with Todd Miller Inc, and MCP and directors' remuneration, all other transactions are expected to discontinue after the listing of the Company's shares on the Stock Exchange.

(d) Compensation of key management personnel

The directors of the Company represent key management personnel. The remuneration of the directors is determined by reference to the performance of individuals and market trends. Details of directors' remuneration are set out in note 11.

28. NON-CASH TRANSACTION

During the year ended 31 December 2011, a dividend of US\$2,554,000 (equivalent to HK\$19,870,000) was declared by Mastercraft International. Dividend amounting to HK\$13,046,000 is offset against the amounts due from directors.

B. SUBSEQUENT EVENTS

Except as disclosed elsewhere in the Accountants' Report, there has been no significant event subsequent to 31 December 2011.

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December 2011.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the accountants' report on the historical financial information of the Group for the two years ended 31 December 2011 (the "Accountants' Report") prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, as set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The following unaudited pro forma financial information prepared in accordance with paragraph 31 of Chapter 7 of the GEM Listing Rules is for illustrative purpose only, and is set out herein to provide the prospective investors with further financial information about how the proposed Placing might have affected the net tangible assets of the Group after the completion of the Placing as if the Placing had taken place on 31 December 2011.

The accompanying unaudited pro forma financial information of the Group is based on currently available information along with a number of assumptions, estimates and uncertainties. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of the Group does not purport to predict the Group's future financial position.

Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a true picture of the Group's financial position upon completion of the Placing or at any future date.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted combined net tangible assets prepared in accordance with Rule 7.31 of the GEM Listing Rules are set out below to illustrate the effect of the Placing on the Group's net tangible assets as at 31 December 2011 as if the Placing had taken place on that date. The unaudited pro forma adjusted combined net tangible assets of the Group have been prepared for illustrative purpose only and, because of their hypothetical nature, may not give a true picture of the Group's net tangible assets had the Placing been completed as at 31 December 2011 or at any future date.

APPENDIX II	UNAUDITED PRO FORMA FINANCIAL INFORMATION
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The unaudited pro forma adjusted combined net tangible assets are calculated based on the audited combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2011, as shown in the Accountants' Report set out in Appendix I to this prospectus, and is adjusted as described below.

Based on the Placing Price of HK\$0.35 per Placing Share	Audited combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2011 <i>HK'000</i> <i>(Note 1)</i>	Add: Estimated net proceeds from Placing <i>HK'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted combined net tangible assets <i>HK'000</i>	Unaudited pro forma adjusted combined net tangible assets per Share <i>HK\$</i> <i>(Note 3)</i>
	14,200	31,179	45,379	0.09

Notes:

1. The audited combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2011 has been extracted from the Accountants' Report set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Placing are based on 120,000,000 Shares at Placing Price of HK\$0.35 per Placing Share, after deduction of relevant estimated underwriting fees and other related fees and expenses.
3. The unaudited pro forma adjusted combined net tangible assets per Share are determined after the adjustment as described in note 2 above and on the basis that 480,000,000 Shares are issued and outstanding, (being the number of Shares expected to be in issue immediately after the completion of Placing), assuming that the Placing has been completed on 31 December 2011.
4. By comparing the valuation of our property interests of approximately HK\$10,200,000 as set out in Appendix III to this prospectus, and the carrying amounts of the Group's property interests as at 30 April 2012, the net valuation surplus is approximately HK\$9,001,000 which has not been included in the above combined net tangible assets of the Group attributable to owners of the Company. The valuation surplus has not be incorporated in the Group's financial statements for the year ended 31 December 2011 because it is the Group's accounting policy to state the property interests, classified under the sub-sections headed "Property, plant and equipment" in Appendix I to this prospectus, at cost less accumulated depreciation and impairment rather than at revalued amounts. If the valuation surplus was recorded in the Group's financial statements, an additional depreciation of approximately HK\$360,000 per annum would have been incurred.

B. REPORT FROM THE INDEPENDENT REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus in respect of the unaudited pro forma financial information of the Group.



ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF MASTERCRAFT INTERNATIONAL HOLDINGS LIMITED

We report on the unaudited pro forma financial information of Mastercraft International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed placing might have affected the financial information presented, for inclusion in Appendix II of the prospectus dated 10 July 2012 (the "Prospectus"). The basis of preparation of the unaudited pro forma financial information is set out in section A of Appendix II to the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 31(7) of Chapter 7 of the GEM Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 December 2011 or any future date.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 31(1) of Chapter 7 of the GEM Rules.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

10 July 2012

The following is the text of a letter, summary of value and valuation certificate, prepared for the purpose of incorporation in this prospectus received from BMI Appraisals Limited, an independent valuer, in connection with its valuation as at 30 April 2012 of the property located in Hong Kong.

BMI APPRAISALS

BMI Appraisals Limited 中和邦盟評估有限公司

33rd Floor, Shui On Centre, Nos. 6–8 Harbour Road, Wanchai, Hong Kong

香港灣仔港灣道6–8號瑞安中心33樓

Tel電話：(852) 2802 2191 Fax傳真：(852) 2802 0863

Email電郵：info@bmintelligence.com Website網址：www.bmi-appraisals.com

10 July 2012

The Directors

Mastercraft International Holdings Limited

Unit 503, 5th Floor, Tower B

Hunghom Commercial Centre

37 Ma Tau Wai Road

Kowloon

Hong Kong

Dear Sirs,

INSTRUCTIONS

We refer to the instructions from Mastercraft International Holdings Limited (the “Company”) for us to value the property held by the Company and/or its subsidiaries (together referred to as the “Group”) located in Hong Kong. We confirm that we have conducted an inspection, made relevant enquiries and obtained such further information, as we consider necessary for the purpose of providing you with our opinion of the market value of the property as at 30 April 2012 (the “date of valuation”).

BASIS OF VALUATION

Our valuation of the concerned property has been based on the Market Value, which is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

VALUATION METHODOLOGY

We have valued the property on market basis by the Comparison Approach assuming sale in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant market. Appropriate adjustments have then been made to account for the differences between the property and the comparables in terms of time, location, size and other relevant factors.

TITLE INVESTIGATION

We have caused land search to be made at the Land Registry of Hong Kong. However, we have neither examined the original documents to verify ownership nor to ascertain the existence of any amendments, which do not appear on the copies handed to us. All documents have been used for reference only.

VALUATION ASSUMPTIONS

Our valuation has been made on the assumption that the property is sold in the market without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to affect the value of the property. In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the property and no forced sale situation in any manner is assumed in our valuation.

VALUATION CONSIDERATIONS

The property was inspected by Miss Yates Wong (Master of Science in Real Estate) on 23 April 2012. In the course of our inspection, we did not note any serious defects. However, no structural survey has been made nor have any tests been carried out on any of the services provided in the property. We are, therefore, unable to report whether the property is free from rot, infestation or any other structural defects.

In the course of our valuation, we have relied to a considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, completion date of building, particulars of occupancy, floor area, identification of the property and other relevant information.

We have not carried out detailed on-site measurements to verify the correctness of the floor area in respect of the property but have assumed that the floor area shown on the documents handed to us are correct. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Group and are therefore only approximations.

We have no reason to doubt the truth and accuracy of the information provided to us by the Group and we have relied on your confirmation that no material facts have been omitted from the information so supplied.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property or for any expenses or taxation, which may be incurred in effecting a sale.

Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoing of an onerous nature, which could affect its value.

