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# 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)**

## 2014 ANNUAL RESULTS ANNOUNCEMENT

### HIGHLIGHTS

| | *Notes* | **2014** | 2013 | Change |
|---|---|---|---|---|
| Revenue *(HK$'000)* | | **460,824** | 493,104 | -6.5% |
| Gross profit *(HK$'000)* | | **278,294** | 303,778 | -8.4% |
| EBITDA *(HK$'000)* | *1* | **42,321** | 42,430 | -0.3% |
| Profit for the year attributable to owners of the Company *(HK$'000)* | | **12,753** | 11,061 | 15.3% |
| Gross Profit margin | | **60.4%** | 61.6% | |
| EBITDA margin | | **9.2%** | 8.6% | |
| Net profit margin | | **2.8%** | 2.2% | |

| | | **As at 31/12/2014** | As at 31/12/2013 | Change |
|---|---|---|---|---|
| Total assets *(HK$'000)* | | **515,780** | 559,485 | -7.8% |
| Total equity *(HK$'000)* | | **311,710** | 303,772 | 2.6% |
| Total bank borrowings *(HK$'000)* | | **96,437** | 136,223 | -29.2% |
| Net cash/(borrowings) *(HK$'000)* | *2* | **44,996** | (582) | N/A |
| Gearing ratio | *3* | **30.9%** | 44.8% | |
| Net gearing ratio | *3* | **N/A** | 0.2% | |

*Notes:*

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

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

3. 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 2014 (the "Year" or the "Review Period") as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the year ended 31 December 2014*

| | *Notes* | **2014** **HK$'000** | 2013 HK$'000 |
|---|---|---|---|
| Revenue | *3* | **460,824** | 493,104 |
| Cost of goods sold | | **(182,530)** | (189,326) |
| Gross profit | | **278,294** | 303,778 |
| Other income | | **1,985** | 2,216 |
| Other gains and losses | | **(3,902)** | 4,161 |
| Selling and distribution costs | | **(201,957)** | (220,780) |
| Administrative expenses | | **(50,009)** | (64,045) |
| Finance costs | | **(4,282)** | (2,915) |
| Profit before taxation | *4* | **20,129** | 22,415 |
| Taxation | *5* | **(7,376)** | (11,354) |
| Profit for the year | | **12,753** | 11,061 |
| Other comprehensive (expense) income for the year | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences arising on translation of financial statements of foreign operations | | **(6,518)** | 6,823 |
| Total comprehensive income for the year | | **6,235** | 17,884 |
| Profit for the year attributable to owners of the Company | | **12,753** | 11,061 |
| Total comprehensive income attributable to owners of the Company | | **6,235** | 17,884 |
| Earnings per share | | | |
| – Basic (HK cents) | *7* | **6.35** | 5.52 |
| – Diluted (HK cents) | *7* | **6.33** | 5.33 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*At 31 December 2014*

| | Notes | 2014 HK$'000 | 2013 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **149,290** | 159,079 |
| Prepaid lease payments | | **27,548** | 28,860 |
| Intangible assets | | **4** | 6 |
| Deferred tax assets | | **451** | – |
| Deposits paid for acquisition of property, plant and equipment | | **1,215** | – |
| Rental and other deposits | | **2,087** | 1,796 |
| | | **180,595** | 189,741 |
| **Current assets** | | | |
| Inventories | | **90,991** | 108,563 |
| Trade and other receivables | *8* | **102,134** | 124,919 |
| Prepaid lease payments | | **605** | 621 |
| Taxation recoverable | | **22** | – |
| Pledged bank deposit | | **1,225** | 1,213 |
| Bank balances and cash | | **140,208** | 134,428 |
| | | **335,185** | 369,744 |
| **Current liabilities** | | | |
| Trade and other payables | *9* | **100,024** | 113,061 |
| Taxation payable | | **3,945** | 4,406 |
| Bank borrowings | | **61,141** | 71,377 |
| Obligation under a finance lease | | **717** | – |
| | | **165,827** | 188,844 |
| Net current assets | | **169,358** | 180,900 |
| Total assets less current liabilities | | **349,953** | 370,641 |
| **Non-current liabilities** | | | |
| Bank borrowings | | **35,296** | 64,846 |
| Obligation under a finance lease | | **808** | – |
| Deferred tax liabilities | | **2,139** | 2,023 |
| | | **38,243** | 66,869 |
| Net assets | | **311,710** | 303,772 |
| **Capital and reserves** | | | |
| Share capital | | **20,079** | 20,079 |
| Reserves | | **291,631** | 283,693 |
| Total equity | | **311,710** | 303,772 |

