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)

2017 ANNUAL RESULTS ANNOUNCEMENT

HIGHLIGHTS

	Notes	**2017**	2016	Change
Revenue *(HK$'000)*		**347,449**	356,717	-2.6%
Gross profit *(HK$'000)*		**224,345**	223,941	0.2%
EBITDA *(HK$'000)*	*1*	**44,584**	35,776	24.6%
Profit for the year attributable to owners of the Company *(HK$'000)*		**27,037**	7,930	240.9%
Gross profit margin		**64.6%**	62.8%	
EBITDA margin		**12.8%**	10.0%	
Net profit margin		**7.8%**	2.2%	
Earnings per share *(HK cents)*		**10.46**	3.07	240.7%

		As at 31/12/2017	As at 31/12/2016	Change
Total assets *(HK$'000)*		**475,787**	490,105	-2.9%
Total equity *(HK$'000)*		**397,580**	356,323	11.6%
Total bank borrowings *(HK$'000)*		**3,575**	50,171	-92.9%
Pledged bank deposits and bank balances and cash *(HK$'000)*		**164,710**	180,482	-8.7%
Net cash *(HK$'000)*	*2*	**161,135**	130,311	23.7%
Gearing ratio	*3*	**0.9%**	14.1%	

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 represents pledged bank deposits and bank balances and cash less total bank borrowings.

3. Gearing ratio is calculated as total bank 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 2017 (the "Year" or the "Review Period") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**2017** **HK$'000**	2016 HK$'000
Revenue	*3*	**347,449**	356,717
Cost of goods sold		**(123,104)**	(132,776)
Gross profit		**224,345**	223,941
Other income		**1,874**	1,599
Other gains and losses		**467**	(6,304)
Selling and distribution costs		**(145,627)**	(152,431)
Administrative expenses		**(46,658)**	(50,148)
Finance costs		**(1,257)**	(2,066)
Profit before taxation	*4*	**33,144**	14,591
Taxation	*5*	**(6,212)**	(6,661)
Profit for the year		**26,932**	7,930
Other comprehensive income (expense) for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		**13,855**	(12,959)
Reclassification adjustments for cumulative exchange differences upon deregistration of a foreign operation		**–**	(8,775)
Other comprehensive income (expense)		**13,855**	(21,734)
Total comprehensive income (expense) for the year		**40,787**	(13,804)
Profit (loss) for the year attributable to:			
Owners of the Company		**27,037**	7,930
Non-controlling interests		**(105)**	–
		26,932	7,930
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**40,886**	(13,804)
Non-controlling interests		**(99)**	–
		40,787	(13,804)
Earnings per share			
– Basic (HK cents)	*7*	**10.46**	3.07
– Diluted (HK cents)	*7*	**10.46**	3.07

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		**139,264**	122,923
Prepaid lease payments		**24,731**	23,540
Intangible assets		**–**	–
Deposits paid for acquisition of property, plant and equipment		**1,229**	594
Rental and other deposits		**2,364**	1,689
Derivative financial assets		**492**	–
		168,080	148,746
Current assets			
Inventories		**62,843**	77,101
Trade and other receivables	*8*	**77,853**	82,465
Prepaid lease payments		**582**	541
Taxation recoverable		**1,719**	770
Pledged bank deposits		**6,293**	8,038
Bank balances and cash		**158,417**	172,444
		307,707	341,359
Current liabilities			
Trade and other payables	*9*	**71,597**	81,413
Taxation payable		**1,897**	1,307
Bank borrowings		**2,200**	43,846
Obligation under a finance lease		**–**	63
		75,694	126,629
Net current assets		**232,013**	214,730
Total assets less current liabilities		**400,093**	363,476
Non-current liabilities			
Bank borrowings		**1,375**	6,325
Deferred taxation		**1,138**	828
		2,513	7,153
Net assets		**397,580**	356,323
Capital and reserves			
Share capital		**25,843**	25,843
Reserves		**371,366**	330,480
Equity attributable to owners of the Company		**397,209**	356,323
Non-controlling interests		**371**	–
Total equity		**397,580**	356,323

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

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014-2016 cycle

Except as described below, the application of the amendments to 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.

Amendments to HKAS 7 "Disclosure initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

Except for the above, the HKICPA has issued a number of new or revised standards, interpretations, amendments to standards which are not effective for the year and have not been early adopted by 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 the purpose of this announcement, excluding Hong Kong, Macau and Taiwan) (the "PRC") and Hong Kong and Macau (collectively the "Greater China Region"), and sales made to overseas customers.

