CASABLANCA® HOME

Casablanca Group Limited
卡撒天嬌集團有限公司

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

(Stock Code: 2223)

2018 ANNUAL RESULTS ANNOUNCEMENT

HIGHLIGHTS

	Notes	**2018**	2017	Change
Revenue *(HK$'000)*		**337,624**	347,449	-2.8%
Gross profit *(HK$'000)*		**213,328**	224,345	-4.9%
EBITDA *(HK$'000)*	*1*	**28,085**	44,584	-37.0%
Profit for the year attributable to owners of the Company *(HK$'000)*		**7,837**	27,037	-71.0%
Gross profit margin		**63.2%**	64.6%	
EBITDA margin		**8.3%**	12.8%	
Net profit margin		**2.3%**	7.8%	
Earnings per share *(HK cents)*		**3.03**	10.46	-71.0%

		As at 31/12/2018	As at 31/12/2017	Change
Total assets *(HK$'000)*		**514,733**	475,787	8.2%
Total equity *(HK$'000)*		**398,663**	397,580	0.3%
Total bank borrowings *(HK$'000)*		**9,961**	3,575	178.6%
Pledged bank deposits and bank balances and cash *(HK$'000)*		**181,914**	164,710	10.4%
Net cash *(HK$'000)*	*2*	**171,953**	161,135	6.7%
Gearing ratio	*3*	**2.5%**	0.9%	

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 2018 (the "Year" or the "Review Period") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	**2018** **HK$'000**	2017 *HK$'000*
Revenue	*3*	**337,624**	347,449
Cost of goods sold		**(124,296)**	(123,104)
Gross profit		**213,328**	224,345
Other income		**1,570**	1,874
Other losses and gains		**(2,696)**	467
Selling and distribution costs		**(151,435)**	(145,627)
Administrative expenses		**(49,685)**	(46,658)
Finance costs		**(365)**	(1,257)
Profit before taxation	*4*	**10,717**	33,144
Taxation	*5*	**(4,672)**	(6,212)
Profit for the year		**6,045**	26,932
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		**(10,071)**	13,855
Other comprehensive (expense) income		**(10,071)**	13,855
Total comprehensive (expense) income for the year		**(4,026)**	40,787
Profit (loss) for the year attributable to:			
Owners of the Company		**7,837**	27,037
Non-controlling interests		**(1,792)**	(105)
		6,045	26,932
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(2,216)**	40,886
Non-controlling interests		**(1,810)**	(99)
		(4,026)	40,787
Earnings per share			
– Basic (HK cents)	*7*	**3.03**	10.46
– Diluted (HK cents)	*7*	**3.03**	10.46

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**128,003**	139,264
Prepaid lease payments		**17,330**	24,731
Intangible assets		**–**	–
Deposits paid for acquisition of property, plant and equipment		**422**	1,229
Rental and other deposits		**1,211**	2,364
Derivative financial assets		**–**	492
		146,966	168,080
Current assets			
Inventories		**97,530**	62,843
Trade and other receivables	*8*	**87,142**	77,853
Prepaid lease payments		**418**	582
Taxation recoverable		**763**	1,719
Pledged bank deposits		**10,506**	6,293
Bank balances and cash		**171,408**	158,417
		367,767	307,707
Current liabilities			
Trade and other payables	*9*	**103,755**	71,597
Taxation payable		**1,190**	1,897
Bank borrowings		**3,415**	2,200
		108,360	75,694
Net current assets		**259,407**	232,013
Total assets less current liabilities		**406,373**	400,093
Non-current liabilities			
Bank borrowings		**6,546**	1,375
Deferred taxation		**1,164**	1,138
		7,710	2,513
Net assets		**398,663**	397,580
Capital and reserves			
Share capital		**25,843**	25,843
Reserves		**371,054**	371,366
Equity attributable to owners of the Company		**396,897**	397,209
Non-controlling interests		**1,766**	371
Total equity		**398,663**	397,580

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 (the "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 trading of home accessories and furniture.

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")

(a) Overview

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, Financial instruments
- HKFRS 15, Revenue from contracts with customers
- HK(IFRIC)-Int 22, Foreign currency transactions and advance consideration

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, Prepayment features with negative compensation which have been adopted at the same time as HKFRS 9.

(b) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods;

- in relation to the impairment of financial assets, of which HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 "Financial instruments: Recognition and measurement". The expected credit loss model requires an entity to account for expected credit losses ("ECL") and changes in those ECL at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39. There is no impact of transition to HKFRS 9 on retained earnings and reserves at 1 January 2018.