## 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"). Its parent company is World Empire Investment Inc., a company incorporated in the British Virgin Islands ("BVI"), and its ultimate controlling parties are Mr. Cheng Sze Kin, who is 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 HKFRS 10, HKFRS 12 and HKAS 27 | Investment entities |
| Amendments to HKAS 32 | Offsetting financial assets and financial liabilities |
| Amendments to HKAS 36 | Recoverable amount disclosures for non-financial assets |
| Amendments to HKAS 39 | Novation of derivatives and continuation of hedge accounting |
| HK(IFRIC) – INT 21 | Levies |

The application of the above new interpretation and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or the disclosures set out in these consolidated financial statements.

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

| | |
|---|---|
| HKFRS 9 | Financial instruments[1] |
| HKFRS 14 | Regulatory deferral accounts[2] |
| HKFRS 15 | Revenue from contracts with customers[3] |
| Amendments to HKFRS 11 | Accounting for acquisitions of interests in joint operations[5] |
| Amendments to HKAS 1 | Disclosure initiative[5] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of acceptable methods of depreciation and amortisation[5] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer plants[5] |
| Amendments to HKAS 19 | Defined benefit plans: Employee contributions[4] |
| Amendments to HKAS 27 | Equity method in separate financial statements[5] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or contribution of assets between an investor and its associate or joint venture[5] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment entities: Applying the consolidation exception[5] |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2010-2012 cycle[6] |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2011-2013 cycle[4] |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2012-2014 cycle[5] |

[1] Effective for annual periods beginning on or after 1 January 2018.
[2] Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.
[3] Effective for annual periods beginning on or after 1 January 2017.
[4] Effective for annual periods beginning on or after 1 July 2014.
[5] Effective for annual periods beginning on or after 1 January 2016.
[6] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on 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.

The directors of the Company anticipate that the application of other new and revised HKFRSs or amendments 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:

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Self-operated retail sales | **309,075** | 361,413 |
| Sales to distributors | **57,587** | 69,951 |
| Others | **94,162** | 61,740 |
| | **460,824** | 493,104 |

**Entity-wide information**

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

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bed linens | **234,086** | 250,613 |
| Duvets and pillows | **212,015** | 223,577 |
| Other home accessories | **14,723** | 18,914 |
| | **460,824** | 493,104 |

**Geographical information**

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

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| PRC | **176,864** | 237,901 |
| Hong Kong and Macau | **280,380** | 244,191 |
| Others | **3,580** | 11,012 |
| | **460,824** | 493,104 |

Information about the Group's non-current assets (excluding rental and other deposits and deferred tax assets) is presented based on the location of the assets:

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| PRC | **165,219** | 177,526 |
| Hong Kong | **12,838** | 10,419 |
| | **178,057** | 187,945 |

**Information about major customers**

Revenue from one of the Group's customers amounting to HK$71,781,000 individually accounted for over 10% of the Group's total revenue for the year ended 31 December 2014. The corresponding customer contributed less than 10% of the total revenue of the Group during the year ended 31 December 2013.

## 4. PROFIT BEFORE TAXATION

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit before taxation has been arrived at after charging: | | |
| Directors' and chief executive's remuneration | **9,604** | 17,471 |
| Other staff costs | **81,770** | 82,518 |
| Retirement benefit schemes contributions for other staff | **6,160** | 6,590 |
| Share-based payments for other staff | **428** | 3,580 |
| Total staff costs | **97,962** | 110,159 |
| Auditor's remuneration | **1,387** | 1,384 |
| Amortisation of intangible assets | **2** | 2 |
| Amortisation of prepaid lease payments | **610** | 611 |
| Allowance for inventories (included in costs of goods sold) | **1,005** | 670 |
| Bad debts written off | **102** | – |
| Cost of inventories recognised as expenses | **182,530** | 189,326 |
| Depreciation of property, plant and equipment | **13,678** | 9,771 |
| Share-based payments for customers, supplier and consultant (included in selling and distributions costs and administrative expenses) | **133** | 895 |
| Operating lease rentals in respect of | | |
| – rented premises *(note a)* | **3,104** | 6,765 |
| – retail stores *(note b)* | **9,438** | 9,524 |
| – department store counters *(note b)* (including concessionaire commission) (included in selling and distribution costs) | **80,643** | 96,917 |
| | **93,185** | 113,206 |
| Design costs (included in administrative expenses) *(note c)* | **1,229** | 1,624 |

