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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Mr. Dang Yanbao (Chairman, appointed as executive Director on 30 January 2016)

Mr. Liu Yuanguan (appointed on 30 January 2016)

Mr. Gao Jianjun (appointed on 30 January 2016)

Mr. Dang Zidong (chief executive officer, appointed as Executive Director on 19 February 2016)

Mr. Leung Yuen Ho, Simon  
(Chairman, resigned on 19 February 2016)

Mr. Jerry Denny Strickland Jr.  
(resigned on 19 February 2016)

Ms. Wong Shuk Fong (appointed on 22 July 2015 and resigned on 19 February 2016)

#### Non-executive Director

Mr. Cheng Hoo (appointed on 19 February 2016)

#### Independent Non-executive Directors

Mr. Xia Zuoquan (appointed on 19 February 2016)

Dr. Tyen Kan Hee, Anthony  
(appointed on 19 February 2016)

Mr. Guo Xuewen (appointed on 19 February 2016)

Mr. Hau Chi Hung (resigned on 19 February 2016)

Mr. Lai Kin, Jerome (resigned on 19 February 2016)

Mr. Tang Thomas Bong (resigned on 19 February 2016)

#### COMPANY SECRETARY

Ms. Lo Yuen Yee (appointed on 29 February 2016)

Ms. Wong Shuk Fong (resigned on 29 February 2016)

#### AUDIT COMMITTEE

Dr. Tyen Kan Hee, Anthony  
(Chairman, appointed on 19 February 2016)

Mr. Xia Zuoquan (appointed on 19 February 2016)

Mr. Guo Xuewen (appointed on 19 February 2016)

Mr. Lai Kin, Jerome  
(Chairman, resigned on 19 February 2016)

Mr. Hau Chi Hung (resigned on 19 February 2016)

Mr. Tang Thomas Bong (resigned on 19 February 2016)

#### REMUNERATION COMMITTEE

Mr. Guo Xuewen  
(Chairman, appointed on 19 February 2016)

Mr. Xia Zuoquan (appointed on 19 February 2016)

Dr. Tyen Kan Hee, Anthony  
(appointed on 19 February 2016)

Mr. Hau Chi Hung  
(Chairman, resigned on 19 February 2016)

Mr. Lai Kin, Jerome (resigned on 19 February 2016)

Mr. Tang Thomas Bong (resigned on 19 February 2016)

#### NOMINATION COMMITTEE

Mr. Dang Yanbao  
(Chairman, appointed on 19 February 2016)

Mr. Xia Zuoquan (appointed on 19 February 2016)

Dr. Tyen Kan Hee, Anthony  
(appointed on 19 February 2016)

Mr. Guo Xuewen (appointed on 19 February 2016)

Mr. Tang Thomas Bong  
(Chairman, resigned on 19 February 2016)

Mr. Lai Kin, Jerome (resigned on 19 February 2016)

Mr. Hau Chi Hung (resigned on 19 February 2016)

### AUTHORISED REPRESENTATIVES

Mr. Dang Zidong (appointed on 19 February 2016)

Mr. Cheng Hoo (appointed on 19 February 2016)

Mr. Leung Yuen Ho, Simon  
(resigned on 19 February 2016)

Ms. Wong Shuk Fong (resigned on 19 February 2016)

### PRINCIPAL BANKERS

Bank of Communications Co., Ltd. Hong Kong Branch

### 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  
Suites 3301-4, 33/F  
Two Chinachem Exchange Square  
338 King's Road, North Point  
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

3966

## CHAIRMAN'S STATEMENT

Dear Fellow Shareholders,

On behalf of the board of directors, I am pleased to present the annual report for the financial year ended 31 December 2015 of Mastercraft International Holdings Limited (the "Company").

I am honored to take on the role as the chairman of the board of directors of the Company on 19 February 2016, and I am deeply mindful of the great responsibilities I will undertake.

2015 was a difficult year for most enterprises. As the global economic recovery struggled, growth momentum in the major economies weakened, and room for stimulations by mean of policies increasingly limited, the downturn pressure on the Mainland China's economy has been further increased. In such harsh operating environment, the Company still managed to achieve, not without difficulties, a satisfactory result in 2015, for which we owe our thanks to the former chairman Mr. Leung and the board of directors under his leadership.

### FINANCIAL PERFORMANCE

Revenue of the Company and its subsidiaries for the year ended 31 December 2015 increased by 4.4% over 2014 to HK\$389.7 million. With the increase in higher commodity prices, currency fluctuation and rises in other input costs from our independent contract manufacturers in the Mainland China, our gross profit margin dropped from 22.2% to 19.8%. Research and development, selling and administrative expenses were increased from 14.2% of revenue in 2014 to 14.9% in 2015. The profit for the year in 2015 dropped by 38.9% to HK\$14.4 million, with margin dropped to 3.7%.

### DEDICATED FOCUS

In 2015, we had 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. 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.

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 North America. We believe that having powerful brands, developing innovative products, building a strong company culture through exceptional people, and pursuing operational excellence, in order to enhance the shareholders' interest.

### FUTURE STRATEGY

We believe that the global economic recovery in 2016 will remain complicated and uncertain, while the market competition will continue to be fierce. Looking ahead, the growing pace and profitability of the Company's existing core businesses will encounter even greater pressure. In this complicated and difficult market environment, how to turn around last year's trend of decline in the profitability of the Group as soon as possible will undoubtedly be a severe challenge for the new board of directors with tremendous pressure. To this end, my fellow directors and I will put extra effort and diligence to keep on exploring the potential of our traditional core businesses, strengthen the management and control the costs so as to reverse or mitigate the profit decline. On the other hand, the new board will focus on innovation and assess the situation with an aim of expanding into new business areas, identify new profit growth opportunities and diversify the risks of investment and business development. Specifically, we will capture the favourable opportunities and leverage on the policy environment arising from the promotion of economic transformation and upgrading as well as the encouragement of energy saving and environmental protection by the Chinese government. We will try our best to capitalize on the conditions to invest in the development of clean energy projects, such as photovoltaic power, in an active and rapid manner. We believe that such sectors demonstrate vast growth opportunities and promising profit potentials, which may not only fully compensate the downturn of our traditional businesses, but also bring the Company back onto a rapid growth track and revitalize our Company. We are confident that, with our effort, wisdom, courage and execution capability, we are able to provide the shareholders and investors with rich returns, which is also the mission of our new board of directors.

**Dang Yanbao**  
*Chairman*

31 March 2016

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

During the year under review, the Company and its subsidiaries (collectively referred to as the "Group") was 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 2015, which contributed to approximately 77.7% (2014: 78.2%) 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 2015 was approximately HK\$287.0 million, HK\$76.8 million and HK\$25.9 million (2014: HK\$290.8 million, HK\$59.0 million and HK\$23.3 million), respectively. Portable lighting remained as the Group's most significant revenue stream. During the year, portable lighting and shades contributed to approximately 73.6% and 19.7% (2014: 77.9% and 15.8%) of the Group's revenue, respectively. The gross profit margin of portable lighting, shades and furniture set and other home accessory products decreased from 21.0% to 18.4%, 27.2% to 23.6% and 24.9% to 24.5% respectively, for the year ended 31 December 2014 to the corresponding period in 2015. While actively exploring new business and profit growth opportunities, the Directors and management will also continuously monitor the profit margin of the existing business in order to enhance the shareholders' interest.

### 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 4.4% from approximately HK\$373.2 million for the year ended 31 December 2014 to HK\$389.7 million for the year ended 31 December 2015.

With the increase in purchase cost of lighting and home furnishing products from the independent contract manufacturers in the PRC, the total cost of sales increased by approximately 7.7% from HK\$290.2 million for the year ended 31 December 2014 to HK\$312.5 million for the year ended 31 December 2015. As a result of the foregoing, the gross profit of the Group decreased by 7.0%, from approximately HK\$83.0 million for the year ended 31 December 2014 to HK\$77.2 million for the year ended 31 December 2015. The gross profit margin was dropped from 22.2% to 19.8%.

During the year under review, the total operating cost amounted to approximately HK\$58.2 million, representing 14.9% of the Group's total revenue (2014: HK\$53.1 million, representing 14.2% of the Group's total revenue). The increase in administrative expenses arising from the non-recurring legal and professional fees incurred for the application of transfer of listing of the Company from the Growth Enterprise Market to the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") as disclosed in the announcement of the Company dated 23 July 2015.

Profit attributable to owners of the Company decreased by approximately 38.9% from approximately HK\$23.6 million in the year ended 31 December 2014 to approximately HK\$14.4 million in the year ended 31 December 2015. The Group's net profit margin dropped from 6.3% to 3.7% for the corresponding period. Earnings per share decreased from HK4.92 cents to HK3.01 cents.

In the event that the business transformation has not been implemented successfully and new profit growth opportunities could not be identified in a timely manner, the decline in profitability of the Company in the future may fail to be reverted.

### FINANCIAL POSITION AND LIQUIDITY

As at 31 December 2015, cash and bank balances of the Group amounted to approximately HK\$20.0 million (as at 31 December 2014: HK\$21.8 million). The Group's current ratio (current asset divided by current liabilities) was 2.7 and 2.4 times as at 31 December 2014 and 2015, respectively. Considering the Group's current level of cash and bank balances which includes the unspent net proceeds from the listing, funds generated internally from our operations and the available banking facilities, the Board is confident that the Group will have sufficient resources to meet its financial needs for its existing operations, but new fundings may be needed in case of developing new business. As at 31 December 2015, the Group has unutilized general banking facilities of HK\$5,000,000 (2014: HK\$5,000,000).