The information of segment revenue is as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Self-operated retail sales	**247,150**	261,563
Sales to distributors	**33,419**	34,514
Others	**66,880**	60,640
	347,449	356,717

Entity-wide information

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

	2017 ***HK$'000***	2016 *HK$'000*
Bed linens	**158,135**	201,130
Duvets and pillows	**176,079**	141,172
Other home accessories	**13,235**	14,415
	347,449	356,717

Geographical information

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

	2017	2016
	HK$'000	*HK$'000*
Hong Kong and Macau	**254,199**	264,631
PRC	**90,970**	91,699
Others	**2,280**	387
	347,449	356,717

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

	2017	2016
	HK$'000	*HK$'000*
PRC	**148,967**	134,333
Hong Kong	**16,257**	12,724
	165,224	147,057

Information about major customer

Revenue from customer contributing over 10% of total revenue of the Group during both years is as follows:

	2017	2016
	HK$'000	*HK$'000*
Customer A[1]	**45,005**	38,405

1 Revenue from sales of bed linens, duvets and pillows.

4. PROFIT BEFORE TAXATION

	2017	2016
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Directors' and chief executive's remuneration *(note a)*	**11,103**	10,707
Other staff costs	**71,087**	75,355
Retirement benefit schemes contributions for other staff	**5,193**	5,245
Share-based payments for other staff	**–**	209
Total staff costs	**87,383**	91,516
Auditor's remuneration	**1,476**	1,406
Amortisation of intangible assets	**-**	2
Amortisation of prepaid lease payments	**559**	566
Allowance for inventories (included in cost of goods sold)	**460**	1,777
Bad debts written off	**2**	139
Cost of inventories recognised as expenses	**122,644**	130,999
Depreciation of property, plant and equipment	**11,965**	13,272
Operating lease rentals in respect of		
– rented premises	**569**	1,144
– retail stores (included in selling and distribution costs)	**10,448**	9,725
	11,017	10,869
Department store counters concessionaire commission (included in selling and distribution costs) *(note b)*	**45,692**	47,365
	56,709	58,234
Design costs (included in administrative expenses) *(note c)*	**559**	987

Notes:

(a) Included rental expenses paid to related companies of HK$2,748,000 (2016: HK$2,748,000) for the year ended 31 December 2017 for directors' quarters provided to Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung.

(b) Included contingent rent of HK$25,351,000 (2016: HK$27,529,000) for the year ended 31 December 2017. The contingent rent refers to the operating lease rentals based on predetermined percentages to realised sales less basic rentals of the respective leases.

(c) The design costs comprise of staff salaries of HK$429,000 (2016: HK$716,000) for the year ended 31 December 2017, which are included in the staff costs disclosed above.

5. TAXATION

	2017	2016
	HK$'000	*HK$'000*
Current tax		
Hong Kong	**4,553**	5,833
PRC Enterprise Income Tax (the "EIT")	**1,445**	1,001
	5,998	6,834
(Over) underprovision in prior years		
Hong Kong	**(117)**	(97)
PRC EIT	**21**	–
	(96)	(97)
	5,902	6,737
Deferred taxation charge (credit)	**310**	(76)
	6,212	6,661

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 2017 (2016: 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:

	2017	2016
	HK$'000	*HK$'000*
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**27,037**	7,930

	2017	2016
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**258,432,000**	258,432,000

For the years ended 31 December 2017 and 2016, there are no dilutive effects from the Company's outstanding share options as the exercise price of these share options is higher than the average market price of the Company's shares during both years.

8. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**67,367**	70,783
Less: Allowance for doubtful debts	**(3,769)**	(1,358)
Trade receivables, net	**63,598**	69,425
Deposits	**3,737**	3,948
Prepayments	**5,977**	2,516
Value added tax recoverable	**2,023**	4,813
Advances to employees	**1,079**	416
Other receivables	**1,439**	1,347
	14,255	13,040
Total trade and other receivables	**77,853**	82,465

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 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.

