



**Mastercraft International Holdings Limited**

**馬仕達國際控股有限公司**

(incorporated in the Cayman Islands with limited liability)

**STOCK CODE: 8146**



**2014**  
Interim Report

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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This report, for which the directors (the “Directors”) of Mastercraft International Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, (i) the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; and (ii) there are no other matters the omission of which would make any statement herein or this report misleading.

*This report, in both English and Chinese versions, is available on the Company’s website at [www.mastercraftholdings.com](http://www.mastercraftholdings.com).*

The board of Directors (the “Board”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three and six months ended 30 June 2014 together with the unaudited comparative figures for the corresponding periods in 2013 as follows:

## CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three and six months ended 30 June 2014

	Note	Three months ended 30 June		Six months ended 30 June	
		2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Revenue	3	79,106	71,338	162,025	160,350
Cost of sales		(62,182)	(57,203)	(126,622)	(127,614)
<b>Gross profit</b>		<b>16,924</b>	14,135	<b>35,403</b>	32,736
Other income		30	35	52	63
Selling expenses		(5,330)	(4,084)	(10,042)	(8,005)
Administrative expenses		(5,653)	(5,606)	(10,953)	(11,599)
Research and Development expenses		(1,374)	(1,539)	(2,645)	(2,900)
<b>Profit before tax</b>	4	<b>4,597</b>	2,941	<b>11,815</b>	10,295
Income tax expenses	5	(1,088)	(919)	(2,372)	(2,572)
Profit for the period		<b>3,509</b>	2,022	<b>9,443</b>	7,723
Other comprehensive expense:					
Exchange differences arising on translating foreign operation		(6)	(10)	(43)	(7)
<b>Total comprehensive income for the period</b>		<b>3,503</b>	2,012	<b>9,400</b>	7,716
<b>Earnings per share</b>					
<b>HK cents — Basic</b>	7	<b>0.73</b>	0.43	<b>1.97</b>	1.63

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 30 June 2014

	Note	30 June 2014 HK\$'000 (unaudited)	31 December 2013 HK\$'000 (audited)
<b>Non-current assets</b>			
Property, plant and equipment	8	5,010	5,278
Deferred tax assets		1,390	1,009
Intangible asset		902	950
		<b>7,302</b>	<b>7,237</b>
<b>Current assets</b>			
Inventories		35,800	22,724
Trade and other receivables	9	57,923	80,218
Tax recoverable		–	402
Cash and bank balances		16,637	25,398
		<b>110,360</b>	<b>128,742</b>
<b>Current liabilities</b>			
Trade and other payables	10	38,865	52,358
Provision		3,517	4,624
Amount due to a related company		218	219
Tax payables		2,953	1,664
		<b>45,553</b>	<b>58,865</b>
<b>Net current assets</b>		<b>64,807</b>	<b>69,877</b>
<b>Total assets less current liabilities</b>		<b>72,109</b>	<b>77,114</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities		111	116
<b>Net assets</b>		<b>71,998</b>	<b>76,998</b>
<b>Capital and reserves</b>			
Share capital	11	4,800	4,800
Reserves		67,198	72,198
		<b>71,998</b>	<b>76,998</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Share capital HK\$'000	Share premium HK\$'000	Translation reserve HK\$'000	Special reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2013 (audited)	4,800	32,523	(66)	(1)	28,171	65,427
Profit for the period	-	-	-	-	7,723	7,723
Other comprehensive expense for the period	-	-	(7)	-	-	(7)
Total comprehensive (expense) income for the period	-	-	(7)	-	7,723	7,716
Dividend recognised as distribution	-	-	-	-	(9,600)	(9,600)
At 30 June 2013 (unaudited)	4,800	32,523	(73)	(1)	26,294	63,543
At 1 January 2014 (audited)	4,800	32,523	(132)	(1)	39,808	76,998
Profit for the period	-	-	-	-	9,443	9,443
Other comprehensive expense for the period	-	-	(43)	-	-	(43)
Total comprehensive (expense) income for the period	-	-	(43)	-	9,443	9,400
Dividend recognised as distribution	-	-	-	-	(14,400)	(14,400)
At 30 June 2014 (unaudited)	4,800	32,523	(175)	(1)	34,851	71,998