## MANAGEMENT DISCUSSION AND ANALYSIS

### DIVIDEND

The board (the "Board") of directors (the "Directors") of the Company has resolved not to recommend any final dividend for the year ended 31 December 2015.

### OUTLOOK

For the existing business, 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.

Looking forward, the global economic environment will continue to be uncertain. On one hand, to maintain the competitiveness of our existing business 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. On the other hand, the Company will accelerate the business strategic transformation in order to explore new business growth opportunities and diversify risks, so as to create long-term stable returns to our shareholders.

### 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, comprising issued capital and reserves.

As at 31 December 2015, there was no borrowing. Therefore, gearing ratio is not meaningful. The Directors 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 2014 and 2015, the Group did not have any significant contingent liabilities.

### SIGNIFICANT INVESTMENTS

During the year ended 31 December 2015, no significant investment were held. As at 31 December 2015, the Group did not have any significant investment plans.

### FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this report, there was no specific plan for material investments or capital assets as at 31 December 2014 and 2015.

### MATERIAL ACQUISITIONS OR DISPOSALS

During the years ended 31 December 2014 and 2015, there was no material acquisition or disposal of subsidiaries and associated companies by the Group.

### CHARGES ON ASSETS

As at 31 December 2014 and 2015, 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\$996,000 and HK\$920,000 as at 31 December 2014 and 2015, respectively.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FOREIGN EXCHANGE EXPOSURE

During the year ended 31 December 2015, 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 2015, the Group has capital commitment of approximately HK\$693,000 in respect of the acquisition of property, plant and equipment contracted but not provided for.

### 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 2015, the Group employed a total of 6 directors and 123 employees. Total staff costs, including Directors' emoluments, amounted to approximately HK\$33.5 million for the year ended 31 December 2015 (2014: HK\$31.7 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 the Rules Governing the Listing Securities on the Stock Exchange (the "Listing Rules") are set out in note 11 to the consolidated financial statements.

### USE OF PROCEEDS

The Group originally planned to use part of the net proceeds to conduct feasibility study for the portable lighting and home furnishing industry in overseas market and the PRC hotel and motel market. The Group intends to strategically and gradually build up its business outside North America, including European and Asia Pacific market, under the Group's own brand name. However, the Company is of the view that it is not in the best interest of the Company and its Shareholders for the Group to enter into PRC hotel and motel market due to the amid market downturn in this market which may create uncertainties and increase market challenge to be faced by the Company. Thus, the Company did not utilize the proceeds as planned. As at 31 December 2015, the unutilized net proceeds was in the sum of approximately HK\$2.4 million. The Group will review its business strategy more actively from time to time and apply the unutilized net proceeds to conduct feasibility studies in the future as and when the new opportunities arise, which is same as the planned used of proceed as stated in the prospectus of the Company for the listing of the Company on GEM dated 10 July 2012. Should there be any change in the use of proceeds, further announcement will be made by the Company. The balance of unutilized net proceeds as at 31 December 2015 had been placed in interest bearing deposits at banks in Hong Kong.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

**Mr. Dang Yanbao (黨彥寶)**, aged 43, is currently the chairman of the Company and the chairman of the Nomination Committee. He is an experienced Chinese businessman and currently the chairman of the board of directors of Ningxia Baofeng Energy Group Co., Ltd.\* (寧夏寶豐能源集團股份有限公司). The subsidiaries of Ningxia Baofeng Energy Group Co., Ltd.\* (寧夏寶豐能源集團股份有限公司) include a number of companies engaged in the coal and energy sector, such as Inner Mongolia Zhongbao Energy Co., Ltd.\* (內蒙古中寶能源有限公司), Ningxia Baofeng Energy Catalytic Co., Ltd.\* (寧夏寶豐能源催化有限公司) and Ningxia Baofeng Group Hongsi Coal Mining Co., Ltd.\* (寧夏寶豐集團紅四煤業有限公司). Mr. Dang graduated at Ningxia University in July 1996 and was awarded an Executive Master's degree in Business Administration from Peking University in July 2007. Mr. Dang holds several public offices in China, including committee member of the 12th Chinese People's Political Consultative Conference, a representative at the 11th People's Congress of Ningxia Hui Autonomous Region, and counselor for the People's Government of Ningxia Hui Autonomous Region. Mr. Dang was appointed as an executive Director with effect from 30 January 2016 and as the chairman of the board of Directors with effect from 19 February 2016.

Mr. Dang Yanbao is the sole shareholder of Fung Teng Enterprises Limited ("Fung Teng") which in turns is interested in 360,000,000 Shares (representing approximately 71.26% of the total issued share capital of the Company). Mr. Dang is also the sole director of Fung Teng.

Mr. Dang Yanbao is the uncle of Mr. Dang Zidong, an executive Director and the chief executive officer of the Company.

**Mr. Liu Yuanguan (劉元管)**, aged 49, is currently the chief executive officer of Ningxia Baofeng Energy Group Co., Ltd.\* (寧夏寶豐能源集團股份有限公司). He is also a director of certain subsidiaries of the Group. He is a veteran in the coal mining, energy and chemical industry with more than 28 years of experience. Mr. Liu holds the title of Senior Engineer and has a Master's Degree from Xi'an University of Science and Technology awarded in July 2005 and a Bachelor's Degree from China University of Mining and Technology (formerly known as China Institute of Mining and Technology) awarded in July 1987. He was appointed as an executive Director with effect from 30 January 2016.

**Mr. Gao Jianjun (高建軍)**, aged 41, is currently the vice president of Ningxia Baofeng Energy Group Co., Ltd.\* (寧夏寶豐能源集團股份有限公司). Mr. Gao has 20 years of experience in the coal mining, crude oil and energy industry. Mr. Gao graduated at Yan'an University in chemical engineering technology in July 2013, and holds the title of Engineer. He was appointed as an executive Director with effect from 30 January 2016.

**Mr. Dang Zidong (黨自東)**, aged 26, is currently the chief executive officer of the Company. He is also a director of certain subsidiaries of the Group. He graduated from Beijing Geely University (北京吉利大學) in 2012 with a degree in industry and business administration. He is currently the general manager of Ningxia Huixin Microfinance Co., Ltd.\* (寧夏匯信小額貸款有限公司). Mr. Dang Zidong previously was responsible for sales in Ningxia Baofeng Energy Group Co., Ltd.\* (寧夏寶豐能源集團股份有限公司) and had held the position of manager, marketing planning department of Huifengxiang Commercial Holdings Co., Ltd.\* (滙豐祥商業控股有限公司). He was appointed as an executive Director and the chief executive officer of the Company with effect from 19 February 2016.

Mr. Dang Zidong is the nephew of Mr. Dang Yanbao, the chairman and executive Director of the Company. Mr. Dang Yanbao is the sole shareholder and sole director of Fung Teng, the controlling shareholder of the Company who is interested in 360,000,000 Shares (representing approximately 71.26% of the total issued share capital of the Company).

### NON-EXECUTIVE DIRECTOR

**Mr. Cheng Hoo (鄭豪)**, aged 54, obtained a bachelor of laws degree from the University of Hong Kong in 1987. He was admitted as a solicitor in Hong Kong in 1990 and in England and Wales in 1995. Mr. Cheng has over 25 years' experience in the practice of law. He is a co-founder and senior partner of Nixon Peabody CWL. He was appointed as a non-executive Director with effect from 19 February 2016.



## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Xia Zuoquan (夏佐全)**, aged 52, is currently a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee. He studied computer science in Beijing Institute of Iron and Steel Engineering\* (北京鋼鐵學院) (now known as University of Science & Technology of Beijing\* (北京科技大學)) from 1985 to 1987 and he graduated from Guanghua School of Management of Peking University with an MBA in 2007. Mr. Xia worked in the Hubei branch of The People's Insurance Company\* (中國人民保險公司) and joined Shenzhen BYD Battery Company Limited in 1997. Mr. Xia held positions as an executive director and a vice president of BYD Company Limited. Mr. Xia is a non-executive director of the BYD Company Limited and the chairman of Shenzhen Zhengxuan Investment (Holdings) Co., Ltd.\* (深圳市正軒投資有限公司), the chairman of Anuo Youda Gene Technology (Beijing) Co. Ltd.\* (安諾優達基因科技(北京)有限公司), the chairman of Shenzhen Ramos Digital Technology Co., Ltd.\* (深圳市藍魔數碼科技有限公司), director of Shenzhen UniFortune Supply Chain Service Co., Ltd.\* (深圳市聯合利豐供應鏈管理有限公司), director of Shenzhen UBTECH Robotics Corp.\* (深圳市優必選科技有限公司) and director of Guangdong Beizhi Cepin Network Technology Co., Ltd.\* (廣東倍智測聘網路科技股份有限公司). He was appointed as an independent non-executive Director with effect from 19 February 2016.

**Dr. Tyen Kan Hee, Anthony (田耕熹)**, aged 60, is currently the chairman of the Audit Committee, and a member of each of the Remuneration Committee and the Nomination Committee. He has nearly 39 years' experience in accounting, auditing and consultancy practice. In 1977, He joined Price Waterhouse, and then joined Klynveld Main Goerdeler and Morgan Bank. He founded his own accounting and consulting firm in 1985. His firm then merged with Hong Kong Grant Thornton in 1990 and was responsible for the development of the firm's business in the PRC thereafter and stationed in Beijing for seven years since then. Between 2001 to 2003, he worked in a local bank and participated in the bank's mergers and acquisitions business. In 2003, he worked at his own accounting and consulting firm and provided professional services for local and international companies.