	2017	2016
	HK$'000	*HK$'000*
Within 30 days	**29,724**	33,047
31 to 60 days	**22,519**	26,772
61 to 90 days	**6,202**	5,690
91 to 180 days	**2,743**	2,605
181 to 365 days	**2,410**	275
Over 365 days	**–**	1,036
	63,598	69,425

9. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**21,262**	24,392
Bills payables	**26,465**	35,189
Trade and bills payables	**47,727**	59,581
Deposits received from customers	**2,971**	3,554
Accrued expenses	**8,924**	6,331
Salaries payables	**9,349**	8,015
Payable for acquisition of property, plant and equipment	**1,556**	1,316
Other payables	**1,070**	2,616
	23,870	21,832
Total trade and other payables	**71,597**	81,413

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

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

	2017	2016
	HK$'000	*HK$'000*
Within 30 days	**20,362**	21,259
31 to 60 days	**13,404**	14,751
61 to 90 days	**8,828**	9,654
91 to 180 days	**4,453**	11,852
Over 180 days	**680**	2,065
	47,727	59,581

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

In 2017, retail markets in the PRC and Hong Kong showed a positive development trend with improving consumer confidence. However, it was unavoidable for traditional retailers in the PRC and Hong Kong to suffer from high operating costs of offline sales channels, such as the expensive rentals and salaries. The operation of offline sales channels was increasingly difficult, coupled with the impact on recent popularity of e-commerce. As such, in order to broaden sources of revenue and capitalise on various customer markets with different consumption habits, traditional retail enterprises had to develop online and offline sales channels concurrently. With respect to the environment of the industry, the operating environment in the PRC was difficult due to continuous and intense competition among numerous large and small brands in different regions in the bedding products market, rising operating costs such as rentals, commissions for department stores and staff salaries, and significant impact brought by e-commerce on the retail industry. As for the bedding products market in Hong Kong, against different promotional activities actively launched by bedding products retail enterprises and frequent promotions offered by department stores, it was necessary for bedding products retail enterprises to achieve breakthroughs by building up consumer confidence over their products, among which, brand value enhancement was of vital importance.

BUSINESS REVIEW

During the Review Period, the Group consistently adhered to the principle of maintaining profitability while striving for better results, and continued to step up its efforts in cutting expenditure, and at the same time enhancing its presence in the commercial-customer market, devoting more resources to online e-commerce and actively facilitating the business development of new products. During the Review Period, the Group's total revenue was HK$347.4 million, representing a slight decrease of 2.6% as compared to HK$356.7 million in the corresponding period of 2016. For the year ended 31 December 2017, the profit attributable to owners of the Company was HK$27.0 million, representing a substantial increase of 240.9% as compared to HK$7.9 million in the corresponding period of 2016.

Strengthened Commercial-customer Market Development and Optimised Online and Offline Sales Channels

In order to broaden income streams and reduce the dependence on retail income, the Group has continuously been developing the commercial-customer market during the Review Period by growing business through diversified sales channels, which has achieved outstanding results. Apart from continuously providing service providers and organisations, such as hospitals, community health organisations, university dormitories, beauty centres, etc., with bedding products which satisfied their unique needs, the Group entered into a supply agreement with a Hong Kong-based airline to provide products such as blankets for its flights. Moreover, the Group jointly organised a luncheon seminar titled "Travel in Comfort With The Cotton The World Trusts (全球信賴美棉，舒適旅行甄選)" with Cotton Council International to introduce the Group's bedding products under "CASA-V" brand with "5A Features" to the Hong Kong hotel industry. The Group received enquiries and product orders from several well-known hotel groups in Hong Kong after the seminar. Furthermore, the Group continued to provide products for gift redemption of different commercial customers, such as banks, healthy food brands, telecommunications network providers, travel agencies and contractors for travelling and consumption rewards programme. The Group also redeployed resources for its export business, and commenced sales of products to a leading bedding products company in Southeast Asia successfully.

Regarding online sales business, the Group continued to provide products to a fashion retail website and a television shopping website in Hong Kong in 2017, and offered group-buying online deals on group-buying websites in Hong Kong. The Group launched its self-operated official Hong Kong eShop in November 2017, and successfully attracted a group of young consumers to register as members through a series of "Fumeancats" products featuring cartoon cats under exclusive sale on its new eShop. The Hong Kong eShop not only effectively displayed the Group's products but also facilitated the collection and analysis of data on Hong Kong consumers' consumption habits in respect of the Group's products, such that the Group could optimise the management of customer relationship and the research and development of new targeted products.

In the third quarter of 2017, the Group together with a team of experienced professionals in the operation of e-commerce in the PRC established a subsidiary in Hangzhou, which operates the Group's online sales business in the PRC on an exclusive basis. The team of professionals is interested in 40% of the subsidiary and manages its daily operation. The original online sales channels of the Group in the PRC are restructured by this subsidiary, which will devote more resources to online marketing. The Group expects the cooperation may enhance contributions of e-commence in the PRC to the Group's revenue in the long-term.