Based on the Group's financial instruments and risk management policies as at 31 December 2017 and 2018, all the financial assets and financial liabilities will continue to be measured on the same bases as are measured under HKAS 39 on initial application of HKFRS 9.

The Group assesses on a forward looking basis the ECL associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Impairment on other receivables is measured as either 12-month ECL or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime ECL.

The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The credit losses calculated pursuant to the ECL model are not significantly different from the amount recognised under practices in 2017. Therefore, the Group considered no adjustment is necessary upon the initial adoption of the standard.

(c) HKFRS 15, Revenue from contracts with customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 superseded the revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations.

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

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

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

HKFRS 15 does not have a significant impact on the financial position and the financial result of the Group upon initial application at 1 January 2018. Comparative information continues to be reported under HKASs 11 and 18.

(d) HK(IFRIC)-Int 22, Foreign currency transactions and advance consideration

This Interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way.

The adoption of HK(IFRIC)-Int 22 does not have any material impact on the financial position and the financial result 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 ("PRC" or "Mainland China", for the purpose of this announcement, excluding Hong Kong, Macau and Taiwan) and Hong Kong and Macau (collectively the "Greater China Region") and sales made to overseas customers.

The information of segment revenue is as follows:

	2018	2017
	HK$'000	*HK$'000*
Self-operated retail sales	**253,975**	247,150
Sales to distributors	**36,099**	33,419
Others	**47,550**	66,880
	337,624	347,449

Entity-wide information

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

	2018	2017
	HK$'000	*HK$'000*
Bed linens	**176,628**	158,135
Duvets and pillows	**140,880**	176,079
Other home accessories	**20,116**	13,235
	337,624	347,449

Geographical information

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

	2018	2017
	HK$'000	*HK$'000*
Hong Kong and Macau	**241,060**	254,199
PRC	**95,586**	90,970
Others	**978**	2,280
	337,624	347,449

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:

	2018	2017
	HK$'000	*HK$'000*
PRC	**129,700**	148,967
Hong Kong	**16,055**	16,257
	145,755	165,224

Information about major customer

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

	2018	2017
	HK$'000	*HK$'000*
Customer A[1, 2]	**N/A**	45,005

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

2 The corresponding revenue did not contribute over 10% of the total revenue of the Group for the year ended 31 December 2018.

4. PROFIT BEFORE TAXATION

	2018	2017
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Directors' and chief executive's remuneration *(note a)*	**12,103**	11,103
Other staff costs	**77,650**	71,087
Retirement benefit schemes contributions for other staff	**5,524**	5,193
Share-based payments for other staff	**146**	–
Total staff costs	**95,423**	87,383
Auditor's remuneration	**842**	1,476
Loss allowance on trade receivables	**2,955**	2,216
Amortisation of prepaid lease payments	**563**	559
Allowance for inventories (included in cost of goods sold)	**759**	460
Bad debts written off	**–**	2
Cost of inventories recognised as expenses	**123,537**	122,644
Depreciation of property, plant and equipment	**13,410**	11,965
Operating lease rentals in respect of		
– rented premises	**1,270**	569
– retail stores (including in selling and distribution costs)	**11,101**	10,448
	12,371	11,017
Department store counters concessionaire commission (included in selling and distribution costs) *(note b)*	**43,931**	45,692
Design costs (included in administrative expenses) *(note c)*	**654**	559

Notes:

(a) Included rental expenses paid to related companies of HK$2,220,000 (2017: HK$2,748,000) for the year ended 31 December 2018 for directors' quarters provided to Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung.

(b) Included contingent rent of HK$22,580,000 (2017: HK$25,351,000) for the year ended 31 December 2018. 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 comprise of staff salaries of HK$515,000 (2017: HK$429,000) for the year ended 31 December 2018, which are included in the staff costs disclosed above.

5. TAXATION

	2018	2017
	HK$'000	*HK$'000*
Current tax		
Hong Kong	**3,642**	4,553
PRC Enterprise Income Tax (the "EIT")	**1,186**	1,445
	4,828	5,998
(Over) underprovision in prior years		
Hong Kong	**(182)**	(117)
PRC EIT	**–**	21
	(182)	(96)
	4,646	5,902
Deferred taxation charge	**26**	310
	4,672	6,212

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, starting from the current year, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

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 2018 (2017: 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 owners of the Company is based on the following data:

	2018	2017
	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	**7,837**	27,037

	2018	2017
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 2018 and 2017, 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

	2018	2017
	HK$'000	*HK$'000*
Trade receivables	**73,384**	67,367
Less: Loss allowance	**(6,412)**	(3,769)
Trade receivables, net	**66,972**	63,598
Deposits	**3,860**	3,737
Prepayments	**5,685**	5,977
Value added tax recoverable	**7,451**	2,023
Advances to employees	**1,313**	1,079
Other receivables	**1,861**	1,439
	20,170	14,255
Total trade and other receivables	**87,142**	77,853

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 90 days. For distributors and wholesale sales, the Group allows a credit period up to 90 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.