Dr. Tyen Kan Hee, Anthony holds a Doctoral degree in Philosophy and a Master degree in Business Administration, both from The Chinese University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a member of the Chinese Institute of Certified Public Accountants. He was appointed as an independent non-executive Director with effect from 19 February 2016.

Dr. Tyen Kan Hee, Anthony was a director of Show8 Cyber Media Limited ("Show8"), a company incorporated in Hong Kong prior to its dissolution as a result of creditors' voluntary liquidation commenced on 20 January 2001. Show8 was dissolved in July 2003. Before its liquidation, Show8 was an Internet content provider. Due to the unfavourable economic condition at that time and the burst of the Internet bubble in year 2000 and the significant decline in business activities in the Internet sector, Show8 was unable to overcome its financial difficulty and was then put into liquidation in January 2001. Dr. Tyen confirmed that he was not involved in the dissolution of Show8 and is not aware of any liability as a result of the dissolution of Show8. He is also not aware of any outstanding claim from the creditors of show8. He is also not aware of any outstanding claim from the creditors of Show8 after the dissolution of the company.

Dr. Tyen Kan Hee, Anthony is currently an independent non-executive director of Melco International Development Limited and Summit Ascent Holdings Limited, both of them are listed on the Stock Exchange, and an independent director of Entertainment Gaming Asia Inc., a company listed on the NASDAQ Capital Market and Alpha Peak Leisure Inc., a company listed on the TSX Venture Exchange Inc. He was previously an independent non-executive director of three Hong Kong listed companies, namely, ASR Logistics Holdings Limited (formerly known as ASR Holdings Limited), Value Convergence Holdings Limited and Recruit Holdings Limited.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Guo Xuewen (郭學文)**, aged 50, is currently the chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee. He is currently the CEO of Shenzhen MY Capital Asset Management Co., Ltd.\* (深圳茂源資本資產管理有限公司). He was a partner of Heidrick & Struggles, a consulting firm in the United States of America, and previously founded Beijing Viewhigh Technologies Co., Ltd.\* (北京望海康信科技有限公司) and served as its chairman. Mr. Guo graduated from Tsinghua University and holds an Master of Business Administration degree from the University of Warwick in the United Kingdom and a doctorate degree from the University of East Anglia in the United Kingdom. He was appointed as an independent non-executive Director with effect from 19 February 2016.

### SENIOR MANAGEMENT

**Mr. LEUNG Yuen Ho Simon (梁遠豪)**, aged 53, a director of certain subsidiaries of the Group. He has joined the Group as one of the co-founders since 1994. 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 responsible for the management and operation of the Group.

**Mr. Jerry Denny STRICKLAND Jr.**, aged 65, a director of certain subsidiaries of the Group. He has joined the Group as one of the co-founders since 1994. 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 responsible for management of the sales and marketing of the Group, and 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.

\* For identification purpose only

## 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 Corporate Governance Code contained in Appendix 15 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") from 1 January 2015 to 4 August 2015, and the Code on Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the Period from 5 August 2015 to 31 December 2015, except for the following:

Under code provision A.2.1 of the Corporate Governance Code of both the GEM Listing Rules and the Listing Rules, 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 acted 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 has met regularly to consider major matters affecting the operations of the Group. The Board considers that this structure has not impaired 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 was conducive to strong and consistent leadership which enables the Group to operate efficiently. As such, the structure was beneficial to the Group and the Shareholders as a whole.

The Company understands the importance to comply with the code provision A.2.1. On 19 February 2016, Mr. Dang Yanbao was appointed as the chairman and Mr. Dang Zidong was appointed as the CEO. The Company has thus complied with code provision A.2.1 of the Listing Rules.

Save as disclosed above, the Board considered that the Company had complied with the code provisions set out in the Corporate Governance Code of the GEM Listing Rules and the Listing Rules during the year ended 31 December 2015.

### DEALINGS IN SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules for the period from 1 January 2015 to 4 August 2015 and Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules from 5 August 2015 onwards as the code of conduct regarding Directors' securities transactions in securities of the Company. Upon the Group's specific enquiry, each former Director who acted during the year ended 31 December 2015 has confirmed that during the year ended 31 December 2015, he had fully complied with the required standard of dealings and there was no event of non-compliance.

### BOARD OF DIRECTORS

The Board is responsible for the overall leadership of the Group, overseeing the Group's strategic decisions and monitoring the business and performance of the Group. The Board has delegated the authority and responsibility for day-to-day management and operation of the Group to the senior management of the Group.

The Company recognizes and embraces the benefits of diversity of Board members and will continue to adopt a board diversity policy. The Company will ensure that the Board has a balance of skills, experience and diversity of perspective appropriate to the needs of the Company's business. Selection of candidates will be based on a range of diversity perspective, including but not limited to gender, age, cultural and educational background, experience (professional or otherwise), skills and knowledge. The appointment of Directors will continue to be made on a merit basis.

Due to the change in the control of the Company on 19 February 2016, all the former Directors resigned from directorship of the Company.

As at the date of this report, the Board currently comprises 8 directors, consisting of 4 executive Directors, 1 non-executive Director and 3 independent non-executive Directors.

# CORPORATE GOVERNANCE REPORT

As at the date of this report, the Board of the Company comprises the following directors:

## **Executive Directors**

Mr. Dang Yanbao (*chairman of the Board and chairman of the Nomination Committee*)  
Mr. Liu Yuanguan  
Mr. Gao Jianjun  
Mr. Dang Zidong (*chief executive officer*)

## **Non-executive Director**

Mr. Cheng Hoo

## **Independent Non-executive Directors**

Mr. Xia Zuoquan (*member of Audit Committee, Nomination Committee and Remuneration Committee*)  
Dr. Tyen Kan Hee, Anthony (*chairman of the Audit Committee and member of Nomination Committee and Remuneration Committee*)  
Mr. Guo Xuewen (*chairman of Remuneration Committee and member of Audit Committee and Nomination Committee*)

The list of directors (by category) is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The relationships among the members of the Board are disclosed under "Biographical Details of Directors and Senior Management" on page 7.

The Company has received written annual confirmation from each independent non-executive Director who served his term of office during the year ended 31 December 2015 of his independence pursuant to the requirements of the GEM Listing Rules and Listing Rules.

For all the former executive Directors and independent non-executive Directors who served their terms of office during the year ended 31 December 2015, they have entered service contracts with the Company for a term of three years and two years respectively commencing on 20 July 2012 and should continue thereafter unless and until terminated by either parties by giving to the other not less than three months' notice in writing. Their terms of office were 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.

For all the current executive Directors, each of them has entered into a service agreement with the Company for three years and for all the non-executive Directors, each of them has entered into an appointment letter with the Company for two years. All the Directors and the Company are required to give three months' notice in writing to other party for termination of the service agreement/appointment letter. All the directors are appointed for a specific term and subject to re-election in accordance with the articles of association of the Company.

## CORPORATE GOVERNANCE REPORT

### Board meeting, Committee meeting and Annual General Meeting in 2015

The Board has held board meetings at approximately quarterly intervals with participation by a majority of directors.

During the year ended 31 December 2015, 7 Board meetings, 4 Audit Committee meetings, 2 Remuneration Committee meetings and 2 Nomination Committee meetings were held. The attendance record of each Director at the Board meetings, committee meetings and annual general meeting during the financial year are set out below:

Name of Directors	Attendance/Number of meetings				
	AGM	Board meeting	Audit committee	Remuneration committee	Nomination committee
<i>Executive Directors</i>					
Mr. Leung Yuen Ho, Simon (chairman and chief executive officer)	1	7/7	–	–	–
Mr. Jerry Denny Strickland Jr.	1	7/7	–	–	–
Ms. Wong Shuk Fong	0	2/2	–	–	–
<i>Independent Non-executive Directors</i>					
Mr. Lai Kin, Jerome (chairman of Audit Committee)	1	7/7	4/4	2/2	2/2
Mr. Hau Chi Hung (chairman of Remuneration Committee)	1	7/7	4/4	2/2	2/2
Mr. Tang Thomas Bong (chairman of Nomination Committee)	1	7/7	4/4	2/2	2/2

Ms. Wong Shuk Fong was appointed executive Director on 22 July 2015. She attended all the scheduled Board meetings in the capacity of the company secretary to report matters arising from corporate governance, risk management, statutory compliance, accounting and finance.

### Practice and Conduct of Meetings

Notices of regular board meetings have been given to all directors at least 14 days before date of meeting and reasonable notices have been given for other board and committee meetings.

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.

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 at any reasonable time on reasonable notice 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.

The chairman has held a meeting with non-executive Directors (including independent non-executive Directors) without the presence of executive Directors.

## CORPORATE GOVERNANCE REPORT

### Directors' continuous training and professional development

Pursuant to code provision A.6.5 of the Corporate Governance code of both the GEM Listing Rules and the Listing Rules, all the 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 the 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 2015 is summarized below:

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

### BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. The terms of reference of the above committees are posted on the Company's website.

#### Audit Committee

The Audit Committee was established on 21 June 2012 and has adopted written terms of reference in compliance with code provision C.3.3 of the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules for the period from 1 January 2015 to 4 August 2015 and code provision C.3.3 of Corporate Governance code as set out in Appendix 14 to the Listing Rules after the transfer of listing on the Main Board on 5 August 2015. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. The Audit Committee will be assisted by the professional accounting firm engaged by the Group, which will conduct regular internal audits and report to the Audit Committee.