Our valuation has been prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Our valuation has been prepared under the generally accepted valuation procedures and are in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

REMARKS

Unless otherwise stated, all money amounts stated herein are in Hong Kong Dollars (HK\$) and no allowances have been made for any exchange transfer.

Our Summary of Value and the Valuation Certificate are attached herewith.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED

Dr. Tony C.H. Cheng
*BSc., MUD, MBA(Finance), MSc. (Eng),
PhD(Econ), SIFM, FCIM, CPA UK, MHKIS,
MCI Arb, MASCE, MIET, MIEEE, MASME, MIIE*
Managing Director

Joannau W.F. Chan
BSc., MSc., MRICS, MHKIS, RPS(GP)
Senior Director

Notes:

Dr. Tony C.H. Cheng is a member of the Hong Kong Institute of Surveyors (General Practice) who has over 19 years' experience in valuations of properties in Hong Kong.

Ms. Joannau W.F. Chan is a member of the Hong Kong Institute of Surveyors (General Practice) who has over 19 years' experience in valuations of properties in Hong Kong.

SUMMARY OF VALUE

Property	Market Value in existing state as at 30 April 2012 HK\$
Property held and occupied by the Group in Hong Kong	
Unit 503, 5th Floor, Tower B, Hungohm Commercial Centre, No. 37 Ma Tau Wai Road, Kowloon, Hong Kong	10,200,000
Total:	<hr/> <u>10,200,000</u>

VALUATION CERTIFICATE

Property held and occupied by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 April 2012 <i>HK\$</i>
Unit 503, 5th Floor, Tower B, Hungohm Commercial Centre, No. 37 Ma Tau Wai Road, Kowloon, Hong Kong	The property comprises an office unit on the 5th Floor of a 15-storey office building erected upon a commercial podium completed in 1992.	The property is occupied by the Group for office purpose.	10,200,000
29/12,841th equal and undivided shares of and in The Remaining Portion of Section O of Kowloon Marine Lot No. 40	The property has a saleable area of approximately 2,031 sq.ft. The property is held under a Government Lease for a term of 75 years renewable for 75 years commencing on 15 September 1897.		

Notes:

1. The registered owner of the property is Mastercraft International Limited vide Memorial No. UB8968946 dated 30 June 2003.
2. The property is subject to the following encumbrances:
 - a. Deed of Mutual Covenant vide Memorial No. UB2380654 dated 19 February 1983;
 - b. Sub-Deed of Mutual Covenant vide Memorial No. UB2724619 dated 7 August 1984; and
 - c. Mortgage to secure general banking facilities in favour of Hang Seng Bank Limited vide Memorial No. UB8987269 dated 15 August 2003.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 3 August 2011 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 21 June 2012. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Financial assistance to purchase the Company's or any subsidiary's shares

The Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(v) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles.

A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s) as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vii) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds

for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ix) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(x) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(xi) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution — majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly

authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative) or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
 - (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
 - (cc) the election of directors in place of those retiring;
 - (dd) the appointment of auditors and other officers;
 - (ee) the fixing of the remuneration of the directors and of the auditors;
 - (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
 - (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.
- (j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of

the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of

such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “Court”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 23 August 2011.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one

(21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman (Cayman) Limited, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY**1. Incorporation**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 3 August 2011 with its registered office located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company has established a principal place of business and head office in Hong Kong at Unit 503, 5th Floor, Tower B, Hunghom Commercial Centre, 37 Ma Tau Wai Road, Hunghom, Kowloon, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part XI of the Companies Ordinance on 12 October 2011. Mr. Leung of Flat A, 16/F., Block 1, Cavendish Heights, 33 Perkins Road, Hong Kong has been appointed as the authorised representative of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong.

As the Company is incorporated in the Cayman Islands, it operates subject to the Companies Law and its constitution, which comprises the Memorandum and the Articles. A summary of various parts of the constitution and relevant aspects of the Companies Law is set out in Appendix V to this prospectus.

2. Changes in share capital of the Company

- (a) The Company was incorporated in the Cayman Islands on 3 August 2011. As at the date of its incorporation, the Company had an authorised share capital of HK\$380,000.00 divided into 38,000,000 Shares of HK\$0.01 each, of which one Share was allotted and issued nil paid to Codan Trust Company (Cayman) Limited, being the subscriber to the Memorandum and the Articles. On 3 August 2011, the one Share held by Codan Trust Company (Cayman) Limited was transferred to SYH Investments and an additional one Share was allotted and issued nil paid to Mr. Strickland.
- (b) On 20 June 2012, the Company allotted and issued 17,499,999 Shares (all credited as fully paid) to SYH Investments and 17,499,999 Shares (all credited as fully paid) to Mr. Strickland in consideration of SYH Investments and Mr. Strickland transferring all issued share capital in Mastercraft Worldwide to the Company pursuant to a sale and purchase agreement entered into between the Company as purchaser and SYH Investments and Mr. Strickland as vendors dated 20 June 2012.
- (c) On 21 June 2012, the authorised share capital of the Company was increased from HK\$380,000.00 to HK\$8,000,000.00 by the creation of an additional 762,000,000 Shares of which the rights are identical to those of the existing Shares in all aspects pursuant to a resolution in writing passed by the Shareholders referred to in the paragraph headed “Written resolutions of the Shareholders” below.

Assuming the Placing becomes unconditional, immediately following completion of the Placing and the Capitalisation Issue (but taking no account of any Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme), the authorised

share capital of the Company will be HK\$8,000,000.00 divided into 800,000,000 Shares and the issued share capital of the Company will be HK\$4,800,000.00 divided into 480,000,000 Shares, fully paid or credited as fully paid, with 320,000,000 Shares remaining unissued.

The Directors do not have any present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the Shareholders at general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of the Company since the date of its incorporation.

3. Changes in share capital of the subsidiaries of the Company

The Company's subsidiaries are listed in the accountants' report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the section headed "History, development and reorganisation" in this prospectus and in the paragraph headed "Corporate Reorganisation" in this Appendix, there has been no other change to the share capital of any of the subsidiaries of the Company within the two years immediately prior to the date of this prospectus.

4. Written resolutions of the Shareholders

Pursuant to the written resolutions of the Shareholders passed on 21 June 2012:

- (a) the authorised share capital of the Company was increased from HK\$380,000.00 divided into 38,000,000 Shares of HK\$0.01 each to HK\$8,000,000.00 divided into 800,000,000 Shares of HK\$0.01 each by the creation of a further 762,000,000 Shares ranking *pari passu* with the existing Shares in all respects;
- (b) conditional upon the conditions stated in the paragraph headed "Conditions of the Placing" under the section headed "Structure and conditions of the Placing" in this prospectus being fulfilled or waived (as the case may be):
 - (i) the Placing pursuant to the terms as set out in this prospectus was approved and confirmed and the Directors or any committee of the Board were authorised to allot and issue such Shares pursuant to the Placing;
 - (ii) the Share Option Scheme was approved and adopted with such additions, amendments or modifications thereto as may be approved by the Directors or any committee of the Board and the Directors or any committee of the Board were authorised to implement the Share Option Scheme, to grant options thereunder and to allot, issue and deal with the Shares thereunder and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme;