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Net cash generated from operating activities	6,048	12,777
Net cash used in investing activities	(370)	(2,034)
Net cash used in finance activities	(14,400)	(9,600)
Net (decrease)/increase in cash and cash equivalents	(8,722)	1,143
Cash and cash equivalents at beginning of the period	25,398	20,599
Effect of exchange rate changes	(39)	(39)
Cash and cash equivalents at end of the period, represented by bank balances and cash	16,637	21,703

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 1. CORPORATE INFORMATION

Mastercraft International Holdings Limited (the “Company”) is incorporated and domiciled in the Cayman Islands as an exempted company with limited liability on 3 August 2011. The Company has established a principal place of business in Hong Kong at Unit 503, 5th Floor, Tower B, Hunghom Commercial Centre, 37 Ma Tau Wai Road, Hunghom, Kowloon, Hong Kong and has been registered as a non-Hong Kong company under part XI of the Hong Kong Companies Ordinance on 12 October 2011. Its issued shares have been listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 20 July 2012.

## 2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which collective terms include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”), interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the Company. There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments.

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

The preparation of financial statements in conformity with the HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise their judgments in the process of applying the Group’s accounting policies.

The accounting policies adopted in preparing the unaudited condensed consolidated financial statements were consistent with those applied for the financial statements of the Group for the year ended 31 December 2013.

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

The condensed consolidated financial statements have not been reviewed nor audited by the Company’s auditors, but have been reviewed by the Company’s audit committee.

### 3. SEGMENT INFORMATION

Revenue represents the amounts received and receivable for goods sold to outside customers, less returns and discount, if any, during the period.

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the revenues and gross profit from different types of goods delivered. No operating segments identified by chief operating decision maker have been aggregated in arriving at the reportable segments of the Group. Information relating to assets and liabilities in each segment is not included in the internal report regularly reviewed by the executive directors of the Company.

Specifically, the Group's operating and reportable segments under HKFRS 8 are as follows:

- (i) Portable lighting represents a selection of portable lighting products, e.g. table lamps, floor lamps, accent lamps and buffet lamps etc ("Portable lighting").
- (ii) Shades represent a selection of shades for the lamps sold by the Group. Shades are complementary goods and a frame that typically fit on the top of a lamp and cover the lighting source ("Shades").
- (iii) Furniture set and other home accessory products represent the knockdown furniture and ready-to-assemble furniture sets that are sold unassembled, and be put together by the end-customers ("Furniture set and other home accessory products").



## Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segments:

### For the six months ended 30 June 2014 (unaudited)

	Portable lighting HK\$'000	Shades HK\$'000	Furniture set and other home accessory products HK\$'000	Total HK\$'000
SEGMENT REVENUE				
External sales	122,166	28,146	11,713	162,025
Segment profit	24,719	7,825	2,859	35,403
Unallocated income				52
Unallocated expenses				
— Selling expenses				(10,042)
— Administration expenses				(10,953)
— Research and development expenses				(2,645)
Profit before tax				11,815

### For the six months ended 30 June 2013 (unaudited)

	Portable lighting HK\$'000	Shades HK\$'000	Furniture set and other home accessory products HK\$'000	Total HK\$'000
SEGMENT REVENUE				
External sales	115,611	34,568	10,171	160,350
Segment profit	21,040	8,955	2,741	32,736
Unallocated income				63
Unallocated expenses				
— Selling expenses				(8,005)
— Administration expenses				(11,599)
— Research and development expenses				(2,900)
Profit before tax				10,295

Segment profit represents the profit earned by each segment without allocation of certain income and expenses (including other income, selling expenses, administration expenses and research and development expenses). This is the measure reported to the chief operating decision maker, the executive directors of the Company, for the purposes of resources allocation and assessment of segment performance.

### Geographical Information

The Group's operations are located in Hong Kong, the People's Republic of China (excluding Hong Kong) ("PRC") and North America.