During the year ended 31 December 2015, the members of the Audit Committee were Mr. Lai Kin, Jerome, Mr. Hau Chi Hung and Mr. Tang Thomas Bong, all being independent non-executive Directors, with Mr. Lai Kin, Jerome being the chairman of the Audit Committee. In 2015, 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 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 on the re-appointment of the external auditor.

Due to the change in the control of the Company on 19 February 2016, Mr. Lai Kin, Jerome (chairman), Mr. Hau Chi Hung and Mr. Tang Thomas Bong resigned as members of the Audit Committee. As at the date of this report, members of the Audit Committee are Dr. Tyen Kan Kee, Anthony (chairman), Mr. Xia Zuoquan and Mr. Guo Xuewen, being all independent non-executive Directors.

## CORPORATE GOVERNANCE REPORT

### Remuneration Committee

The Remuneration Committee was established on 21 June 2012 and has adopted written terms of reference in compliance with code provision B.1.2 of the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules for the period from 1 January 2015 to 4 August 2015 and code provision B.1.2 of Corporate Governance Code as set out in Appendix 14 to the Listing Rules after the transfer of listing on the Main Board on 5 August 2015. The primary duties of the Remuneration Committee include the evaluation of the performance and the making of recommendations to the Board on the remuneration package of the Directors and senior management.

During the year ended 31 December 2015, the members of the Remuneration Committee were 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 Remuneration Committee. In 2015, the Remuneration Committee has held two meetings and has 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.

Due to the change in the control of the Company on 19 February 2016, Mr. Hau Chi Hung (chairman), Mr. Lai Kin, Jerome and Mr. Tang Thomas Bong resigned as members of the Remuneration Committee. As at the date of this report, members of the Remuneration Committee are Mr. Guo Xuewen (chairman), Mr. Xia Zuoquan and Dr. Tyen Kan Kee, Anthony, being all independent non-executive Directors.

### Nomination Committee

The Nomination Committee was established on 21 June 2012 and has adopted written terms of reference in compliance with code provision A.5.2 of the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules for the period from 1 January 2015 to 4 August 2015 and code provision A.5.2 of Corporate Governance Code as set out in Appendix 14 to the Listing Rules after the transfer of listing on the Main Board on 5 August 2015. 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 implementing the Board Diversity Policy and to monitor the progress on achieving these objectives.

During the year ended 31 December 2015, the members of the Nomination Committee were 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 Nomination Committee. In 2015, the Nomination Committee has held two meetings and has taken consideration of the Board Diversity Policy and reviewed the structure, size and composition of the Board, made recommendations on the re-election of Directors and assessed the independence of each of the independent non-executive Directors.

Due to the change in the control of the Company on 19 February 2016, Mr. Hau Chi Hung, Mr. Lai Kin, Jerome and Mr. Tang Thomas Bong (chairman) resigned as members of the Nomination Committee. As at the date of this report, members of the Nomination Committee are Mr. Dang Yanbao (chairman), Mr. Xia Zuoquan, Dr. Tyen Kan Hee, Anthony and Mr. Guo Xuewen, with a majority of independent non-executive directors as members and the chairman of the Board as the chairman.

# CORPORATE GOVERNANCE REPORT

## Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the Corporate Governance Code of both the GEM Listing Rules and the Listing Rules.

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 Listing Rules, and the Company's compliance with the Corporate Governance Code of both of the GEM Listing Rules and the Listing Rules and disclosure in this 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 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 Tuesday, 10 May 2016.

## SHAREHOLDERS' RIGHTS

To safeguard Shareholders' interests and rights, a separate resolution is proposed for each substantially separate issue at Shareholders' meeting. Save as provided under the Listing Rules, resolutions put to vote at the general meetings of the Company (other than purely administrative and procedural matters) are taken by poll and poll results are posted on the respective websites of the Company and the Stock Exchange after the Shareholders' meetings.

### 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.



## CORPORATE GOVERNANCE REPORT

### 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 articles of association. Whilst the company secretary reports to the chief executive on the Group's company secretarial and corporate governance matters, all Directors have access to the advice and services of the company secretary. Pursuant to the GEM Listing Rules and Listing Rules, the company secretary has taken no less than 15 hours of relevant professional training during the year.

Due to the change in the control of the Company, Ms. Wong Shuk Fong resigned as company secretary on 29 February 2016. Ms. Lo Yuen Yee was appointed company secretary on the same date in place of Ms. Wong Shuk Fong. Ms. Lo is delegated by an external service provider and the primary contact person of the company is Mr. Dang Zidong, an executive Director and chief executive officer of the Company.

### 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 the 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 2015. The Directors are responsible for overseeing the preparation of financial statements of the Company with a view to ensure that such financial statements give a true and fair view of the state of affair of the Company. 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 2015.

### AUDITOR'S REMUNERATION

Apart from the statutory audit of the Group's consolidated financial statements, the Company has engaged its auditors, Deloitte Touche Tohmatsu, to prepare a comfort letter on working capital sufficiency in respect of the application for transfer of listing of its shares from growth enterprise market to main board of the Stock Exchange. The remuneration paid/payable to the auditor of the Group is set out as follows:

Services rendered	Paid/payable for the year ended 31 December	
	2015 HK\$'000	2014 HK\$'000
Statutory audit services	820	800
Non-statutory audit services	230	–

## CORPORATE GOVERNANCE REPORT

### 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, including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budgets and the Board considers them effective and adequate.

### 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 2015, 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 2015.

### PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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. Discussion and analysis as required by Schedule 5 to the Hong Kong Companies Ordinance are set out on pages 4 to 6. This discussion forms part of the report of directors.

### SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2015 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 2015 are set out in the consolidated statement of profit or loss and other comprehensive income on page 29 of this annual report. Please refer to the announcement of the Company relating to profit warning dated 25 January 2016 for the explanations of the difference between the net income shown in the consolidated financial statements and the profit forecast made in the announcement of the Company relating to the transfer of listing from the growth enterprise market to the main board of the Stock Exchange dated 23 July 2015.

The Board does not recommend a final dividend for the year ended 31 December 2015.

### CLOSURE OF REGISTER OF MEMBERS FOR 2016 AGM

Book close dates for 2016 AGM (both days inclusive)

Monday, 9 May 2016 to Tuesday, 10 May 2016

Latest time to lodge transfer documents with

Friday, 6 May 2016, 4:00 p.m.

the Company's share registrar

Name and address of the Company's share registrar

Union Registrars Limited,  
Suites 3301-4, 33/F,  
Two Chinachem Exchange Square,  
338 King's Road, North Point, Hong Kong

### 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 2015, the aggregate amount of turnover attributable to the Group's largest and the five largest customers was 39.8% and 82.8% (2014: 38.4% and 85.1%) of the total value of the Group's turnover, respectively. The Group's purchases from the largest and the five largest suppliers accounted for 47.5% and 81.7% (2014: 45.4% and 77.1%) of the total value of the Group's purchases, respectively.

At no time during the year have the Directors, their close associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued 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 14A of the Listing Rules. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## REPORT OF THE DIRECTORS

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 2015 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	1,551	3,700

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 normal commercial terms or better ; and
- (iii) according to the agreement governing them 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 14A.56 of the Listing Rules.

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 remain 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 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 and the Listing Rule. Therefore, entering into the lease agreement constitutes a continuing connected transaction for the Company under the GEM Listing Rules and the Listing Rules.

## REPORT OF THE DIRECTORS

On 31 December 2013, Mastercraft International Limited renewed the service agreement with Todd Miller for engaging it to be one of the non-exclusive service representatives of Mastercraft International Limited 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, respectively.

Based on the aforesaid estimated growth rates and assuming the average overall commission rate of 10.4% for the two years ended 31 December 2012 and 2013 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 and the Listing Rules. Therefore, entering into the service agreement constitutes a continuing connected transaction for the Company under the GEM Listing Rules and the Listing Rules.

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

### TAX RELIEF

The Company is not aware of any relief from taxation available to the Shareholders of the Company by reason of their holding of the shares of the Company.

### RESERVES

Movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 31.

### DISTRIBUTABLE RESERVES

As at 31 December 2015, the Company's reserves, calculated in accordance with the provisions of the Cayman Islands' legislation, amounted to approximately HK\$50,068,000 (2014: HK\$44,607,000).

### 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 2015.

## REPORT OF THE DIRECTORS

### FINANCIAL SUMMARY

A summary of the results of the Group for the past five financial years is set out on page 68 of this 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 association of the Company, one-third of the Directors are subject to retirement at each annual general meeting 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 for re-election at the forthcoming annual general meeting of the Company.

For all the former executive Directors and independent non-executive Directors who served their terms of office during the year ended 31 December 2015, they have entered service contracts with the Company for a term of three years and two years commencing on 20 July 2012 and should continue thereafter unless and until terminated by either parties by giving to the other not less than three months' notice in writing. Their terms of office were 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.

For all the current executive Directors, each of them has entered into a service agreement with the Company for three years and for all the non-executive Directors, each of them has entered into an appointment letter with the Company for two years. All the Directors and the Company are required to give three months' notice in writing to other party for termination of the service agreement / appointment letter. All the Directors are appointed for a specific term and subject to re-election 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 respectively pursuant to the GEM Listing Rules and the Listing Rules. The Company considers all the independent non-executive Directors to be independent pursuant to Rule 5.09 of the GEM Listing Rules and Rule 3.13 of the Listing Rules for the year ended 31 December 2015.

### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Please refer to page 2 of this report for the list of Directors during the financial year ended 31 December 2015 and as at the date of this report. Biographical details of the current Directors of the Company are set out on pages 7 to 9 of this report.

### DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 27 to the consolidated financial statements, no Director or an entity connected with a Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party subsisting during or at the end of the year ended 31 December 2015.

## REPORT OF THE DIRECTORS

### COMPETING INTEREST

For the year ended 31 December 2015, 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 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 2015.

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

As at 31 December 2015, the interests and short positions of the Directors and chief executive of the Company in the ordinary shares (the "Shares") of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules for the period from 1 January 2015 to 4 August 2015 and the Model Code for Securities Transactions by Directors of Listed Issuer as set out in Appendix 10 to the Listing Rules from 5 August 2015 to 31 December 2015, 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 2015, none of the Directors or the chief executive of the Company or their respective associates had registered any other interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules for the period from 1 January 2015 to 4 August 2015 and the Model Code for Securities Transactions by Directors of Listed Issuer as set out in Appendix 10 to the Listing Rules from 5 August 2015 to 31 December 2015.

## 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 2015, the Directors were not aware of any other person who had, or was deemed to have, interests or short positions in the Shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; or who is directly or indirectly, to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or options in respect of such share capital.

#### Long Positions in the Shares

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

Notes:

- The letter "L" denotes a long position in the shareholder's interest in the share capital of the Company.
- 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 2015.

### SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Scheme") pursuant to a written resolution of the Company passed on 21 June 2012 for the primary purpose of providing incentives and rewards to eligible participants, and will expire on 21 June 2022. The scheme was adjusted on 27 July 2015.

Under the Scheme, the Board may grant options to any of the following participants:

- any Director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company ("Affiliate"); or
- the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any Director, employee, consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or an Affiliate; or
- a company beneficially owned by any Director, employee, consultant, professional, customer, supplier, agent, partner, adviser of or contractor to the Group or an Affiliate.

The total number of shares of the Company ("Shares") which may be issued upon exercise of all options may be granted under the Scheme is not permitted to exceed 48,000,000 Shares, being 9.5% of the Shares in issue, without prior approval from the Company's shareholders.

The total number of Shares issued and to be issued upon exercise of the options granted and may be granted to any participant in any 12-month period must not exceed 1% of the Shares in issue, without prior approval from the Company's shareholders.



## REPORT OF THE DIRECTORS

Any grant of options to a substantial shareholder of the Company or an independent non-executive Director or their respective associates in any 12-month period in excess of 0.1% of the Share in issue or with a value in excess of HK\$5,000,000 must be approved in advance by the Company's shareholders.

Any offer made to a participant for an option must be taken up within five business days from the date of offer, upon payment of HK\$1 (or such other nominal sum as the Board may determine). Options may be exercised at any time during a period as the Board may determine, which shall not more than ten years from the date of grant of the options.

The exercise price for any Share under the Scheme is determined by the Board, and will not be less than the higher of (i) the closing price of a Share on the date of grant; (ii) the average closing price of a Share for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Share.

No share option has been granted since the Scheme has been adopted. As at 31 December 2015, 31 December 2014 and 2013, there are no outstanding share options issued under the Scheme.

### EQUITY-LINKED AGREEMENT

Save as disclosed in the section headed "SHARE OPTION SCHEME", no equity-linked agreement were entered into during the year or subsisted at the end of the year ended 31 December 2015.

### CORPORATE GOVERNANCE

Principal corporate governance practices as adopted by the Company are set out in the Corporate Governance Report section set out on pages 10 to 17.

### PUBLIC FLOAT

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

### PERMITTED INDEMNITY PROVISION

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of all the former and existing directors of the Company is currently in force and was in force throughout the year of 2015.

### ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to the long term sustainability of the environment and communities in which it operates. As a responsible corporation, to the best knowledge of the Directors of the Company, the Group has complied with all relevant laws and regulations regarding environmental protection during the year ended 31 December 2015.

### COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and the risk of noncompliance with the applicable rules and regulations. To the best knowledge of the Directors of the Company, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the year ended 31 December 2015.

### RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHER STAKEHOLDERS

The Group understands the success of the Group's business depends on the support from its key stakeholders, including employees, customers, suppliers, banks, regulators and shareholders. The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

## REPORT OF THE DIRECTORS

### EVENTS AFTER THE REPORTING PERIOD

#### Change of Controlling Shareholder and Mandatory Unconditional Cash Offer

On 8 January 2016, SYH Investments Limited, Mr. Jerry Denny Strickland Jr. (as vendors), Mr. Leung Yuen Ho, Simon (as guarantor of SYH Investments Limited) entered into an agreement (the "Sale and Purchase Agreement") with Fung Teng Enterprises Limited ("Fung Teng", a company wholly owned by Mr. Dang Yanbao), pursuant to which Fung Teng acquired 360,000,000 Shares (representing 75% of the issued share capital of the Company at the relevant time) at a cash consideration of HK\$1.50 per share (i.e. HK\$540,000,000 in aggregate). Following the completion of the Sale and Purchase Agreement on 8 January 2016, Fung Teng became interested in 360,000,000 shares and was required to make an unconditional mandatory cash offer (the "Offer") to acquire all the issued shares of the Company not already owned and/or agreed to be acquired by it or parties acting in concert with it at a price of HK\$1.50 per share. The Offer closed on 19 February 2016.

Please also refer to the announcement of the Company dated 11 January 2016, the composite document issued by the Company and Fung Teng on 29 January 2016, and the announcement of the Company dated 19 February 2016.

#### Change of Directors and Re-election of Directors at 2016 Annual General Meeting

Mr. Dang Yanbao, Mr. Liu Yuanguan and Mr. Gao Jianjun were appointed as executive Directors with effect from 30 January 2016. On 19 February 2016, Mr. Dang Zidong was appointed as executive Director, Mr. Cheng Hoo was appointed as non-executive Director, and Mr. Xia Zuoquan, Dr. Tyen Kan Hee, Anthony and Mr. Guo Xuewen were appointed as independent non-executive Directors.

Pursuant to code provision A.4.2 of the Corporate Governance Code of the Listing Rules and the articles of association of the Company, all Directors appointed to fill a casual vacancy should be subject to re-election by Shareholders at the first general meeting after appointment. All the above Directors appointed by the Board with effect from 30 January 2016 and 19 February 2016 respectively, shall retire at the forthcoming 2016 annual general meeting and be eligible for re-election pursuant to the articles of association of the Company.

Due to a change in control of the Company after the close of the Mandatory Unconditional Cash Offer, on 19 February 2016, Mr. Leung Yuen Ho, Simon, Mr. Jerry Denny Strickland Jr., Mr. Wong Shuk Fong resigned as executive Directors, and Mr. Hau Chi Hung, Mr. Lai Kin, Jerome and Mr. Tang Thomas Bong resigned as independent non-executive Directors.

#### Change of Company Secretary

Ms. Lo Yuen Yee has been appointed as the company secretary of the Company with effect from 29 February 2016 in place of Ms. Wong Shuk Fong.

#### Placing of New Shares under General Mandate

On 17 March 2016, the Company and GF Securities (Hong Kong) Brokerage Limited (the "Placing Agent") entered into a placing agreement, pursuant to which the Company has conditionally agreed to place, through the Placing Agent, on a best effort basis, ordinary shares of the Company to not fewer than six Placees who and whose ultimate beneficial owners would be third parties independent of the Company and not connected nor acting in concert with any of the connected persons of the Company or any of their respective associates at the placing price of HK\$2.41 per share. The Company intends to issue not more than 25,200,000 ordinary shares under the placing.

The placing price of HK\$2.41 per placing share represents: (i) a discount of approximately 19.67% to the closing price of HK\$3.00 per share as quoted on the Stock Exchange on 16 March 2016, being the last trading day preceding the entering into of the placing agreement; and (ii) a discount of approximately 16.03% to the average closing price of HK\$2.87 per share in the last five consecutive trading days immediately prior to 16 March 2016, being the last trading day preceding the entering into of the placing agreement.

## REPORT OF THE DIRECTORS

The placing was completed on 30 March 2016 and 25,200,000 ordinary shares were placed in full, the gross proceeds from the placing amounted to HK\$60,732,000 and the net proceeds for the placing amounted to approximately HK\$59,600,000. The net price of each placing share is HK\$2.37. The aggregate nominal value of the placing shares is HK\$252,000.

The Company intends to use the proceeds of the placing, after deducting the placing commission and other related costs and expenses, (i) as to 20%, i.e. approximately HK\$11,920,000, as general working capital for existing operation of the Group, which includes, establishment and maintenance of headquarter in Hong Kong and upgrade of operational infrastructure, enhancement of quality and expansion of the professional team, upgrade and maintenance of the information technology system, and strengthen marketing efforts; and (ii) as to 80%, i.e. approximately HK\$47,680,000, to finance potential strategic diversification opportunities in clean energy projects in photovoltaics, specifically, the construction and operation of solar energy facilities, and energy related deal, an area which the PRC government is actively supporting and promoting, as the Company may identify for the benefit of the shareholders of the Company as a whole.

As at the date of this report, the proceeds of the placing have not be applied and were placed in deposit account of the Company.

The Board is of the view that the placing can strengthen the financial position of the Group and provide funding to the Group to meet any future development opportunities and obligations. The placing also represents good opportunities to broaden the shareholders' base and the capital base of the Company.

Please also refer to the announcements of the Company dated 17 March 2016 and 21 March 2016 for details of the placing.

