Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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)

2019 ANNUAL RESULTS ANNOUNCEMENT

HIGHLIGHTS

	Notes	**2019**	2018	Change
Revenue *(HK$'000)*		**378,854**	337,624	12.2%
EBITDA *(HK$'000)*	*1*	**56,309**	28,085	100.5%
Profit attributable to owners of the Company *(HK$'000)*		**18,498**	7,837	136.0%
Gross profit margin		**60.4%**	63.2%	
EBITDA margin		**14.9%**	8.3%	
Net profit margin		**4.9%**	2.3%	
Earnings per share *(HK cents)*		**7.16**	3.03	136.3%
Proposed final dividend per share *(HK cents)*		**3.00**	Nil	N/A
Full-year dividend per share *(HK cents)*		**5.00**	Nil	N/A

		As at 31/12/2019	As at 31/12/2018	Change
Total assets *(HK$'000)*		**511,252**	514,733	–0.7%
Total equity *(HK$'000)*		**406,268**	398,663	1.9%
Total bank borrowings *(HK$'000)*		**6,432**	9,961	–35.4%
Total bank balances and cash *(HK$'000)*		**175,889**	181,914	–3.3%
Net cash *(HK$'000)*	*2*	**169,457**	171,953	–1.5%
Gearing ratio	*3*	**1.6%**	2.5%	

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 2019 (the "Year" or the "Review Period") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	**2019** **HK$'000**	2018 HK$'000
Revenue	*3*	**378,854**	337,624
Cost of goods sold		**(150,078)**	(124,296)
Gross profit		**228,776**	213,328
Other income		**2,381**	1,570
Other losses		**(1,714)**	(2,696)
Selling and distribution costs		**(154,598)**	(151,435)
Administrative expenses		**(48,780)**	(49,685)
Finance costs		**(1,561)**	(365)
Profit before taxation	*4*	**24,504**	10,717
Taxation	*5*	**(6,886)**	(4,672)
Profit for the year		**17,618**	6,045
Other comprehensive 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		**(3,112)**	(10,071)
Release of translation reserve upon deregistration of a subsidiary		**23**	–
Other comprehensive expense		**(3,089)**	(10,071)
Total comprehensive income (expense) for the year		**14,529**	(4,026)
Profit (loss) for the year attributable to:			
Owners of the Company		**18,498**	7,837
Non-controlling interests		**(880)**	(1,792)
		17,618	6,045
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**15,432**	(2,216)
Non-controlling interests		**(903)**	(1,810)
		14,529	(4,026)
Earnings per share			
– Basic (HK cents)	*7*	**7.16**	3.03
– Diluted (HK cents)	*7*	**7.16**	3.03

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment		**131,417**	128,003
Prepaid lease payments		–	17,330
Right-of-use assets		**34,098**	–
Intangible assets		–	–
Deposits paid for acquisition of property, plant and equipment		**738**	422
Rental and other deposits		**1,704**	1,211
Deferred tax assets		**4**	–
		167,961	146,966
Current assets			
Inventories		**89,935**	97,530
Trade and other receivables	*8*	**77,467**	87,142
Prepaid lease payments		–	418
Taxation recoverable		–	763
Pledged bank deposits		**7,146**	10,506
Bank balances and cash		**168,743**	171,408
		343,291	367,767
Current liabilities			
Trade and other payables	*9*	**73,570**	103,755
Lease liabilities		**11,109**	–
Taxation payable		**6,376**	1,190
Bank borrowings		**4,195**	3,415
		95,250	108,360
Net current assets		**248,041**	259,407
Total assets less current liabilities		**416,002**	406,373
Non-current liabilities			
Bank borrowings		**2,237**	6,546
Lease liabilities		**6,724**	–
Deferred taxation		**773**	1,164
		9,734	7,710
Net assets		**406,268**	398,663
Capital and reserves			
Share capital		**25,843**	25,843
Reserves		**380,488**	371,054
Equity attributable to owners of the Company		**406,331**	396,897
Non-controlling interests		**(63)**	1,766
Total equity		**406,268**	398,663

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 16, Leases
- HK(IFRIC)-Int 23, Uncertainty over Income Tax Treatments
- Amendments to HKAS 19, Plan Amendment, Curtailment or Settlement
- Amendments to HKFRSs, Annual Improvements to HKFRSs 2015-2017 Cycle

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Except as described below, the application of the new and 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 on the disclosures set out in these condensed consolidated financial statements.

