CASABLANCA® HOME

Casablanca Group Limited
卡撒天嬌集團有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

(Stock Code: 2223)

2013 ANNUAL RESULTS ANNOUNCEMENT

HIGHLIGHTS

	Notes	**2013**	2012	Change
Revenue *(HK$'000)*		**493,104**	472,593	4.3%
Gross profit *(HK$'000)*		**303,778**	292,082	4.0%
EBITDA *(HK$'000)*	*1*	**42,430**	71,154	-40.4%
Profit for the year attributable to owners of the Company *(HK$'000)*	*2*	**11,061**	32,019	-65.5%
Gross profit margin		**61.6%**	61.8%	
EBITDA margin		**8.6%**	15.1%	
Net profit margin	*2*	**2.2%**	6.8%	

		As at 31/12/2013	As at 31/12/2012	Change
Total assets *(HK$'000)*		**559,485**	500,951	11.7%
Total equity *(HK$'000)*		**303,772**	271,849	11.7%
Total bank borrowings *(HK$'000)*		**136,223**	95,858	42.1%
Net (borrowings)/cash *(HK$'000)*	*3*	**(582)**	41,916	-101.4%
Gearing ratio	*4*	**44.8%**	35.3%	
Net gearing ratio	*4*	**0.2%**	N/A	

Notes:

1. EBITDA represents gross profit less selling and distribution costs and administrative expenses adding back depreciation, amortisation and share-based payments.

2. If the sum of share-based payments and listing expenses amounted to HK$13.1 million for 2013 and HK$22.6 million for 2012 are excluded, the adjusted profit for the year attributable to owners of the Company and net profit margin become HK$24.2 million and 4.9% respectively for 2013 and HK$54.6 million and 11.6% respectively for 2012.

3. Net (borrowings)/cash represents pledged bank deposit and bank balances and cash less total bank borrowings.

4. Gearing ratio is calculated as total borrowings divided by total equity, whereas net gearing ratio is calculated as net borrowings divided by total equity.

The board (the "Board") of directors (the "Directors") of Casablanca Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2013 (the "Year" or the "Review Period") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2013

	Notes	**2013**	2012
		HK$'000	*HK$'000*
Revenue	*3*	**493,104**	472,593
Cost of goods sold		**(189,326)**	(180,511)
Gross profit		**303,778**	292,082
Other income		**2,216**	1,050
Other gains and losses		**4,161**	2,654
Selling and distribution costs		**(220,780)**	(176,269)
Administrative expenses		**(64,045)**	(52,039)
Finance costs		**(2,915)**	(691)
Listing expenses		**–**	(21,457)
Profit before taxation	*4*	**22,415**	45,330
Taxation	*5*	**(11,354)**	(13,311)
Profit for the year		**11,061**	32,019
Other comprehensive income for the year			
Items that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		**6,823**	1,675
Total comprehensive income for the year		**17,884**	33,694
Profit for the year attributable to owners of the Company		**11,061**	32,019
Total comprehensive income attributable to owners of the Company		**17,884**	33,694
Earnings per share			
– Basic (HK cents)	*7*	**5.52**	20.61
– Diluted (HK cents)	*7*	**5.33**	20.61

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2013

	Notes	**2013** **HK$'000**	2012 *HK$'000*
Non-current assets			
Property, plant and equipment		**159,079**	140,142
Prepaid lease payments		**28,860**	28,630
Intangible assets		**6**	8
Deposits paid for acquisition of property, plant and equipment		**–**	282
Rental deposits		**1,796**	2,708
		189,741	171,770
Current assets			
Inventories		**108,563**	82,796
Trade and other receivables	*8*	**124,919**	107,929
Prepaid lease payments		**621**	603
Taxation recoverable		**–**	79
Pledged bank deposit		**1,213**	–
Bank balances and cash		**134,428**	137,774
		369,744	329,181
Current liabilities			
Trade and other payables	*9*	**113,061**	126,379
Taxation payable		**4,406**	6,017
Bank borrowings		**71,377**	64,515
		188,844	196,911
Net current assets		**180,900**	132,270
Total assets less current liabilities		**370,641**	304,040
Non-current liabilities			
Bank borrowings		**64,846**	31,343
Deferred tax liabilities		**2,023**	848
		66,869	32,191
Net assets		**303,772**	271,849
Capital and reserves			
Share capital		**20,079**	20,000
Reserves		**283,693**	251,849
Total equity		**303,772**	271,849

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 23 November 2012. Its parent company is World Empire Investment Inc., a company incorporated in the British Virgin Islands, and its ultimate controlling parties are Mr. Cheng Sze Kin, who is also the Chairman of the Company, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung (the "Ultimate Beneficial Owners").