Information about the Group's revenue from external customers based on the location of goods physically delivered to and information about its non-current assets based on geographical location of the assets:

	Revenue from external customers		Non-current assets (other than deferred tax assets)	
	Six months ended		As at	As at
	30 June		30 June	31 December
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(audited)
Hong Kong	-	-	1,985	2,088
PRC	-	-	2,772	3,030
North America	162,025	160,350	1,155	1,110
Total revenue/non-current assets	162,025	160,350	5,912	6,228

### Information about major customers

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

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Customer A (Note)	70,225	66,623
Customer B (Note)	43,173	49,358

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

#### 4. PROFIT BEFORE TAX

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit before tax has been arrived at after charging (crediting):		
Cost of inventories recognised as expenses	126,622	127,614
Amortisation of intangible asset	48	–
Depreciation of property, plant and equipment	686	431
Net foreign exchange loss	150	113
Staff costs, including directors' remuneration:		
Salaries, wages and other benefits	13,629	11,985
Retirement benefits scheme contributions	380	372
	14,009	12,357
Less: amount included in research and development expenses	(1,453)	(1,634)
	12,556	10,723
Interest income	(52)	(46)

#### 5. INCOME TAX EXPENSES

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current taxation	2,759	2,209
Deferred tax	(387)	363
	2,372	2,572

The Company is tax exempt under the laws of the Cayman Islands. The subsidiaries operating in Hong Kong are subject to Hong Kong Profits Tax at a tax rate of 16.5% on profits earned in Hong Kong.

Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the relevant jurisdiction.

## 6. DIVIDEND

The Directors do not recommend payment of any dividend for the six months ended 30 June 2014 (for the six months ended 30 June 2013: Nil).

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

## 7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the period attributable to owners of the Company and the weighted average of 480,000,000 ordinary shares (for the six months ended 30 June 2013: of 473,753,425 ordinary shares) in issue during the six months period.

## 8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2014, the Group acquired property, plant and equipment with a cost of approximately HK\$422,000 (during the six months ended 30 June 2013: HK\$2,080,000).

## 9. TRADE AND OTHER RECEIVABLES

	As at 30 June 2014 HK\$'000 (unaudited)	As at 31 December 2013 HK\$'000 (audited)
Trade receivables	56,917	76,258
Bill receivables	308	2,640
	57,225	78,898
Other receivables and prepayments	698	1,320
	57,923	80,218

Trade and bill receivables are mainly arisen from sales of portable lighting and home furnishing products. 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 the reporting period, which approximated the respective revenue recognition dates.

	<b>As at 30 June 2014 HK\$'000 (unaudited)</b>	<b>As at 31 December 2013 HK\$'000 (audited)</b>
1 to 30 days	<b>23,555</b>	28,939
31 to 60 days	<b>23,966</b>	30,217
61 to 90 days	<b>7,260</b>	15,016
Over 90 days	<b>2,444</b>	4,726
	<b>57,225</b>	78,898

#### 10. TRADE AND OTHER PAYABLES

	<b>As at 30 June 2014 HK\$'000 (unaudited)</b>	<b>As at 31 December 2013 HK\$'000 (audited)</b>
Trade payables	<b>33,925</b>	44,794
Accrued sales commission	<b>481</b>	978
Other payables and accruals	<b>4,459</b>	6,586
	<b>38,865</b>	52,358

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:

	<b>As at 30 June 2014 HK\$'000 (unaudited)</b>	<b>As at 31 December 2013 HK\$'000 (audited)</b>
1 to 30 days	<b>18,411</b>	22,099
31 to 60 days	<b>11,614</b>	20,371
61 to 90 days	<b>2,946</b>	2,102
Over 90 days	<b>954</b>	222
	<b>33,925</b>	44,794

## 11. SHARE CAPITAL

	<b>Number of Shares</b>	<b>Share capital HK\$'000</b>
Authorised:		
As at 1 January 2013, 31 December 2013 and 30 June 2014	800,000,000	8,000
Issued and fully paid:		
As at 1 January 2013, 31 December 2013 and 30 June 2014	480,000,000	4,800

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group is principally engaged in the design and sale of portable lighting, shades and furniture set and other home accessory products, the manufacture of which are outsourced to independent contract manufacturers in the PRC. North America is the principal market of the Group and the Group sold products mainly to mass market retailers, home furnishing stores, furniture stores and specialty stores. Mass market retailers remain as the Group's major customer category during the six months ended 30 June 2014, which contributed to approximately 77.8% (2013: 81.4%) of the Group's total revenue.

The Group's revenue from sale of portable lighting, shades and furniture set and other home accessory products for the six months ended 30 June 2014 was approximately HK\$122.2 million, HK\$28.1 million and HK\$11.7 million (2013: HK\$115.6 million, HK\$34.6 million and HK\$10.2 million) respectively. Portable lighting remained as the Group's significant revenue stream. During the period under review, portable lighting and shades contributed to approximately 75.4% and 17.4 % (2013: 72.1% and 21.6%) of the Group's revenue, respectively. The Directors and management are continuously monitoring the product margin in order to enhance the shareholders' interest.