(b) HKFRS 16, Leases

The Group has applied HKFRS 16 for the first time in the year ended 31 December 2019. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 5.27%.

	At 1 January 2019
	HK$'000
Operating lease commitments disclosed as at 31 December 2018	28,099
Lease liabilities discounted at relevant incremental borrowing rates	(1,072)
Less: Recognition exemption – short-term leases	(6,918)
Others	(115)
Lease liabilities as at 1 January 2019	19,994
Analysed as	
Current	13,053
Non-current	6,941
	19,994

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets
	HK$'000
Right-of-use assets relating to operating leases recognized upon application of HKFRS 16	19,994
Reclassified from prepaid lease payments *(note)*	17,748
	37,742

Note:

Upfront payments for leasehold lands in the People's Republic of China ("PRC" or "Mainland China", for the purpose of this announcement, excluding Hong Kong, Macau and Taiwan) were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to approximately HK$418,000 and approximately HK$17,330,000 respectively were reclassified to right of-use assets.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts at under HKFRS 16 1 January 2019
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Prepaid lease payments	17,330	(17,330)	–
Right-of-use assets	–	37,742	37,742
Current assets			
Prepaid lease payments	418	(418)	–
Current liabilities			
Lease liabilities	–	13,053	13,053
Non-current Liabilities			
Lease liabilities	–	6,941	6,941

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 PRC and Hong Kong and Macau, and sales made to overseas customers.

The information of segment revenue is as follows:

	2019 ***HK$'000***	2018 *HK$'000*
Self-operated retail sales	**242,536**	253,975
Sales to distributors	**33,624**	36,099
Others	**102,694**	47,550
	378,854	337,624

Entity-wide information

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

	2019 ***HK$'000***	2018 *HK$'000*
Bed linens	**195,992**	176,628
Duvets and pillows	**160,857**	140,880
Other home accessories	**22,005**	20,116
	378,854	337,624

Geographical information

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

	2019	2018
	HK$'000	*HK$'000*
Hong Kong and Macau	**265,880**	241,060
PRC	**106,438**	95,586
Others	**6,536**	978
	378,854	337,624

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

	2019	2018
	HK$'000	*HK$'000*
PRC	**125,766**	129,700
Hong Kong	**40,487**	16,055
	166,253	145,755

Information about major customer

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

	2019	2018
	HK$'000	*HK$'000*
Customer A[1, 2]	**58,527**	N/A

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

	2019	2018
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Directors' and chief executive's remuneration *(Note a)*	**12,268**	12,103
Other staff costs	**80,452**	77,650
Retirement benefit schemes contributions for other staff	**5,390**	5,524
Share-based payments for other staff	**–**	146
Total staff costs	**98,110**	95,423
Auditor's remuneration	**941**	842
Amortisation of prepaid lease payments	**–**	563
Allowance for inventories (included in cost of goods sold)	**839**	759
Bad debts written off	**318**	–
Cost of inventories recognised as expenses	**149,239**	123,537
Depreciation of property, plant and equipment	**13,830**	13,410
Depreciation of right-of-use assets *(Note a)*	**17,081**	–
Operating lease rentals in respect of		
– rented premises	**–**	1,270
– retail stores (including in selling and distribution costs)	**–**	11,101
	–	12,371
Department store counters concessionaire commission (included in selling and distribution costs) *(Note b)*	**–**	43,931
Expenses relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16	**17,787**	–
Variable lease payments not included in the measurement of lease liabilities *(Note b)*	**20,713**	–
Design costs (included in administrative expenses) *(Note c)*	**657**	654

Notes:

(a) Upon application of HKFRS 16, the leases of directors' quarters provided to Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung were classified as the right-of-use assets. The depreciation of the right-of-use assets related to the directors' quarters for the year ended 31 December 2019 was HK$2,114,000, which is included in both the directors' and chief executive's remuneration and depreciation of right-of-use assets. The rental payments paid to related companies for the year ended 31 December 2019 was HK$2,220,000 (2018: HK$2,220,000).