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are manufacture and trading of home textile products and accessories.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

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

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 – 2011 cycle
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
HKAS 19 (as revised in 2011)	Employee benefits
HKAS 27 (as revised in 2011)	Separate financial statements
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures
Amendments to HKAS 1	Presentation of items of other comprehensive income
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 "Consolidated financial statements", HKFRS 11 "Joint arrangements", HKFRS 12 "Disclosure of interests in other entities", HKAS 27 (as revised in 2011) "Separate financial statements" and HKAS 28 (as revised in 2011) "Investments in associates and joint ventures", together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The application of these five standards effective for annual period beginning 1 January 2013 will not have significant impact on the results and financial position of the Group as the Group owns 100% equity interest in all of its subsidiaries and does not have any associates or joint ventures at 31 December 2013.

HKFRS 13 "Fair value measurement"

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, 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 (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. The application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to HKAS 1 "Presentation of items of other comprehensive income"

The Group has applied the amendments to HKAS 1 "Presentation of items of other comprehensive income". Upon the adoption of the amendments to HKAS 1, the Group's "statement of comprehensive income" is renamed as the "statement of profit or loss and other comprehensive income". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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

Amendments to HKFRSs	Annual improvements to HKFRSs 2010 – 2012 cycle[4]
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 – 2013 cycle[2]
HKFRS 9	Financial instruments[3]
HKFRS 14	Regulatory deferred accounts[5]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[1]
Amendments to HKAS 19	Defined benefit plans: Employee contributions[2]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[1]
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets[1]
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting[1]
HK(IFRIC) – INT 21	Levies[1]

[1] Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

[2] Effective for annual periods beginning on or after 1 July 2014, except as disclosed below. Early application is permitted.

[3] Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

[4] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

[5] Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

The directors of the Company anticipate that the application of these new and revised HKFRSs, amendments or interpretations will have no material impact on the consolidated financial statements of the Group.

3. REVENUE AND SEGMENT INFORMATION

The Group's operating activities are attributable to a single operating segment focusing on manufacture and sales of bedding products. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies conform to HKFRSs, that are regularly reviewed by the executive directors of the Company, the chief operating decision maker of the Group. The executive directors of the Company regularly review revenue analysis by (i) self-operated retail sales; (ii) sales to distributors and (iii) others. However, other than revenue analysis, no operating results and other discrete financial information is available for the assessment of performance of the respective products. The executive directors of the Company review the revenue and the profit for the year of the Group as a whole to make decision about resources allocation. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the executive directors of the Company. Accordingly, no analysis of this single operating segment is presented.

- Self-operated retail sales: Sales through the self-operated retail sales channel refer to sales at the self-operated concession counters in department stores and self-operated retail stores.

- Sales to distributors: Sales to distributors refer to the sales to distributors who resell the products to end-user consumers, typically at concession counters in department stores and retail stores operated by distributors.

- Others: Other sales include sales to wholesale customers located in the People's Republic of China (for purpose of this announcement, excluding Hong Kong, Macau and Taiwan) (the "PRC") and Hong Kong and Macau, and sales made to overseas customers.

The information of segment revenue is as follows:

	2013	2012
	HK$'000	*HK$'000*
Self-operated retail sales	**361,413**	348,196
Sales to distributors	**69,951**	72,904
Others	**61,740**	51,493
	493,104	472,593

Entity-wide information

The following is an analysis of the Group's revenue from its major products:

	2013	2012
	HK$'000	*HK$'000*
Bed linens	**250,613**	237,796
Duvets and pillows	**223,577**	213,020
Other home accessories	**18,914**	21,777
	493,104	472,593

Geographical information

Information about the Group's revenue from external customers is presented based on the location of the operations:

	2013	2012
	HK$'000	*HK$'000*
PRC	**237,901**	233,024
Hong Kong and Macau	**244,191**	235,292
Others	**11,012**	4,277
	493,104	472,593