- (iii) conditional on the share premium account of the Company being credited as a result of the Placing, the Directors were authorised to capitalise a maximum amount of HK\$3,250,000.00 standing to the credit of the share premium account of the Company and to apply such amount in paying up in full at par 325,000,000 Shares for allotment and issue to the holders of issued Shares whose names appear on the register of members of the Company at close of business on 21 June 2012 (or as it may direct), and the Directors were authorised to give effect to such capitalization and distribution;
- (iv) a general unconditional mandate was given to the Directors to allot, issue and deal with unissued Shares (otherwise than (i) by way of rights issue; (ii) scrip dividend or similar arrangement in accordance with the Articles; (iii) an issue of Shares pursuant to the exercise of options granted under the Share Option Scheme; (iv) under the Placing; or (v) under the Capitalisation Issue) with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue immediately upon completion of the Placing and the Capitalisation Issue. Such mandate will expire at the conclusion of the next annual general meeting of the Company; or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable law of the Cayman Islands to be held; or when revoked, varied or renewed by an ordinary resolution of the Shareholders in a general meeting, whichever occurs first;
- (v) a general unconditional mandate was given to the Directors authorising the purchase by the Company on the Stock Exchange, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, in accordance with all applicable laws and the requirements of the GEM Listing Rules (or of such other stock exchange), of Shares not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued immediately upon completion of the Capitalisation Issue and the Placing (excluding Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme). Such mandate will expire at the conclusion of the next annual general meeting of the Company; or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws to be held; or when revoked, varied or renewed by an ordinary resolution of the Shareholders in a general meeting, whichever occurs first;
- (vi) the general unconditional mandate as mentioned in sub-paragraph (iv) above was extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase shares referred to in sub-paragraph (v) above; and

(vii) the Articles were approved and adopted, the terms of which are summarised in Appendix V to this prospectus.

5. Corporate Reorganisation

The Group has undergone a reorganisation in preparation for the Listing which involved the follow steps:

- (a) the incorporation of the Company, Mastercraft WFOE, Mastercraft Worldwide, Mastercraft Overseas and Mastercraft USA;
- (b) Twenty-Two Lighting Limited changed its name to “Mastercraft China Limited”;
- (c) the acquisition by Mastercraft USA of inventories owned by MIUSA;
- (d) the sale by Mr. Leung and Mr. Strickland of the entire issued share capital of each of Mastercraft China and Mastercraft International to Mastercraft Worldwide; and
- (e) the sale by SYH Investments and Mr. Strickland of the entire issued share capital of Mastercraft Worldwide to the Company, after which the Company was the 100% owner of Mastercraft Worldwide.

Further details in respect of the Reorganisation are set in the section headed “History, development and reorganisation” in this prospectus.

6. Particulars of the PRC subsidiary of the Group

The Group has interests in one PRC subsidiary. A summary of the corporate information of such PRC subsidiary is set out below:

Mastercraft WFOE

Date of establishment	:	30 August 2011
Nature	:	wholly foreign-owned enterprise
Total investment amount	:	HK\$500,000.00
Registered capital	:	HK\$500,000.00
Equity holder	:	Mastercraft China
Attributable interest to the Group	:	100%
Term	:	30 years from 30 August 2011 to 30 August 2041
Scope of business	:	developing and designing of lighting products and other home furniture products

As advised by the Company's legal adviser as to the PRC laws, the registered capital of Mastercraft WFOE has been fully paid within the time limit prescribed under the articles of association and the relevant PRC laws and regulations.

7. Repurchase by the Company of its own securities

This section contains information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities. The GEM Listing Rules permit companies whose primary listing is on GEM to repurchase in cash their securities on GEM subject to certain restrictions, a summary of which is set out below:

(a) Shareholders' approval

All proposed repurchases of securities, which must be fully paid up in the case of shares, on GEM by a company with its primary listing on GEM must be approved in advance by an ordinary resolution of its shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the written resolutions passed by the Shareholders on 21 June 2012, a general unconditional mandate (the "Repurchase Mandate") was granted to the Directors authorising them to exercise all powers for and on behalf of the Company to repurchase its Shares on GEM, or on any other approved stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued immediately following completion of the Capitalisation Issue and the Placing (excluding Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme) at any time until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws to be held or when such mandate is revoked, varied or renewed by an ordinary resolution of the Shareholders in a general meeting, whichever is the earliest.

(b) Source of funds

Any repurchase by the Company may only be funded out of funds legally available for such purpose in accordance with the Memorandum and the Articles, the applicable laws of the Cayman Islands and the GEM Listing Rules. The Company may not repurchase its own securities on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Under Cayman Islands law, any repurchase by the Company may be made out of profits of the Company, out of the Company's share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorised by the Articles and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be purchased must be provided for out of the profit of the Company or from sums standing to the credit of the share premium account of the Company or, if authorised by the Articles and subject to the provisions of the Companies Law, out of capital.

(c) Exercise of the Repurchase Mandate

On the basis of exercise in full of the Repurchase Mandate, on the basis of 480,000,000 Shares in issue immediately after completion of the Capitalisation Issue and the Placing (but taking no account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme), the Directors would be authorised under the Repurchase Mandate to repurchase up to 48,000,000 Shares.

The GEM Listing Rules provide that the shares which are proposed to be repurchased by a company must be fully paid up.

(d) Dealing restrictions

The Company may repurchase up to 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued immediately following completion of the Capitalisation Issue and the Placing (excluding Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme).

The Company shall not repurchase the Shares on GEM if that repurchase would result in the number of the Shares which are in the hands of the public falling below the minimum percentage required by the Stock Exchange. The Company may not make a new issue of Shares or announce a proposed new issue of Shares for a period of 30 days after any repurchase of the Shares without the prior approval of the Stock Exchange. The Company is also prohibited from repurchasing the Shares on GEM at any time after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information is made publicly available.

The Company shall procure that any broker appointed by the Company to effect the repurchase shall disclose to the Stock Exchange such information with respect to the repurchase made on behalf of the Company as the Stock Exchange may request.

(e) Connected persons

The GEM Listing Rules prohibit the Company from knowingly repurchasing the Shares on the Stock Exchange from a “connected person”, which includes a Director, chief executive or substantial Shareholder or any of the subsidiaries of the Company or an associate of any of them and a connected person shall not knowingly sell Shares to the Company.

(f) Reasons for repurchases

The Directors believe that it is in the best interests of the Company and the Shareholders for the Directors to have a general authority from Shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit the Company and its Shareholders.

(g) Funding of repurchases

In repurchasing its Shares, the Company may only apply funds legally available for such purpose in accordance with the Memorandum and the Articles, the applicable laws of the Cayman Islands and the GEM Listing Rules.

On the basis of the Company's current financial position as disclosed in this prospectus and taking into account the current working capital position of the Company, the Directors consider that, if the Repurchase Mandate were to be exercised in full, there might be a material adverse effect on the working capital and/or gearing position of the Company as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels of the Company which, in the opinion of the Directors, are from time to time appropriate for the Company.

(h) General

None of the Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their associates, has any present intention to sell any Shares to the Company if the Repurchase Mandate is exercised.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. In certain circumstances, a Shareholder or a group of Shareholders acting in concert could as a result of increase of its or their interest, obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchase of Shares if made immediately after the Listing pursuant to the Repurchase Mandate.