After two years of strenuous efforts, the restructuring of the Group' s offline sales network in the PRC was completed gradually, including closing down self-operated points of sales ("POS") with unsatisfactory profitability while retaining or adding the POS that possessed high profitability and situated at strategic locations. As at 31 December 2017, the Group's sales network had a total of 232 POS (31 December 2016: 255), among which 125 were self-operated POS and 107 were distributor-operated POS, covering a total of 73 cities in the Greater China Region.

Launched Innovative Functional Products and Reorganised Cartoon Characters Portfolio

During the Review Period, the Group further enhanced the functions of products under "CASA-V" brand and launched "CASA-V" mosquitos and insects repellent series of products in early August 2017. The product, based on the pioneer "5A Features" in the market and with the use of HHL Technology Vital Protection, a safe and effective UK-based development formula, has been proven to effectively drive away insects, such as mosquitos, midges, bugs, flies and fleas, and thus reduce the risk of diseases being spread by these vectors. The "CASA-V" mosquitos and insects repellent series of products will further demonstrate the Group's image of "Healthy Sleeping Expert (健康睡眠專家)".

Apart from constantly enhancing the positioning and functions of products under its proprietary brands, the Group also placed great importance on the promotion and strategic planning for products under licensed brands and those of authorised cartoon characters. The Group joined hands with “VOSSEN”, an Austrian brand offering premium terry toweling products of which we exclusively distribute in the Greater China Region in early 2017, to participate in the “Tmall International Textile Fair (天貓國際家紡展)” in Shanghai with an aim to promoting the new home-living product collection of “VOSSEN” for spring and summer 2017. Following the reorganisation of the authorised cartoon characters portfolio in 2016, the Group proactively promoted the products featuring newly authorised cartoon characters during 2017. In early 2017 and in the fourth quarter of 2017, the Group entered into agreements with “Fumeancats”, a well-known Taiwanese comic featuring animal stars, and “SHIBAinc”, a famous local illustration brand online, respectively for its first license of cartoon characters in bedding products, which further strengthened the Group’s unique style of cartoon products portfolio and was widely supported by consumers.

Strengthened Marketing Promotion and Consolidated Market Leadership Position in Hong Kong

The Group actively promoted the values of the Group’s products among consumers. As for offline promotion, we continued to place advertisement via traditional channels in the PRC and Hong Kong such as television, radio, newspaper and magazine as well as bodies and stations of public transport, and participated in the promotions for branded products held by department stores to drive sales performance directly. Moreover, the TV commercial of the Group’s brand was broadcasted in a number of ports of entry, including the international hall in Shenzhen Airport, Fuyong Ferry Terminal at Shenzhen Airport, Luohu, Huanggang, Sha Tau Kok, Man Kam To and Futian, which helped to promote the Group’s image as a “Hong Kong Brand” to cross-border tourists. In addition, the Group arranged the filming of a new set of publicity photos for the spokesman which effectively enhanced its stores image in the PRC and Hong Kong. In the fourth quarter of 2017, the Group sponsored products for a featured drama of a local TV broadcaster and combined a collection for the bedding products of the Group shown in the drama for convenience to consumers in purchasing the products used by their favourite characters in the drama. The drama was extremely popular in the PRC ad Hong Kong that the Group received quite a number of enquiries about purchasing products used in the drama.

Furthermore, with a view to having extensive approach with young consumers, in addition to promotions on traditional marketing channels, the Group also stepped up its efforts in carrying out promotions through online advertisements and social media in recent years. For example, we reached out to more young consumers in Hong Kong and the PRC through Facebook, Instagram and WeChat. Besides producing video clips and playing them on the Group’s Facebook page to arouse more attention from consumers, we also invited consumers to participate in online games from time to time to enhance our interaction. We also promoted the Group’s image of “Healthy Sleeping Expert (健康睡眠專家)” by educating consumers about the professional knowledge regarding how to choose suitable bedding products as well as proper product care through our Facebook page.

Since there is no legal unit of measurement for the description of specification of textiles in the Hong Kong market, the Group complied and printed its own "Thread Count Index (針數指標)" booklet in 2017 and distributed it to the Group's customers. The booklet educated customers on the calculation method of thread count of bedding products and set out the specification of thread count used in the Group's brands and series of products, such that consumers can select quality bedding products more wisely and avoid being misled by the other claimed "high thread count" bedding products brands in the market.

