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

Annual Report 2014

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed in the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

This report, for which the directors (the "Directors") of Mastercraft International Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, (i) the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; (ii) there are no other matters the omission of which would make any statement herein or this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This report, in both English and Chinese versions, is available on the Company's website at www.mastercraftholdings.com.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Leung Yuen Ho, Simon *(Chairman)*
Mr. Jerry Denny Strickland Jr.

Independent Non-executive Directors

Mr. Hau Chi Hung
Mr. Lai Kin, Jerome
Mr. Tang Thomas Bong

COMPANY SECRETARY

Ms. Wong Shuk Fong

AUDIT COMMITTEE

Mr. Lai Kin, Jerome *(Chairman)*
Mr. Hau Chi Hung
Mr. Tang Thomas Bong

REMUNERATION COMMITTEE

Mr. Hau Chi Hung *(Chairman)*
Mr. Lai Kin, Jerome
Mr. Tang Thomas Bong

NOMINATION COMMITTEE

Mr. Tang Thomas Bong *(Chairman)*
Mr. Lai Kin, Jerome
Mr. Hau Chi Hung

COMPLIANCE OFFICER

Mr. Leung Yuen Ho, Simon

AUTHORISED REPRESENTATIVES

Mr. Leung Yuen Ho, Simon
Ms. Wong Shuk Fong

COMPLIANCE ADVISER

TC Capital Asia Limited

PRINCIPAL BANKERS

Hang Seng Bank Limited
DBS Bank (Hong Kong) Limited

AUDITOR

Deloitte Touche Tohmatsu

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
A18/F, Asia Orient Tower
Town Place, 33 Lockhart Road
Wanchai, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman
KY1-1110
Cayman Islands

CORPORATE WEBSITE

http://www.mastercraftholdings.com

STOCK CODE

8146

LISTING DATE

20 July 2012

CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Directors") of Mastercraft International Holdings Limited (the "Company") and its subsidiaries (together the "Group"), I am pleased to announce that the Company delivered sustainable growth in year 2014, reporting record revenue and profits, as our business continued to expand in key markets while successfully managing costs and delivering higher margins.

RECORD FINANCIAL PERFORMANCE

Revenue for the year ended 31 December 2014 increased by 5.7% over 2013 to HK$373.2 million. Our gross profit margin improved for the third consecutive year to 22.2% from 21.6% last year, showing our ability to drive productivity gains in our operations and supply chain, despite the head winds from higher commodity prices and rises in other input costs. Research and development, selling and administrative expenses were slightly increased from 13.8% of revenue in 2013 to 14.2% in 2014. The profit for the year in 2014 up by 11.3% to HK$23.6 million, with margin improving by approximately 0.3% to 6.3%.

I am pleased to announce that the Board is recommending a final dividend of HK3.3 cents per ordinary share of the Company, an increase of 10% from the previous year.

DEDICATED FOCUS

We have a sound strategy with a dedicated focus on providing value added solutions to North American clients in the portable lighting and home furnishing industry. We will continue to provide value added solution to our customers such as product design and development, marketing and quality control. The Company is investing in its core competences to strengthen the design and development capabilities. In addition, we will continuously strengthen our existing supply chain network of design and development, sourcing, quality control, logistics, and distribution, allowing us to better support our customers and capture a higher market share in the consumer goods supply chain.

OPERATIONAL EXCELLENCE

We disciplined focused on product development and we have created a strong position in the portable lighting industry, cost efficient production and access light contracting manufacturing business model which are facilitating further expansion to sell fashion and modern classic lighting and home furnishings products under our own brandname – "Couture". We believe that having powerful brands, developing innovative products, building a strong company culture through exceptional people, and pursuing operational excellence, are precisely what we will do to continue delivering outstanding results.

Looking forward, we will concentrate in development of furniture industry by hiring a development team to expand our furniture products to mass market retailers and furniture stores; we see the greatest potential growth in demand in the near future.

We are optimistic about the future development of the Group's business and will continue to implement our well-established business strategies to enhance profitability, generating free cash flow, strengthening the Group's financial position and maximizing return on capital to shareholders.

I wish to extend my appreciation to our many dedicated customers and business partners for their support during the year, to our people for their passion and hard work in turning the Group's vision into the reality, my fellow Directors for their sound and contribution and to our many shareholders for their commitment.

Leung Yuen Ho, Simon
Chairman

16 March 2015

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the design and supply chain of lighting and home furnishing products, the manufacture of which is outsourced to independent contract manufacturers in the People's Republic of China (the "PRC"). North America is the principal market of the Group and the Group sold products mainly to mass market retailers, home furnishing stores, furniture stores and specialty stores. Mass market retailers remain as the Group's major customer category during the year ended 31 December 2014, which contributed to approximately 78.2% (2013: 79.7%) of the Group's total revenue.

The Group's revenue from the sale of portable lighting, shades and furniture set and other home accessory products for the year ended 31 December 2014 was approximately HK$290.8 million, HK$59.0 million and HK$23.3 million (2013: HK$252.9 million, HK$72.5 million and HK$27.7 million), respectively. Portable lighting remained as the Group's most significant revenue stream. During the year, portable lighting and shades contributed to approximately 77.9% and 15.8% (2013: 71.6% and 20.5%) of the Group's revenue, respectively. The Directors and management are continuously monitoring the profit margin in order to enhance the shareholders' interest. The gross profit margin of portable lighting and shades increased from 19.3% to 21.0% and 26.8% to 27.2%, respectively, whereas furniture set and other home accessory products decreased from 29.0% to 24.9 % for the year ended 31 December 2013 to the corresponding periods in 2014.

FINANCIAL REVIEW

With the support and trust gained from our strong customer base in North America, the revenue of the Group steadily increased by approximately 5.7% from approximately HK$353.1 million for the year ended 31 December 2013 to HK$373.2 million for the year ended 31 December 2014.

Cost of sales of the Group increased by approximately 4.9% from HK$276.8 million for the year ended 31 December 2013 to HK$290.2 million for the year ended 31 December 2014. As a result of the foregoing, the gross profit of the Group increased by 8.8%, from approximately HK$76.3 million for the year ended 31 December 2013 to HK$83.0 million for the year ended 31 December 2014. The gross profit margin was 21.6% and 22.2% for year ended 31 December 2013 and 2014, respectively. During the year, the total operating cost amounted to approximately HK$53.1 million, representing 14.2% of the Group's total revenue (2013: HK$48.9 million, representing 13.8% of the Group's total revenue). The increase was mainly arising from the additional selling expenses of approximately HK$3.1 million, incurred by a new subsidiary, Couture Lamps Inc., which commenced business since November 2013. Whereas research and development and administrative expenses controlled steadily.

Profit attributable to owners of the Company increased by approximately 11.3% from approximately HK$21.2 million in the year ended 31 December 2013 to approximately HK$23.6 million in the year ended 31 December 2014. The Group's net profit margin improved from 6.0% to 6.3% for the corresponding periods. Earnings per share increased from HK4.42 cents to HK4.92 cents.

FINANCIAL POSITION AND LIQUIDITY

As at 31 December 2014, cash and bank balances of the Group amounted to approximately HK$21.8 million (As at 31 December 2013: HK$25.4 million). The Group's current ratio (current asset divided by current liabilities) was 2.2 and 2.7 times as at 31 December 2013 and 2014, respectively. Considering the Group's current level of cash and bank balances which includes the unspent net proceeds from the listing, funds generated internally from our operations and the available banking facilities, the Board is confident that the Group will have sufficient resources to meet its financial needs for its operations. As at 31 December 2014, the Group has unutilized general banking facilities of HK$5,000,000 (2013: HK$5,000,000).

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND

Subsequent to the end of the reporting period, the board of Directors of the Company (the "Board") recommends a final dividend of HK3.3 cents per ordinary share of the Company (2013: HK3 cents per ordinary share) in respect of the year ended 31 December 2014, which is subject to approval at the forthcoming annual general meeting of the Company to be held on 15 May 2015.