4. PROFIT BEFORE TAXATION

	2013	2012
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Directors' and chief executive's remuneration	**17,471**	8,735
Other staff costs	**82,518**	66,576
Retirement benefit schemes contributions for other staff	**6,590**	4,425
Share-based payments for other staff	**3,580**	345
Total staff costs	**110,159**	80,081
Auditor's remuneration		
– current year	**1,384**	1,284
– overprovision in prior year	**–**	(9)
	1,384	1,275
Amortisation of intangible assets	**2**	2
Amortisation of prepaid lease payments	**611**	645
Allowance for inventories (included in costs of goods sold)	**670**	713
Bad debts written off	**–**	9
Cost of inventories recognised as expenses	**189,326**	180,511
Depreciation of property, plant and equipment	**9,771**	5,600
Share-based payments for customers, supplier and consultant (included in selling and distribution costs and administrative expenses)	**895**	78
Operating lease rentals in respect of		
– rented premises *(note a)*	**6,765**	6,379
– retail stores *(note b)*	**9,524**	8,383
– department store counters *(note b)* (including concessionaire commission) (included in selling and distribution costs)	**96,917**	83,036
	113,206	97,798
Design costs (included in administrative expenses) *(note c)*	**1,624**	1,425
Interest income	**(688)**	(609)

Notes:

(a) Included rental expenses paid to related companies of HK$2,760,000 (2012: HK$2,388,000) for the year ended 31 December 2013 for directors' quarters provided to Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung.

(b) Included contingent rent of HK$60,411,000 (2012: HK$53,011,000) for the year ended 31 December 2013. The contingent rent refers to the operating lease rentals based on pre-determined percentages to realised sales less basic rentals of the respective leases.

(c) The design costs comprised of staff salaries of HK$1,235,000 (2012: HK$1,101,000) for the year ended 31 December 2013, which were included in the staff costs disclosed above.

5. TAXATION

	2013	2012
	HK$'000	*HK$'000*
Current tax		
Hong Kong	**5,266**	5,817
PRC Enterprise Income Tax (the "EIT")	**2,800**	8,610
	8,066	14,427
Under(over)provision in prior years		
Hong Kong	**32**	(584)
PRC EIT	**384**	(512)
	416	(1,096)
Withholding tax on interest and distributed profits of a subsidiary in the PRC	**1,697**	–
Deferred taxation	**1,175**	(20)
	11,354	13,311

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both years.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

6. DIVIDENDS

No dividend was paid or proposed by the Company during the year ended 31 December 2013, nor has any dividend been proposed since the end of the reporting period.

During the year ended 31 December 2012, Casablanca Home Holdings Limited, a subsidiary of the Group, made distributions to the Ultimate Beneficial Owners as follows:

	HK$'000
Dividends declared and paid/payable to Ultimate Beneficial Owners during the year and dividends attributable to owners of the Company	
– final dividend declared for 2011	14,000
– interim dividend declared for 2012	11,000
	25,000

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2013	2012
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share	**11,061**	32,019

	2013	2012
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**200,408,017**	155,327,869
Effect of dilutive potential ordinary shares on share options	**7,065,641**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**207,473,658**	155,327,869

The computation of diluted earnings per share for the year ended 31 December 2012 has not assumed the exercise of the Company's share options because the adjusted exercise price of the share options (after the adjustment of the fair value of the unvested share options) were higher than the average market prices of those shares for the outstanding period during the year ended 31 December 2012.

For the year ended 31 December 2012, the weighted average number of ordinary shares for the purpose of basic earnings per share has been taken into account the shares issued pursuant to the group reorganisation and the capitalisation issue of 146,000,000 ordinary shares of HK$0.10 each of the Company at par value on 22 October 2012 as if it had been effective on 1 January 2012.

8. TRADE AND OTHER RECEIVABLES

	2013	2012
	HK$'000	*HK$'000*
Trade receivables	**101,215**	98,752
Less: Allowance for doubtful debts	**(1,590)**	(2,091)
	99,625	96,661
Bills receivables	**1,945**	223
Trade and bills receivables	**101,570**	96,884
Other receivables	**23,349**	11,045
Total trade and other receivables	**124,919**	107,929

Retailing sales are mainly made at concession counters in department stores, the department stores collect cash from the ultimate customers and then repay the balance after deducting the concessionaire commission to the Group. The credit period granted to department stores ranging from 30 to 75 days. For distributors and wholesale sales, the Group allows a credit period up to 60 days to its trade customers, which may be extended to 180 days for selected customers. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates.

	2013	2012
	HK$'000	*HK$'000*
Within 30 days	**58,372**	59,419
31 to 60 days	**17,791**	23,436
61 to 90 days	**6,924**	9,880
91 to 180 days	**10,369**	3,798
181 to 365 days	**7,857**	351
Over 1 year	**257**	–
	101,570	96,884

9. TRADE AND OTHER PAYABLES

	2013	2012
	HK$'000	*HK$'000*
Trade payables	**65,700**	49,388
Bills payables	**25,198**	6,615
Trade and bills payables	**90,898**	56,003
Other payables	**22,163**	70,376
Total trade and other payables	**113,061**	126,379

The credit period of trade and bills payables is from 30 to 90 days (2012: 30 days to 60 days).