*Notes:*

(a) Included rental expenses paid to related companies of HK$2,760,000 (2013: HK$2,760,000) for the year ended 31 December 2014 for directors' quarters provided to Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung.

(b) Included contingent rent of HK$46,527,000 (2013: HK$60,411,000) for the year ended 31 December 2014. 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$1,110,000 (2013: HK$1,235,000) for the year ended 31 December 2014, which were included in the staff costs disclosed above.

## 5. TAXATION

| | 2014 | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax | | |
| Hong Kong | **7,914** | 5,266 |
| PRC Enterprise Income Tax (the "EIT") | **–** | 2,800 |
| | **7,914** | 8,066 |
| (Over)under provision in prior years | | |
| Hong Kong | **24** | 32 |
| PRC EIT | **(227)** | 384 |
| | **(203)** | 416 |
| Withholding tax on interest and distributed profits of a subsidiary in the PRC | **–** | 1,697 |
| Deferred taxation | **(335)** | 1,175 |
| | **7,376** | 11,354 |

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 2014 (2013: nil), nor has any dividend been proposed since the end of the reporting period.

## 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:

| | 2014 | 2013 |
|---|---|---|
| | ***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 | **12,753** | 11,061 |

| | 2014 | 2013 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **200,788,000** | 200,408,017 |
| Effect of dilutive potential ordinary shares on share options | **630,715** | 7,065,641 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **201,418,715** | 207,473,658 |

## 8. TRADE AND OTHER RECEIVABLES

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **87,789** | 101,215 |
| Less: Allowance for doubtful debts | **(158)** | (1,590) |
| | **87,631** | 99,625 |
| Bills receivables | **–** | 1,945 |
| Trade and bills receivables | **87,631** | 101,570 |
| Deposits | **3,657** | 3,595 |
| Prepayments | **2,548** | 4,166 |
| Value added tax recoverable | **6,712** | 10,627 |
| Advances to employees | **495** | 914 |
| Other receivables | **1,091** | 4,047 |
| | **14,503** | 23,349 |
| Total trade and other receivables | **102,134** | 124,919 |

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.

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **46,745** | 58,372 |
| 31 to 60 days | **17,576** | 17,791 |
| 61 to 90 days | **5,594** | 6,924 |
| 91 to 180 days | **3,370** | 10,369 |
| 181 to 365 days | **10,105** | 7,857 |
| Over 365 days | **4,241** | 257 |
| | **87,631** | 101,570 |

## 9. TRADE AND OTHER PAYABLES

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **42,319** | 65,700 |
| Bills payables | **29,659** | 25,198 |
| Trade and bills payables | **71,978** | 90,898 |
| Deposits received from customers | **3,140** | 1,603 |
| Accrued expenses | **7,300** | 4,337 |
| Salaries payables | **6,660** | 6,921 |
| Payable for acquisition of property, plant and equipment | **2,381** | 2,830 |
| Other payables | **8,565** | 6,472 |
| | **28,046** | 22,163 |
| Total trade and other payables | **100,024** | 113,061 |

The credit period of trade and bills payables is from 30 to 90 days.

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

| | **2014** | 2013 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **35,743** | 39,922 |
| 31 to 60 days | **13,412** | 28,998 |
| 61 to 90 days | **11,520** | 19,587 |
| 91 to 180 days | **10,162** | 2,169 |
| Over 180 days | **1,141** | 222 |
| | **71,978** | 90,898 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## OVERVIEW

2014 was a tough year for the retail industry. The Group strived for business upgrade and transformation in various ways to lay a solid foundation for future development and create better returns for our shareholders. During the Review Period, the Group's revenue decreased by 6.5% to HK$460.8 million for 2014 from HK$493.1 million for 2013; profit attributable to owners of the Company increased to HK$12.8 million for 2014 from HK$11.1 million for 2013, representing an increase of 15.3%.