OUTLOOK

Product design and development continue to play a crucial role in the Group's business. Introducing innovative new products is the centerpiece of our long term strategy. In the years to come, we will continue to innovate and expand our product development process, enabling us to respond faster to customer requests and emerging opportunities, giving us a strong competitive advantage. In addition, we will continually strengthen our existing supply chain network of design and development, sourcing, quality control, logistics, and distribution, allowing us to better support our customers and capture a higher market share in the consumer goods supply chain.

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

Looking forward, the global economic environment will continue to be uncertain. To stay competitive in the market, the Group will increase its efforts to enhance the Group's profile through participation in trade shows, events, exhibitions and fairs and expand its product portfolio to keep abreast of market trends. In order to explore opportunities around the world, we will conduct feasibility study with the online sales market and platform. The Group will continue to uphold its proven track record and reputation of punctually delivering consistent and high quality products by optimising the quality control system and performing stringent quality control measures in every area of operations.

CAPITAL MANAGEMENT

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

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

As at 31 December 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.

CONTINGENT LIABILITIES

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

SIGNIFICANT INVESTMENTS

During the year ended 31 December 2014, no significant investments were held. As at 31 December 2014, the Group did not have any significant investment plans.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this annual report, there was no specific plan for material investments or capital assets as at 31 December 2013 and 2014.

MATERIAL ACQUISITIONS OR DISPOSALS

During the years ended 31 December 2013 and 2014, there was no material acquisition or disposal of subsidiaries and associated companies by the Group.

CHARGES ON ASSETS

As at 31 December 2013 and 2014, 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$1,072,000 and HK$996,000 as at 31 December 2013 and 2014, respectively.

FOREIGN EXCHANGE EXPOSURE

During the year ended 31 December 2014, 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 31 December 2014, the Group did not have any capital commitment.

GROUP'S EMOLUMENT POLICY

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

As at 31 December 2014, the Group employed a total of 5 directors and 114 employees. Total staff costs, including Directors' emoluments, amounted to approximately HK$31.7 million for the year ended 31 December 2014 (2013: HK$26.8 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 optimising their future contributions to the Group. Up to the date of this report, no share option has been granted under such share option scheme.

Details of the emoluments of the Directors and the five highest paid individuals pursuant to Rules 18.28 to 18.30 of the GEM Listing Rules are set out in note 11 to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS OBJECTIVES AND USE OF PROCEEDS

Comparison of Business Objectives with Actual Business Progress

An analysis comparing the business objectives as stated in the prospectus of the Company dated 10 July 2012 (the "Prospectus") with the Group's actual business progress for the period from 1 July 2014 to 31 December 2014 is set out below:

Business objectives for the period from 1 July 2014 to 31 December 2014 as stated in the Prospectus	Actual business progress up to 31 December 2014
Increase sales in North American markets	We have continuously participated in different trade shows and events in order to enhance the Group's profile and awareness. With our innovative modern classic lighting and home furnishing products sell under our own brandname "Couture", the Group recorded approximately HKD 9.8million increase in revenue for the year ended 31 December 2014. We have 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 continuously 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. No feasibility studies have been conducted so far.
Source additional contract manufacturers, strengthen strategic relationships with key contract manufacturers and continue to improve quality control	We have 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 have set up a showroom at our Dongguan development center to strengthen our products presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

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 July 2014 to 31 December 2014, the net proceeds from issuance of new shares of the Company had been applied as follows:

	Total net proceeds HK$'000	Planned use of proceeds as stated in the Prospectus from the 1 July 2014 to 31 December 2014 HK$'000	Actual use of proceeds used from the 1 July 2014 to 31 December 2014 HK$'000	Total amount utilized up to 31 December 2014 HK$'000
Increase sales in North American markets	12,100	–	–	12,100
Expand product development team	4,900	–	–	4,900
Conduct feasibility studies	2,400	600	–	–
Expand operation and marketing team	2,400	–	–	2,400
General working capital	2,400	–	–	2,400
	24,200	600	–	21,800

The balance of unutilized net proceeds as at 31 December 2014 had been placed in interest bearing deposits at banks in Hong Kong.

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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. LEUNG Yuen Ho Simon (梁遠豪), aged 52, was appointed as executive director on 3 August 2011. He is the compliance officer of the Company since 20 July 2012. He is also a director of our subsidiaries, namely, Mastercraft Worldwide Limited, Mastercraft Overseas Limited, Mastercraft International Limited and Mastercraft China Limited. 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 Corporation and sold all of his shares in Tai Pan Lighting Corporation to an independent third party. Mr. Leung is one of the co-founders of the Group. Since the establishment of the Group, Mr. Leung is responsible for the overall strategic planning and management of the Group. He is also in charge of financial and operation departments of the Group. Mr. Leung is a director of SYH Investments Limited which held 180,000,000 shares of the Company as at 31 December 2014.

Mr. Jerry Denny STRICKLAND Jr., aged 64, was appointed as executive director on 3 August 2011. He is the Company's director of sales and marketing. He is also a director of our subsidiaries, namely, Mastercraft Worldwide Limited, Mastercraft Overseas Limited, Mastercraft International Limited, Mastercraft China Limited, Mastercraft Distribution USA Inc. and Couture Lamps, Inc.. 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. Recognizing that direct imports would represent the future of the portable lighting industry, Mr. Strickland is one of the co-founders of the Group. Since the establishment of the Group, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. HAU Chi Hung (侯智雄), aged 62, 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 Company Limited). 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 Limited, a healthcare provider that builds and operates specialized hospitals in China.

Mr. LAI Kin Jerome (**黎健**), aged 66, 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 2003 and 2008 and as a 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. TANG Thomas Bong (鄧邦), aged 65, 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 held the position of Chief Executive Officer at the school up to February 2014. Presently, Mr. Tang continues to hold a position at the school as an Advisor/Consultant. 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.

SENIOR MANAGEMENT

Mr. HUI Chung Ming Gary (許鐘銘), aged 47, 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. He 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.

Ms. CHIU Shuk Ching (趙淑貞), aged 51, 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 31, 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 46, 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. FONG Chi Chung (方志忠), aged 56, is the Group's factories compliance manager. He joined the Group in 1995 as an inspector and became factories compliance manager in 2006. In 2012 he was also appointed to act as the executive director and legal representative of our subsidiary, Mastercraft Home Furnishing Development (Dongguan) Limited ("Mastercraft Dongguan"). 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 Dongguan. Mr. Fong has more than 25 years of experience in the lighting industry, in particular production and factory set-up matters.

CORPORATE GOVERNANCE REPORT

The Company endeavours in maintaining 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 year ended 31 December 2014, except for the following:

Under code provision A.2.1, the roles of chairman and chief executive officer ("CEO") should be separated and should not be performed by the same individual. Mr. Leung Yuen Ho, Simon, who acts as the chairman and the CEO 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 CEO. 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 CEO. 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 year ended 31 December 2014.

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

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

BOARD OF DIRECTORS

The composition of the Board reflects the necessary balance of skills and experience desirable for effective leadership of the Company and independence in decision making. Pursuant to the Code, the Board adopted a board diversity policy (the "Board Diversity Policy"). The Company recognises and embraces the benefits of diversity of Board members. While all Board appointments will continue to be made on a merit basis, the Company will ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge.

The Board comprises two executive directors and three independent non-executive directors and the Board is accountable to shareholders. The management and control of the business of the Company is vested in its Board. It is the duty of the Board to enhance value to the shareholders of the Company. The composition of the Board and biographies of the Directors are set out on page 10 and 11 of this annual report.

The two executive directors are responsible for the leadership and control of the Company and to oversee the Group's businesses, strategic decisions and performances and are collectively responsible for promoting the success of the Company by directing and supervising its affairs.

The three independent non-executive directors are responsible for ensuring a high standard of financial and other mandatory reporting of the Board as well as to provide a balance in the Board in order to protect shareholders' interest and overall interest of the Group.

CORPORATE GOVERNANCE REPORT

Each independent non-executive director has given the Company an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers that all the independent non-executive directors are independent and meet the independent guidelines set out in Rule 5.09 of the GEM Listing Rules.