### FINANCIAL REVIEW

The revenue of the Group increased by approximately 1.0% from approximately HK\$160.4 million for the six months ended 30 June 2013 to HK\$162.0 million for the six months ended 30 June 2014. Cost of sales of the Group decreased by approximately 0.8% from HK\$127.6 million to HK\$126.6 million. The gross profit increased by 8.1% from approximately HK\$32.7 million to HK\$35.4 million. The gross margin was improved from 20.4% to 21.9%. The total operating cost was HK\$22.5 million and HK\$23.6 million, which represented 14.0% and 14.6% of the revenue for the six months ended 30 June 2013 and 2014, respectively.

Profit attributable to owners of the Company increased by approximately 22.3% from approximately HK\$7.7 million for the six months ended 30 June 2013 to approximately HK\$9.4 million for the six months ended 30 June 2014. The Group's net profit margin improved from 4.8% to 5.8% for the corresponding periods in 2014.

## **FINANCIAL POSITION AND LIQUIDITY**

As at 30 June 2014, cash and bank balances of the Group amounted to approximately HK\$16.6 million (As at 31 December 2013: HK\$25.4 million). The Group's current ratio (current assets divided by current liabilities) was 2.2 times and 2.4 times as at 31 December 2013 and 30 June 2014, respectively. Considering the Group's current level of cash and bank balances which includes the unspent net proceeds from the listing, funds generated internally from our operations and the available banking facilities, the Board is confident that the Group will have sufficient resources to meet its financial needs for its operations. As at 30 June 2014 and 31 December 2013, the Group has unutilized general banking facilities of HK\$5,000,000.

## **CAPITAL MANAGEMENT**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to owners of the Group, comprising issued capital and reserves.

As at 30 June 2014, there was no borrowing. Therefore, gearing ratio is not meaningful. The Directors of the Company review the capital structure regularly, taking into account the cost of capital and the associated risks. Based on recommendations of the management of the Group, the Group will balance its overall capital structure accordingly.

## **OUTLOOK**

Product design and development plays a crucial role in the Group's business. The product development team creates and transforms ideas into products in order to meet customers' needs and to expand the product varieties offered to both existing and potential customers. Introducing innovative new products is the centrepiece of our long term strategy. We continue to expand our product development process, enabling us to respond faster to customer requests and emerging opportunities, giving us a strong competitive advantage.



With the growth in sales to furniture stores and our modern classic lighting and home furnishing products under our own brandname “Couture”, the Group will continuously seek expansion opportunities in these sectors, where the Directors see the greatest potential growth in demand for the Group’s products in the near future. The Group intends to continue outsourcing the entire production of its existing and future products in order to remain competitive. In order to tackle the increase in production costs and maintain profitability, the Group has started to look for potential and quality contract manufacturers outside Dongguan. We have already started to engage some new contract manufacturers in Fuzhou and we might consider setting up a quality control team at Fuzhou in long run.

Looking forward, the global economic environment will continue to be uncertain. To stay competitive in the market, the Group will increase its efforts to enhance the Group’s profile through participation in trade shows, events, exhibitions and fairs and expand its product portfolio to keep abreast of market trends. The Group will continue to uphold its proven track record and reputation of punctually deliver consistent and high quality products by optimising the quality control system and performing stringent quality control measures in every area of operations.

### **CONTINGENT LIABILITIES**

As at 30 June 2014 and 31 December 2013, the Group did not have any contingent liabilities.

### **SIGNIFICANT INVESTMENTS**

As at 30 June 2014 and 31 December 2013, the Group did not have any significant investment plans.

### **FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

There was no specific plan for material investments or capital assets as at 30 June 2014 and 31 December 2013.

### **MATERIAL ACQUISITIONS OR DISPOSALS**

During the six months ended 30 June 2014 and year ended 31 December 2013, there was no material acquisition or disposal of subsidiaries and associated companies by the Group.

## **CHARGES ON ASSETS**

As at 30 June 2014 and 31 December 2013, the Group has general banking facilities of HK\$5,000,000. The banking facilities are secured by the Group's land and building, having carrying amount of approximately HK\$1,031,000 and HK\$1,072,000 as at 30 June 2014 and 31 December 2013, respectively.