### 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**

**Dang Yanbao**  
*Chairman*

Hong Kong, 31 March 2016

## INDEPENDENT AUDITOR'S REPORT



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 29 to 67, which comprise the consolidated statement of financial position as at 31 December 2015, 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 financial position of the Group as at 31 December 2015, and of its financial performance 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  
31 March 2016

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	NOTES	2015 HK\$'000	2014 HK\$'000
Revenue	7	<b>389,740</b>	373,162
Cost of sales		<b>(312,547)</b>	(290,185)
Gross profit		<b>77,193</b>	82,977
Other income		<b>195</b>	284
Selling expenses		<b>(23,696)</b>	(23,006)
Administrative expenses		<b>(28,575)</b>	(23,741)
Research and development expenses		<b>(5,955)</b>	(6,383)
Finance costs	8	–	(1)
Profit before taxation	9	<b>19,162</b>	30,130
Income tax expense	12	<b>(4,730)</b>	(6,498)
Profit for the year		<b>14,432</b>	23,632
Other comprehensive income for the year			
Exchange differences arising on translating foreign operation		<b>662</b>	–
Total comprehensive income for the year		<b>15,094</b>	23,632
Earnings per share – Basic	13	<b>HK3.01 cents</b>	HK4.92 cents

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	NOTES	2015 HK\$'000	2014 HK\$'000
<b>Non-current Assets</b>			
Property, plant and equipment	14	4,890	5,373
Deferred tax assets	15	1,175	1,193
Intangible asset	16	756	853
		<b>6,821</b>	7,419
<b>Current Assets</b>			
Inventories	17	31,089	30,218
Trade and other receivables	18	84,391	74,237
Tax recoverable		322	–
Bank balances and cash	19	19,992	21,758
		<b>135,794</b>	126,213
<b>Current Liabilities</b>			
Trade and other payables	20	52,414	38,921
Provision	21	4,476	5,290
Amount due to a related company	27(a)	238	160
Tax payable		–	2,948
		<b>57,128</b>	47,319
<b>Net Current Assets</b>		<b>78,666</b>	78,894
<b>Total Assets less Current Liabilities</b>		<b>85,487</b>	86,313
<b>Non-current Liability</b>			
Deferred tax liabilities	15	3	83
<b>Net assets</b>		<b>85,484</b>	86,230
<b>Capital and Reserves</b>			
Share capital	22	4,800	4,800
Reserves		80,684	81,430
<b>Total Equity</b>		<b>85,484</b>	86,230

The consolidated financial statements on pages 29 to 32 were approved and authorised for issue by the Board of Directors on 31 March 2016 and are signed on its behalf by:

**Dang Yanbao**  
EXECUTIVE DIRECTOR

**Dang Zidong**  
EXECUTIVE DIRECTOR

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000 (Note)	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 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 and 1 January 2015	4,800	32,523	(1)	(132)	49,040	86,230
Profit for the year	–	–	–	–	14,432	14,432
Exchange difference arising on translation of foreign operations	–	–	–	662	–	662
Total comprehensive income for the year	–	–	–	662	14,432	15,094
2014 final dividend paid (note 10)	–	–	–	–	(15,840)	(15,840)
At 31 December 2015	4,800	32,523	(1)	530	47,632	85,484

Note: Special reserve represents the reserve arising from group reorganisation in 2012.



## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 HK\$'000	2014 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	19,162	30,130
Adjustments for:		
Depreciation of property, plant and equipment	1,622	1,465
Allowance for obsolete and slow-moving inventories	353	433
Amortisation of intangible asset	97	97
Interest expenses	–	1
Interest income	(51)	(77)
Operating cash flows before movements in working capital	21,183	32,049
Increase in inventories	(1,224)	(7,927)
(Increase) decrease in trade and other receivables	(10,154)	5,981
Increase (decrease) in trade and other payables	14,273	(13,437)
(Decrease) increase in provision	(814)	666
Increase (decrease) in amount due to a related company	78	(59)
Cash generated from operations	23,342	17,273
Income tax paid in Hong Kong	(5,700)	(5,028)
Income tax paid in other jurisdictions	(2,354)	(1)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>15,288</b>	<b>12,244</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(1,241)	(1,560)
Interest received	51	77
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(1,190)</b>	<b>(1,483)</b>
<b>FINANCING ACTIVITIES</b>		
Dividend paid to shareholders	(15,840)	(14,400)
Interest paid	–	(1)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(15,840)</b>	<b>(14,401)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,742)</b>	<b>(3,640)</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b>21,758</b>	<b>25,398</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>(24)</b>	<b>–</b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b> – represented by bank balances and cash	<b>19,992</b>	<b>21,758</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 1. GENERAL

The Company was incorporated in the Cayman Islands on 3 August 2011 and its shares were listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 20 July 2012. On 5 August 2015, the listing of the shares of the Company has been transferred from the GEM to the Main Board of the Stock Exchange. 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. Prior to 19 February 2016, SYH Investments Limited and Mr. Jerry Strickland, an executive Director of the Company until 19 February 2016, each held 37.5% of the entire issued share capital of the Company (75% in aggregate). SYH Investments Limited is a company incorporated in the British Virgin Islands and is wholly-owned by Mr. Leung Yuen Ho, Simon, an executive Director who is also the chief executive of the Company until 19 February 2016. On 19 February 2016, SYH Investments Limited and Mr. Jerry Strickland disposed of their aggregate 360,000,000 shares, representing 75% of the entire issued share capital of the Company, to Fung Teng Enterprises Limited, which is wholly-owned by Mr. Dang Yanbao.

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 the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year.

Amendments to HKAS 19	Defined benefit plans: Employee contributions
Amendments to HKFRSs	Annual improvements to HKFRSs 2010 – 2012 cycle
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 – 2013 cycle

The application of these amendments to HKFRSs in the current year 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

#### New and revised HKFRSs in issue but not yet effective

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 <sup>1</sup>
HKFRS 14	Regulatory deferral accounts <sup>2</sup>
HKFRS 15	Revenue from contracts with customers <sup>1</sup>
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations <sup>3</sup>
Amendments to HKAS 1	Disclosure initiative <sup>3</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation <sup>3</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants <sup>3</sup>
Amendments to HKAS 27	Equity method in separate financial statements <sup>3</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture <sup>4</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation and exception <sup>3</sup>
Amendments to HKFRSs	Annual improvements to HKFRSs 2012 – 2014 cycle <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

<sup>2</sup> Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined.

#### HKFRS 9 “Financial instruments”

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities for derecognition, and further amended in 2013 to include the new requirements for hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a “fair value through other comprehensive income” (“FVTOCI”) measurement category for certain simple debt instruments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

#### HKFRS 9 “Financial instruments” (Continued)

Key requirements of HKFRS 9 that are relevant to the Group are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The directors do not anticipate that the application of HKFRS 9 will have a material impact on the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

#### HKFRS 15 “Revenue from contracts with customers”

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction contracts” and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

#### HKFRS 15 "Revenue from contracts with customers" (Continued)

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the application of HKFRS 15 in the future may impact the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Except for the above disclosed, the directors of the Company do not anticipate that the application of the other amendments to HKFRSs will have a material impact on the results and the financial position of the Group.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the HKFRSs by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the provisions of the new Hong Kong Companies Ordinance (Cap. 622) regarding preparation of accounts and directors' reports and audits and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **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.

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 2015

### 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.

##### *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 2015

## 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 2015

### 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.

#### **Provisions for sales discount and defective claims**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions for the expected cost of warranty obligations under the relevant sale of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation, 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).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Impairment losses on tangible and intangible assets**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible 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.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 immediately in profit or loss.

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.

#### **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).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Financial instruments** *(Continued)*

##### *Financial assets (Continued)*

##### 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.

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 Company are recorded at the proceeds received, net of direct issue costs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

#### *Financial liabilities and equity instruments (Continued)*

##### 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, 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.

## 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 4. KEY SOURCE OF ESTIMATION UNCERTAINTY *(Continued)*

#### **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 2015, the carrying amount of trade receivables of the Group is HK\$83,455,000 (2014: HK\$69,401,000).

#### **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. As at 31 December 2015, the carrying amount of property, plant and equipment is HK\$4,890,000 (2014: HK\$5,373,000).

#### **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 2015, the carrying amount of provision of sales discounts and defective claims is HK\$4,476,000 (2014: HK\$5,290,000).

### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 6. FINANCIAL INSTRUMENTS

#### 6a. Categories of financial instruments

	2015 HK\$'000	2014 HK\$'000
Financial assets		
Loans and receivables (including bank balances and cash)	103,627	91,345
Financial liabilities		
Amortised cost	45,696	33,592

#### 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:

	2015 HK\$'000	2014 HK\$'000
Hong Kong Dollar ("HK\$")	493	1,004
Renminbi ("RMB")	17	17

##### 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 6. FINANCIAL INSTRUMENTS *(Continued)*

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

##### *Credit risk*

As at 31 December 2015, 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 2015, 32% (2014: 37%) of the total trade receivables was due from the Group's largest customer, while 87% (2014: 88%) of the total trade receivables was due from the Group's five largest customers at 31 December 2015.