During 2014, the global economy still faced uncertainty while the growth of the Chinese economy slowed slightly and a social movement broke out in Hong Kong, which affected the overall consumer confidence. Retail corporations faced the challenge of rising staff cost and selling expense in department stores and shopping malls. In addition, the impact of e-commerce on the traditional retail industry was emerging. Guided by the core operational philosophy of "Broadening income sources while saving cost; Exploring business opportunities actively and pragmatically", the Group strived for business upgrade and transformation in various ways during the Review Period.

### Adjustment in the structure of its domestic sales network

To optimize resources allocation and raise operation efficiency, the Group restructured its domestic sales network during the Review Period. As at 31 December 2014, our sales network totaled 361 points of sale ("POS") (2013: 397 POS), covering 85 cities in 25 provinces, autonomous regions and municipalities across the Greater China Region, including a total of 204 self-operated POS and 157 POS operated by our distributors.

To prepare for the future "Online-to-Offline" ("O2O") business model, the Group continued to conduct strategic layout of its sales network: integrating our self-operated POS in Hong Kong and first-tier cities in the PRC with other POS operated by distributors and third-party retailers in second-tier and third-tier cities. Besides, the Company continued to actively expand the sales channel of its business customers by cooperating with various retail chains, banks and websites, and participating in gift exchange campaigns and group purchases. In addition, the Group was also in negotiation with several hotels in Hong Kong and the PRC to whom proposals of supplying bedding products were submitted by the Group.

### Review of its product mix and enrichment of product collection

To increase the differentiation of our proprietary brands "Casa Calvin" and "Casablanca", the Group strived to clear inventories and enhance the value of our proprietary brands by seeking improvement in areas such as product mix, packaging and shop image. In addition, the Group continued to implement a multi-brand strategy in order to meet the needs of different customers. In addition to our proprietary brands "Casa Calvin" and "Casablanca", we have also engaged in the sales of bedding products under other international brands, including "Elle Deco", "Tru Trussardi", "Home Concept", "Move" and "Centa Star" in the PRC, Hong Kong and Macau. In the children's market, the Group has obtained licences from Disney to adopt some popular cartoon characters, including "Classic Pooh", "Monsters University", "Sofia the First" and those of the movie "Big Hero 6" released by Disney in Christmas 2014 in Asia.

The Company strived to provide the customers with products with the design concept of "Contemporary, Innovative and Functional". During the Review Period, the Group successfully developed and launched its patented products of "Magic Pillow" and "Sandwiched Wool Quilt".

**Upgrade of internal information data infrastructure**

The Group considered that a complete and accurate data transmission on a real time automatic basis is essential to the success of retail corporations. The Group continued to install points of sale systems ("POS Systems") in its self-operated POS in the PRC during the Review Period. As at 31 December 2014, the Group has installed POS Systems in 118 self-operated POS across the PRC, covering about 81% of its self-operated POS, while our self-operated POS in Hong Kong and Macau region are already fully equipped with the POS systems. In addition, the Group conducted a comprehensive study on information technology and proceeded to upgrade its enterprise resources planning system ("ERP System") during the Review Period. By improving communication across its whole value supply chain, the Group can optimize the data analysis capability on customer relationship management and enhance the accuracy of arrangement on procurement, production and logistics.

**Adjustment in internal structure and enhancement in management standard**

The Group conducted a comprehensive adjustment in its internal structure during the Review Period, including the optimization of human resources structure planning, study of a performance-based incentive plan and trial implementation of project-based management. Such efforts aimed to encourage our staff to make use of their full potential to grow and share their achievements with the Group. The Group also provided more training on sales technique and product knowledge to staff in order to improve the quality of customer services and the professional corporate image. The Group also provided detailed working guidelines and targets to staff and distributors to drive the performance of our staff.