In 2017, the Group's efforts in brand promotion and service enhancement received recognitions and acclaims from various institutions, including "Q-Mark Elite Brand Award 2017" and "Q-Mark Product Brand" for three consecutive years presented by Hong Kong Q-Mark Council, "Hong Kong Top Brand" and "Hong Kong Premier Brand" presented by Hong Kong Brand Development Council, the recognition of "Consumer Caring Company" for five consecutive years presented by GSI Hong Kong, "D-Mark" presented by the Design Council of Hong Kong, "Quality Tourism Services" logo presented by Hong Kong Tourism Board, "Mother's Favourite Brand for Bedding Products" and "Most Popular Bedding Products Brand" for three consecutive years presented by TVB Weekly, and "Hong Kong Outstanding Enterprises 2017" presented by Economic Digest.

FUTURE PROSPECTS

Against the backdrop of the consumption upgrade of Chinese citizens and steady growth in domestic demand, the Group is confident that there will be huge consumer demand for fashionable and quality bedding products, furniture and home accessories in the PRC. As for the Hong Kong market, due to the prolonged cold weather in early 2018, outbreak of diseases and deteriorating air quality, there was an increase in the demand for the Group's quality duvet products and bedding products with "5A Features". With the solid foundation for business development established in 2017, the Group will uphold a cautiously optimistic attitude to continuously enhance the products under its proprietary brands, strengthen the development of online and offline sales channels, and at the same time gradually increase related product categories and expand its sales to commercial customers from different sectors to strive for overall business development of the Group in 2018.

Launch Different Sales Models and Enhance Product Diversification

The Group has noticed that young families with high purchasing power in the PRC have a demand for products with a foreign touch. The Group established a subsidiary with a furniture manufacturer and retailer in Southern China to commence the business of its "Healthy Lifestyle Store". The store offers urban customers who are in pursuit of lifestyle in the PRC with a range of ancillary products such as bedding products, mattresses, toweling products, beds, sofas, cabinets, dining tables, etc., as well as integrated customised home-furnishing services. The Group's first "Healthy Lifestyle Store", located in a new large-scale residential project in Huizhou, was officially opened on 3 February 2018. The Group holds 51% interests in the subsidiary.

The Group understands that brand differentiation is the key for brands to stand out in the highly fragmented market. The Group plans to cater for customer groups with different purchasing power by providing different sales channels and product mix. In particular, the Group plans to introduce the sales business of "Fast Fashion (快時尚)" bedding products and home accessories featuring simple design that targets the general public and young people's market in 2018.

Introduce Innovative Products and Develop Different Sales Channels

The Group has devoted enormous resources in developing a number of new and forward-looking products over the years. In 2018, we will continue to launch more first-of-its-kind products in the market. In celebration of the Year of the Dog, the Group launched a new year bedding product series in the market with the license of "SHIBAinc" worldwide in Hong Kong in mid-January 2018. The series offers bedding product set, sweet dream summer quilt (甜睡羽絲被), bone-shaped bolster pillow as well as pet mat, which is introduced by the Group for the first time. The market response was surprisingly positive with the first batch of product sold out in an instance. The Group will launch more Shiba cartoon products in 2018.

The Group made strenuous efforts in developing the commercial-customers market in recent years, which has started to bear fruits in terms of revenue contribution. At the beginning of 2018, the Group confirmed that it has received purchase orders from government departments. We will continue to develop the commercial-customers market with our best efforts, actively seeking for more cooperation opportunities in terms of product supply and gift redemption by means of, among others, stepping up our efforts in promoting the Group's products to hospitals and hotels and expanding our business coverage with more airlines and hotel customers. The Group will also closely monitor business opportunities for export, mainly focusing on the Asian market at the initial stage.

For online sales business, in 2018, the Group will devote more resources to the promotion in online market in the PRC, including advertisements, live broadcast of promotional activities online, etc. The Group will also speed up the development of its eShop in Hong Kong. While it still takes time for Hong Kong consumers to accept online purchase of bedding products, with the two popular cartoon products, namely "Fumeancats" and "SHIBAinc", for promotional sales online, the Group's eShop in Hong Kong has recorded a stable number of view counts and orders. We will seek to attract more consumers to purchase in our eShop by launching "flash sales" activities for limited-edition products, exclusive online discount and online-offline promotional activities from time to time. Moreover, we will continue to provide consumers with quality products at a reasonable price by leveraging the promotion resources and group-buying activities of well-known online shopping platforms in the market.

Strengthen Marketing Promotion and Enhance Brand Image

The year 2018 marks the 25th anniversary of the establishment of the Group. Apart from traditional promotion channels, for instance, placing advertisements on platforms such as newspaper, television and radio, we will organise various online and offline promotional activities to enhance our interaction with consumers under the theme of "The Heritage of Italian Craftsmanship (意藝傳承25)". The Group plans to organise online polls and online quiz games inviting customers to revisit the most popular and classic products of the Group in celebration of the 25th anniversary of its establishment.