The service contracts between the Company and executive Directors and independent non-executive Directors commenced on 20 July 2012 for a term of three and two years, respectively, and shall continue thereafter unless and until terminated by either the Company or the Director giving to the other not less than three months' notice in writing. Their terms of office are also subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

Board meeting, Committee meeting and Annual General Meeting in 2014
Regular board meetings should be held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

During the year ended 31 December 2014, 4 board meetings, 4 audit committee meetings, 1 remuneration committee meeting and 1 nomination committee meeting were held. The attendance record of each Director at the Board meetings, committee meeting and AGM during the financial year are set out below:

	Attendance/Number of meetings				
Name of Directors	**AGM**	**Board meeting**	**Audit committee**	**Remuneration committee**	**Nomination committee**
Executive Directors					
Mr. Leung Yuen Ho, Simon *(Chairman)*	1	4/4	–	–	–
Mr. Jerry Denny Strickland Jr.	1	4/4	–	–	–
Independent Non-executive Directors					
Mr. Lai Kin, Jerome (Chairman of audit committee)	1	4/4	4/4	1/1	1/1
Mr. Hau Chi Hung *(Chairman of remuneration committee)*	1	4/4	4/4	1/1	1/1
Mr. Tang Thomas Bong *(Chairman of nomination committee)*	1	4/4	4/4	1/1	1/1

The company secretary attended all the scheduled Board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and finance.

Practice and Conduct of Meetings
Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Code Provision A.1.3 stipulates that at least 14 days' notice should be given for a regular Board meeting. For other Board and committee meetings, reasonable notices are generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or audit committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. All Directors are given an opportunity to include matters in the agenda for regular Board meetings. The Board and each Director also have separate and independent access to the senior management whenever necessary. With the support of the senior management, the chairman is responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings.

CORPORATE GOVERNANCE REPORT

Minutes of all Board meetings recording sufficient details of matters considered and decisions reached are duly kept by the company secretary of the meetings and opened for inspection by the Directors.

The Company's articles of association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

Directors' continuous training and professional development

Pursuant to Code Provision A.6.5, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant. Up to the date of this report, all Directors have participated in continuous professional development by attending training course or reading relevant materials on the topics related to corporate governance and regulations.

The individual training record of each Director received for the year ended 31 December 2014 is summarized below:

Name of Directors	Attending seminar(s)/relevant materials in relation to the business or directors' duties Yes/No
Executive Directors	
Mr. Leung Yuen Ho, Simon	Yes
Mr. Jerry Denny Strickland Jr.	Yes
Independent Non-executive Directors	
Mr. Lai Kin, Jerome	Yes
Mr. Hau Chi Hung	Yes
Mr. Tang Thomas Bong	Yes

All the Directors also understand the importance of continuous professional development and are committed to participating any suitable training or reading relevant materials in order to develop and refresh their knowledge and skills.

Audit Committee

The Company established an audit committee on 21 June 2012 comprised of Mr. Hau Chi Hung, Mr. Lai Kin, Jerome and Mr. Tang Thomas Bong, all being independent non-executive Directors, with Mr. Lai Kin, Jerome being the chairman of the committee. The audit committee has adopted written terms of reference in compliance with paragraph C3.3 of the Code 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.

During the year, the audit committee performed its functions in accordance with its terms of reference. Four meetings were held by the audit committee, one of which was with the attendance of external auditor. Among other matters, the audit committee reviewed the quarterly, interim and annual reports as well as result announcements before submission to the Board, focusing on the compliance with accounting standards, GEM Listing Rules and the legal requirements; the audit committee also reviewed the Company's financial controls, internal controls and risk management systems and made recommendations to the Board the reappointment of the external auditor.

The audit committee has reviewed the Company's annual audited results for the year ended 31 December 2014.

CORPORATE GOVERNANCE REPORT

Remuneration Committee

The Company established a remuneration committee on 21 June 2012 comprised of Mr. Hau Chi Hung, Mr. Lai Kin, Jerome and Mr. Tang Thomas Bong, all being independent non-executive Directors, with Mr. Hau Chi Hung being the chairman of the committee. The remuneration committee adopted written terms of reference in compliance with paragraph B1.3 of the Code 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.

During the year, in accordance with the terms of reference of the remuneration committee adopted by the Company, the remuneration committee of the Company reviewed and made 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, among other matters.

Nomination Committee

The Company established a Nomination Committee on 21 June 2012 comprised of Mr. Hau Chi Hung, Mr. Lai Kin Jerome and Mr. Tang Thomas Bong, all being independent non-executive Directors, 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 principal responsibilities of the nomination committee are to review the composition of the Board, including its structure, size and diversity at least annually to ensure that it has a balance of expertise, skills and experience appropriate to the requirements of the business of the Group. It is also responsible to consider and recommend to the Board suitably qualified persons to become a member of the Board, monitor the succession planning of Directors and assess the independence of independent non-executive Directors. The nomination committee will also give consideration to the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy, so as to develop and review measurable objectives for the implementing the Board Diversity Policy and to monitor the progress on achieving these objectives.

During the year, the nomination committee performed its functions in accordance with its terms of reference. One meeting was held by the nomination committee. Among other matters, the nomination committee has taken consideration of the Board Diversity Policy and reviewed the structure, size and composition of the Board, made recommendations on the reappointment of Directors and assessed the independence of each of the independent non-executive Directors.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the Code Provision D.3.1.

The Board reviewed the Company's corporate governance policies and practices, continuous professional development of Directors, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the GEM Listing Rules, and the Company's compliance with the Code and disclosure in this Corporate Governance Report.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS

The Company endeavors to maintain an on-going dialogue with the shareholders and in particular, through annual general meetings or other general meetings to communicate with the shareholders and encourage their participation.

The Company will ensure that there are separate resolutions for separate issues proposed at the general meetings.

The Company will continue to maintain an open and effective investor communication policy and to update investors on relevant information on the Group's business in a timely manner, subject to relevant regulatory requirements.

GENERAL MEETINGS WITH SHAREHOLDERS

The Company's annual general meeting will be held on 15 May 2015.

SHAREHOLDERS' RIGHTS

Convening an extraordinary general meeting

Pursuant to article 58 of the Articles of Association, extraordinary general meetings of the Company (the "EGM") shall be convened on the requisition of any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s), as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Putting enquiries to the Board

To ensure effective communication between the Board and the shareholders, the Company has adopted a shareholders' communication policy (the "Policy"). Under the Policy, the Company's information shall be communicated to the shareholders mainly through general meetings, including annual general meetings, the Company's financial reports (annual, interim and quarterly reports), and its corporate communications and other corporate publications on the Company's website and the Stock Exchange's website. Shareholders may at any time make a request for the Company's information to the extent that such information is publicly available. Any such questions shall be first directed to the company secretary of the Company at the Company's 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.

Putting forward proposals at Shareholders' meeting

The number of shareholders necessary for putting forward a proposal at a shareholders' meeting shall be any number of shareholders representing not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings at the date of the request.

COMPANY SECRETARY

Ms. Wong Shuk Fong joined the Group in 2011 and has been the company secretary since 2012. She is an employee of a fellow subsidiary of the Company and has day-to-day knowledge of the Company's affairs. As the company secretary, Ms. Wong supports the Board by ensuring board procedures and all applicable law, rules and regulations are followed. She is responsible for advising the Board on governance matters and facilitates induction and professional development of the Directors. The selection, appointment or dismissal of the company secretary is subject to the Board approval in accordance with the Article. Whilst the company secretary reports to the CE on the Group's company secretarial and corporate governance matters, all Directors have access to the advice services of the company secretary. Pursuant to the GEM Listing Rules, the company secretary has taken no less than 15 hours of relevant professional training during the year.

CORPORATE GOVERNANCE REPORT

DIRECTORS AND OFFICERS INSURANCE

Appropriate insurance covers on directors' and officers' liabilities have been in force to protect the Directors and officers of the Group from their risk exposure arising from the business of the Group.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES IN RESPECT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of annual, half-year and quarterly reports, other price-sensitive announcements and other financial disclosures required under the GEM Listing Rules and other statutory requirements.

The Directors acknowledged their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2014. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern, therefore the Directors continue to adopt the going concern approach in preparing the consolidated financial statements.

The auditor to the Company acknowledges their reporting responsibilities in the independent auditor's report on the consolidated financial statements for the year ended 31 December 2014.