No connected person has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP**1. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Group within the two years preceding the date of this prospectus and are or may be material:

- (a) an inventory purchase agreement dated 30 September 2011 entered into between MIUSA as seller, Mastercraft USA as buyer, Mastercraft International and Mr. Strickland, pursuant to which Mastercraft USA had acquired from MIUSA its inventories of the Group's products at a total consideration of US\$1,807,871.77 (equivalent to approximately HK\$14,065,242.37);
- (b) a sale and purchase agreement dated 20 March 2012 entered into between Mr. Leung as vendor, Mr. Strickland as vendor and Mastercraft Worldwide as purchaser, pursuant to which Mastercraft Worldwide had acquired from Mr. Leung and Mr. Strickland all issued share capital of Mastercraft China at a total consideration of HK\$2.00;
- (c) a sale and purchase agreement dated 20 March 2012 entered into between Mr. Leung as vendor, Mr. Strickland as vendor and Mastercraft Worldwide as purchaser pursuant to which Mastercraft Worldwide had acquired from Mr. Leung and Mr. Strickland all issued share capital of Mastercraft International at a total consideration of HK\$16,735,214.43;
- (d) a sale and purchase agreement dated 20 June 2012 entered into between SYH Investments as vendor, Mr. Strickland as vendor and the Company as purchaser, pursuant to which the Company had acquired from SYH Investments and Mr. Strickland all the issued share capital of Mastercraft Worldwide at a total consideration of HK\$18,327,934.78;
- (e) a deed of non-competition dated 21 June 2012 executed by each of Mr. Leung, Mr. Strickland and SYH Investments in favour of the Company, details of which are set out in the paragraph headed "Non-competition undertakings" under the section headed "Relationship with Controlling Shareholders and non-competition undertakings" in this prospectus;
- (f) a deed of indemnity dated 9 July 2012 executed by Mr. Leung, Mr. Strickland and SYH Investments in favour of the Company containing indemnities referred to in the paragraph headed "Tax and other indemnities" in the section headed "Other information" of this Appendix; and
- (g) the Underwriting and Placing Agreement.

2. Intellectual property rights of the Group

(a) Trademarks

- (i) As at the Latest Practicable Date, the Group had registered the following trademarks:

Trademark	Registered Owner	Place of Registration	Class	Registration Number	Date of Registration	Duration of Validity
	Mastercraft International	U.S.	11 (Note 1) 21 (Note 2)	3016894	22 November 2005	Perpetual, subject to (a) continued use of the mark and (b) the timely filing of all necessary maintenance documents, which currently consists of §8 filing before the end of the 6 year period after the registration date or within the 6 month grace period thereafter and a combined §8 and §9 filing before the end of every 10 year period after the registration date or within the 6 month grace period thereafter.
	Mastercraft International	U.S.	35 (Note 3)	3315146	23 October 2007	Perpetual, subject to (a) continued use of the mark and (b) the timely filing of all necessary maintenance documents, which currently consists of §8 filing before the end of the 6 year period after the registration date or with the 6 month grace period thereafter and a combined §8 and §9 filing before the end of every 10 year period after the registration date or within the 6 month grace period thereafter.
	Mastercraft International	U.S.	20 (Note 4)	3915368	8 February 2011	Perpetual, subject to (a) continued use of the mark and (b) the timely filing of all necessary maintenance documents, which currently consists of §8 filing before the end of the 6 year period after the registration date or with the 6 month grace period thereafter and a combined §8 and §9 filing before the end of every 10 year period after the registration date or within the 6 month grace period thereafter.
	Mastercraft International	Hong Kong	35 (Note 5)	301949969	20 June 2011	19 June 2021

Notes:

- (1) The specific products and/or services under class 11 in respect of which the trademark was applied for registration are lighting fixtures, namely electric lamps.
- (2) The specific products and/or services under class 21 in respect of which the trademark was applied for registration are candle holders not of precious metal, figurines made of ceramic, decorative boxes of polyresin, decorative bowls of polyresin, ornamental glass spheres and decorative plates of polyresin.
- (3) The specific products and/or services under class 35 in respect of which the trademark was applied for registration are mail order catalog services featuring home decorating accessories, namely electric lighting fixtures, picture frames, small figurines and candle holders.
- (4) The specific products and/or services under class 20 in respect of which the trademark was applied for registration are furniture for the house, namely, matching suites.
- (5) The specific products and/or services under class 35 in respect of which the trademark was registered are business management, business administration, office function, import-export agencies.

(b) Copyrights

As at the Latest Practicable Date, the Group had registered over 312 copyrights and the material copyrights in relation to the Group's business are set out below:

Copyright	Place of Registration	Registered Owner	Registration Number	Effective Date of Registration	Expiry Date
	U.S.	Mastercraft International	VAu 750-705	20 July 2007	Shorter of (a) 95 years from publication or (b) 120 years from creation
	U.S.	Mastercraft International	VAu 617-412	1 December 2003	Shorter of (a) 95 years from publication or (b) 120 years from creation
	U.S.	Mastercraft International	VAu 556-668	2 August 2002	Shorter of (a) 95 years from publication or (b) 120 years from creation
	U.S.	Mastercraft International	VAu 560-722	27 September 2002	Shorter of (a) 95 years from publication or (b) 120 years from creation

Copyright	Place of Registration	Registered Owner	Registration Number	Effective Date of Registration	Expiry Date
	U.S.	Mastercraft International	VAu 560-733	27 September 2002	Shorter of (a) 95 years from publication or (b) 120 years from creation
	U.S.	Mastercraft International	VAu 560-741	27 September 2002	Shorter of (a) 95 years from publication or (b) 120 years from creation
	U.S.	Mastercraft International	VAu 563-648	4 December 2002	Shorter of (a) 95 years from publication or (b) 120 years from creation
	U.S.	Mastercraft International	VAu 568-192	11 December 2002	Shorter of (a) 95 years from publication or (b) 120 years from creation
	U.S.	Mastercraft International	VAu 569-640	27 December 2002	Shorter of (a) 95 years from publication or (b) 120 years from creation
	U.S.	Mastercraft International	VAu 569-641	27 December 2002	Shorter of (a) 95 years from publication or (b) 120 years from creation

(c) Domain name

As at the Latest Practicable Date, the Group had registered the following domain names:

Domain Name	Registrant	Registration Date	Expiry Date
MASTERCRAFT-INTL-LTD.COM	Mastercraft International	28 September 1996	27 September 2015
MC-INTL-LTD.COM	Mastercraft International	11 May 2010	11 May 2015
MASTERCRAFTHOLDINGS.COM	Mastercraft International	26 September 2011	26 September 2016

C. FURTHER INFORMATION ABOUT DIRECTORS, SENIOR MANAGEMENT AND SUBSTANTIAL SHAREHOLDERS

1. Interests and short positions of Directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations

Immediately following completion of the Capitalisation Issue and the Placing and taking no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which, once the Shares are listed, will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange, will be as follows:

Name of Director	Capacity/nature of interest	Number of Shares	Approximate percentage of interest in the Company
Mr. Leung	Interest of a controlled corporation (<i>Note</i>)	180,000,000 (long position)	37.5%
Mr. Strickland	Beneficial Owner	180,000,000 (long position)	37.5%

Note: The entire issued share capital of SYH Investments is beneficially owned by Mr. Leung. Accordingly, Mr. Leung is deemed to be interested in the 180,000,000 Shares held by SYH Investments by virtue of the SFO.

2. Interests and short positions of Substantial Shareholders in the shares, underlying shares and debentures of the Company and its associated corporations

Immediately following completion of the Capitalisation Issue and the Placing and taking into no account of any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme, so far as it is known to the Directors, the following person, not being a Director or chief executive of the Company, will have an interest or short position in the Shares and underlying Shares of the Company 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 interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Capacity/nature of interest	Number of Shares	Approximate percentage of interest in the Company
SYH Investments	Beneficial owner (Note)	180,000,000 (long position)	37.5%

Note: The entire issued share capital of SYH Investments is beneficially owned by Mr. Leung. Accordingly, Mr. Leung is deemed to be interested in the 180,000,000 Shares held by SYH Investments by virtue of the SFO.