## FUTURE PROSPECTS

Looking into 2015, the global economy is full of uncertainty. However, thanks to the steady economic growth of the PRC, the ongoing implementation of urbanization policy by the Chinese Government, the rising domestic consumption power, the loosening restriction of one-child policy, and the increasing demand for health and lifestyle from domestic customers, the Group expects a huge development potential in the high-end and premium markets of bedding products in the PRC. The Group is cautiously optimistic about the overall prospect of 2015.

The impact of the rise of e-commerce on traditional retail channels is indisputable. Due to the increasing operation cost such as rental and staff cost of physical shops, the Group considers that e-commerce poses essential opportunities for future development. In the coming year, the Group will enter a medium and latter stage of its business upgrade and transformation. The Group will continue to strengthen its core competitiveness and make progression to an optimized O2O operation model.

**Continuous improvement in information data infrastructure**

The Group will continue the upgrade of its ERP System to ensure the data inter connection between ERP system and POS System so as to strengthen the Group's records and analysis of consumer data and consumption pattern and conduct research and development ("R&D") of products and marketing activities tailored to meet consumption patterns. The data inter connection between ERP System and POS System was established to align with the O2O business development, which can raise timeliness and accuracy of data across the whole supply chain and increase the sales productivity, efficiency of logistics, product delivery, warehouse management and production and procurement of the Group.

**Optimization of product mix under its brands**

The Group will continue to optimize the product mix under its brands and step up R&D and procurement so as to provide customers with more premium bedding products that are originally created by the Group or that from around the world complying with our design concept of "Contemporary, Innovative and Functional" for expansion in its market share. For our proprietary brands, the Group will launch new product brands that adopt cutting-edge technology in the second quarter of 2015 while enhancing product quality with differentiation of our brands "Casa Calvin" and "Casablanca". This collection is first invented in the market as a high-tech, environmental friendly and healthy quality choice for customers in pursuit of healthy living and lifestyle. It is expected to help the Group to seize bigger market share for its premium bedding products.

For our licenced brands, in addition to "Elle Deco", "Tru Trussardi", "Home Concept", "Move" and "Centa Star", the Group will actively seek licences of renowned brands of bedding products around the world and expects to bring more premium products with elegant design and premium materials to our customers.

**Establishment of strategic sales channels**

To prepare for its future development in O2O operation model, the Group will continue to optimize the structure of physical sales network and select the POS locations strategically to ensure no overlapping service coverage of POS. It also ensures the provision of product experience, customer service and logistics delivery service to online and offline customers, and create a synergy effect from online and offline sales. The Group will expand the scale of strategic network and strengthen the unified image of physical shops under its brands, given the cost under control, to enable customers to focus on purchasing diversified products under different brands of the Group and have deep impression of image positioning of the brands.

The Group is also actively exploring wholesale market and intends to expand its revenue sources through cooperation with enterprises of different sectors. In addition, the Group will also put more resources in the expansion of online sales channel and promote the online and offline consumption of customers by using WeChat membership of the Group.

**Stepping up marketing efforts**

The Group will step up the marketing and penetration of its various sales channels so as to raise its brand awareness in the highly fragmented bedding product market in the PRC. For online promotion, in addition to its current company website, Facebook page and online advertisement, the Group will integrate its membership system with WeChat corporate marketing activities in the PRC market so as to strengthen mutual communication with customers and promote the sharing of its group information among WeChat users.

For offline promotion, the Group also maintains promotional activities through various channels, including placing advertisements in magazines and advertising on public buses and tram body. The Group also considers placing large-scale outdoor advertisement in local transportation hubs to reinforce customers' impression of its brand image. In addition, the Group will step up the placement of TV advertisement in line with its recent engagement of a celebrity as the product spokesman for the first time so as to raise its online and offline brand awareness in Greater China Region and comprehensively enhance its brand positioning.

The Group strongly believes its effort in business upgrade and transformation is essential to its sustainable development. 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 and suitable and trendy home accessories. We are confident that we will be able to achieve a steady growth in the PRC's bedding products market, which is offering outstanding potential, and continue to bring better returns to our shareholders.

## FINANCIAL REVIEW

### Revenue

For the Year, the Group recorded revenue of HK$460.8 million (2013: HK$493.1 million), representing a decrease of 6.5% over 2013. The decrease in revenue was primarily attributable to the decline in sales through self-operated concession counters, especially in the PRC. The significant increase in sales to wholesale customers in Hong Kong compensated for part of the decrease in self-operated retail sales.