Incorporating "Contemporary, Innovative and Functional" features in our product design, the Group will, in addition to continuously endeavoring to provide consumers with quality bedding products with health functions which are fashionably designed but reasonably priced, explore ways to provide more quality and trendy furniture and home accessories. We will also strive to develop diversified sales channels, provide attentive services and strengthen our marketing efforts in all aspects to seek for growth opportunities and continue to bring satisfactory returns to our shareholders.

FINANCIAL REVIEW

Revenue

For the Year, the Group recorded revenue of HK$347.4 million (2016: HK$356.7 million), representing a slight decrease of 2.6%. The overall decrease in revenue was primarily attributable to declines in retail sales and sales to distributors despite the increase in wholesales during the Year.

Breakdown of revenue by brands:

	2017		2016		Change	
	HK$'000	***% of Total***	*HK$'000*	*% of Total*	*HK$'000*	*%*
Proprietary brands	**300,748**	**86.6%**	307,106	86.1%	(6,358)	-2.1%
Licensed and authorised brands	**46,701**	**13.4%**	49,611	13.9%	(2,910)	-5.9%
Total	**347,449**	**100.0%**	356,717	100.0%	(9,268)	-2.6%

Casablanca, Casa Calvin and CASA-V are our major proprietary brands. Despite the significant increase in sales of CASA-V, the decrease in sales of proprietary brands by 2.1% was attributable to the decline in overall sales for 2017. Sales of our licensed and authorised brands for 2017 decreased by 5.9% primarily due to the decline in retail sales of licensed and authorised brands and the termination of contracts with some of the licensed and authorised brands.

Breakdown of revenue by channels:

	2017		2016		Change	
		% of		*% of*		
	HK$'000	***Total***	*HK$'000*	*Total*	*HK$'000*	*%*
Self-operated sales						
Self-operated concession counters	**192,481**	**55.4%**	201,421	56.5%	(8,940)	-4.4%
Self-operated retail stores	**54,669**	**15.7%**	60,142	16.8%	(5,473)	-9.1%
Sub-total for self-operated retail sales	**247,150**	**71.1%**	261,563	73.3%	(14,413)	-5.5%
Sales to distributors	**33,419**	**9.6%**	34,514	9.7%	(1,095)	-3.2%
Others	**66,880**	**19.3%**	60,640	17.0%	6,240	10.3%
Total	**347,449**	**100.0%**	356,717	100.0%	(9,268)	-2.6%

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

Self-operated retail sales for 2017 accounted for 71.1% of the total revenue and represented a decrease of 5.5% as compared to 2016. The decrease in self-operated retail sales in Hong Kong for 2017 by 6.2% was due to a reduction in number of self-operated POS with the weak retail market sentiment. The decrease in self-operated retail sales in the PRC for 2017 by 3.3% was due to the stiff competition from online sales. Sales to others for 2017 represented an increase of 10.3% primarily due to the increase in sales under a bulk-purchase agreement to a wholesale customer in Hong Kong.

Breakdown of revenue by products:

	2017		2016		Change	
		% of		*% of*		
	HK$'000	***Total***	*HK$'000*	*Total*	*HK$'000*	*%*
Bed linens	**158,135**	**45.5%**	201,130	56.4%	(42,995)	-21.4%
Duvet and pillows	**176,079**	**50.7%**	141,172	39.6%	34,907	24.7%
Other home accessories	**13,235**	**3.8%**	14,415	4.0%	(1,180)	-8.2%
Total	**347,449**	**100.0%**	356,717	100.0%	(9,268)	-2.6%

Bed linens and duvets and pillows are major products of the Group. In addition to the decline in overall sales, the main reason for the significant decrease in sales of bed linens and the significant increase in sales of duvet and pillows for 2017 was primarily due to the major products under bulk-purchase agreements sold to a wholesale customer in Hong Kong swapped from bed linens in 2016 to duvets in 2017.

Breakdown of revenue by geographic regions:

	2017		2016		Change	
		% of		*% of*		
	HK$'000	***Total***	*HK$'000*	*Total*	*HK$'000*	*%*
Hong Kong and Macau	**254,199**	**73.2%**	264,631	74.2%	(10,432)	-3.9%
PRC	**90,970**	**26.2%**	91,699	25.7%	(729)	-0.8%
Others	**2,280**	**0.6%**	387	0.1%	1,893	489.1%
Total	**347,449**	**100.0%**	356,717	100.0%	(9,268)	-2.6%

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

Revenue from Hong Kong and Macau decreased by 3.9% primarily due to the increase in sales to others in Hong Kong less than decreases in self-operated retail sales in Hong Kong and sales to the distributor in Macau.