3. Particulars of service agreements

(a) Executive Directors

Each of the executive Directors has entered into a service agreement with the Company. The terms and conditions of each of such service agreements are similar in all material aspects. Each service agreements is for an initial term of three years with effect from the Listing Date and shall continue thereafter unless and until it is terminated by the Company or the Director giving to the other not less than three months' prior notice in writing. Under the service agreements, the initial annual salary payable to the executive Directors are as follow:

Name	US\$
Mr. Leung	200,000
Mr. Strickland	200,000

Each of the executive Directors is entitled to a discretionary bonus, the amount of which is determined with reference to the operating results of the Group and the performance of the executive Director. Each of the executive Directors shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board regarding the amount of annual salary and discretionary bonus payable to himself.

(b) Independent non-executive Directors

Each of the independent non-executive Directors has entered into a service agreement with the Company under which each of them is appointed for a period of two years. The annual director's fee payable to each of the independent non-executive Directors are as follows:

Name	HK\$
Mr. Hau Chi Hung	60,000
Mr. Lai Kin Jerome	240,000
Mr. Tang Thomas Bong	60,000

Save for the annual director's fees mentioned above, none of the independent non-executive Directors is entitled to receive any other remuneration for holding his office as an independent non-executive Director.

Save as disclosed above, none of the Directors has or is proposed to have any service agreement with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

4. Remuneration of Directors

The Company's policies concerning remuneration of the Directors are as follows:

- (a) the amount of remuneration is determined by the Remuneration Committee and on the basis of the relevant Director's experience, responsibility, workload and the time devoted to the Group;
- (b) non-cash benefits may be provided to the executive Directors under their remuneration package; and
- (c) the Directors may be granted, at the discretion of the Board, options pursuant to the Share Option Scheme, as part of this remuneration package.

During the financial year ended 2011, the aggregate emoluments (including director's fee, salaries and other benefits, discretionary bonus and contributions to retirement benefits scheme) paid by the Group to the Directors were approximately HK\$1.3 million. Further information in respect of the Directors' remuneration is set out in Appendix I to this prospectus.

It is expected that an aggregate of approximately HK\$3.6 million will be paid as remuneration to the Directors by the Group in respect of the financial year ending 31 December 2012 pursuant to the present arrangement.

Save as disclosed in Appendix I to this prospectus, none of the Directors received any remuneration or benefits in kind from the Group during the Track Record Period.

5. Agency fees or commissions received

Information on the agency fees or commissions payable to the Underwriters is set out in the paragraph headed “Commission and expenses” under the section headed “Underwriting” of this prospectus.

Save as disclosed herein and in the section headed “Directors, senior management and employees” and the accountants’ report set out in Appendix I to this prospectus, none of the Directors or experts (as named in the paragraph headed “Consents of experts” in this Appendix) received or will be entitled to receive any commissions, discounts, brokerages or other special terms in connection with the issue of any Share of the Company within two years immediately preceding the date of this prospectus.

6. Related party transactions

During the two years preceding the date of this prospectus, the Group was engaged in related party transactions as described in note 26 of the Accountants’ Report set out in Appendix I to this prospectus.

7. Disclaimers

Save as disclosed in this prospectus:

- (a) so far as the Directors are aware, none of the Directors or chief executive of the Company has any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he will be taken or deemed to have under the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein once the Shares are listed, or which will be required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange, once the Shares are listed;
- (b) so far as the Directors are aware, none of the Directors and experts referred to under the heading “Consents of experts” of this Appendix has any direct or indirect interest in the promotion of the Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (c) none of the Directors and experts referred to under the heading “Consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;

- (d) none of the Directors has any existing or proposed service contracts with any member of the Group, excluding contracts which are determinable by the employer within one year without payment of compensation other than statutory compensation;
- (e) the Directors are not aware of any person, not being a Director or chief executive of the Company, who will, immediately following completion of the Capitalisation Issue and the Placing (taking no account of any Shares which may be falling to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme), be interested in or has short positions in the Shares or underlying shares of the Company which have to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO once the Shares are listed, or, who is, directly or indirectly, interested in 10% 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;
- (f) none of the experts referred to under the heading “Consents of experts” of this Appendix has any shareholding in any member of the Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (g) so far as the Directors are aware, none of the Directors, their associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company’s issued share capital) immediately following completion of the Placing has any interest in the Group’s five largest suppliers and five largest customers.

D. SHARE OPTION SCHEME

The principal terms of the Share Option Scheme conditionally adopted under the written resolutions of the Shareholders passed on 21 June 2012 are set out below:

1. Purpose of the Share Option Scheme

The Share Option Scheme is a share incentive scheme and is established to recognize and acknowledge the contributions that Eligible Participants (as defined in paragraph 2 below) have made or may make to the Group.

The Share Option Scheme will provide the Eligible Participants with an opportunity to acquire proprietary interests in the Company with the view to achieving the following principal objectives:

- (a) motivate the Eligible Participants to optimise their performance and efficiency for the benefit of the Group; and
- (b) attract and retain or otherwise maintain ongoing business relationship with the Eligible Participants whose contributions are, will or expected to be beneficial to the Group.

2. Who may join and basis of eligibility

The Board may at its discretion grant right(s) to subscribe for Share(s) pursuant to the terms of the Share Option Scheme (“Option”) to any of the following persons (“Eligible Participants”):

- (a) any Director, employee or officer of any company in the Group who is employed by any company in the Group (whether full time or part time) (“Employee”), consultant, professional, customer, supplier, sales representative, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company (“Affiliate”); or
- (b) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any Director, Employee, consultant, professional, customer, supplier, sales representative, partner or adviser of or contractor to the Group or an Affiliate; or
- (c) a company beneficially owned by any Director, Employee, consultant, professional, customer, supplier, sales representative, partner, adviser of or contractor to the Group or an Affiliate.

3. Price of Shares

The exercise price for any Share under the Share Option Scheme shall be a price determined by the Board and notified to the relevant Eligible Participants and shall not be less than the highest of:

- (a) the closing price of a Share as stated in the Stock Exchange’s daily quotations sheet on the date of grant of the relevant Option, which must be a Business Day;
- (b) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange’s daily quotations sheets for the five Business Days immediately preceding the date of grant of the relevant Option; and
- (c) the nominal value of a Share on the date of grant.

4. Grant of Option and acceptance of Offer

An offer for the grant of Option shall be deemed to have been accepted when the Company receives the letter containing the offer duly signed by the relevant Eligible Participant who accepts the offer (“Grantee”) together with a remittance of HK\$1.00 (or such other nominal sum in any currency as the Board may determine) in favour of the Company as consideration for the grant thereof. Such remittance shall in no circumstances be refundable. Once accepted, the Option is granted as from the date on which it was offered to the relevant Eligible Participant.