***Breakdown of revenue by brands:***

| | **2014** | | 2013 | | Change | |
|---|---|---|---|---|---|---|
| | ***HK$'000*** | ***% of Total*** | *HK$'000* | *% of Total* | *HK$'000* | *%* |
| Proprietary brands | **377,699** | **82.0%** | 408,947 | 82.9% | (31,248) | -7.6% |
| Licensed and authorised brands | **83,125** | **18.0%** | 84,157 | 17.1% | (1,032) | -1.2% |
| **Total** | **460,824** | **100.0%** | 493,104 | 100.0% | (32,280) | -6.5% |

Casa Calvin and Casablanca are our major proprietary brands. Sales of proprietary brands recorded an overall decrease for 2014 by 7.6% to HK$377.7 million (2013: HK$408.9 million), whereas sales of Casa Calvin products still achieved a continued rising trend for 2014. Sales of our licensed and authorised brands for 2014 slightly decreased by 1.2% to HK$83.1 million (2013: HK$84.2 million).

***Breakdown of revenue by products:***

| | **2014** | | 2013 | | Change | |
|---|---|---|---|---|---|---|
| | ***HK$'000*** | ***% of Total*** | *HK$'000* | *% of Total* | *HK$'000* | *%* |
| Bed linens | **234,086** | **50.8%** | 250,613 | 50.8% | (16,527) | -6.6% |
| Duvets and pillows | **212,015** | **46.0%** | 223,577 | 45.4% | (11,562) | -5.2% |
| Other home accessories | **14,723** | **3.2%** | 18,914 | 3.8% | (4,191) | -22.2% |
| **Total** | **460,824** | **100.0%** | 493,104 | 100.0% | (32,280) | -6.5% |

Bed linens and duvets and pillows are major products of the Group. Sales of bed linens and duvets and pillows for 2014 were HK$234.1 million (2013: HK$250.6 million) and HK$212.0 million (2013: HK$223.6 million) respectively. Both sales of bed linens and duvets and pillows decreased according to the overall decline in sales.

***Breakdown of revenue by channels:***

| | **2014** | | 2013 | | Change | |
|---|---|---|---|---|---|---|
| | ***HK$'000*** | ***% of Total*** | *HK$'000* | *% of Total* | *HK$'000* | *%* |
| **Self-operated retail sales** | | | | | | |
| Self-operated concession counters | **258,105** | **56.0%** | 310,207 | 62.9% | (52,102) | -16.8% |
| Self-operated retail stores | **50,970** | **11.1%** | 51,206 | 10.4% | (236) | -0.5% |
| **Sub-total for self-operated retail sales** | **309,075** | **67.1%** | 361,413 | 73.3% | (52,338) | -14.5% |
| **Sales to distributors** | **57,587** | **12.5%** | 69,951 | 14.2% | (12,364) | -17.7% |
| **Others** *(Note)* | **94,162** | **20.4%** | 61,740 | 12.5% | 32,422 | 52.5% |
| **Total** | **460,824** | **100.0%** | 493,104 | 100.0% | (32,280) | -6.5% |

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

Self-operated retail sales for 2014 amounted to HK$309.1 million (2013: HK$361.4 million), accounting for 67.1% of the total revenue and representing a decrease of 14.5% as compared to that of 2013. The decrease was primarily attributable to the decline in sales through self-operated concession counters, especially in the PRC, with some inefficient concession counters closed, the slowdown in the growth of macro-economy of the PRC and the stiff competition from online sales. Sales to distributors for 2014 decreased by 17.7% to HK$57.6 million (2013: HK$70.0 million) when distributors in the PRC faced the same problems as our self-operated retail sales. Sales to others for 2014 was HK$94.2 million (2013: HK$61.7 million) representing a significant increase of 52.5% primarily due to sales of bed linens and duvets under bulk-purchase agreements to a wholesale customer in Hong Kong.