## **FOREIGN EXCHANGE EXPOSURE**

During the period under review, 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 H.K. dollar is pegged to U.S. dollar, the exposure to fluctuations in exchange rate of H.K. dollar against U.S. dollar is considered insignificant and the amounts of other foreign currencies involved are insignificant, thus the management of the Group is of the opinion that the Group's exposure to such foreign exchange risk is minimal.

## **CAPITAL COMMITMENT**

As at 30 June 2014, the Group did not have any significant capital commitment. As at 31 December 2013, the Group has capital expenditure in respect of the acquisition of property, plant and equipment authorised but not contracted for in the consolidated financial statements amounting to approximately HK\$134,000.

## **BUSINESS OBJECTIVES AND USE OF PROCEEDS**

### **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 the prospectus. Some of the Group's future business plans are still in preliminary stages of planning and are not yet supported by a detailed 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.

## Comparison of Business Objectives with Actual Business Progress

An analysis comparing the business objectives as stated in the Prospectus with the Group's actual business progress for the period from 1 January 2014 to 30 June 2014 is set out below:

### Business objectives for the period from 1 January 2014 to 30 June 2014 as stated in the Prospectus

### Actual business progress up to 30 June 2014

Increase sales in North American markets

The Group has continuously participated in different trade shows and events in order to enhance the Group's profile and awareness.

We have expanded our customer base by selling furniture products through our US distribution hub and recorded approximately HK\$880,000 revenue generated from this sector at the initial stage. The Group has evaluated the operation, performance and product mix for our US distribution hub and based on the customer's preference and request to manage the replenishment inventory level.

Evaluate other overseas markets

The management team is evaluating and exploring any potential new markets which are suitable for the Group's products by studying the market preferences and the coming trends of our products. We are looking for competent service representative and personnel.

Evaluate the potential of the PRC hotel and motel market

The management team is studying the market preferences and trends in the PRC hotel and motel market based on information gathered from the market and online sources and performed preliminary assessment in respect of target market.

**Business objectives for the period from 1 January 2014 to 30 June 2014 as stated in the Prospectus**

**Actual business progress up to 30 June 2014**

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

The Group has continuously assessed and evaluated the performance of our current contract manufacturers including their production capabilities, financial and logistical resources, product quality and production cost. In order to tackle the increase in production costs and maintain profitability, the Group will continue to exercise stringent cost controls, our team is continuously sourcing potential contract manufacturers in the PRC. In order to maintain a consistent high standard of quality, the Group's compliance manager and quality control staff carried pre-engagement audits and product inspections prior engaging such contract manufacturers.

Strengthen design and development capabilities

We have hired additional staff to strengthen the prototype production capacity and we are setting up a showroom in our Dongguan development center.

The business objectives and planned use of proceeds as stated in the Prospectus were based on the best estimation of future market conditions and development made by the Group at the time of preparing the Prospectus while the proceeds were applied in accordance with the actual development of the market. During the period from 1 January 2014 to 30 June 2014, the net proceeds from issuance of new shares of the Company had been applied as follows:

	Total net proceeds HK\$'000	Planned use of proceeds as stated in the Prospectus from the 1 January 2014 to 30 June 2014 HK\$'000	Actual use of proceeds used from the 1 January 2014 to 30 June 2014 HK\$'000	Total amount utilized up to 30 June 2014 HK\$'000
Increase sales in North American markets	12,100	2,500	821	12,100
Expand product development team	4,900	1,400	570	4,900
Conduct feasibility studies	2,400	600	–	–
Expand operation and marketing team	2,400	–	408	2,400
General working capital	2,400	600	600	2,400
	<b>24,200</b>	<b>5,100</b>	<b>2,399</b>	<b>21,800</b>

All the remaining proceeds as at 30 June 2014 had been placed as interest bearing deposits at banks in Hong Kong.

### GROUP'S EMOLUMENT POLICY

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments, if any, are determined by the Board with reference to the Directors' duties, responsibilities and performance and the results of the Group. Each Director may also receive a year-end bonus in respect of each financial year. The amount of such bonus will be determined by the remuneration committee of the Board.