Gross Profit and Gross Profit Margin

Gross profit maintained more or less the same at HK$224.3 million for 2017 as compared to HK$223.9 million for 2016 despite the decrease in sales slightly by 2.6%. The gross profit margin for 2017 was 64.6% which was higher than 62.8% for 2016. The increase in gross profit margin for 2017 was due to higher proportion in sales of CASA-V products which were at higher gross profit margin.

Other Gains and Losses

Other gains for the Year amounted to HK$0.5 million (2016 losses: HK$6.3 million), mainly representing the net exchange gain of HK$2.7 million (2016 net exchange loss: HK$3.1 million) offsetting the allowance for doubtful debts on trade receivable of HK$2.2 million (2016: HK$0.3 million). In addition, items with significant amounts in 2016 such as the gain on deregistration of a subsidiary in the PRC of HK$8.8 million, the impairment loss of available-for-sale investment of HK$7.7 million, the impairment loss on convertible bond of HK$3.0 million and the decrease in fair value of derivative component in convertible bond of HK$0.7 million were absent in 2017.

Operating Expenses

Selling and distribution costs for 2017 decreased by 4.5% to HK$145.6 million (2016: HK$152.4 million). The decrease was due to decreases in royalty payments in the PRC, the concessionaire commissions and related expenses to department stores and the advertising and marketing expenses offsetting the increase in fees for research and development.

Administrative expenses for 2017 decreased by 7.0% to HK$46.7 million (2016: HK$50.1 million). The decrease was mainly due to savings in overall administrative expenses by PRC subsidiaries after relocation of the PRC sales headquarters from Shenzhen to Huizhou in 2016 and none of share-based payments for the Year.

Finance Expenses

Finance costs for 2017 decreased by 39.2% to HK$1.3 million (2016: HK$2.1 million). The decrease in finance costs was primarily due to savings in interest payments after repayments of most bank borrowings during the Year.

Taxation

The Group's effective tax rate for 2017 was 18.7% as compared to 45.7% for 2016. The high effective tax rate for 2016 was mainly due to operation losses of subsidiaries in the PRC and impairment losses on available-for-sale investment and convertible bond. Had these losses, the gain on deregistration of a subsidiary, the fair value adjustment, the non-deductible share-based payments, the allowance for doubtful debts and the exchange gain/ loss on loans to a subsidiary in the PRC for 2017 and 2016 been excluded, the effective tax rate for 2017 and 2016 would be approximately 19.1% and 17.8% respectively.

Profit for the Year

Profit attributable to owners of the Company for 2017 was HK$27.0 million, representing a significant increase of 240.9% when compared to HK$7.9 million for 2016. Reasons for significant increase in profit for 2017 were mainly attributable to (1) the decrease in selling and distribution costs, especially the royalty payments in the PRC for a licensed brand terminated in 2016, the concessionaire commissions and related expenses for department store counters and the advertising and promotional expenses; (2) the decrease in staff cost with the PRC sales headquarters moved from Shenzhen to Huizhou in 2016 and none of expenses of share-based payments; (3) the absence of the provision for impairment loss on available-for-sale investment and convertible bond; and (4) the improvement in operations of subsidiaries in the PRC. In addition to these factors, the significant increase in profit for the year ended 31 December 2017 was also due to a net exchange gain recorded in 2017 as compared to a net exchange loss in 2016.

EBITDA represents gross profit less selling and distribution costs and administrative expenses adding back depreciation, amortisation and share-based payments. EBITDA for 2017 increased by 24.6% to HK$44.6 million (2016: HK$35.8 million).

Major Operating Efficiency Ratios

	2017	2016
Inventory turnover *(days)*	**207.5**	218.0
Trade receivables turnover *(days)*	**69.9**	68.4
Trade and bills payables turnover *(days)*	**159.1**	160.3

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 inventory turnover for 2017 decreased to 207.5 days from 218.0 days for 2016. The inventory at 31 December 2017 decreased by 18.5% to HK$62.8 million from HK$77.1 million at 31 December 2016 owing to better control on inventory and more promotional activities for clearing aged inventory during the Year.

Trade receivables turnover

The trade receivables turnover is equal to the average of opening and closing trade receivables divided by total sales for the year and multiplied by 365 days. The trade receivables turnover for 2017 slightly increased to 69.9 days from 68.4 days for 2016.