The top five customers represent over 83% (2014: 85%) of the revenue for the year ended 31 December 2015. 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 2015

### 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
<b>At 31 December 2015</b>					
Trade and other payables	–	–	45,458	45,458	45,458
Amount due to a related company	–	238	–	238	238
		<b>238</b>	<b>45,458</b>	<b>45,696</b>	<b>45,696</b>

	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
<b>At 31 December 2014</b>					
Trade and other payables	–	–	33,432	33,432	33,432
Amount due to a related company	–	160	–	160	160
		<b>160</b>	<b>33,432</b>	<b>33,592</b>	<b>33,592</b>

#### 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 2015

### 7. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable from 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 2015

### 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 2015

	Portable lighting HK\$'000	Shades HK\$'000	Furniture set and other home accessory products HK\$'000	Total HK\$'000
SEGMENT REVENUE				
External sales	287,032	76,765	25,943	389,740
Segment profit	52,816	18,033	6,344	77,193
Unallocated income				195
Unallocated expenses				
– Selling expenses				(23,696)
– Administration expenses				(28,575)
– Research and development expenses				(5,955)
Profit before taxation				19,162

#### 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 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 gross profit earned by each segment and hence is arrived at 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)	
	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Hong Kong	–	–	1,305	1,786
PRC	–	–	1,862	2,537
USA	382,707	361,795	2,479	1,903
Canada	6,754	11,089	–	–
Others	279	278	–	–
<b>Total revenue/non-current assets</b>	<b>389,740</b>	<b>373,162</b>	<b>5,646</b>	<b>6,226</b>

#### Information about major customers

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

	2015 HK\$'000	2014 HK\$'000
Customer A (Note)	116,845	116,950
Customer B (Note)	155,178	143,251

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

### 8. FINANCE COSTS

	2015 HK\$'000	2014 HK\$'000
Interest expenses on bank overdraft	–	1

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 9. PROFIT BEFORE TAXATION

	2015 HK\$'000	2014 HK\$'000
Profit before taxation has been arrived at after charging:		
Staff costs, including directors' remuneration (note 11)		
Salaries, wages and other benefits	32,673	30,898
Retirement benefits scheme contributions	869	811
	<b>33,542</b>	31,709
Allowance for obsolete and slow-moving inventories	353	433
Amortisation of intangible asset	97	97
Auditor's remuneration	820	820
Cost of inventories recognised as expenses	307,278	283,977
Depreciation of property, plant and equipment	1,622	1,465
Net foreign exchange loss	860	148
Operating lease rentals	6,174	4,850
Research expenditures, including staff costs of HK\$2,702,000 (2014: HK\$3,336,000)	5,955	6,383
and after crediting:		
Interest income	51	77

### 10. DIVIDEND

A final dividend for the year ended 31 December 2014 of HK3.3 cents (2014: for 2013 final dividend of HK3 cents) per ordinary share, equivalent to HK\$15,840,000 (2014: HK\$14,400,000), was approved by the shareholders in the annual general meeting on 15 May 2015 and paid.

The Board has resolved not to recommend any final dividend for the year ended 31 December 2015.

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

Details of the emoluments paid/payable to the directors and the Chief Executive of the Company (including emoluments for their services as managerial level employees of group entities prior to becoming the directors of the Company) during both years are as follow:

	2015 HK\$'000	2014 HK\$'000
Directors' fee	360	360
Other emoluments		
– salaries and other benefits	4,243	3,147
– retirement benefits scheme contributions	98	75
	<b>4,701</b>	3,582

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued) For the year ended 31 December 2015

	Fees HK\$'000	Salaries and other benefits HK\$'000	Performance- based bonus HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Executive directors:					
Mr. Leung Yuen Ho, Simon (Note ii)	–	1,560	–	18	1,578
Mr. Jerry Strickland (Note ii)	–	1,586	–	62	1,648
Ms. Wong Shuk Fong (appointed on 22 July 2015) (Note ii)	–	897	200	18	1,115
Independent non-executive directors:					
Mr. Hau Chi Hung (Note ii)	60	–	–	–	60
Mr. Lai Kin, Jerome (Note ii)	240	–	–	–	240
Mr. Tang Thomas Bong (Note ii)	60	–	–	–	60
	<b>360</b>	<b>4,043</b>	<b>200</b>	<b>98</b>	<b>4,701</b>

For the year ended 31 December 2014

	Fees HK\$'000	Salaries and other benefits HK\$'000	Performance- based bonus 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
	<b>360</b>	<b>3,147</b>	<b>–</b>	<b>75</b>	<b>3,582</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)

Notes:

- (i) The performance-based bonus is discretionary based on the Group's financial results and directors' performance as decided by the management of the Group.
- (ii) Mr. Leung Yuen Ho, Simon was also the chief executive of the Company and his emoluments disclosed above included those for services rendered by him as the chief executive. Mr. Leung Yuen Ho, Simon, Mr. Jerry Strickland and Ms. Wong Shuk Fong resigned as executive Directors; and Mr. Hau Chi Hung, Mr. Lai Kin, Jerome and Mr. Tang Thomas Bong resigned as independent non-executive Directors effective from 19 February 2016.
- (iii) The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The emoluments of independent non-executive directors shown above were mainly for their services as directors' of the Company.

#### Five highest paid individuals

The five highest paid individuals of the Group included 3 (2014: 2) directors for the year. The details of their emoluments are set out above. The remunerations of the remaining 2 (2014: 3) highest paid individuals are as follows:

	2015 HK\$'000	2014 HK\$'000
Employees		
– salaries and other benefits	2,030	2,722
– discretionary bonus (Note)	78	363
– retirement benefits scheme contributions	82	97
	<b>2,190</b>	<b>3,182</b>

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 2 highest paid individuals (2014: 3) in the Group for the year were within the following bands:

	2015 No. of Employees	2014 No. of Employees
Nil – HK\$1,000,000	–	–
HK\$1,000,001 – HK\$1,500,000	2	3
	<b>2</b>	<b>3</b>

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 2015

### 12. INCOME TAX EXPENSE

	2015 HK\$'000	2014 HK\$'000
Current taxation:		
– Hong Kong Profits Tax	4,793	5,282
– Overseas taxation	7	1,991
	4,800	7,273
(Over)underprovision in prior years:		
– Hong Kong Profits Tax	425	(603)
– Overseas taxation	(433)	45
	(8)	(558)
Deferred taxation (note 15)	(62)	(217)
Total	4,730	6,498

The Company and the subsidiaries operating in Hong Kong are subject to Hong Kong Profits Tax at a tax rate of 16.5% (2014: 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:

	2015 HK\$'000	2014 HK\$'000
Profit before taxation	19,162	30,130
Tax at Hong Kong Profits Tax rate at 16.5% (2014: 16.5%)	3,162	4,971
Tax effect of expenses not deductible for tax purpose	513	585
Tax effect of income not taxable for tax purpose	(5)	(20)
Tax effect of tax losses not recognised	913	425
Tax effect of different tax rate of subsidiaries in other jurisdictions	230	1,111
(Over)underprovision in prior years	(8)	(558)
Others	(75)	(16)
Income tax expense for the year	4,730	6,498

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 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 of HK\$14,432,000 (2014: HK\$23,632,000) and the number of 480,000,000 ordinary shares (2014: 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 2015 and 2014.

### 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
<b>COST</b>					
At 1 January 2014	1,910	2,357	4,358	4,100	12,725
Additions	–	99	1,461	–	1,560
At 31 December 2014 and 1 January 2015	1,910	2,456	5,819	4,100	14,285
Exchange adjustment	–	(112)	(76)	–	(188)
Additions	–	19	1,222	–	1,241
At 31 December 2015	1,910	2,363	6,965	4,100	15,338
<b>ACCUMULATED DEPRECIATION</b>					
At 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 and 1 January 2015	914	694	3,457	3,847	8,912
Exchange adjustment	–	(48)	(38)	–	(86)
Provided for the year	76	489	827	230	1,622
At 31 December 2015	990	1,135	4,246	4,077	10,448
<b>CARRYING VALUES</b>					
At 31 December 2015	920	1,228	2,719	23	4,890
At 31 December 2014	996	1,762	2,362	253	5,373



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

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

The carrying value of land and buildings comprises:

	2015 HK\$'000	2014 HK\$'000
Land and buildings situated in Hong Kong	920	996

As at 31 December 2015, the Group had pledged its land and buildings with carrying value of HK\$920,000 (2014: HK\$996,000), to secure general banking facilities granted to the Group.

### 15. DEFERRED TAXATION

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

	Accelerated tax depreciation HK\$'000	Temporary difference on unrealised profits on intra-group transactions HK\$'000	Total HK\$'000
At 1 January 2014	(116)	1,009	893
Credit to profit or loss	33	184	217
At 31 December 2014 and 1 January 2015	(83)	1,193	1,110
Credit (charge) to profit or loss	80	(18)	62
At 31 December 2015	(3)	1,175	1,172

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 15. DEFERRED TAXATION (Continued)

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

	2015 HK\$'000	2014 HK\$'000
Deferred tax assets	1,175	1,193
Deferred tax liabilities	(3)	(83)
	<b>1,172</b>	<b>1,110</b>

At the end of the reporting period, the Group had unused tax losses of HK\$14,937,000 (2014: HK\$8,851,000) 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\$8,936,000 (2014: HK\$6,498,000) that will expire within 5 years and losses of HK\$1,426,000 (2014: HK\$935,000) that will expire within 20 years, other tax losses may be carried forward indefinitely.

### 16. INTANGIBLE ASSET

	Brand name HK\$'000
<b>COST</b>	
At 1 January 2014, 31 December 2014 and 31 December 2015	966
<b>AMORTISATION</b>	
At 1 January 2014	16
Charge for the year	97
At 31 December 2014 and 1 January 2015	113
Charge for the year	97
At 31 December 2015	210
<b>CARRYING VALUE</b>	
At 31 December 2015	756
At 31 December 2014	853

The brand name has finite useful life and is amortised on a straight-line basis over 10 years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 17. INVENTORIES

	2015 HK\$'000	2014 HK\$'000
Finished goods	31,089	30,218

### 18. TRADE AND OTHER RECEIVABLES

	2015 HK\$'000	2014 HK\$'000
Trade receivables	83,455	69,401
Bill receivables	164	–
	83,619	69,401
Other receivables and prepayment	772	4,836
	84,391	74,237

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.