***Breakdown of revenue by geographic regions:***

| | **2014** | | 2013 | | Change | |
|---|---|---|---|---|---|---|
| | ***HK$'000*** | ***% of Total*** | *HK$'000* | *% of Total* | *HK$'000* | *%* |
| HK and Macau | **280,380** | **60.8%** | 244,191 | 49.5% | 36,189 | 14.8% |
| PRC | **176,864** | **38.4%** | 237,901 | 48.3% | (61,037) | -25.7% |
| Others *(Note)* | **3,580** | **0.8%** | 11,012 | 2.2% | (7,432) | -67.5% |
| **Total** | **460,824** | **100.0%** | 493,104 | 100.0% | (32,280) | -6.5% |

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

Revenues from Hong Kong and Macau, the PRC and others for 2014 were HK$280.4 million (2013: HK$244.2 million), HK$176.9 million (2013: HK$237.9 million) and HK$3.6 million (2013: HK$11.0 million) respectively. Revenue from HK and Macau increased by 14.8% primarily due to sales of bed linens and duvets under bulk-purchase agreements to a wholesale customer in Hong Kong. Revenue from the PRC decreased by 25.7% primarily due to the significant decrease of self-operated retail sales through concession counters in the PRC.

**Gross Profit and Gross Profit Margin**

Gross profit decreased by 8.4% to HK$278.3 million for 2014 as compared to HK$303.8 million for 2013. The gross profit margin for 2014 was 60.4% which was lower than 61.6% for 2013. The decrease in gross profit margin for 2014 was primarily due to the significant increase in sales to others which were at gross profit margin lower than self-operated retail sales.

**Other Gains and Losses**

Other losses were HK$3.9 million for 2014 as compared to other gains of HK$4.2 million for 2013. The change to other losses for 2014 from other gains for 2013 was attributable to the loss on disposal of fixed assets amounted to HK$1.1 million (2013 gain: HK$2.7 million), exchange loss amounted to HK$1.9 million (2013 gain: HK$0.9 million) and provision for doubtful debts amounted to HK$0.9 million (2013 reversal of provision: HK$0.6 million).

**Operating Expenses**

Selling and distribution costs for 2014 decreased by 8.5% to HK$202.0 million as compared to HK$220.8 million for 2013. The decrease in selling and distribution costs was mainly due to less expenses paid to department stores with the decline in self-operated retail sales through concession counters and less share-based payments amortised in 2014 as compared to 2013.

Administrative expenses for 2014 decreased by 21.9% to HK$50.0 million as compared to HK$64.0 million for 2013. The decrease was mainly due to the decrease in the share-based payments by HK$9.2 million for 2014.

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 were amortised over the period from the grant date to respective vesting dates of share options according to HKFRS 2 "Share-based Payment". The total amount of share-based payments was amortised during the period from 7 November 2012 till 22 November 2014 according to HKFRS 2 "Share-based Payment". The total amount of share-based payments amortised in 2014 was HK$1.7 million (2013: HK$13.1 million).

**Finance Expenses**

Finance costs increased by 46.9% to HK$4.3 million for 2014 as compared to HK$2.9 million for 2013. The increase in finance costs was primarily due to part of finance costs on bank borrowings for construction of Huizhou plant capitalised before its operation commenced in May 2013.

**Taxation**

The Group's effective tax rate for 2014 was 36.6% as compared to 50.7% for 2013. The decrease in effective tax rate was mainly due to the amount of deferred tax on accumulated distributable profit of a PRC wholly-owned subsidiary in 2013 and the significant amount of share-based payments not being tax deductible in 2013. Had these two items and operation losses of PRC subsidiaries for 2014 and 2013 been excluded, the effective tax rate for 2014 and 2013 would become approximately 15.3% and 20.7% respectively.

**Profit for the Year**

The Group's profit for the year for 2014 increased to HK$12.8 million from HK$11.1 million for 2013, representing an increase of 15.3%. This was mainly attributable to the decrease in total expenses more than decreases in gross profit and other gains.

EBITDA represents gross profit less selling and distribution costs and administrative expenses adding back depreciation, amortisation and share-based payments. The EBITDA for 2014 slightly decreased by 0.3% to HK$42.3 million from HK$42.4 million for 2013.