5. Maximum number of Shares

- (a) Subject to paragraphs (b) to (d) below, the maximum number of Shares which may be issued upon exercise of all Options granted under the Share Option Scheme and any other schemes must not, in aggregate, exceed 48,000,000 Shares, being 10% of the Shares in issue as at the Listing Date, exercised (the “Scheme Mandate Limit”) unless approved by the Shareholders of the Company pursuant to paragraph (c) below. Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.
- (b) Subject to paragraphs (c) and (d) below, the Scheme Mandate Limit may be renewed by the Shareholders of the Company in general meeting from time to time provided always that the Scheme Mandate Limit so renewed must not exceed 10% of the Shares in issue as at the date of approval of such renewal by Shareholders of the Company in general meeting. Upon such renewal, all Options granted under the Share Option Scheme and any other share option schemes of the Company (including those exercised, outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) prior to the approval of such renewal shall not be counted for the purpose of calculating the Scheme Mandate Limit as renewed. A circular must be sent to the Shareholders of the Company containing such relevant information from time to time as required by the GEM Listing Rules in connection with the general meeting at which their approval is sought.
- (c) Subject to paragraph (d) below, the Board may seek separate Shareholders’ approval in general meeting to grant Options beyond the Scheme Mandate Limit provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Participants specifically identified by the Company before such approval is sought and the Company must issue a circular to the Shareholders of the Company containing such relevant information from time to time as required by the GEM Listing Rules in relation to any such proposed grant to such Eligible Participants.
- (d) The maximum number of Shares which may be issued upon the exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other share option schemes involving the issue or grant of Options or similar rights over Shares or other securities by the Company must not, in aggregate, exceed 30% of the Shares in issue from time to time. Notwithstanding anything to the contrary in the terms of the Share Option Scheme, no Options may be granted under the Share Option Scheme or any other share option schemes of the Company if this will result in the said 30% limit being exceeded.

6. Maximum entitlement of each Eligible Participant

The total number of Shares issued and to be issued upon exercise of the Options granted to each Eligible Participant (including both exercised and outstanding Options in any 12-month period must not exceed 1% of the Shares in issue. Any grant of further Options above this limit shall be subject to the following requirements:

- (a) approval of the Shareholders of the Company at general meeting, with such Eligible Participant and its associates abstaining from voting;
- (b) a circular in relation to the proposal for such further grant having been sent by the Company to its Shareholders with such information from time to time as required by the GEM Listing Rules;
- (c) the number and terms of the Options to be granted to such proposed Eligible Participant shall be fixed before the Shareholders' approval mentioned in paragraph (a) above; and
- (d) for the purpose of calculating the minimum exercise price for the Shares in respect of the further Options proposed to be so granted, the date of the Board meeting for proposing such grant of further Options shall be taken as the date of offer of such Options.

7. Grant of Options to certain connected persons

Any grant of Options to any Director, chief executive, management Shareholder or substantial Shareholder of the Company, or any of their respective associates, must be approved by the independent non-executive Directors (but excluding, for all purposes, any independent non-executive Director who is a proposed Eligible Participant).

Where any grant of Options to a Substantial Shareholder or an independent non-executive Director or any of their respective associates would result in the total number of the Shares issued and to be issued upon exercise of the Options granted and to be granted (including Options exercised, cancelled and outstanding) to such person in any 12-month period up to and including the date of the grant:

- (a) representing in aggregate over 0.1% of the Shares in issue; and
- (b) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million,

such further grant of Options must be approved by the Shareholders of the Company on a poll in a general meeting where all connected persons of the Company must abstain from voting (except where such connected person(s) intends to vote against the proposed grant of Option and his intention to do so has been stated in the circular to be sent to the Company's Shareholders). The Company will send a circular to the Shareholders containing the information required under the GEM Listing Rules.

8. Restrictions on the times of grant of Options

The Board shall not offer the grant of an Option to any Eligible Participant (i) after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the relevant requirements of the GEM Listing Rules; or (ii) during the period commencing one month immediately preceding the earlier of:

- (a) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules for the approval of the Company's results for any year, half-year, quarter-year period or any other interim period (whether or not required under the GEM Listing Rules); and
- (b) the deadline for the Company to publish an announcement of its results for any year, half-year or quarter-year period under the GEM Listing Rules or any other interim period (whether or not required under the GEM Listing Rules),

and ending on the date of the results announcement.

The period during which no Option may be granted will cover any period of delay in the publication of a results announcement.

9. Time of exercise of Option

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed 10 years from the date of grant subject to the provisions of early termination thereof.

10. Performance targets

Save as determined by the Board and provided in the offer of grant of the Options, there is no performance target that must be achieved before the Options can be exercised.

11. Ranking of Shares

The Shares to be allotted upon the exercise of an Option shall be subject to all the provisions of the Articles in force as at the allotment date and shall rank *pari passu* in all respects with the existing fully paid Shares in issue on the allotment date and accordingly shall entitle the holder to participate in all dividends or other distributions paid or made after the allotment date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be on or before the allotment date. Any Share allotted upon the exercise of an Option shall not carry voting rights until the name of the Grantee has been duly entered into the register of members of the Company as the holder thereof.

12. Rights are personal to Grantee

An Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option (each, a "Disposal").

13. Rights on cessation of employment or services

- (a) In the event of death of a Grantee (being an individual) before exercising the Option in full, his legal personal representatives may exercise the Option up to the Grantee's entitlement (to the extent exercisable as at the date of his death and not exercised) within the period of 12 months following his death or such longer period as the Board may determine.
- (b) Where a Grantee is an Employee, Director, consultant, professional, sales representative, partner, adviser of or contractor to the Group or an Affiliate at the time of the grant of the relevant Option(s) and his employment or service to the Company is terminated on the ground of disability, the Grantee may exercise the Option (to the extent exercisable as at the date on which such Grantee ceases to be an Employee, Director, consultant, professional, sales representative, partner, adviser of or contractor to the Group or an Affiliate and not exercised) within six months following such cessation or such longer period as the Board may determine.
- (c) Where a Grantee is an Employee at the time of the grant of the relevant Option(s), in the event that such Grantee shall cease to be an Employee but becomes, or continues to be, a consultant, professional, customer, supplier, sales representative, partner or adviser of or contractor to the Group or an Affiliate, then the Option (to the extent exercisable as at the date on which such Grantee ceases to be an Employee and not exercised) shall be exercised within three months following the date of such cessation or such longer period as the Board may determine.
- (d) Where a Grantee is an Employee at the time of the grant of the relevant Option(s), in the event that such Grantee shall cease to be an Employee but becomes, or continues to be, a Director of the Group or an Affiliate, then the Option(s) (to the extent exercisable as at the date on which such Grantee ceases to be an Employee and not exercised) granted prior to the date of his becoming a Director of the Group or an Affiliate shall remain exercisable until its expiry in accordance with the provisions of the Share Option Scheme and the terms and conditions upon which such Option(s) is granted unless the Board shall determine to the contrary.
- (e) Subject to paragraphs (c) and (d) above, in the event of a Grantee who is an Employee ceasing to be an Employee for any reason other than his death, disability or the termination of his employment on the grounds that he has been guilty of serious misconduct or has been convicted of any criminal offence involving his/her integrity or honesty, the Grantee may exercise the Option (to the extent exercisable as at the date of the relevant event and not exercised) within 30 days following such cessation.
- (f) In the event of a Grantee, who is a Director, consultant, professional, customer, supplier, sales representative, partner or adviser of or contractor to the Group or an Affiliate but not an Employee, ceasing to be a Director, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate (as the case may be) for any reason other than his death (in the case of a Grantee being an individual) or disability (in the case of a Grantee being a Director or consultant of the Group or an

Affiliate), the Option (to the extent exercisable as at the date of such cessation and not exercised) shall be exercised within 30 days following the date of such cessation or such longer period as the Board may determine.

14. Rights on a general offer

If a general offer (whether by way of takeover offer as defined in the Takeovers Code or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such offer becomes or is declared unconditional, each Grantee shall be entitled to exercise the Option (to the extent exercisable as at the date on which the general offer becomes or is declared unconditional and not exercised) in full or in part at any time within 14 days after the date on which the offer becomes or is declared unconditional.