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**42,619**	29,724
31 to 60 days	**14,160**	22,519
61 to 90 days	**6,151**	6,202
91 to 180 days	**3,328**	2,743
181 to 365 days	**705**	2,410
Over 365 days	**9**	–
	66,972	63,598

9 TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**39,430**	21,262
Bills payables	**39,677**	26,465
Trade and bills payables	**79,107**	47,727
Deposits received from customers	**2,797**	2,971
Accrued expenses	**9,541**	8,924
Salaries payables	**8,708**	9,349
Payable for acquisition of property, plant and equipment	**1,963**	1,556
Other payables	**1,639**	1,070
	24,648	23,870
Total trade and other payables	**103,755**	71,597

The credit period of trade and bills payables is from 30 to 180 days.

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

	2018	2017
	HK$'000	*HK$'000*
Within 30 days	**53,902**	20,362
31 to 60 days	**11,868**	13,404
61 to 90 days	**9,103**	8,828
91 to 180 days	**3,513**	4,453
Over 180 days	**721**	680
	79,107	47,727

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

With the outbreak of the Sino-US trade war in the second quarter of 2018, the US government has announced the imposition of substantial tariffs on many categories of goods imported from the PRC. Chinese enterprises that mainly engaged in the export business were badly hit and consumer confidence has remained low in the retail markets of Mainland China and Hong Kong. Meanwhile, the operation of offline sales channels was increasingly difficult as the traditional retailers in Mainland China and Hong Kong continued to face challenges like high operating costs of offline sales channels, such as the increasing rentals and salaries, and impact of the popularity of e-commerce. As such, traditional retail enterprises have launched different promotional activities to attract customer consumption and boost sales revenue. With respect to the environment of the industry, the bedding product market in Mainland China remained intensely competitive in 2018. With rising production and operating costs, standardisation of products, gradual transformation of offline sales channels towards experiential consumption and continuous influence of online sales, the operating environment of small and medium bedding product enterprises was relatively difficult. During recent years, in response to the weak consumer sentiment, bedding product enterprises in Hong Kong have actively launched promotional activities. They also had to develop new products from time to time to enhance their brand value so as to survive in the challenging bedding product market in Hong Kong.

BUSINESS REVIEW

During the Review Period, the Group consistently adhered to the principle of maintaining profitability while striving for better results, and prudently formulated plans for broadening revenue streams and development of new product business. For the year ended 31 December 2018, the Group's total revenue was HK$337.6 million, representing a decrease of 2.8% as compared with HK$347.4 million in the corresponding period of 2017; and the profit attributable to owners of the Company was HK$7.8 million, representing a decrease of 71.0% as compared with HK$27.0 million in the corresponding period of 2017, which was mainly attributable to: (1) the decrease in sales to wholesale customers; (2) the increase in sales-related expenses for self-operated retail sales and sales to distributors; (3) the net exchange losses arising from the sharp depreciation of the Renminbi against the Hong Kong Dollar in mid-2018; and (4) the share-based payments. Since the publication of the interim results for the six months ended 30 June 2018, there had been no material changes in the Group's operational and segmental information.

Optimised Online and Offline Sales Channels and Broadened Streams of Sales Revenue

During the Review Period, the revenue from self-operated retail sales was still the Group's main source of revenue. The ongoing restructuring of the development of the Group's offline points-of-sales ("POS") network in recent years was almost completed. The number of POS in Hong Kong, Macau and Mainland China remained substantially stable. As at 31 December 2018, the Group had a total of 224 POS (31 December 2017: 232), among which 120 were self-operated POS and 104 were distributor-operated POS, covering a total of 64 cities in the Greater China Region. In 2018, the Group put more efforts in increasing the number of distributors in Mainland China with a view to enhancing the penetration of its brand in second- and third-tier cities. During the Review Period, the Group entered into cooperation agreements with a number of distributors who have extensive experience in retail management, further expanding its network in Mainland China market.