The following is an aged analysis of trade and bill payables based on the invoice date at the end of the reporting period.

	2013	2012
	HK$'000	*HK$'000*
Within 30 days	**39,922**	49,225
31 to 60 days	**28,998**	6,198
61 to 90 days	**19,587**	111
91 to 180 days	**2,169**	2
Over 180 days	**222**	467
	90,898	56,003

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

2013 was a challenging year for the Group. However, with more than 20 years' experience in the bedding products market, the Group strives to adjust its pace through addressing the challenges it faces and preparing for the future opportunities. During the Review Period, the Group's revenue sustained continuous growth and increased by 4.3% from HK$472.6 million in 2012 to HK$493.1 million in 2013; profit attributable to owners of the Company was HK$11.1 million, representing a drop of 65.5% as compared with that in the previous year. EBITDA for the Year was HK$42.4 million, representing a decline of 40.4% as compared with HK$71.2 million in 2012.

BUSINESS REVIEW

During 2013, with the intention of the Federal Reserve of the United States to taper Quantitative Easing or its bond purchases, the prospects of the emerging markets became uncertain, and the outlook for the global economy was grim and full of uncertainty. Meanwhile the economy of the PRC still sustained continuous growth. Its gross domestic product ("GDP") in 2013 grew by 7.7% on a year over year basis, while total retail sales of consumer goods rose by 13.1% in nominal terms and annual per capita disposable income of urban residents grew by 9.7% in nominal terms. Despite this, all these figures suggested that the domestic growth slowed down and the confidence of consumers was thus affected.

The retail market was facing added challenges. The traditional retail corporations not only encountered the twin pressures of increasing rental and staff costs, but also to cope with the competition from online retailers. Concession-counter operators bore higher selling expenses and additional concessionary commissions as a result of major domestic brands clearing their stock with aggressive pricing strategies and more frequent promotional activities launched by department stores.

Adopted prudent sales network expansion approach

The Group restructured its sales network in 2013. We continued to adopt a well balanced network expansion strategy: integrating our self-operated points of sale ("POS") in Hong Kong and first-tier cities in China with other POS operated by distributors and third-party merchants in second-tier and third-tier cities, as well as starting to explore e-commerce sales efforts. Besides, the Group continued to actively expand the market of its business customers by cooperating with various retail chains, banks and websites, and participating in gift exchange campaigns and group purchases.

As at 31 December 2013, our sales network was extended to 397 POS (In 2012: 382 POS), covering 77 cities in 23 provinces, autonomous regions and municipalities across the Greater China Region, including a total of 239 self-operated POS and 158 POS operated by our distributors. During the Year, we opened 6 new POS across the Hong Kong and Macau Regions, including a Lifestyle Shop in Happy Valley. We strengthened development in the Guangdong Province market and reduced the proportion of self-operated POS in the PRC to reduce administrative costs, and encouraged distributors to open stand-alone retail stores in southern China. As a result, 20 more stand-alone retail stores operated by distributors across southern China were added in the Review Period.

Enhanced marketing and branding activities

In order to improve the awareness of our core brands, the Group organized a series of promotional activities in 2013, including placing advertisements in home textiles and fashion magazines and outdoor advertising on public buses and MTR carriages as well as platforms in both Hong Kong and the PRC, complemented by online media advertising so as to reinforce our sales and marketing activities and enhance our brand exposure. Apart from the large-scale product exhibition held in the well-known Shin Kong Place in Beijing, the Group also added catwalk show elements into the product display of its 2013 Autumn/Winter Product Release Conference, which attracted prominent coverage by a number of PRC media. Besides, the Company also invited a renowned actor in Hong Kong to host the opening ceremony of our Happy Valley Lifestyle Shop, which successfully attracted extensive coverage by the media.

Enhanced corporate facilities

In line with the future growth of the Group, phase I of Huizhou plant (" Huizhou Plant") commenced operation in May 2013. Currently, the Group is boosting the production efficiency of the Huizhou Plant, as well as actively looking into ways to address the shortage of experienced labour. The plant originally operated by its subsidiary Forcetech (Shenzhen) Company Limited ("Forcetech") has completed the entire relocation process in 2013.

The timely and accurate generation and analysis of sales data is crucial for the Group to better understanding customers' behavior, improving shop efficiency, controlling inventory levels and monitoring aggregate customer trends. To realize this advantage, the Group has been gradually installing points of sale systems ("POS systems") in its self-operated POS in the PRC during the Review Period. As at 31 December 2013, the Group has installed POS systems in 85 POS across the PRC, covering about 47% of its self-operated POS. Whilst our self-operated POS in the Hong Kong and Macau region are already fully equipped with POS systems, the Group plans to have POS systems in all of its self-operated POS throughout the PRC market by the end of 2014.