AUDITOR'S REMUNERATION

The remuneration paid/payable to the auditor of the Group is set out as follows:

	Paid/payable for the year ended 31 December	
	2014	2013
Services rendered	**HK$'000**	HK$'000
Statutory audit services	**800**	780
Non-statutory audit services	**–**	–

INTERNAL CONTROLS

The Board has overall responsibility for the internal control system of the Company. The Board has developed its systems of internal control and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company. During the year under review, the Board has conducted a review of the effectiveness of the internal control system of the Company.

INVESTOR RELATIONS

The Company believes that maintaining a high level of transparency is a key to enhancing investor relations. It is committed to a policy of open and timely disclosure of corporate information to its shareholders and investment public. The Company updates its shareholders on its latest business developments and financial performance through its annual, interim and quarterly reports. The corporate website of the Company (http://www.mastercraftholdings.com) has provided an effective communication platform to the public and the shareholders.

During the year ended 31 December 2014, there had been no significant change in the Company's constitutional documents.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its subsidiaries are set out in note 28 to the consolidated financial statements. There were no significant changes in nature of the Group's principal activities during the year.

SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2014 are set out in note 28 to the consolidated financial statements.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of profit or loss and other comprehensive income on page 28 of this annual report.

The Board recommends a final dividend of HK3.3 cents per ordinary share of the Company (2013:HK3 cents per ordinary share) in respect of the year ended 31 December 2014, which is subject to approval at the forthcoming annual general meeting of the Company to be held on 15 May 2015 (the "2015 AGM").

CLOSURE OF REGISTER OF MEMBERS FOR 2015 AGM

Book close dates for 2015 AGM (both days inclusive)	14 May 2015 to 15 May 2015
Latest time to lodge transfer documents with the Company's share registrar	13 May 2015, 4:00pm
Name and address of the Company's share registrar	Union Registrars Limited, A18/F, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong

RECORD DATE FOR PROPOSED FINAL DIVIDEND

Book close dates for final dividend (both days inclusive)	22 May 2015 to 26 May 2015
Record date for proposed final dividend	26 May 2015
Latest time to lodge transfer documents with the Company's share registrar	21 May 2015, 4:00pm
Ex-dividend date	20 May 2015
Name and address of the Company's share registrar	Union Registrars Limited, A18/F, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong
Expected payment date (if approved at 2015 AGM)	No later than 5 June 2015

USE OF NET PROCEEDS FROM PLACING

The proceeds from the Company's issue of new shares at the time of its listing on the GEM of Stock Exchange on 20 July 2012, after deduction of related issuance expenses, amounted to approximately HK$24.2 million of which HK$21.8 million was used in accordance with the proposed applications set out in the Prospectus. The unspent proceeds amounted to approximately HK$2.4 million as at 31 December 2014 had been placed in interest bearing deposits with bank in Hong Kong. The Directors believe that the remaining net proceeds will be used according to the intended usages as set out in the Prospectus.

REPORT OF THE DIRECTORS

SEGMENTAL INFORMATION

Details of segment reporting are set out in note 7 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2014, the aggregate amount of turnover attribute to the Group's largest and the five largest customers was 38.4% and 85.1% (2013: 42.2% and 85.5%) of the total value of the Group's revenue, respectively. The Group's purchase from the largest and the five largest suppliers accounted for 45.4% and 77.1% (2013: 50.9% and 72.8%) of the total value of the Group's purchases, respectively.

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in major customers or suppliers.

CONNECTED TRANSACTIONS

The related party transactions in note 27 to the consolidated financial statements fall under the definition of continuing connected transaction in Chapter 20 of the GEM Listing Rules. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

Mastercraft Distribution USA Inc. ("Mastercraft USA"), a wholly-owned subsidiary of the Company, entered into the lease agreement with MCP Investments, LLC ("MCP Investments") for the leasing of 3506 Airport Road, Jonesboro, Arkansas, United States with a gross floor area of approximately 105,234 square feet (the "Premises") and Mastercraft International Limited ("Mastercraft International"), a wholly-owned subsidiary of the Company, entered into the service agreement with Todd Miller Inc. ("Todd Miller") for engaging it to be one of the non-exclusive service representatives for the sale of the Group's products to furniture stores in the U.S.

The annual transaction (the "Annual Cap") paid or payable for the year ended 31 December 2014 was as follows:

Name of connected parties	Nature of transactions	Aggregate amount paid/payable HK$'000	Annual Cap HK$'000
MCP Investments	Rental expenses	2,451	2,451
Todd Miller	Commission expenses	1,683	2,800

The Directors, including the Independent Non-executive Directors, of the Company have reviewed the connected transactions and have confirmed that the connected transactions were entered into:

(i) in the ordinary and usual course of business;

(ii) on terms no less favourable than those available to independent third parties; and

(iii) on terms that are fair and reasonable and in the interests of the shareholders as a whole.

The Company's auditor was engaged to report on the connected transaction in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing findings and conclusion according to the Rule 20.54 of the GEM Listing Rules.

REPORT OF THE DIRECTORS

On 30 December 2013, Mastercraft USA renewed the lease agreement with MCP Investments for the leasing of the Premises for use as the office and warehouse of Mastercraft USA, for tenure of 3 years, effective from 1 January 2014. The rental rate remained unchanged at US$26,250 per month (approximately HK$204,000). The annual caps of the rental payable by the Group for each of the three years ending 31 December 2016 are set at HK$2,451,000 per annum. The total consideration of the lease agreement over the terms of 3 years is approximately is HK$7,353,000. Given that MCP Investments is an associate of Mr. Strickland, a controlling shareholder and an executive Director, and a connected person of the Company under the GEM Listing Rule. Therefore, entering into the lease agreement constitutes a continuing connected transaction for the Company under the GEM Listing Rules.

On 31 December 2013, Mastercraft International renewed the service agreement with Todd Miller for engaging it to be one of the non-exclusive service representatives of Mastercraft International for the sale of the Group's products to furniture stores in the U.S. for a term of 3 years, effective from 1 January 2014. The Directors estimated that the growth rates for the sales to the furniture stores sector will be approximately 40%, 30% and 30% for the three years ending 31 December 2016.

Based on the aforesaid estimated growth rates and assuming the average overall commission rate of 10.4% for the two years ended 31 December 2013 to remain constant, the annual caps for the estimated commission payable to Todd Miller for the three years ending 31 December 2016 are proposed to be HK$2,800,000, HK$3,700,000 and HK$4,700,000. The total consideration is approximately HK$11,200,000. Given that Todd Miller Inc. is a company owned by Mr. Todd Miller, who is a brother-in-law of Mr. Strickland, accordingly, Todd Miller is an associate of Mr. Strickland and a connected person of the Company under the GEM Listing Rules. Therefore, entering into the service agreement constitutes a continuing connected transaction for the Company under the GEM Listing Rules.

These transactions are subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirements under the GEM Listing Rules.

Further details of the connected transaction were set out in the Prospectus of the Company dated 10 July 2012 and announcement of continuing connected transactions dated 7 March 2014.

RELATED PARTY TRANSACTION

Details of the related party transactions of the Group and the Company are set out in note 27 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 22 to the consolidated financial statements.

RESERVES

Movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 30.

DISTRIBUTABLE RESERVES

At 31 December 2014, the Company's reserves, calculated in accordance with the provisions of the Cayman Islands' legislation, amounted to approximately HK$44,607,000 (2013: HK$44,436,000).

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES
Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's shares during the year ended 31 December 2014.

FINANCIAL SUMMARY
A summary of the results of the Group for the past five financial years is set out on page 62 of this annual report. This summary does not form part of the consolidated financial statements in this annual report.

DIRECTORS AND DIRECTORS' SERVICE CONTRACT
In accordance with the Articles of the Company, one-third of the Directors are subject to retirement by rotation or, if their number is not three or a multiple of three, then the nearest to but not less than one-third shall retire from the office and, being eligible, will offer themselves for re-election, at the forthcoming annual general meeting of the Company.