Moreover, the Group continued to implement measures such as exclusive online discounts and online pre-sales activities to promote and thus effectively enhance the view counts of its self-operated official e-shop in Hong Kong. In the fourth quarter of 2018, the Group relocated its e-commerce team in Mainland China to the Huizhou plant, which has enhanced the delivery efficiency and ensured that product planning would swiftly respond to market demand.

In order to reduce the reliance on retail income, the Group has continuously been allocating resources to the development of the commercial-customer market and hence bolstered its position in this sector. During the Review Period, apart from receiving purchase orders from Hong Kong government departments, the Group offered items to various commercial customers for their point redemption loyalty schemes, including renowned food and beverage enterprises, infant and healthy food brands, motor vehicle and consumer goods distribution enterprises and electric appliances brands. In 2018, the Group offered two staff shopping activities to business partner organisations and the sales results were better than expected. In addition to expanding the retail customer base of its brands, the staff shopping activities also effectively strengthened the relationship between the Group and its business partners.

Continued to Conduct R&D of Sleeping Products and Commenced Home Accessories and Furniture Business

The Group adhered to the core principle of "Contemporary, Innovative and Functional" for its product design with a view to providing the market with well-designed quality bedding products with health functions and further strengthening its image as a "Healthy Sleeping Expert". At the beginning of 2018, the Group launched mosquito repellent products for adults in the Hong Kong market. These products were especially suitable for the warm and humid climate in Southern China such that they were highly popular in the market. Furthermore, it has also launched the "Magnetic Stress-Relief Pillow (零壓磁療枕)" in a move to tap the high-tech pillow market. The product has adopted magnetic healthcare material extracted from minerals under Comfytex, a

Turkish brand. It can facilitate the blood circulation by means of the ferrous compound materials extracted from minerals and allow users to attain muscle relaxation for better quality sleep. In respect of the products under licensed and authorised brands, the Group has always been supportive to the design of cartoon characters originated in Hong Kong. During the Year, it has added original local cartoon characters such as "SHIBAinc" and "Squly & Friends" to authorised cartoon character portfolio. In addition, the Group has also targeted young customers and explored the business of "Fast Fashion" bedding products and home accessories in an effort to enhance the shopping experience of consumers and increase the revenue from retail sales.

The Group devoted considerable efforts to develop product markets that can create synergy with its bedding products business, including home accessories and furniture. Catering for the demand of young families with high purchasing power in Mainland China for products with a foreign touch, the Group has launched its first "Healthy Lifestyle Store" in a new large-scale residential project in Huizhou in the first quarter of 2018. Apart from ancillary products such as bedding products, mattresses, toweling products, beds, sofas, cabinets, dining tables, etc., the store also offered integrated customised furniture services, providing one-stop shopping experience to urban customers who are in pursuit of a quality lifestyle in Mainland China. As at 31 December 2018, the Group has established a total of four "Healthy Lifestyle Stores" in Mainland China, which are located in Huizhou, Shenzhen and Shunde in Guangdong Province as well as Xiamen in Fujian Province respectively.

Celebrated the 25th Anniversary of the Brand and Enhanced Marketing Promotion

The year 2018 marked the 25th anniversary of the establishment of the Group's brand. To celebrate the event, the Group organised various promotional activities to enhance its interaction with consumers under the theme of "The Heritage of Italian Craftsmanship (意藝傳承25)", including the "My Favourite Casablanca Classic (我最愛的卡撒經典)" poll and quiz games for the public on its Facebook page. These activities were intended to invite consumers to revisit the most popular and classic products of the Group and launch retro editions of its classic products in celebration of its 25th anniversary.

The Group has always placed great emphasis on contributing to society and supporting charitable events. In mid-July 2018, it served as the title sponsor of "B.Duck Hong Kong Run 2018". The event attracted approximately 4,000 participants from the general public and raised funds as a donation to the Sowers Action for supporting their efforts in education and welfare projects for children. Moreover, the Group also sponsored "World Green Run (跑出藍天)" organised by the World Green Organisation in the third quarter of 2018. The event was the first public running competition under the theme of countering climate change and raising awareness about air quality in Hong Kong, aiming to remind consumers to minimise their impact on the environment in their daily lives. Apart from the joint charitable efforts with the public, the Group considered that the event had fostered collateral high marketing and promotional benefits.

The Group's efforts in 2018 were widely recognised by the community. Apart from being selected as "Mother's Favourite Brand for Bedding Products" by *TVB Weekly* for three consecutive years, the Group was also honoured with the "Hong Kong Premier Brand" award from the Hong Kong Brand Development Council in early March. In the fourth quarter of 2018, in recognition of Casablanca's contribution to Hong Kong industries in terms of product design, the Group also garnered "D-Awards" from the Federation of Hong Kong Industries and the Design Council of Hong Kong. It also won the "Listed Company Awards of Excellence 2018 (上市公司卓越大獎 2018)" from the *Hong Kong Economic Journal*.