15. Rights on winding-up

In the event that a notice is given by the Company to its Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up the Company, the Company shall forthwith give notice thereof to all Grantees and each Grantee may, by notice in writing to the Company accompanied by the remittance for the total exercise price payable in respect of the exercise of the relevant Option (such notice to be received by the Company not later than two Business Days (excluding any period(s) of closure of the Company's share registers) prior to the proposed meeting) exercise the Option (to the extent exercisable as at the date of the notice to the Grantee and not exercised) either in full or in part and the Company shall, as soon as possible and in any event no later than the Business Day (excluding any period(s) of closure of the Company's share registers) immediately prior to the date of the proposed Shareholders' meeting, allot and issue such number of Shares to the Grantee which falls to be issued on such exercise.

16. Rights on compromise or arrangement

In the event of a compromise or arrangement between the Company and its members or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Company (other than any relocation schemes as contemplated in Rule 10.18(3)), the Company shall give notice thereof to all Grantees on the same date as it gives notice of the meeting to its members or creditors to consider such a scheme of arrangement, and thereupon each Grantee may, by notice in writing to the Company accompanied by the remittance for the total exercise price payable in respect of the exercise of the relevant Option (such notice to be received by the Company not later than two Business Days (excluding any period(s) of closure of the Company's share registers) prior to the proposed meeting) exercise the Option (to the extent exercisable as at the date of the notice to the Grantee and not exercised) either in full or in part and the Company shall, as soon as possible and in any event no later than the Business Day (excluding any period(s) of closure of the Company's share registers) immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the Grantee which falls to be issued on such exercise credited as fully paid and registered the Grantee as holder thereof.

17. Effects of alterations to share capital

In the event of any alteration in the capital structure of the Company while an Option remains exercisable, and such event arises from a capitalisation of profits or reserves, rights issue, consolidation, reclassification, subdivision or reduction of capital of the Company, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to the Options so far as unexercised, and/or the exercise price, and/or the method of the Options, and/or the maximum number of Shares subject to the Share Option Scheme.

Any adjustments required under this paragraph must give a Grantee the same proportion of the equity capital as that to which that Grantee was previously entitled and shall be made on the basis that the aggregate exercise price payable by a Grantee on the full exercise of any Option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event, but no such adjustments may be made to the extent that Shares would be issued at less than nominal value and, unless with the prior approval of the Shareholders in general meeting, no such adjustments may be made to the advantage of the Grantee. For the avoidance of doubt, the issue of securities as consideration in a transaction may not be regarded as a circumstance requiring adjustment. In respect of any such adjustments, other than any made on a capitalisation issue, the independent financial adviser of the Company or the auditors of the Company must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the GEM Listing Rules and the supplementary guidance set out in the letter issued by the Stock Exchange dated 5 September 2005 and any further guidance/interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time.

18. Lapse of Options

An Option (to the extent that such Option has not already been exercised) shall lapse and not be exercisable on the earliest of:

- (a) the expiry of the exercise period as set out in paragraph 9 above;
- (b) the expiry of any of the periods referred to in paragraphs 13, 14, 15 and 16 above;
- (c) subject to paragraph 15 above, the date of the commencement of the winding-up of the Company;
- (d) the date when the proposed compromise or arrangement becomes effective in respect of the situation contemplated in paragraph 16 above;
- (e) the date on which a Grantee who is an Employee ceases to be an Employee by reason of the termination of his employment on the grounds that he has been guilty of serious misconduct or has been convicted of any criminal offence involving his integrity or honesty. A resolution of the Board to the effect that the employment of a Grantee who is an Employee has or has not been terminated on one or more grounds specified in this paragraph shall be conclusive and binding on the Grantee;

- (f) the happening of any of the following events, unless otherwise waived by the Board:
 - (i) any liquidator, provisional liquidator, receiver or any person carrying out any similar function has been appointed anywhere in the world in respect of the whole or any part of the asset or undertaking of a Grantee (being a corporation);
 - (ii) a Grantee (being a corporation) has ceased or suspended payment of its debts, become unable to pay its debts (within a meaning of section 178 of the Companies Ordinance or any similar provisions under the Companies Law) or otherwise become insolvent;
 - (iii) there is unsatisfied judgment, order or award outstanding against a Grantee or the Company has reason to believe that a Grantee is unable to pay or to have no reasonable prospect of being able to pay his/her/its debts;
 - (iv) there are circumstances which entitle any person to take any action, appoint any person, commence proceedings or obtain any order of type mentioned in subparagraphs (f)(i), (ii) and (iii);
 - (v) a bankruptcy order has been made against a Grantee or any Director of a Grantee (being a corporation) in any jurisdiction; or
 - (vi) a petition for bankruptcy has been presented against a Grantee or any Director of a Grantee (being a corporation) in any jurisdiction;
- (g) the date on which a Disposal occurs in breach of the provision described in paragraph 12 above arises;
- (h) the date on which a Grantee commits a breach of any terms or conditions attached to the grant of the Option, unless otherwise resolved to the contrary by the Board; or
- (i) the date on which the Board resolves that the Grantee has failed or otherwise is or has been unable to meet any continuing eligibility criteria.

19. Cancellation of Options granted but not yet exercised

The Board shall have the absolute discretion to cancel any Options granted at any time if a Grantee so agrees provided that where an Option is cancelled and a new Option is proposed to be issued to the same Grantee, the issue of such new Option may only be made with available but unissued Shares in the authorised share capital of the Company, and available ungranted Options (excluding for this purpose all cancelled Options) within the limits referred to in paragraph 5.

20. Period of the Share Option Scheme

Subject to the terms of the Share Option Scheme, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme was conditionally adopted by the Shareholders, after which no further Options will be issued but the

provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any Options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

The Board may impose such terms and conditions of the offer of grant either on a case-by-case basis or generally as are not inconsistent with the share option scheme, including but not limited to the minimum period for such an option must be held, if applicable.

21. Alteration to the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except those specific provisions relating to matters set out in Rule 23.03 of the GEM Listing Rules (or any other relevant provisions of the GEM Listing Rules from time to time applicable) which cannot be altered to the advantage of Grantees or prospective Grantees except with the prior approval of the Shareholders in general meeting. No such alteration shall operate to affect adversely the terms of issue of any Option granted or agreed to be granted prior to such alterations except with the consent or sanction in writing of such majority of the Grantees as would be required of the Shareholders under the Articles for the time being of the Company for a variation of the rights attached to Shares.

Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature must be approved by the Shareholders in general meeting, except where such alterations take effect automatically under the existing terms of the Share Option Scheme.

Any change to the authority of the Directors or administrators of the Share Option Scheme in relation to any alterations to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

The amended terms of the Share Option Scheme must continue to comply with the relevant provisions of the GEM Listing Rules as may be amended from time to time.

Subject to the above paragraphs, the Board may at any time alter, amend or modify the terms and conditions of the Share Option Scheme to the extent considered necessary by the Board to implement the terms of the Share Option Scheme.

22. Termination of the Share Option Scheme

The Company by ordinary resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event, no further Options will be offered but the provisions of the Share Option Scheme shall remain in force in all other respects.

Options complying with the provisions of the GEM Listing Rules which are granted and remain unexpired immediately prior to the termination of the operation of the Share Option Scheme shall continue to be exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

23. Conditions of the Share Option Scheme

The Share Option Scheme is conditional upon the Stock Exchange granting approval for the listing of and permission to deal in any Shares to be issued and allotted by the Company pursuant to the exercise of Options in accordance with the terms and conditions of the Share Option Scheme.