The service contracts between the Company and executive Directors and independent non-executive Directors commenced on 20 July 2012 for a term of three and two years, respectively, and shall continue thereafter unless and until terminated by either the Company or the Director giving to the other not less than three months' notice in writing. Their terms of office are also subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

CONFIRMATION OF INDEPENDENCE
The Company has received annual confirmations of independence from Mr. Lai Kin Jerome, Mr. Hau Chi Hung and Mr. Tang Thomas Bong pursuant to the GEM Listing Rules. The Company considers the independent non-executive Directors to be independent pursuant to Rule 5.09 of the GEM Listing Rules as at the date of this annual report.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES
Biographical details of the directors of the Company and the senior management of the Group are set out on pages 10 to 12 of this annual report.

DIRECTORS' INTERESTS IN CONTRACTS
Save as disclosed in note 27 to the consolidated financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year ended 31 December 2014.

COMPETING INTEREST
For the year ended 31 December 2014, the Directors were not aware of any business or interest of the Directors, the controlling shareholder, the management shareholder and their respective associates (as defined under the GEM Listing Rules) that competes 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.

CONTRACT OF SIGNIFICANCE
There was no contract of significance between the Company or any of its subsidiaries, and a controlling shareholder or any of its subsidiaries as at 31 December 2014.

REPORT OF THE DIRECTORS

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

As at 31 December 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%

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.

Save as disclosed above, as at 31 December 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.

REPORT OF THE DIRECTORS

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

Save as disclosed below, as at 31 December 2014, the Directors were not aware of any other person who had, or was deemed to have, interests or short positions in the Shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or who is directly or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or options in respect of such share capital.

Long Positions in the Shares

Name	Capacity and nature of interest	Number of Shares (note 1)	Percentage of the Company's issued share capital
SYH Investments Limited (note 2)	Beneficial owner	180,000,000 (L)	37.5%

Notes:

1. The letter "L" denotes a long position in the shareholder's interest in the share capital of the Company.

2. SYH Investments Limited, a company incorporated in BVI on 30 May 2011 with limited liability, is an investment holding company the entire issued share capital of which is held by Mr. Leung Yuen Ho, Simon, an executive Director of the Company, as at 31 December 2014.

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 year and there was no outstanding share option under the Scheme as at 31 December 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 31 December 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.

CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report section set out on pages 13 to 18.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge, as at the date of this annual report, there is sufficient public float of 25% of the Company's issued shares as required under the GEM Listing Rules.

PRE-EMPTIVE RIGHTS

There is no provisions for pre-emptive rights under the Company's articles of association and the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

REPORT OF THE DIRECTORS

EVENTS AFTER THE REPORTING PERIOD

The Group did not have any significant events subsequent to the end of the reporting period.

AUDITOR

The consolidated financial statements have been audited by Deloitte Touche Tohmatsu who shall retire at the forthcoming annual general meeting of the Company. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
Mastercraft International Holdings Limited

Leung Yuen Ho, Simon
Chairman

Hong Kong, 16 March 2015

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE SHAREHOLDERS OF
MASTERCRAFT INTERNATIONAL HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Mastercraft International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 61, which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
16 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	NOTES	**2014 HK$'000**	2013 HK$'000
Revenue	7	**373,162**	353,057
Cost of sales		**(290,185)**	(276,760)
Gross profit		**82,977**	76,297
Other income		**284**	115
Selling expenses		**(23,006)**	(18,714)
Administrative expenses		**(23,741)**	(23,760)
Research and development expenses		**(6,383)**	(6,378)
Finance costs	8	**(1)**	(2)
Profit before taxation	9	**30,130**	27,558
Income tax expense	12	**(6,498)**	(6,321)
Profit for the year		**23,632**	21,237
Other comprehensive expense for the year			
Exchange differences arising on translating foreign operation		**–**	(66)
Total comprehensive income for the year		**23,632**	21,171
Earnings per share HK cents – Basic	13	**4.92 cents**	4.42 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	NOTES	**2014 HK$'000**	2013 HK$'000
Non-current Assets			
Property, plant and equipment	14	**5,373**	5,278
Deferred tax assets	15	**1,193**	1,009
Intangible asset	16	**853**	950
		7,419	7,237
Current Assets			
Inventories	17	**30,218**	22,724
Trade and other receivables	18	**74,237**	80,218
Tax recoverable		**–**	402
Bank balances and cash	19	**21,758**	25,398
		126,213	128,742
Current Liabilities			
Trade and other payables	20	**38,921**	52,358
Provision	21	**5,290**	4,624
Amount due to a related company	27(a)	**160**	219
Tax payable		**2,948**	1,664
		47,319	58,865
Net Current Assets		**78,894**	69,877
Total Assets less Current Liabilities		**86,313**	77,114
Non-current Liability			
Deferred tax liabilities	15	**83**	116
Net assets		**86,230**	76,998
Capital and Reserves			
Share capital	22	**4,800**	4,800
Reserves		**81,430**	72,198
Total Equity		**86,230**	76,998

The consolidated financial statements on pages 28 to 61 were approved and authorised for issue by the Board of Directors on 16 March 2015 and are signed on its behalf by:

Leung Yuen Ho, Simon
EXECUTIVE DIRECTOR

Jerry Denny Strickland Jr.
EXECUTIVE DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2013	4,800	32,523	(1)	(66)	28,171	65,427
Profit for the year	–	–	–	–	21,237	21,237
Other comprehensive expense for the year	–	–	–	(66)	–	(66)
Total comprehensive (expense) income for the year	–	–	–	(66)	21,237	21,171
2012 final dividend paid (note 10)	–	–	–	–	(9,600)	(9,600)
At 31 December 2013 and 1 January 2014	4,800	32,523	(1)	(132)	39,808	76,998
Profit and total comprehensive income for the year	–	–	–	–	23,632	23,632
2013 final dividend paid (note 10)	–	–	–	–	(14,400)	(14,400)
At 31 December 2014	4,800	32,523	(1)	(132)	49,040	86,230

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	2014 HK$'000	2013 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	30,130	27,558
Adjustments for:		
Depreciation of property, plant and equipment	1,465	989
Loss on disposal of property, plant and equipment	–	33
Allowance for obsolete and slow-moving inventories	433	–
Amortisation of intangible asset	97	16
Interest expenses	1	2
Interest income	(77)	(85)
Operating cash flows before movements in working capital	32,049	28,513
(Increase) decrease in inventories	(7,927)	6,893
Decrease in trade and other receivables	5,981	2,497
Decrease in trade and other payables	(13,437)	(8,505)
Increase (decrease) in provision	666	(3,405)
Decrease in amount due to a related company	(59)	(434)
Cash generated from operations	17,273	25,559
Income tax paid in Hong Kong	(5,028)	(4,641)
Income tax paid in other jurisdictions	(1)	(2,068)
NET CASH FROM OPERATING ACTIVITIES	12,244	18,850
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(1,560)	(3,464)
Interest received	77	85
Purchase of intangible asset	–	(966)
NET CASH USED IN INVESTING ACTIVITIES	(1,483)	(4,345)
FINANCING ACTIVITIES		
Dividend paid to shareholders	(14,400)	(9,600)
Interest paid	(1)	(2)
NET CASH USED IN FINANCING ACTIVITIES	(14,401)	(9,602)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,640)	4,903
CASH AND CASH EQUIVALENTS AT 1 JANUARY	25,398	20,599
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	–	(104)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	21,758	25,398

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. GENERAL

The Company was incorporated in the Cayman Islands on 3 August 2011 and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 20 July 2012. The address of the registered office of the Company 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 Unit 503, 5th floor, Tower B, Hunghom Commercial Centre, 37 Ma Tau Wai Road, Hunghom, Kowloon, Hong Kong.

The Company is an investment holding company. The principal activities of the Group are design and supply chain of lightings and home furnishing products. Particulars of the subsidiaries of the Company are set out in note 28.