FUTURE PROSPECTS

In 2019, the Sino-US trade dispute will be expected to continue. While the Group has not exported any of its goods to the US and the imposition of tariffs by the US on goods imported from the PRC would have no direct impact on it, the consumer confidence in the Greater China Region will nonetheless be affected to a certain extent. However, the Chinese government continues to implement measures to expand domestic demand, increase money supply and stabilise economic growth, including stimulation of household consumption and support for the development of the high-tech manufacturing industries in order to minimise the impact on the market. The Group anticipates that there will still be huge consumer demand for fashionable and quality bedding products, as well as quality furniture and elegant home accessories in Mainland China. Thus, the Group is prudently optimistic about its development in the future. It will continue to work on enhancing the market differentiation of its proprietary brands through introducing innovative products and strive to develop various sales channels as it expands the scope of its business, and at the same time promotes its brand value through different marketing activities.

Develop Export Business and Expand Sales Channels

At the beginning of 2019, the Group established a separate team to engage principally in export business. By participating in industry exhibitions, the new team will strive to enhance the brand recognition of the Group and expand its customer base in the international market. The Group will also actively seek opportunities for cooperation of online and offline business with its overseas strategic partner enterprises. At the outset, the Group plans to focus on seeking original equipment manufacturing (OEM) orders or wholesale business of finished products. First targeting Asian countries such as Thailand, Vietnam, Cambodia and Korea, regional distributors will be appointed to manage orders. At the same time, the Group will sell its products to different regions of the world through internationally-renowned online shopping platforms.

In December 2018, the Group has also established the hotel supplies department in Mainland China, targeting customers including luxury hotels, high-end conference centres and recreational clubhouses. It mainly provides textile products, toweling products, mattress supplies and customised furniture products for their guest rooms, restaurants and lounge bars. New hotels in Guangdong and Jiangsu Provinces will be approached at the initial stage.

In addition, the Group will pursue opportunities to sell products to commercial customers in Hong Kong and Mainland China. For instance, it will provide exclusive products to banks as their point redemption gifts. Meanwhile, it will actively expand sales channels of corporate gifts and adopt the strategy of "cross-sector alliance" to share cross-sector membership resources with enterprises from industries such as the wedding dress, beauty, fitness centres and interior design.

In respect of the retail business, the Group will adhere to the complementary strategy for its online and offline sales channels. Leveraging its advantages in the development of the Greater Bay Area, the Group will focus on developing self-operated POS in cities in Guangdong Province, such as Shenzhen and Guangzhou. In 2019, the Group will continue to charge the same price for the same style for online and offline retail sales channels in Mainland China. More online exclusive products will be launched to boost the traffic of online sales platforms. The Group is developing its mobile sales platform which will facilitate "micro operations" business model in Mainland China. This will allow distributors to place orders on mobile application so that the Group can respond to market demand quickly. At the same time, the Group will from time to time launch hero products which are exclusive for the new sales channel so as to promote sales of its "Fast Fashion" products. Moreover, it will offer pre-sale for specific products, monthly themed promotion discount and bundled sales discounts on its official e-shop in Hong Kong, thereby raising attention and purchase amount from consumers on the Group's official e-shop in Hong Kong.

Introduce Innovative Products and Improve Product Mix

The Group is committed to the provision of quality products and attentive services and strives to become the "Healthy Sleeping Expert" among consumers. At the beginning of 2019, it has launched the revolutionary Sleeptech Pillow Series (科技枕頭系列). The series includes a total of three products featuring different technological fabrics and quality latex rubber imported from Thailand, namely the Universe Thermocules™ Pillow (恆溫宇宙枕), which adopts patented materials from Outlast® to effectively manage heat energy; the Auto-Sanitized Protect Pillow (納米淨化枕), which adopts the Self Clean technological materials; and the Magnetic Stress-Relief Pillow (零壓磁療枕), which has been launched in the market for testing in 2018. In 2019, the Group will proceed with the research and development of new products utilising big data, aiming to provide more comfortable and customised sleeping products for the market.

In respect of product planning for the Mainland China market, the Group will enhance its presence in high-end markets by increasing the proportion of imported products. Furthermore, it plans to further develop the "warmth-preserving system" for different duvet products, including the introduction of quality imported materials for the production of premium duvets in order to provide consumers with more comprehensive duvet product options.