As at 30 June 2014, the Group employed total of 5 directors and 105 employees. Total staff costs, including Directors' emoluments, amounted to approximately HK\$14.0 million for the six months ended 30 June 2014 (2013: HK\$12.4 million). The Group's remuneration policies were determined with reference to the performance, qualification and experience of individual employee, as well as the results of the Group and the market conditions. The Group provided discretionary bonus, medical insurance and provident fund. The Company adopted a share option scheme on 21 June 2012, under which the Company can grant options to, among others, employees of the Group to subscribe for shares of the Company with a view to rewarding them for their contributions to the Group and giving incentives to them for optimizing their future contributions to the Group. Up to the date of this report, no share option has been granted under such share option scheme.

## **CORPORATE GOVERNANCE REPORT**

The Company endeavors to maintain high standard of corporate governance for the enhancement of shareholders' value and provide transparency, accountability and independence. The Company has complied with the required code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") during the six months ended 30 June 2014, except for the following:

Under code provision A.2.1, which states that the roles of chairman and chief executive ("CE") should be separated and should not be performed by the same individual. Mr. Leung Yuen Ho, Simon, who acts as the chairman and the CE of the Company, is also responsible for the overall business strategy and development and management of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive Directors and senior management, who are in charge of different functions, complement the role of the chairman and the CE. The Board believes that this structure is conducive to strong and consistent leadership which enables the Group to operate efficiently. As such, the structure is beneficial to the Group and the shareholders as a whole.

The Company understands the importance to comply with the code provision A.2.1 and will continue to consider the feasibility of appointing a CE. The Company will make timely announcement if such decision has been made.

Save as disclosed above, the Board considered that the Company had complied with the code provisions set out in the Code during the six months ended 30 June 2014.

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

During the six months ended 30 June 2014, the Group adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding Directors' securities transactions in securities of the Company. Upon the Group's specific enquiry, each Director confirmed that during the six months ended 30 June 2014, he had fully complied with the required standard of dealings and there was no event of noncompliance.

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

At 30 June 2014, the interests and short positions of the Directors and chief executive of the Company in the ordinary shares (the "Shares") of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

### Long Positions in the Shares

Name	Capacity and nature of interest	Number of shares (note 1)	Percentage of the Company's issued share capital
Mr. Leung Yuen Ho, Simon (note 2)	Interest of controlled corporation	180,000,000 (L)	37.5%
Mr. Jerry Denny Strickland Jr.	Beneficial owner	180,000,000 (L)	37.5%
SYH Investments Limited (note 3)	Beneficial owner	180,000,000 (L)	37.5%

Notes:

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

3. SYH Investments Limited, a company incorporated in BVI on 30 May 2011 with limited liability, is an investment holding company the entire issued share capital of which is held by Mr. Leung Yuen Ho, Simon as at 30 June 2014.

During the six months ended 30 June 2014, there were no debt securities issued by the Group and the Company at any time.

As at 30 June 2014, none of the Directors or the chief executive of the Company or their respective associates had registered any other interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

### **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND DEBENTURES OF THE COMPANY**

For the six months ended 30 June 2014, there were no debt securities issued by the Group and the Company at any time.

Save as disclosed above, as at 30 June 2014, the Directors were not aware of any other person, other than the Directors and the chief executive of the Company who had, or was deemed to have, interests or short positions in the Shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or who is directly or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or options in respect of such share capital.

### **CONTRACT OF SIGNIFICANCE**

At 30 June 2014, there is no contract of significance between the Company or any of its subsidiaries, and a controlling shareholder or any of its subsidiaries.



### **COMPETING INTEREST**

For the six months ended 30 June 2014, the Directors were not aware of any business or interest of the Directors or the controlling shareholder of the Company and their respective associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group.

### **SHARE OPTION SCHEME**

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Since the Scheme has become effective on 21 June 2012, no share option was granted, exercised or cancelled by the Company under the Scheme during the period under review and there was no outstanding share option under the Scheme as at 30 June 2014.

### **INTERESTS OF THE COMPLIANCE ADVISER**

As notified by TC Capital Asia Limited ("TC Capital"), the Company's compliance adviser, neither TC Capital nor its directors or employees or associates had any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) as at 30 June 2014.

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

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the six months ended 30 June 2014, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Shares.

## **AUDIT COMMITTEE**

The Company has established an audit committee with written terms of reference on in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group. The audit committee comprises three independent non-executive Directors, namely Mr. Lai Kin Jerome (chairman of the audit committee), Mr. Hau Chi Hung and Mr. Tang Thomas Bong.

The unaudited condensed financial statements of the Company for the six months ended 30 June 2014 has been reviewed by the audit committee.

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

Hong Kong, 8 August 2014