The consolidated financial statements are 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 as the Company's shares are listed in Hong Kong.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied for the first time in the current reporting period the following amendments to HKFRSs and a new Interpretation.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting
HK(IFRIC) – INT 21	Levies

The application of these amendments and Interpretation has had no material impact on the Group's financial performance and positions for the current reporting period and prior years and/or on the disclosures set out in the consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instruments[1]
HKFRS 14	Regulatory deferral accounts[2]
HKFRS 15	Revenue from contracts with customers[3]
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations[5]
Amendments to HKAS 1	Disclosure initiative[5]
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation[5]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants[5]
Amendments to HKAS 19	Defined benefit plans: Employee contributions[4]
Amendments to HKAS 27	Equity method in separate financial statements[5]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidated exception[5]
Amendments to HKFRSs	Annual improvements to HKFRSs 2010-2012 cycle[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2011-2013 cycle[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle[5]

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

[1] Effective for annual periods beginning on or after 1 January 2018.
[2] Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.
[3] Effective for annual periods beginning on or after 1 January 2017.
[4] Effective for annual periods beginning on or after 1 July 2014.
[5] Effective for annual periods beginning on or after 1 January 2016.

The directors of the Company anticipate that the application of the new and revised HKFRSs will have no material impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date of acquisition and up to the effective date of disposal, as appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

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 return 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purpose are stated in the consolidated statement of financial position 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 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.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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 lease 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, unless it is clear that both elements are operating leases in which case the entire lease is classified as operating lease. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of the each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the current of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the 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 consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Retirement benefit costs

Payments to defined contribution retirement benefits plans, state-managed retirement benefits scheme and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service 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 for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other 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 the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 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 and interests 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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 rate (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 are 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 of completion and costs necessary to make the sale.

Impairment losses on tangible assets

At the end of the 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 indication 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 years. A reversal of an impairment loss is recognised as income immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

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 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. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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 and points paid or received that form an integral part of the effective interest rate, transaction costs and other premium 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 and bank balances and cash) are measured 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 the reporting period. Financial assets are considered to be 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, in addition, 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, the amount of the impairment loss recognised is 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets *(Continued)*

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

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity according to the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities including trade and other payables and amount due to a related company 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 (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

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.

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 and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provision

Provision is recognised when the Group has a present obligation (legal or constructive) 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. Provision is 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).

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the management of the Group is required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed 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 followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the 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.

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 2014, the carrying amount of trade receivables of the Group is HK$69,401,000 (2013: HK$76,258,000).

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 assesses 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 2014, the carrying amount of property, plant and equipment is HK$5,373,000 (2013: HK$5,278,000).

Estimated provision of sales discount and defective claims

For the provision of sales discounts and defective claims, there are 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's 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 2014, the carrying amount of provision of sales discounts and defective claims is HK$5,290,000 (2013: HK$4,624,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it 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 share capital and reserves.

The management of the Group reviews the capital structure regularly, taking into account of the cost and risk associated with the capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends and issue of shares.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2014 HK$'000	2013 HK$'000
Financial assets		
Loans and receivables (including bank balances and cash)	91,345	104,296
Financial liabilities		
Amortised cost	33,592	47,617

6b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables and amount due to a related company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including 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 the end of the reporting date are as follows:

	Assets		Liabilities	
	2014 HK$'000	2013 HK$'000	2014 HK$'000	2013 HK$'000
Hong Kong Dollar ("HK$")	1,004	379	–	–
Renminbi ("RMB")	17	17	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Market risk (Continued)

(i) Currency risk *(Continued)*

Sensitivity analysis

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.

No sensitivity analysis on the US$ against RMB is prepared as the directors of the Company consider the impact of such foreign currency risk is insignificant.

(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

As at 31 December 2014, 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 consolidated statement 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 the 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 2014, 37% (2013: 37%) of the total trade receivables was due from the Group's largest customer, while 88% (2013: 86%) of the total trade receivables was due from the Group's five largest customers at 31 December 2014.

The top five customers represent over 85% (2013: 86%) of the revenue for the year ended 31 December 2014. The top five customers are mass market retailers, home furnishing stores or speciality stores located in the United States of America ("USA").

Liquidity risk

In the management of the liquidity risk, the Group 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.

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 dates on which the Group can be required to pay. The table includes both undiscounted cash flows and principal cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Liquidity tables

	Weighted average effective interest rate %	Repayable on demand HK$'000	Within 3 months HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
At 31 December 2014					
Trade and other payables	–	–	33,432	33,432	33,432
Amount due to a related company	–	160	–	160	160
		160	33,432	33,592	33,592

	Weighted average effective interest rate %	Repayable on demand HK$'000	Within 3 months HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
At 31 December 2013					
Trade and other payables	–	–	47,398	47,398	47,398
Amount due to a related company	–	219	–	219	219
		219	47,398	47,617	47,617

6c. Fair value

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of all financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. REVENUE AND SEGMENT INFORMATION

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

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

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

(i) Portable lighting represents a selection of portable lighting products, e.g. table lamps, floor lamps, accent lamps, buffet lamps etc., ("Portable lighting").

(ii) Shades represent a selection of shades for the lamps sold by the Group. Shades are complementary goods and a frame that typically fit on the top of a lamp and cover the lighting source ("Shades").

(iii) Furniture set and other home accessory products represent the knockdown furniture and ready-to-assemble furniture sets that are sold unassembled, and be put together by the end-customers etc. ("Furniture set and other home accessory products").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segment.

For the year ended 31 December 2014

	Portable lighting HK$'000	Shades HK$'000	Furniture set and other home accessory products HK$'000	Total HK$'000
SEGMENT REVENUE				
External sales	290,839	59,004	23,319	373,162
Segment profit	61,129	16,030	5,818	82,977
Unallocated income				284
Unallocated expenses				
– Selling expenses				(23,006)
– Administration expenses				(23,741)
– Research and development expenses				(6,383)
– Finance costs				(1)
Profit before taxation				30,130

For the year ended 31 December 2013

	Portable lighting HK$'000	Shades HK$'000	Furniture set and other home accessory products HK$'000	Total HK$'000
SEGMENT REVENUE				
External sales	252,848	72,472	27,737	353,057
Segment profit	48,799	19,448	8,050	76,297
Unallocated income				115
Unallocated expenses				
– Selling expenses				(18,714)
– Administration expenses				(23,760)
– Research and development expenses				(6,378)
– Finance costs				(2)
Profit before taxation				27,558

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. REVENUE AND SEGMENT INFORMATION *(Continued)*

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of certain income and expenses (including other income, selling expenses, administration expenses, research and development expenses and finance costs). 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)	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**–**	–	**1,786**	2,088
PRC	**–**	–	**2,537**	3,030
USA	**361,795**	334,546	**1,903**	1,110
Canada	**11,089**	17,956	**–**	–
Others	**278**	555	**–**	–
Total revenue/non-current assets	**373,162**	353,057	**6,226**	6,228

Information about major customers

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

	2014	2013
	HK$'000	HK$'000
Customer A (Note)	**116,950**	95,587
Customer B (Note)	**143,251**	149,027

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

8. FINANCE COSTS

	2014	2013
	HK$'000	HK$'000
Interest expenses on bank overdraft	**1**	2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

9. PROFIT BEFORE TAXATION

	2014 HK$'000	2013 HK$'000
Profit before taxation has been arrived at after charging:		
Staff costs, including directors' remuneration (note 11)		
Salaries, wages and other benefits	**30,898**	25,989
Retirement benefits scheme contributions	**811**	785
	31,709	26,774
Less: Amount included in research and development expenses	**(3,336)**	(3,438)
	28,373	23,336
Allowance for obsolete and slow-moving inventories	**433**	–
Amortisation of intangible asset	**97**	16
Auditor's remuneration	**820**	799
Cost of inventories recognised as expenses	**283,977**	262,268
Depreciation of property, plant and equipment	**1,465**	989
Loss on disposal of property, plant and equipment	**–**	33
Net foreign exchange loss	**148**	265
and after crediting:		
Interest income	**77**	85

10. DIVIDEND

A final dividend for the year ended 31 December 2013 of HK3 cents (2012: HK2 cents) per ordinary share, equivalent to HK$14,400,000 (2012: HK$9,600,000), was approved by the shareholders in the annual general meeting on 9 May 2014 and paid.

Subsequent to the end of the reporting period, the Board of Directors of the Company proposed a final dividend of HK3.3 cents per ordinary share in respect of the year ended 31 December 2014, which is subject to approval at the forthcoming annual general meeting of the Company to be held on 15 May 2015.