Adoption of a multi-brand strategy; enriching product collection

The Group adopts a multi-brand strategy to fulfill the needs of consumers in different market segments. In addition to our proprietary brands of "Casablanca" and "Casa Calvin", we have also reaped satisfactory sales of products from our exclusively franchised "Elle Deco" (a renowned French fashion brand) in the PRC, Hong Kong and Macau. In addition, we have also engaged in the sales of other international brands, including "Tru Trussardi", "Home Concept", "Move" and "Centa Star" in the PRC, Hong Kong and Macau. In addition to the popular Disney cartoon characters, we have also been authorised to sell some locally branded bedding products such as "B Duck" to target the children's market during the Year. Boosted by Disney's release of its new movie "Monsters University" and the gigantic "Rubber Duck" created by a Dutch artist to tour across Asia this year, both "Monsters University" and "B Duck" collection have received overwhelming responses.

It is our mission to provide customers with products guided by the concept of "Contemporary, Innovative and Functional". During the Year, we have successfully attained a patent for our newly developed "honeycomb structure functional fabric" applied in the "3D honeycomb blanket". The new functional fabric is soft and light, effective in heat retention and moisture absorption, as well as antibacterial and deodorizing. During 2013, sales of our proprietary brands, including our core brands "Casablanca" and "Casa Calvin", maintained continuous growth with turnover increasing by 4.8% from HK$390.3 million in 2012 to HK$408.9 million for the Year. The aggregate turnover for our licensed brands also maintained growth with turnover increasing by 2.2% from HK$82.3 million in 2012 to HK$84.2 million for the Year.

FUTURE PROSPECTS

Looking ahead, as the global economy has much uncertainty and the growth of Chinese economy tends to be slowing down, the overall consumer confidence remains low. However, the PRC government has announced its target to double the 2010 GDP and per capita income for both urban and rural residents by 2020 and continued to promote the advance of urbanization, thus the Group believes that the PRC retail market can still sustain a steady growth. The Group is optimistic yet cautious about the overall economic situation in the PRC in 2014. Facing the challenge of increasing costs of rent and wages, along with the competition to the traditional retail channels from online sales, the Group is adopting the strategy of "**Broadening income sources while saving cost; Exploring business opportunities actively and pragmatically**" to pave the way for future business expansion.

Control operating costs, streamline internal structure and raise management professionalism

Spiraling increases in costs will present a great challenge for each retail industry segment. The Group will dedicate efforts to control selling expenses and participate in the promotional activities of department stores selectively to control the expenditures of concession counters in department stores. Moreover, good management will facilitate enterprises to bring their businesses to success with less effort. The Group will carry out a comprehensive adjustment of its internal structure aimed at providing staff and distributors with detailed guidelines and targets. At the same time we will also continue installing the POS system in each self-operated POS to capture the most up-to-date sales data, develop more innovative and functional products, and optimize inventory management.

Consolidate its competitive edge in regional markets, explore new business models and develop new markets

With more than 20 years' experience in the Hong Kong bedding products market, the Group pays close attention to the Hong Kong and Macau market, while remaining committed to apply its experience and expand its business from these regions to Guangdong Province and the whole southern China region, and further extends its presence from there across the Greater China Region. Therefore, it is vital for the Group to consolidate its strengths in the Greater China Region for its future development. For the immediate future, we are focusing on expanding the sales network in Guangdong Province, as well as enhancing brand promotion efforts in southern China to boost the market share in that region.

Under the challenge from e-commerce, the Group will seize the opportunity brought about by this trend. We will explore new business models and develop new markets on an ongoing basis, and proactively evaluate a hybrid online-offline operating model to lay the solid groundwork to cope with the future upsurge in e-commerce.

Adhering to the design concept of "Contemporary, Innovative and Functional" in product features, the Group endeavors to provide consumers with more reasonably priced, high-quality and stylishly-designed bedding products. We are confident that we will be able to achieve a steady growth in China's bedding products market which is offering outstanding potential, and continue to bring better returns to our shareholders.

FINANCIAL REVIEW

Revenue

For the year 2013, the Group recorded revenue of HK$493.1 million (2012: HK$472.6 million), representing a growth of 4.3% over 2012. The growth in revenue was primarily attributable to (i) an increase in consumer demand of our products in the PRC, and (ii) an increase in sales to wholesale customers in Hong Kong.