**Major Operating Efficiency Ratios**

| | **2014** | 2013 |
|---|---|---|
| Inventory turnover *(days)* | **199.5** | 184.5 |
| Trade and bills receivables turnover *(days)* | **74.9** | 73.4 |
| Trade and bills payables turnover *(days)* | **162.8** | 141.6 |

***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 199.5 days for 2014, from 184.5 days for 2013, was due to more raw materials kept as at 31 December 2014 for production of items to be sold during the promotional period before the Chinese New Year in February 2015.

***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 slightly increased to 74.9 days for 2014 from 73.4 days for 2013 due to prolonged trade receivables from some distributors in the PRC.

***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 162.8 days for 2014 from 141.6 days for 2013, 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 | |
|---|---|---|
| | **2014** | 2013 |
| | ***HK$'000*** | *HK$'000* |
| Total bank borrowings | **96,437** | 136,223 |
| Pledged bank deposit and bank balances and cash | **141,433** | 135,641 |
| Net cash/(borrowings) | **44,996** | (582) |
| Total assets | **515,780** | 559,485 |
| Total liabilities | **204,070** | 255,713 |
| Total equity | **311,710** | 303,772 |

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. During the Year, the financial position of the Group was healthy and the Group has restructured bank borrowings with banks by reducing the total bank borrowings by 29.2% to HK$96.4 million (2013: HK$136.2 million).

**Current ratio**

The Group's total current assets decreased to HK$335.2 million as at 31 December 2014 (2013: HK$369.7 million), while the total current liabilities also decreased to HK$165.8 million as at 31 December 2014 (2013: HK$188.8 million). As a result, the current ratio is maintained at 2.0 as at 31 December 2014 which is the same current ratio as at 31 December 2013.

***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 2014, the gearing ratio was 30.9% (2013: 44.8%) with the decrease in the bank borrowings by HK$39.8 million. The Group was at net cash position at 31 December 2014. The net gearing ratio was merely 0.2% at 31 December 2013.

***Pledge of assets***

As at 31 December 2014, the Group had pledged its leasehold land and buildings, prepaid lease payments and fixed deposits with an aggregate carrying value of HK$146.7 million (2013: HK$157.8 million) to certain banks in Hong Kong and the PRC to secure banking facilities granted to the Group.

***Capital expenditures***

During the Year, the Group invested HK$8.9 million (2013: HK$26.7 million) for acquisition of property, plant and equipment.

***Capital commitments***

As at 31 December 2014, the Group had capital commitments of approximately HK$2.1 million (2013: nil).

## 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 2014 was as below:

| | **Planned Amount** *HK$ million* | **Utilised Amount** *HK$ million* | **Unutilised Amount** *HK$ million* |
|---|---|---|---|
| Expansion of sales network | 37.0 | 20.4 | 16.6 |
| Upgrade of management information system | 4.0 | 1.6 | 2.4 |
| Brand building and product promotion | 2.2 | 2.2 | – |
| General working capital | 1.0 | 1.0 | – |
| Total | 44.2 | 25.2 | 19.0 |

## PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Year, 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 2014.

## DIVIDEND

The Directors do not recommend the payment of final dividend for the year ended 31 December 2014.

## EVENT AFTER THE REPORTING PERIOD

On 2 March 2015, the Company entered into a conditional placing agreement with the placing agent in relation to, among others, the placing of a maximum of up to 40,000,000 new ordinary shares of the Company of HK$1.50 each to not less than six placees who are not acting in concert with connected persons of the Company (the "Placing"). The Placing has been completed on 13 March 2015. The net proceeds of approximately HK$57 million will be used for general working capital and to finance possible investment projects in the future. Details are disclosed in the announcement of the Company dated 2 March 2015 and 13 March 2015.

## ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year ended 31 December 2014 is scheduled to be held on Friday, 22 May 2015 (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, 19 May 2015 to Friday, 22 May 2015 (both days inclusive), during which no transfer of shares will be effected. In order to be eligible to attend and vote at the forthcoming Annual General Meeting of the Company, 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, 18 May 2015.

## REVIEW OF ANNUAL RESULTS

The annual results have been reviewed by the audit committee of the Company.

## 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 2014 as set out in the preliminary announcement have been agreed by the Group's auditor, 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 2015

*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. Kwok Yuen Keung Tommy as the Executive Directors and Mr. Tse Yat Hong, Mr. Leung Lin Cheong and Mr. Li Kai Fat as the Independent Non-executive Directors.*