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 for 2017 was 159.1 days at similar level as compared to 160.3 days for 2016.

Liquidity and Capital Resources

The gearing structure is set out below:

	As at 31 December	
	2017	2016
	HK$'000	*HK$'000*
Total bank borrowings	**3,575**	50,171
Pledged bank deposits and bank balances and cash	**164,710**	180,482
Net cash	**161,135**	130,311
Total assets	**475,787**	490,105
Total liabilities	**78,207**	133,782
Total equity	**397,580**	356,323

The Group has been adhering to the principle 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 were primarily for financing the construction of the Huizhou plant.

Current ratio

The Group utilised surplus cash to reduce the total bank borrowings during the Year. The Group's total current assets at 31 December 2017 reduced to HK$307.7 million (2016: HK$341.4 million), while the total current liabilities at 31 December 2017 also reduced to HK$75.7 million (2016: HK$126.6 million). As a result, the current ratio improved to 4.1 as at 31 December 2017 from 2.7 as at 31 December 2016.

Gearing ratio

Gearing ratio is calculated as total borrowings divided by total equity at the end of the year. As at 31 December 2017, the gearing ratio was 0.9% (2016: 14.1%) with the decrease in the bank borrowings by HK$46.6 million when the total equity also increased by HK$41.3 million. The Group was at net cash position at 31 December 2017 as well as 31 December 2016.

Pledge of assets

As at 31 December 2017, the Group had pledged its leasehold land and buildings, prepaid lease payments and fixed deposits with an aggregate carrying value of HK$127.0 million (2016: HK$128.8 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$20.5 million (2016: HK$6.4 million) for acquisition of properties, leasehold improvements, plant and equipment.

Capital commitments

As at 31 December 2017, the Group had capital commitments of approximately HK$2.1 million (2016: HK$2.2 million).

Use of Proceeds From the Listing and Placement of Shares

The Company received net proceeds raised from the listing of approximately HK$44.2 million and the placement of shares of approximately HK$57.0 million.

The use of net proceeds until 31 December 2017 was as below:

	Planned amount *HK$ million*	Utilised amount *HK$ million*	Unutilised amount *HK$ million*
From the listing			
Expansion of sales network	37.0	33.9	3.1
Upgrade of management information system	4.0	2.5	1.5
Brand building and product promotion	2.2	2.2	–
General working capital	1.0	1.0	–
Total	44.2	39.6	4.6
From placement of shares			
General working capital and possible investments	57.0	32.0	25.0

DIVIDEND

The Directors do not recommend the payment of final dividend for the year ended 31 December 2017 (2016: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the Year, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES CODE

The Board and the management of the Company are committed to the maintenance of good corporate governance practices and procedures which emphasise transparency, accountability and independence. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, sustainable business growth and enhancing shareholders' value.

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 2017, 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. At the annual general meeting of the Company held on 26 May 2017 (the "2017 AGM"), an independent non-executive Director, who was also a member of the Audit Committee, was unable to attend the 2017 AGM due to other pre-arranged business engagements. The Board considered that sufficient measures of the Company had been taken for this absent Director to understand the views of shareholders. Despite his absence, other members of Board committees attended the 2017 AGM being able to answer relevant questions raised by shareholders and understand the views of the shareholders of the Company thereat.

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year ended 31 December 2017 is scheduled to be held on Friday, 25 May 2018 (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 register of members of the Company will be closed from Monday, 21 May 2018 to Friday, 25 May 2018 (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 of the Company, all completed transfer documents accompanying with the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:30 p.m. (Hong Kong time) on Friday, 18 May 2018.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises three Independent Non-executive Directors, namely, Mr. Zhang Senquan, Dr. Cheung Wah Keung and Mr. Chow On Wa. Mr. Zhang Senquan is the chairman of the Audit Committee.

The Audit Committee is primarily responsible for the review and supervision of the Group's financial reporting process and risk management and internal control systems. It has reviewed the accounting principles and practices adopted by the Group and the audited annual results of the Group for the year ended 31 December 2017.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2017 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

We would like to extend our sincere gratitude to our valued customers, business partners and shareholders for their constant support, and express our 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, 26 March 2018

As at the date of this announcement, the Board of the Company comprises Mr. Cheng Sze Kin (Chairman), Mr. Cheng Sze Tsan (Vice-chairman) and Ms. Wong Pik Hung as Executive Directors, Mr. Mok Tsan San as Non-executive Director, and Mr. Zhang Senquan, Dr. Cheung Wah Keung and Mr. Chow On Wa as Independent Non-executive Directors.