Breakdown of revenue by brands:

	2013		2012		Change	
	HK$'000	***% of Total***	*HK$'000*	*% of Total*	*HK$'000*	*%*
Proprietary brands	**408,947**	**82.9%**	390,253	82.6%	18,694	4.8%
Licensed and authorised brands	**84,157**	**17.1%**	82,340	17.4%	1,817	2.2%
Total	**493,104**	**100.0%**	472,593	100.0%	20,511	4.3%

Casablanca and Casa Calvin are our major proprietary brands. Sales of proprietary brands achieved a continued rising trend in sales for 2013, which rose by 4.8% to HK$408.9 million (2012: HK$390.3 million). Sales of our licensed and authorised brands for 2013 increased by 2.2% to HK$84.2 million (2012: HK$82.3 million).

Breakdown of revenue by products:

	2013		2012		Change	
	HK$'000	***% of Total***	*HK$'000*	*% of Total*	*HK$'000*	*%*
Bed linens	**250,613**	**50.8%**	237,796	50.3%	12,817	5.4%
Duvets and pillows	**223,577**	**45.4%**	213,020	45.1%	10,557	5.0%
Other home accessories	**18,914**	**3.8%**	21,777	4.6%	(2,863)	-13.1%
Total	**493,104**	**100.0%**	472,593	100.0%	20,511	4.3%

Bed linens and duvets and pillows are major products of the Group. Sales of bed linens and duvets and pillows for 2013 were HK$250.6 million (2012: HK$237.8 million) and HK$223.6 million (2012: HK$213.0 million) respectively. Both sales of bed linens and duvets and pillows increased with similar rate of growth.

Breakdown of revenue by channels:

	2013		2012		Change	
	HK$'000	***% of Total***	*HK$'000*	*% of Total*	*HK$'000*	*%*
Self-operated retail sales						
Self-operated concession counters	**310,207**	**62.9%**	306,809	64.9%	3,398	1.1%
Self-operated retail stores	**51,206**	**10.4%**	41,387	8.8%	9,819	23.7%
Sub-total for self-operated retail sales	**361,413**	**73.3%**	348,196	73.7%	13,217	3.8%
Sales to distributors	**69,951**	**14.2%**	72,904	15.4%	(2,953)	-4.1%
Others *(Note)*	**61,740**	**12.5%**	51,493	10.9%	10,247	19.9%
Total	**493,104**	**100.0%**	472,593	100.0%	20,511	4.3%

Note: "Others" includes sales to wholesale customers in Hong Kong and the PRC and also exports to overseas markets.

Self-operated retail sales for 2013 amounted to HK$361.4 million (2012: HK$348.2 million), accounting for 73.3% of the total revenue and representing an increase of 3.8% as compared to that of 2012. Sales to distributors for 2013 decreased by 4.1% to HK$70.0 million (2012: HK$72.9 million). The decrease in sales to distributors for 2013 was mainly attributable to the decrease in number of distributors in the PRC during the Year. Sales to others for 2013 was HK$61.7 million (2012: HK$51.5 million) representing a significant increase of 19.9% primarily due to sales of duvets under a bulk-purchase agreement to a wholesale customer in Hong Kong and the increase in export sales to overseas markets.

Breakdown of revenue by geographic regions:

	2013		2012		Change	
	HK$'000	***% of Total***	*HK$'000*	*% of Total*	*HK$'000*	*%*
HK and Macau	**244,191**	**49.5%**	235,292	49.8%	8,899	3.8%
PRC	**237,901**	**48.3%**	233,024	49.3%	4,877	2.1%
Others *(Note)*	**11,012**	**2.2%**	4,277	0.9%	6,735	157.5%
Total	**493,104**	**100.0%**	472,593	100.0%	20,511	4.3%

Note: "Others" includes sales to regions other than Hong Kong, Macau and the PRC.

Revenue from Hong Kong and Macau, the PRC and others for 2013 were HK$244.2 million (2012: HK$235.3 million), HK$237.9 million (2012: HK$233.0 million) and HK$11.0 million (2012: HK$4.3 million) respectively. Revenue from others increased in 2013 due to the increase in export sales to overseas markets.

Gross profit and gross profit margin

Gross profit increased by 4.0% to HK$303.8 million for 2013 when compared to HK$292.1 million for 2012. The gross profit margin for 2013 was 61.6% which was slightly lower than 61.8% for 2012. Proper cost control measures maintained the gross margin for 2013 at similar level as 2012. The increase in production overhead that was induced by soaring labour wages and increasing number of workers in the PRC was offset by the decrease in raw materials costs during the Year.