As at the Latest Practicable Date, no Option had been granted by the Company under the Share Option Scheme. Application has been made to the Stock Exchange for the approval of the Share Option Scheme and for the listing of and permission to deal in the Shares to be issued pursuant to the exercise of options which may be granted under the Share Option Scheme.

E. OTHER INFORMATION

1. Tax and other indemnities

Each of Mr. Leung, Mr. Strickland and SYH Investments (the “Indemnifiers”), pursuant to a deed of indemnity referred to in the paragraph headed “Summary of material contracts” of this Appendix, have given joint and several indemnities in respect of among other things any tax liabilities which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the date on which the Placing becomes unconditional (the “Effective Date”), save for, inter alia, the following:

- (a) to the extent that full provision or reserve has been made for such taxation in the audited consolidated accounts of the Group for each of the two years ended 31 December 2010 and 2011, as set out in Appendix I to this prospectus (the “Accounts”);
- (b) to the extent of any provision or reserve made for such taxation in the Accounts which is finally established to be an over-provision or an excessive reserve;
- (c) to the extent that such taxation arises or is incurred as a result of any retrospective change in law or retrospective increase in tax rates coming into force after the Effective Date;
- (d) for which any member of the Group is liable as a result of any event occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the Effective Date;
- (e) to the extent that such taxation falling on any of the members of the Group in respect of any accounting period commencing on or after 1 January 2012 unless liability for such taxation would not have arisen but for some act or omission of, or transaction effected

by, any of the members of the Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) with the prior consent or agreement of the Indemnifiers, other than any such act, omission or transaction:

- (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before the Effective Date; or
 - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before the Effective Date or pursuant to any statement of intention made in this prospectus;
- (f) to the extent that the liability for such taxation is caused by the act or omission of, or transaction that is consisting of any of the members of the Group ceasing, or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of or taxation;
- (g) to the extent that a claim in respect of the same taxation or claim has already been made under the deed of indemnity by either the Company or by any of the Group companies; and
- (h) to the extent that such taxation or liability is discharged by another person who is not the Company or any of the members of the Group and that the Company or such member of the Group is not required to reimburse such person in respect of the discharge of the taxation or liability.

The Directors have been advised that no material liability for estate duty is likely to fall on any member of the Group.

Mr. Leung and Mr. Strickland further undertake to indemnify and at all times keep the Company and the other members of the Group fully indemnified on demand from and against all losses, claims, actions, demands, liabilities, damages, costs, expenses and fines of whatever nature suffered or incurred by the Company or any of the members of the Group directly or indirectly arising out of or in connection with the U.S. Litigation. Details of the U.S. Litigation are set out in the paragraph headed “Legal proceedings and compliance” in the section headed “Business” in this prospectus.

2. Litigation

As at the Latest Practicable Date, save as disclosed in the sub-section headed “Legal proceedings and compliance” in the section headed “Business” in this prospectus, to the best of the Directors’ knowledge, there is no current litigation or any pending or threatened litigation or arbitration proceedings against any member of the Group that could have a material adverse effect on the Group’s financial condition or results of operation.

3. Application for Listing of Shares

The Sponsor has made an application on behalf of the Company to the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and any Shares which may fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme on the Stock Exchange.

4. Preliminary expenses

The estimated preliminary expenses borne by the Company are approximately HK\$18 million and are payable by the Company.

5. Promoter

The Company has no promoter.

6. Qualifications of experts

The following are the respective qualifications of the experts who have given their opinion or advice which is contained in this prospectus:

Name	Qualification
WAG Worldsec Corporate Finance Limited	Licensed to carry out type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as set out in schedule 5 of the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
JunZeJun Law Offices	PRC legal advisers
Conyers Dill & Pearman (Cayman) Limited	Cayman Islands attorney-at-law
BMI Appraisals Limited	Property valuers

7. Consents of experts

Each of the parties listed in the paragraph headed “Qualifications of experts” has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its letter, report, valuation certificate, opinions and/or summaries of opinions (as the case may be) and references to its name included herein in the form and context in which they are respectively included.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance so far as applicable.

9. Share Registrar

The register of members of the Company will be maintained in the Cayman Islands by Butterfield Fulcrum Group (Cayman) Limited and a branch register of members of the Company will be maintained in Hong Kong by Union Registrars Limited at 18/F Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong. Save where the Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, the Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

10. No material adverse change

Save as disclosed in the paragraph headed "No Material Adverse Change" in the section headed "Financial Information" in this prospectus, the Directors confirm that there has been no material adverse change in the financial prospects of the Company or its subsidiaries since 31 December 2011 (being the date to which the latest audited financial statements of the Group were made up).

11. Miscellaneous

Save as disclosed in this prospectus:

- (a)
 - (i) within two years immediately preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued, agree to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) within two years immediately preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;
 - (iii) within two years immediately preceding the date of this prospectus, no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Shares;
 - (iv) no share, warrant or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
 - (v) there has not been any interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the 12 months immediately preceding the date of this prospectus;
- (b) the Company has not issued nor agreed to issue any founder shares, management shares or deferred shares;

- (c) all necessary arrangements have been made enabling the Shares to be admitted into CCASS;
- (d) the Directors confirm that none of them shall be required to hold any Shares by way of qualification and none of them has any interest in the promotion of the Company; and
- (e) none of the Sponsor, Deloitte Touche Tohmatsu, JunZeJun Law Offices, Conyers Dill & Pearman (Cayman) Limited or BMI Appraisals Limited:
 - (i) is interested beneficially or non-beneficially in any shares in any member of the Group; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

12. Taxation of holders of Shares

(a) *Hong Kong*

Dealing in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

(b) *Cayman Islands*

No stamp duty is payable in the Cayman Islands on transfer of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(c) *Consultation with professional advisers*

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares or exercising any rights attaching to them. It is emphasised that none of the Company, the Directors or their parties involved in the Placing accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercising any rights attaching to them.

A. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the written consents referred to in the paragraph headed “Consents of experts” of Appendix V to this prospectus, and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” of Appendix V to this prospectus.

B. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Hastings & Co., 5th Floor, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

1. the Memorandum and the Articles;
2. the accountants’ report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;
3. the letter on unaudited pro forma financial information issued by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this prospectus;
4. the audited financial statements of Mastercraft International for each of the two years ended 31 December 2010 and 2011;
5. the audited financial statements of Mastercraft China for each of the two years ended 31 December 2010 and 2011;
6. the statement of adjustments for the two years ended 31 December 2010 and 2011;
7. the letter and valuation certificate relating to the property interest of the Group prepared by BMI Appraisals Limited, the text of which is set out in Appendix III to this prospectus;
8. the letter prepared by Conyers Dill & Pearman (Cayman) Limited, the Cayman Islands attorney-at-law, summarizing certain aspects of Cayman Islands company law referred to in Appendix IV to this prospectus;
9. the legal opinion issued by JunZeJun Law Offices, the PRC legal adviser, in respect of certain aspects of the Group and the property interest of the Group in the PRC;
10. the Companies Law;
11. the service agreements referred to in the paragraph headed “Particulars of Directors’ service agreements” in Appendix V to this prospectus;
12. the rules of the Share Option Scheme referred to in the paragraph headed “Share Option Scheme” in Appendix V to this prospectus;

13. the material contracts referred to in the section headed “Summary of material contracts” in Appendix V to this prospectus; and
14. the written consents referred to in the paragraph headed “Consents of experts” in Appendix V to this prospectus.