	2015 HK\$'000	2014 HK\$'000
1 to 30 days	79,278	32,199
31 to 60 days	1,402	34,957
61 to 90 days	13	1,643
Over 90 days	2,926	602
	83,619	69,401

Before accepting any new customer, the Group assesses 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 18. TRADE AND OTHER RECEIVABLES (Continued)

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK\$9,777,000 (2014: HK\$11,549,000), which are past due for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. Such receivables relate to a number of customers from which substantial subsequent settlements were received. The aging analysis of these trade receivables is as follows:

	2015 HK\$'000	2014 HK\$'000
Overdue by:		
1 to 30 days	6,877	9,698
31 to 60 days	15	1,220
61 to 90 days	17	73
Over 90 days	2,868	558
	<b>9,777</b>	<b>11,549</b>

### 19. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.01% to 0.84% per annum as at 31 December 2015 (2014: 0.01% to 0.81% per annum).

### 20. TRADE AND OTHER PAYABLES

	2015 HK\$'000	2014 HK\$'000
Trade payables	45,190	29,970
Accrued sales commission	268	193
Other payables and accruals	6,956	8,758
	<b>52,414</b>	<b>38,921</b>

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:

	2015 HK\$'000	2014 HK\$'000
1 to 30 days	31,450	23,712
31 to 60 days	11,503	4,677
61 to 90 days	1,074	972
Over 90 days	1,163	609
	<b>45,190</b>	<b>29,970</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 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 2014	4,624
Charge to profit or loss	7,839
Utilisation of provision	(7,173)
At 31 December 2014 and 1 January 2015	5,290
Charge to profit or loss	9,249
Utilisation of provision	(10,063)
At 31 December 2015	4,476

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.

### 22. SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 1 January 2014, 31 December 2014 and 31 December 2015	800,000,000	8,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each at 1 January 2014, 31 December 2014 and 31 December 2015	480,000,000	4,800

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 23. OPERATING LEASES

#### The Group as lessee

	2015 HK\$'000	2014 HK\$'000
Minimum lease payments paid under operating leases in respect of rented premises during the year	6,174	4,850

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:

	2015 HK\$'000	2014 HK\$'000
Within one year	4,012	3,761
In the second to fifth years inclusive	1,816	5,282
	5,828	9,043

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 three years (2014: four years).

### 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\$1,500 (before 1 June 2014: 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\$869,000 (2014: HK\$811,000) for the year ended 31 December 2015 represents contributions payable to these schemes.

### 25. BANK FACILITIES

At 31 December 2015, the Group had general banking facilities of HK\$5,000,000 (2014: HK\$5,000,000). The banking facilities are secured by the Group's land and buildings, having carrying value of HK\$920,000 (2014: HK\$996,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 26. CAPITAL COMMITMENTS

	2015 HK\$'000	2014 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for	693	–

### 27. RELATED PARTY DISCLOSURES

#### (a) Amount due to a related company

Amount due to a related company is as follows:

	2015 HK\$'000	2014 HK\$'000
Todd Miller Inc. (Note)	238	160

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. Todd Miller Inc. will no longer be a related party to the Group upon the resignation of Mr. Jerry Strickland as director of the Company effective from 19 February 2016.

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:

	2015 HK\$'000	2014 HK\$'000
1 to 30 days	174	141
31 to 60 day	–	–
61 to 90 days	1	–
Over 90 days	63	19
	238	160

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 27. RELATED PARTY DISCLOSURES (Continued)

#### (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	2015 HK\$'000	2014 HK\$'000
Todd Miller Inc.	Commission expenses (Note 1)	1,551	1,683
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 from 10% to 13% (2014: from 10% to 13%) of sales, depending on the kind of products being sold to the customers. Todd Miller Inc. will no longer be a related party to the Group upon the resignation of Mr. Jerry Strickland as director of the Company effective from 19 February 2016.
- (2) During the year ended 31 December 2011, Mastercraft Distribution USA Inc., an indirectly wholly-owned subsidiary of the Company, 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. During prior year, the lease agreement was renewed and the lease period was extended from 1 January 2014 to 31 December 2016. MCP will no longer be a related party to the Group upon the resignation of Mr. Jerry Strickland as director of the Company effective from 19 February 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 2015

### 28. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation/ establishment	Principle place of operation	Equity interest attributable to the Group		Issued and fully paid share/ registered capital	Principal activities
			As at 31 December 2015	2014		
<b>Directly owned</b>						
Mastercraft Worldwide Limited	The British Virgin Islands ("BVI")	BVI	100%	100%	US\$6	Investment holding ordinary shares
<b>Indirectly owned</b>						
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 (Dongguan) Limited 馬仕達家飾研發(東莞)有限公司 <sup>^</sup>	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

<sup>^</sup> Foreign investment enterprise established in the PRC.

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 2015

### 29. FINANCIAL INFORMATION OF THE COMPANY

	2015 HK\$'000	2014 HK\$'000
<b>Non-current Assets</b>		
Investment in a subsidiary	16,735	16,735
Amounts due from subsidiaries	30,687	29,956
	<b>47,422</b>	46,691
<b>Current Assets</b>		
Other receivables	184	186
Bank balances and cash	7,682	2,940
	<b>7,866</b>	3,126
<b>Current Liability</b>		
Other payable	420	410
<b>Net Current Assets</b>	<b>7,446</b>	2,716
<b>Net Assets</b>	<b>54,868</b>	49,407
<b>Capital and Reserves</b>		
Share capital	4,800	4,800
Reserves	50,068	44,607
<b>Total Equity</b>	<b>54,868</b>	49,407

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 29. FINANCIAL INFORMATION OF THE COMPANY (Continued)

Movement of reserves:

	Share premium HK\$'000	Special reserve HK\$'000 (Note)	Accumulated profit (losses) HK\$'000	Total HK\$'000
At 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 and 1 January 2015	32,523	16,385	(4,301)	44,607
Profit and total comprehensive income for the year	–	–	21,301	21,301
2014 final dividend paid (note 10)	–	–	(15,840)	(15,840)
At 31 December 2015	32,523	16,385	1,160	50,068

Note: 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

### 30. EVENTS AFTER THE REPORTING PERIOD

On 8 January 2016, SYH Investments Limited, Mr. Jerry Strickland (as vendors), Mr. Leung Yuen Ho, Simon (as guarantor of SYH Investments Limited) entered into an agreement (the "Sale and Purchase Agreement") with Fung Teng Enterprises Limited ("Fung Teng", a company wholly-owned by Mr. Dang Yanbao), pursuant to which Fung Teng acquired 360,000,000 shares (representing 75% of the issued share capital of the Company at the relevant time) at a cash consideration of HK\$1.50 per share (i.e. HK\$540,000,000 in aggregate). Following the completion of the Sale and Purchase Agreement on 8 January 2016, Fung Teng became interested in 360,000,000 shares and was required to make an unconditional mandatory cash offer (the "Offer") to acquire all the shares of the Company not already owned by it or parties acting in concert with it at a price of HK\$1.50 per share. The Offer closed on 19 February 2016.

Mr. Dang Yanbao, Mr. Liu Yuanguan and Mr. Gao Jianjun were appointed as executive Directors with effect from 30 January 2016. On 19 February 2016, Mr. Dang Zidong was appointed as executive Director, Mr. Cheng Hoo was appointed as non-executive Director, and Mr. Xia Zuoquan, Dr. Tyen Kan Hee, Anthony and Mr. Guo Xuewen were appointed as independent non-executive Directors. Due to change in control of the Company after the close of the mandatory unconditional cash offer on 19 February 2016, Mr. Leung Yuen Ho Simon, Mr. Jerry Strickland, Ms. Wong Shuk Fong resigned as executive Directors, and Mr. Hau Chi Hung, Mr. Lai Kin, Jerome and Mr. Tang Thomas Bong resigned as independent non-executive Directors.

On 17 March 2016, the Company and GF Securities (Hong Kong) Brokerage Limited, the placing agent, entered into a placing agreement, pursuant to which the Company has conditionally agreed to place shares to not fewer than six placees who and whose ultimate beneficial owners would be third parties independent of the Company and not connected nor acting in concert with any of the connected persons of the Company or any of their respective associates at the placing price of HK\$2.41 per placing share. The placing was completed on 30 March 2016 and 25,200,000 ordinary shares were placed in full. The gross proceeds from the placing amounted to HK\$60,732,000 and the net proceeds for the placing amounted to approximately HK\$59,600,000.

## FINANCIAL SUMMARY

### RESULTS

	2011 HK\$'000 (Note)	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000
Revenue	264,482	331,338	353,057	373,162	<b>389,740</b>
Profit before taxation	12,649	18,362	27,558	30,130	<b>19,162</b>
Income tax expense	(3,040)	(4,058)	(6,321)	(6,498)	<b>(4,730)</b>
Profit for the year	9,609	14,304	21,237	23,632	<b>14,432</b>

### ASSETS AND LIABILITIES

	2011 HK\$'000 (Note)	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000
Total assets	73,089	136,991	135,979	133,632	<b>142,615</b>
Total liabilities	(58,889)	(71,564)	(58,981)	(47,402)	<b>(57,131)</b>
Total equity	14,200	65,427	76,998	86,230	<b>85,484</b>

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