Other gains and losses

Other gains and losses increased by 56.8% to HK$4.2 million for 2013 as compared to HK$2.7 million for 2012. The increase in other gains and losses amounted to HK$1.5 million for 2013 was attributable to the gain amounted to HK$2.7 million on disposal of fixed assets and the decrease in provision for doubtful debts amounted to HK$1.8 million and the increase in exchange gains amounted to HK$1.2 million offset by the absence of a gain on disposal of a subsidiary amounted to HK$4.2 million for 2012 prior to the reorganisation in preparation for the listing.

Operating expenses

Selling and distribution costs for 2013 increased by 25.3% to HK$220.8 million from HK$176.3 million for 2012. The increase in selling and distribution costs was mainly due to extra concessionaire commissions paid for participation in more promotional activities introduced by department stores, rises in staff costs, more expenditures in advertising and promotions and the share-based payments as compared to 2012.

Administrative expenses for 2013 increased by 23.1% to HK$64.0 million compared with HK$52.0 million for 2012. The increase was mainly due to the increase in the share-based payments and post-listing professional expenses for 2013.

The pre-IPO share option scheme was established for purposes of rewarding eligible persons, including Directors, employees, suppliers and others, for their contributions to the Group before listing of the Company's shares on the Stock Exchange, motivating them to optimise their performance efficiency and retaining relationships with them for the benefit of the Company and its shareholders as a whole. Despite share options under the pre-IPO share option scheme with different vesting dates, the share-based payments are amortised over the period from the grant date to respective vesting dates of share options according to HKFRS 2 "Share-based Payment". The estimated total amount of share-based payments is about HK$16.2 million, which will be amortised during the period from 7 November 2012 till 22 November 2014 according to HKFRS 2 "Share-based Payment", and the total amount amortised in 2013 was HK$13.1 million.

Listing expenses

During the year 2012, the Group incurred non-recurring listing expenses of HK$21.5 million, which related to the initial public offering (the "IPO") of the Company's shares, as recognised in the Group's consolidated statement of profit or loss and other comprehensive income.

Taxation

The Group's effective tax rate for 2013 was 50.7% as compared to 29.4% for 2012. The increase in effective tax rate for 2013 was mainly due to the inclusion of withholding tax and deferred tax on accumulated distributable profit of a PRC wholly-owned subsidiary, almost all share-based payments not being tax deductible and operation losses of PRC subsidiaries. Had these items for 2013 and listing expenses, share-based payments and gain on disposal of a subsidiary for 2012 been excluded, the effective tax rate for 2013 and 2012 would become approximately 20.7% and 20.4% respectively.

Profit for the Year

The Group's profit for the year for 2013 decreased to HK$11.1 million from HK$32.0 million for 2012, representing a decrease of 65.5%. This was mainly attributable to the increase in selling and distribution costs as well as share-based payments.

EBITDA represents gross profit less selling and distribution costs and administrative expenses adding back depreciation, amortisation and share-based payments. The EBITDA for 2013 decreased by 40.4% to HK$42.4 million from HK$71.2 million for 2012.

Major operating efficiency ratios

	2013	2012
Inventory turnover *(days)*	**184.5**	165.5
Trade and bills receivables turnover *(days)*	**73.4**	65.2
Trade and bills payables turnover *(days)*	**141.6**	103.9

Inventory turnover

The inventory turnover is equal to the average of opening and closing inventory divided by total cost of sales for the year and multiplied by 365 days. The increase in inventory turnover to 184.5 days for 2013, from 165.5 days for 2012, was due to inventory kept as at 31 December 2013 for sales to the wholesale customer with non-recurring bulk-purchases in January 2014 and the increase in self-operated POS.

Trade and bills receivables turnover

The trade and bills receivables turnover is equal to the average of opening and closing trade and bills receivables divided by total sales for the year and multiplied by 365 days. The trade and bills receivables turnover increased to 73.4 days for 2013 from 65.2 days for 2012 due to trade receivables from some distributors in the PRC prolonged.

Trade and bills payables turnover

The trade and bills payables turnover is equal to the average of opening and closing trade and bills payables divided by total cost of sales for the year and multiplied by 365 days. The trade and bills payables turnover increased to 141.6 days for 2013 from 103.9 days for 2012, primarily due to longer credit periods granted by more suppliers.

Liquidity and capital resources

The gearing structure is set out below:

	As at 31 December	
	2013	2012
	HK$'000	*HK$'000*
Total bank borrowings	**136,223**	95,858
Pledged bank deposit and bank balances and cash	**135,641**	137,774
Net (borrowings)/cash	**(582)**	41,916
Total assets	**559,485**	500,951
Total liabilities	**255,713**	229,102
Total equity	**303,772**	271,849

The Group has been adhering to the principal of prudent financial management in order to minimise financial and operational risks. The Group generally finances its operations with internally generated cash flows. Bank borrowings are primarily for financing the construction of the Huizhou Plant. The financial position of the Group was healthy during 2013.