Apart from the bedding product business, the Group will also strive to develop more textile and furniture products for hotel guest rooms, restaurants and lounge bars with an aim to increasing the revenue from hotel customers. In respect of the business of "Healthy Lifestyle Store", the Group will continue to provide one-stop shopping experience of bedding and customised furniture products with the goal of "Full House Output (全屋輸出)". Moreover, it will further encourage bedding product distributors to sell home accessories of its "Healthy Lifestyle Store" simultaneously, or refer customised furniture orders to it.

Enhance Corporate Image and Strengthen Brand Leadership

The Group will continuously invest in brand promotion in the Greater China Region. As the Chinese Government proactively promotes the development of the Greater Bay Area, the Group will step up its marketing endeavour in the region, including placing advertisement in stations of Guangzhou-Shenzhen-Hong Kong High Speed Rail, and placing advertisements quarterly on new media platforms. Moreover, the Group will actively cooperate with various organisations and enterprises in order to further enhance the leading position of its brand. At the beginning of 2019, the Group was invited by the Hong Kong Trade Development Council to be the guest speaker at the Hong Kong International Licensing Show to share with the industry its experience in management and promotion of licensed brands, which is a recognition of the Group's hard work over the years.

In recent years, the Group has strived to achieve win-win outcomes through cross-over collaboration with intellectual property holders of famous cartoon characters or brands, or licensed production of their products. At the beginning of 2019, the Group has confirmed that it has obtained the license for bedding products from a world-famous brand. Meanwhile, it has kept abreast of market changes and secured licenses for two famous trendy cartoon characters from Korea and is now actively preparing for the launch of the relevant products. Moreover, the Group will introduce licensed products of Japanese cartoon characters that are well-known by the general public in Hong Kong. It is anticipated that these products will take the market by surprise. The Group believes that sound management and promotion of licensed brands will help to enhance its brand image and attract more young customers to follow the progress of its brand.

Striving to incorporate "Contemporary, Innovative and Functional" features in its product design, the Group will endeavor to provide consumers with quality bedding products which are fashionably designed but reasonably priced, and suitable trendy home accessories. The Group will also continue to broaden revenue streams and enhance its brand value to bring satisfactory returns to the shareholders in the long term.

FINANCIAL REVIEW

Revenue

For the Year, the Group recorded revenue of HK$337.6 million (2017: HK$347.4 million), representing a slight decrease of 2.8%. The overall decrease in revenue was primarily attributable to decline in wholesales despite the increases in retail sales and sales to distributors during the Year.

Breakdown of revenue by brands:

	2018		2017		Change	
	HK$'000	***% of Total***	*HK$'000*	*% of Total*	*HK$'000*	*%*
Proprietary brands	**293,111**	**86.8%**	300,748	86.6%	(7,637)	-2.5%
Licensed and authorised brands	**44,513**	**13.2%**	46,701	13.4%	(2,188)	-4.7%
Total	**337,624**	**100.0%**	347,449	100.0%	(9,825)	-2.8%

Casablanca, Casa Calvin and CASA-V are our major proprietary brands. The decrease in sales of proprietary brands by 2.5% was attributable to the decline in sales to wholesale customers during the Year. Sales of our licensed and authorised brands for 2018 decreased by 4.7% 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:

	2018		2017		Change	
	HK$'000	***% of Total***	*HK$'000*	*% of Total*	*HK$'000*	*%*
Self-operated sales						
Self-operated concession counters	**187,684**	**55.6%**	192,481	55.4%	(4,797)	-2.5%
Self-operated retail stores	**66,291**	**19.6%**	54,669	15.7%	11,622	21.3%
Sub-total for self-operated retail sales	**253,975**	**75.2%**	247,150	71.1%	6,825	2.8%
Sales to distributors	**36,099**	**10.7%**	33,419	9.6%	2,680	8.0%
Others *(Note)*	**47,550**	**14.1%**	66,880	19.3%	(19,330)	-28.9%
Total	**337,624**	**100.0%**	347,449	100.0%	(9,825)	-2.8%

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

Self-operated retail sales for 2018 accounted for 75.2% of the total revenue and represented an increase of 2.8% as compared to 2017. The increase in self-operated retail sales for 2018 was due to more effective promotional campaigns. The increase in sales to distributors was primarily attributable to the increase in sales to distributors in Mainland China. Sales to others for 2018 represented a decrease of 28.9% primarily due to the decrease in sales to wholesale customers.