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Details of the emoluments paid/payable to the directors of the Company are as follow:

	2014 HK$'000	2013 HK$'000
Directors' fee	**360**	360
Other emoluments		
– salaries and other benefits	**3,147**	3,145
– retirement benefits scheme contributions	**75**	76
	3,582	3,581

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

11. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS *(Continued)*

For the year ended 31 December 2014

	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors:				
Mr. Leung Yuen Ho, Simon	–	1,560	17	1,577
Mr. Jerry Strickland	–	1,587	58	1,645
Independent non-executive directors:				
Mr. Hau Chi Hung	60	–	–	60
Mr. Lai Kin, Jerome	240	–	–	240
Mr. Tang Thomas Bong	60	–	–	60
	360	3,147	75	3,582

For the year ended 31 December 2013

	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors:				
Mr. Leung Yuen Ho, Simon	–	1,560	15	1,575
Mr. Jerry Strickland	–	1,585	61	1,646
Independent non-executive directors:				
Mr. Hau Chi Hung	60	–	–	60
Mr. Lai Kin, Jerome	240	–	–	240
Mr. Tang Thomas Bong	60	–	–	60
	360	3,145	76	3,581

Mr. Leung Yuen Ho, Simon is also the chief executive of the Company and his emoluments disclosed above included those for services rendered by him as the chief executive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

11. DIRECTORS', CHIEF EXECUTIVES' AND EMPLOYEES' EMOLUMENTS *(Continued)*

The five highest paid individuals of the Group included 2 (2013: 2) directors for the year. The details of their emoluments are set out above. The remunerations of the remaining 3 (2013: 3) highest paid individuals are as follows:

	2014 HK$'000	2013 HK$'000
Employees		
– salaries and other benefits	**2,722**	2,780
– discretionary bonus (Note)	**363**	295
– retirement benefits scheme contributions	**97**	96
	3,182	3,171

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 these remaining 3 highest paid individuals (2013: 3) in the Group for the year were within the following bands:

	2014 No. of Employees	2013 No. of Employees
Nil – HK$1,000,000	**–**	1
HK$1,000,001 – HK$1,500,000	**3**	2
	3	3

During both years, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived any emoluments in both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

12. INCOME TAX EXPENSE

	2014 HK$'000	2013 HK$'000
Current taxation:		
– Hong Kong Profits Tax	5,282	4,720
– Overseas taxation	1,991	467
	7,273	5,187
(Over)underprovision in prior years:		
– Hong Kong Profits Tax	(603)	7
– Overseas taxation	45	943
	(558)	950
Deferred taxation (note 15)	(217)	184
Total	6,498	6,321

The Company and the subsidiaries operating in Hong Kong are subject to Hong Kong Profits Tax at a tax rate of 16.5% (2013: 16.5%) on assessable 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 tax charge for the year can be reconciled to the consolidated profit before taxation as follows:

	2014 HK$'000	2013 HK$'000
Profit before taxation	30,130	27,558
Tax at Hong Kong Profits Tax rate at 16.5% (2013: 16.5%)	4,971	4,547
Tax effect of expenses not deductible for tax purpose	585	207
Tax effect of income not taxable for tax purpose	(20)	(168)
Tax effect of tax losses not recognised	425	741
Utilisation of tax losses previously not recognised	–	(141)
Tax effect of different tax rate of subsidiaries in other jurisdictions	1,111	277
(Over)underprovision in prior years	(558)	950
Others	(16)	(92)
Income tax expense for the year	6,498	6,321

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

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 the number of 480,000,000 ordinary shares (2013: 480,000,000) of the Company.

No diluted earnings per share is presented as there were no potential ordinary shares in issue during the years ended 31 December 2014 and 2013.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST					
At 1 January 2013	1,910	248	4,000	4,100	10,258
Exchange adjustment	–	28	16	–	44
Additions	–	2,169	1,295	–	3,464
Disposal	–	(88)	(953)	–	(1,041)
At 31 December 2013 and 1 January 2014	1,910	2,357	4,358	4,100	12,725
Additions	–	99	1,461	–	1,560
At 31 December 2014	1,910	2,456	5,819	4,100	14,285
ACCUMULATED DEPRECIATION					
At 1 January 2013	762	81	3,458	3,159	7,460
Exchange adjustment	–	2	4	–	6
Provided for the year	76	192	377	344	989
Eliminated on disposal	–	(69)	(939)	–	(1,008)
At 31 December 2013 and 1 January 2014	838	206	2,900	3,503	7,447
Provided for the year	76	488	557	344	1,465
At 31 December 2014	914	694	3,457	3,847	8,912
CARRYING VALUES					
At 31 December 2014	996	1,762	2,362	253	5,373
At 31 December 2013	1,072	2,151	1,458	597	5,278

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 improvements	20% or over the lease term of rented properties, whichever is shorter
Furniture, fixtures and equipment	20%
Motor vehicles	20%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The carrying value of land and buildings comprises:

	2014 HK$'000	2013 HK$'000
Land and buildings situated in Hong Kong under medium-term leases	996	1,072

As at 31 December 2014, the Group had pledged its land and buildings with carrying value of HK$996,000 (2013: HK$1,072,000), to secure general banking facilities granted to the Group.

15. DEFERRED TAXATION

The followings are the major deferred tax (liabilities) assets recognised and movements thereon during current and prior years:

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Temporary difference on unrealised profits on intra-group transactions HK$'000	Total HK$'000
At 1 January 2013	(181)	1	1,257	1,077
Credit (charge) to profit or loss	65	(1)	(248)	(184)
At 31 December 2013 and 1 January 2014	(116)	–	1,009	893
Credit to profit or loss	33	–	184	217
At 31 December 2014	(83)	–	1,193	1,110

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2014 HK$'000	2013 HK$'000
Deferred tax assets	1,193	1,009
Deferred tax liabilities	(83)	(116)
	1,110	893

At the end of the reporting period, the Group had unused tax losses of HK$8,851,000 (2013: HK$6,275,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profits streams of these subsidiaries.

Included in unrecognised tax losses are losses of HK$6,498,000 (2013: HK$6,003,000) that will expire within 5 years and losses of HK$935,000 (2013: HK$186,000) that will expire within 20 years, other tax losses may carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

16. INTANGIBLE ASSET

	Brand name HK$'000
COST	
At 1 January 2013	–
Addition	966
At December 2013 and 31 December 2014	966
AMORTISATION	
At 1 January 2013	–
Charge for the year	16
At 31 December 2013 and 1 January 2014	16
Charge for the year	97
At 31 December 2014	113
CARRYING VALUE	
At 31 December 2014	853
At 31 December 2013	950

On 18 November 2013, the Group acquired a brand name from a third party in an amount of US$124,000 (equivalent to HK$966,000).

The brand name is amortised on a straight-line basis over 10 years.

17. INVENTORIES

	2014 HK$'000	2013 HK$'000
Finished goods	**30,218**	22,724

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

18. TRADE AND OTHER RECEIVABLES

	2014 HK$'000	2013 HK$'000
Trade receivables	69,401	76,258
Bill receivables	–	2,640
	69,401	78,898
Other receivables and prepayment	4,836	1,320
	74,237	80,218

Trade receivables and bill receivables are mainly arisen from sales of portable lighting, shades 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.

	2014 HK$'000	2013 HK$'000
1 to 30 days	32,199	28,939
31 to 60 days	34,957	30,217
61 to 90 days	1,643	15,016
Over 90 days	602	4,726
	69,401	78,898

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 HK$11,549,000 (2013: HK$31,164,000), 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:

	2014 HK$'000	2013 HK$'000
Overdue by:		
1 to 30 days	9,698	24,735
31 to 60 days	1,220	4,847
61 to 90 days	73	897
Over 90 days	558	685
	11,549	31,164

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

19. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.01% to 0.81% per annum as at 31 December 2014 (2013: 0.01% to 0.10% per annum).