Current ratio

The Group's total current assets increased to HK$369.7 million as at 31 December 2013 from HK$329.2 million as at 31 December 2012, while total current liabilities decreased to HK$188.8 million as at 31 December 2013 from HK$196.9 million as at 31 December 2012. As a result, the current ratio improved to 2.0 as at 31 December 2013 from 1.7 as at 31 December 2012.

Gearing ratio

Gearing ratio is calculated as total borrowings divided by total equity at the end of the year, whereas the net gearing ratio is calculated as net borrowings divided by total equity. As at 31 December 2013, the gearing ratio was 44.8% (2012: 35.3%) with the increase in the bank borrowings by HK$40.4 million for financing the construction of the Huizhou Plant. The net gearing ratio was merely 0.2% at 31 December 2013. The Group was at net cash position at 31 December 2012.

Pledge of assets

As at 31 December 2013, the Group had pledged its leasehold land and buildings, prepaid lease payments and bank deposit with an aggregate carrying value of HK$157.8 million (2012: HK$58.3 million) to certain banks in Hong Kong and the PRC to secure banking facilities granted to the Group.

Capital expenditures

During the year 2013, the Group invested HK$26.7 million (2012: HK$122.8 million) for construction of Huizhou Plant and acquisition of property, plant and equipment.

Capital commitments

As at 31 December 2013, the Group had no capital commitment (2012: HK$8.4 million).

USE OF PROCEEDS FROM THE LISTING

The shares of the Company have been listed on the Main Board of the Stock Exchange since 23 November 2012. The Company received net proceeds raised from the listing of approximately HK$44.2 million.

The use of net proceeds until 31 December 2013 was as below:

	Planned Amount *HK$ million*	**Utilised Amount** *HK$ million*	**Unutilised Amount** *HK$ million*
Expansion of sales network	37.0	14.4	22.6
Upgrade of management information system	4.0	0.4	3.6
Brand building and product promotion	2.2	2.2	–
General working capital	1.0	1.0	–
Total	44.2	18.0	26.2

PURCHASES, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the year 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

CORPORATE GOVERNANCE CODE

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules (the "CG Code") as its own code of corporate governance. The Company has complied with the code provisions as set out in the CG Code during the year ended 31 December 2013, save for the following:

Under Code Provision A.6.7 of the CG Code, the independent non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders. Under Code Provision E. 1.2, the chairman of the Board as well as Board members should be available to answer questions at the annual general meeting. At the annual general meeting of the Company held on 16 May 2013 (the "2013 AGM"), an independent non-executive Director, who is also the chairman of the audit committee, was unable to attend the 2013 AGM due to other pre-arranged business engagements. Despite his absence, other members of the audit committee together with the external auditor attended the 2013 AGM being able to answer relevant questions raised by and understand the views of the shareholders of the Company thereat.

DIVIDEND

The Directors do not recommend the payment of a dividend and propose that the profit for the Year be retained.

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year ended 31 December 2013 is scheduled to be held on Friday, 23 May 2014 (the "AGM"). A notice convening the AGM will be issued and disseminated to shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

The share register of the Company will be closed from Tuesday, 20 May 2014 to Friday, 23 May 2014 (both days inclusive), during which no transfer of shares will be effected. In order to be eligible to attend and vote at the forthcoming AGM, all completed transfer documents accompanying with the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, 19 May 2014.

REVIEW OF ANNUAL RESULTS

A meeting of the audit committee of the Company has been held with the Company's auditors for reviewing the annual results of the Group for the year ended 31 December 2013.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2013 as set out in the preliminary announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

APPRECIATION

On behalf of the Board, I would like to extend my sincere gratitude to our valued customers, business partners and shareholders for their constant support, and express my appreciation to the management team and employees for their valuable contributions to the development of the Group for the Year.

By Order of the Board
Casablanca Group Limited
Cheng Sze Kin
Chairman

Hong Kong, 24 March 2014

As at the date of this announcement, the Board comprises Mr. Cheng Sze Kin (Chairman), Mr. Cheng Sze Tsan (Vice-chairman), Ms. Wong Pik Hung and Mr. Sung Shuk Ka as the Executive Directors and Mr. Tse Yat Hong, Mr. Leung Lin Cheong and Mr. Li Kai Fat as the Independent Non-executive Directors.