Breakdown of revenue by products:

	2018		2017		Change	
	HK$'000	***% of Total***	*HK$'000*	*% of Total*	*HK$'000*	*%*
Bed linens	**176,628**	**52.3%**	158,135	45.5%	18,493	11.7%
Duvets and pillows	**140,880**	**41.7%**	176,079	50.7%	(35,199)	-20.0%
Others *(Note)*	**20,116**	**6.0%**	13,235	3.8%	6,881	52.0%
Total	**337,624**	**100.0%**	347,449	100.0%	(9,825)	-2.8%

Note: "Others" includes sales of home accessories, furniture and other products.

Bed linens and duvets and pillows are major products of the Group. The main reason for the significant increase in sales of bed linens and the significant decrease in sales of duvets and pillows for 2018 was primarily due to the major products under bulk-purchase agreements sold to a wholesale customer swapped from duvets in 2017 to bed linens in 2018. The increase in sales of others for 2018 was due to more fast fashion products and furniture sold during the Year.

Breakdown of revenue by geographic regions:

	2018		2017		Change	
	HK$'000	***% of Total***	*HK$'000*	*% of Total*	*HK$'000*	*%*
Hong Kong & Macau	**241,060**	**71.4%**	254,199	73.2%	(13,139)	-5.2%
Mainland China	**95,586**	**28.3%**	90,970	26.2%	4,616	5.1%
Others *(Note)*	**978**	**0.3%**	2,280	0.6%	(1,302)	-57.1%
Total	**337,624**	**100.0%**	347,449	100.0%	(9,825)	-2.8%

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

Revenue from Hong Kong and Macau decreased by 5.2% primarily due to increases in self-operated retail sales in Hong Kong and sales to the distributor in Macau less than the decrease in sales to wholesale customers in Hong Kong. The increase in revenue from Mainland China was due to increases in sales to distributors and wholesale customers in Mainland China more than the decrease in self-operated retail sales in Mainland China.

Gross Profit and Gross Profit Margin

Gross profit of HK$213.3 million for 2018 decreased by 4.9% as compared to HK$224.3 million for 2017. The gross profit margin for 2018 was 63.2% which was slightly lower than 64.6% for 2017 due to different sales mix of products.

Other Losses and Gains

Other losses for the Year amounted to HK$2.7 million (2017 gains: HK$0.5 million), mainly representing the decrease in fair value on derivative of HK$ 0.5 million (2017 increase: HK$0.5 million), net exchange loss of HK$2.8 million (2017 net exchange gain: HK$2.7 million) and the allowance for doubtful debts on trade receivable of HK$3.0 million (2017: HK$2.2 million) offsetting the gain on disposal of prepaid leasehold land of HK$3.7 million (2017: nil) to the government of Huizhou in the PRC.

Operating Expenses

Selling and distribution costs for 2018 increased by 4.0% to HK$151.4 million (2017: HK$145.6 million). The increase was mainly due to increases in staff and related expenses, rental expenses, advertising, marketing expenses and other expenses in relation to self-operated retail sales and sales to distributors.

Administrative expenses for 2018 increased by 6.5% to HK$49.7 million (2017: HK$46.7 million). The increase was mainly due to the increase in rental expenses and the share-based payments for the Year.

Finance Expenses

Finance costs for 2018 decreased by 71.0% to HK$0.4 million (2017: HK$1.3 million). The decrease in finance costs was primarily due to savings in interest payments after repayments of most bank borrowings last year.

Taxation

The Group's effective tax rate for 2018 was 43.6% as compared to 18.7% for 2017. The high effective tax rate for 2018 was mainly due to operation losses of subsidiaries in Mainland China and the increase in non-tax deductible expenses. Had these operation losses, the fair value adjustments, the share-based payments, the allowance for doubtful debts and the exchange gain/loss for 2018 and 2017 been excluded, the effective tax rate for 2018 and 2017 would be approximately 16.4% and 19.1% respectively.

Profit for the Year

Profit attributable to owners of the Company for 2018 was HK$7.8 million, representing a decrease of 71.0% when compared to HK$27.0 million for 2017. Reasons for significant decrease in profit for 2018 were mainly attributable to (1) the decrease in sales to wholesale customers, (2) the increase in sales related expenses for self-operated retail sales and sales to distributors, (3) the net exchange losses arising from the sharp depreciation of the Renminbi against the Hong Kong Dollar in mid-2018, and (4) the share-based payments.

EBITDA represents gross profit less selling and distribution costs and administrative expenses adding back depreciation, amortisation and share-based payments. EBITDA for 2018 decreased by 37.0% to HK$28.1 million (2017: HK$44.6 million).