20. TRADE AND OTHER PAYABLES

	2014 HK$'000	2013 HK$'000
Trade payables	**29,970**	44,794
Accrued sales commission	**193**	978
Other payables and accruals	**8,758**	6,586
	38,921	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 the reporting period:

	2014 HK$'000	2013 HK$'000
1 to 30 days	**23,712**	22,099
31 to 60 days	**4,677**	20,371
61 to 90 days	**972**	2,102
Over 90 days	**609**	222
	29,970	44,794

21. PROVISION

The balance represents the provision of sales discounts and defective claims, and the movements of provision are as follow:

	HK$'000
At 1 January 2013	8,029
Charge to profit or loss	11,537
Write-off of provision	(3,221)
Utilisation of provision	(11,721)
At 31 December 2013 and 1 January 2014	4,624
Charge to profit or loss	7,839
Utilisation of provision	(7,173)
At 31 December 2014	5,290

There are no fixed terms of provision of sales discounts and defective claims 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

22. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Authorised:		
Ordinary shares of HK$0.01 each at 1 January 2013, 31 December 2013 and 31 December 2014	800,000,000	8,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each at 1 January 2013, 31 December 2013 and 31 December 2014	480,000,000	4,800

23. OPERATING LEASES

The Group as lessee

	2014 HK$'000	2013 HK$'000
Minimum lease payments paid under operating leases in respect of rented premises during the year	**4,850**	4,092

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2014 HK$'000	2013 HK$'000
Within one year	**3,761**	3,488
In the second to fifth years inclusive	**5,282**	8,279
	9,043	11,767

Operating lease payments represents rentals payable by the Group for certain of its staff quarters and office premises.

Leases are negotiated and rental are fixed for an average lease terms of four years (2013: five years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

24. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs with the maximum monthly amount of HK$1,250 to the scheme, which contribution is matched by employees.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The subsidiaries are required to contribute 10% of payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

The Group's subsidiaries in USA operate defined contribution schemes. Contributions to the defined contribution schemes are made at a certain percentage of the employee's payroll.

The total expense recognised in profit or loss of HK$811,000 (2013: HK$785,000) for the year ended 31 December 2014 represents contributions payable to these schemes.

25. BANK FACILITIES

At 31 December 2014, the Group had general banking facilities of HK$5,000,000 (2013: HK$5,000,000). The banking facilities are secured by the Group's land and buildings, having carrying value of HK$996,000 (2013: HK$1,072,000).

26. CAPITAL COMMITMENTS

	2014 HK$'000	2013 HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for	–	134

27. RELATED PARTY DISCLOSURES

(a) Amount due to a related company

Amount due to a related company is as follows:

	2014 HK$'000	2013 HK$'000
Todd Miller Inc. (Note)	**160**	219

Note: The amount represents 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

27. RELATED PARTY DISCLOSURES *(Continued)*

(a) Amount due to a related company *(Continued)*

The following is an aged analysis of amount due to a related company presented based on the invoice date at the end of the reporting period:

	2014 HK$'000	2013 HK$'000
1 to 30 days	141	130
31 to 60 day	–	72
61 to 90 days	–	8
Over 90 days	19	9
	160	219

The balance is unsecured, interest free and repayable on demand.

(b) Transactions with related companies

Save as disclosed elsewhere in the consolidated financial statements, the Group had also entered into the following transactions with related parties:

Name of related parties	Nature of transactions	2014 HK$'000	2013 HK$'000
Todd Miller Inc.	Commission expenses (Note 1)	1,683	1,863
MCP Investment, LLC ("MCP")	Rental expenses (Note 2)	2,451	2,451

Notes:

(1) The commission expenses paid to Todd Miller Inc. are for the provision of handling services to customers of the Group. The amount is calculated based on the percentage range up to 13% (2013: 13%) of sales, depending on the kind of products being sold to the customers.

(2) During the year ended 31 December 2011, Mastercraft Distribution USA Inc. entered into a lease agreement with 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 of the Company. The lease agreement was renewed during the year to extend the lease period from 1 January 2014 to 31 December 2016.

(c) Compensation of key management personnel

The directors of the Company and the five highest paid employees are identified as key management members of the Group, their compensation during the year is set out in note 11.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

28. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation/ establishment	Principle place of operation	Equity interest attributable to the Group As at 31 December 2014	2013	Issued and fully paid share/ registered capital	Principal activities
Directly owned						
Mastercraft Worldwide Limited	The British Virgins Island ("BVI")	BVI	100%	100%	US$6 ordinary shares	Investment holding
Indirectly owned						
Mastercraft International Limited 馬仕達國際有限公司	Hong Kong ("HK")	HK	100%	100%	HK$348,900 ordinary shares	Design and supply chain business of lightings and home furnishing products
Mastercraft China Limited 馬仕達中國有限公司	HK	HK	100%	100%	HK$2 ordinary shares	Production of prototypes of lightings and home furnishing products
Mastercraft Home Furnishing Development (Shenzhen) Limited 馬仕達家飾研發(深圳)有限公司#	PRC	PRC	–	100%	HK$500,000 registered capital	Production of prototypes of lightings and home furnishing products
Mastercraft Home Furnishing Development (Dongguan) Limited 馬仕達家飾研發(東莞)有限公司^	PRC	PRC	100%	100%	HK$3,000,000 registered capital	Production of prototypes of lightings and home furnishing products
Mastercraft Overseas Limited	BVI	BVI	100%	100%	US$1 ordinary shares	Investment holding
Mastercraft Distribution USA Inc.	USA	USA	100%	100%	US$1 common stock	Wholesale distribution of lightings and home furnishing products
Couture Lamps, Inc.	USA	USA	100%	100%	US$1 common stock	Wholesale distribution of lightings and home furnishing products

^ Foreign investment enterprise established in the PRC.

Foreign investment enterprise established in the PRC. The subsidiary was deregistered at 14 March 2014.

None of the subsidiaries had issued any debt securities at the end of both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

29. SUMMARY OF FINANCIAL INFORMATION OF THE COMPANY

	2014 HK$'000	2013 HK$'000
Non-current Assets		
Investment in a subsidiary	16,735	16,735
Amounts due from subsidiaries	29,956	16,552
	46,691	33,287
Current Assets		
Other receivables	186	150
Bank balances and cash	2,940	16,565
	3,126	16,715
Current Liabilities		
Other payable	410	657
Tax payable	–	109
	410	766
Net current assets	2,716	15,949
Net Assets	49,407	49,236
Capital and Reserves		
Share capital	4,800	4,800
Reserves (Note)	44,607	44,436
Total Equity	49,407	49,236

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

29. SUMMARY OF FINANCIAL INFORMATION OF THE COMPANY *(Continued)*

Note:

Reserves

	Share premium HK$'000	Special reserve HK$'000 (Note a)	Accumulated losses HK$'000	Total HK$'000
At 1 January 2013	32,523	16,385	(4,674)	44,234
Profit and total comprehensive income for the year	–	–	9,802	9,802
2012 final dividend paid (note 10)	–	–	(9,600)	(9,600)
At 31 December 2013 and 1 January 2014	32,523	16,385	(4,472)	44,436
Profit and total comprehensive income for the year	–	–	14,571	14,571
2013 final dividend paid (note 10)	–	–	(14,400)	(14,400)
At 31 December 2014	32,523	16,385	(4,301)	44,607

Note a: Special reserve represents the difference between the equity of subsidiary recognised and the nominal amount of the Company's shares issued in exchange thereof pursuant to the group reorganisation in 2012.

FINANCIAL SUMMARY

RESULTS

	2010 HK$'000 (Note)	2011 HK$'000 (Note)	2012 HK$'000	2013 HK$'000	**2014** **HK$'000**
Revenue	198,517	264,482	331,338	353,057	**373,162**
Profit before taxation	16,915	12,649	18,362	27,558	**30,130**
Income tax expense	(2,811)	(3,040)	(4,058)	(6,321)	**(6,498)**
Profit for the year	14,104	9,609	14,304	21,237	**23,632**

ASSETS AND LIABILITIES

	2010 HK$'000 (Note)	2011 HK$'000 (Note)	2012 HK$'000	2013 HK$'000	**2014** **HK$'000**
Total assets	57,083	73,089	136,991	135,979	**133,632**
Total liabilities	(32,611)	(58,889)	(71,564)	(58,981)	**(47,402)**
Total equity	24,472	14,200	65,427	76,998	**86,230**

Note: The figures for the two years ended 31 December 2010 and 2011 have been extracted from the prospectus of the Company dated 10 July 2012.