Major Operating Efficiency Ratios

	2018	2017
Inventory turnover *(days)*	**235.5**	207.5
Trade receivables turnover *(days)*	**70.6**	69.9
Trade and bills payables turnover *(days)*	**186.2**	159.1

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 2018 increased to 235.5 days from 207.5 days for 2017. The inventory at 31 December 2018 increased by 55.2% to HK$97.5 million from HK$62.8 million at 31 December 2017 was due to more raw materials kept as at 31 December 2018 for production of goods to be sold under orders from a wholesale customer in first two months of 2019 and to be launched for new season after the first quarter of 2019.

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 2018 slightly increased to 70.6 days from 69.9 days for 2017.

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 2018 increased to 186.2 days from 159.1 days for 2017. The trade and bill payables at 31 December 2018 increased by 65.7 % to HK$79.1 million from HK$47.7 million at 31 December 2017 was due to more purchases of raw materials in the late 2018 for production of goods to be sold under orders from a wholesale customer in first two months of 2019 and to be launched for new season after the first quarter of 2019.

Liquidity and Capital Resources

The gearing structure is set out below:

	As at 31 December	
	2018	2017
	HK$'000	*HK$'000*
Total bank borrowings	**9,961**	3,575
Pledged bank deposits and bank balances and cash	**181,914**	164,710
Net cash	**171,953**	161,135
Total assets	**514,733**	475,787
Total liabilities	**116,070**	78,207
Total equity	**398,663**	397,580

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 repayment of the cross-border intergroup loan subject to exchange exposure.

Current ratio

The Group's total current assets at 31 December 2018 increased to HK$367.8 million (2017: HK$307.7 million), while the total current liabilities at 31 December 2018 also increased to HK$108.4 million (2017: HK$75.7 million). As a result, the current ratio reduced to 3.4 as at 31 December 2018 from 4.1 as at 31 December 2017.

Gearing ratio

Gearing ratio is calculated as total borrowings divided by total equity at the end of the year. As at 31 December 2018, the gearing ratio was only 2.5% (2017: 0.9%) with the increase in the bank borrowings by HK$6.4 million in Mainland China when the total equity also increased by HK$1.1 million. The Group was at net cash position at 31 December 2018 as well as 31 December 2017.

Pledge of assets

As at 31 December 2018, no leasehold land and buildings were pledged to banks as securities for banking facilities granted to the Group (2017: HK$121.0 million). The Group had pledged only its fixed deposits with an aggregate value of HK$10.5 million (2017: HK$6.3 million) to certain banks in Hong Kong and Mainland China to secure banking facilities granted to the Group at 31 December 2018.

Capital expenditures

During the Year, the Group invested HK$8.6 million (2017: HK$20.5 million) for acquisition of properties, leasehold improvements, motor vehicles and equipment.

Capital commitments

As at 31 December 2018, the Group had capital commitments of approximately HK$0.3 million (2017: HK$2.1 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 2018 was as below:

	Planned amount	Utilised amount	Unutilised amount
	HK$ million	*HK$ million*	*HK$ million*
From the listing			
Expansion of sales network	37.0	37.0	–
Upgrade of management information system	4.0	4.0	–
Brand building and product promotion	2.2	2.2	–
General working capital	1.0	1.0	–
Total	44.2	44.2	–
From placement of shares			
General working capital and possible investments	57.0	47.9	9.1

DIVIDEND

The Directors do not recommend the payment of final dividend for the year ended 31 December 2018.

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 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 2018.

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year ended 31 December 2018 is scheduled to be held on Monday, 27 May 2019 (the "AGM"). A notice convening the AGM will be issued and disseminated to shareholders of the Company in due course.

CLOSURES OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 22 May 2019 to Monday, 27 May 2019 (both days inclusive) during which period 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, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. (Hong Kong time) on Tuesday, 21 May 2019.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises three Independent Non-executive Directors, namely, Mr. Lo Siu Leung, Dr. Cheung Wah Keung and Mr. Chow On Wa. Mr. Lo Siu Leung 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 2018.

SCOPE OF WORK OF MESSRS. CHENG & CHENG LIMITED, CERTIFIED PUBLIC ACCOUNTANTS

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 2018 as set out in the preliminary announcement have been agreed by the Group's auditors, Messrs. CHENG & CHENG LIMITED, Certified Public Accountants ("CHENG & CHENG"), to the amounts set out in the Group's audited consolidated financial statements for the Year. The work performed by CHENG & CHENG 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 CHENG & CHENG 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, 25 March 2019

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