(b) Included contingent rent of HK$22,580,000 for the year ended 31 December 2018. The contingent rent refers to the operating lease rentals based on pre-determined percentages of realised sales less basic rentals of the respective leases. The corresponding expense of HK$20,237,000 for the year ended 31 December 2019 is included in variable lease payments not included in the measurement of lease liabilities.

(c) The design costs comprise of staff salaries of HK$286,000 (2018: HK$515,000) for the year ended 31 December 2019, which are included in the staff costs disclosed above.

5. TAXATION

	2019	2018
	HK$'000	*HK$'000*
Current tax		
Hong Kong	**5,639**	3,642
PRC Enterprise Income Tax (the "EIT")	**1,754**	1,186
	7,393	4,828
Overprovision in prior years		
Hong Kong	**(112)**	(182)
	7,281	4,646
Deferred taxation charge	**(395)**	26
	6,886	4,672

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, during the years ended 31 December 2018 and 2019, 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

An interim dividend of HK$0.02 per ordinary share in the share capital of the Company amounting to HK$5,169,000 in aggregate (2018: Nil) paid on 20 September 2019 to the owners of the shares of the Company whose names appear in the Register of Members on 12 September 2019.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of HK$0.03 (2018: Nil) per ordinary share, in an aggregate amount of HK$7,753,000 (2018: Nil), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

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:

	2019	2018
	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	**18,498**	7,837

	2019	2018
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 2019 and 2018, 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

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**61,803**	73,384
Less: Loss allowance	**(6,803)**	(6,412)
Trade receivables, net	**55,000**	66,972
Bills receivables	**5,487**	–
Trade and bills receivables, net	**60,487**	66,972
Deposits	**4,960**	3,860
Prepayments	**3,377**	5,685
Value added tax recoverable	**4,583**	7,451
Advances to employees	**968**	1,313
Other receivables *(note)*	**3,092**	1,861
	16,980	20,170
Total trade and other receivables	**77,467**	87,142

Note: Included in the amount is interest receivable of HK$168,000 (2018: HK$11,000).

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 and bills receivables net of loss allowance presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates.

	2019	2018
	HK$'000	*HK$'000*
Within 30 days	**33,531**	42,619
31 to 60 days	**17,241**	14,160
61 to 90 days	**6,995**	6,151
91 to 180 days	**1,526**	3,328
181 to 365 days	**819**	705
Over 365 days	**375**	9
	60,487	66,972

9. TRADE AND OTHER PAYABLES

	2019	2018
	HK$'000	*HK$'000*
Trade payables	**21,733**	39,430
Bills payables	**27,098**	39,677
Trade and bills payables	**48,831**	79,107
Deposits received from customers	**2,739**	2,797
Accrued expenses	**7,823**	9,541
Salaries payables	**10,140**	8,708
Payable for acquisition of property, plant and equipment	**2,116**	1,963
Other payables	**1,921**	1,639
	24,739	24,648
Total trade and other payables	**73,570**	103,755

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.

	2019	2018
	HK$'000	*HK$'000*
Within 30 days	**28,180**	53,902
31 to 60 days	**10,500**	11,868
61 to 90 days	**6,970**	9,103
91 to 180 days	**2,471**	3,513
Over 180 days	**710**	721
	48,831	79,107

10. CONTINGENT LIABILITIES

The Company and two of its subsidiaries are defendants in a litigation involving the alleged copyright infringement. In the opinion of the directors, based on legal advice, it is difficult in the usual course of the litigation to predict the exposure to the Group since the litigation is at early stage. In the opinion of the directors, based on legal advice on preliminary assessment, the exposure in the event of failure to defend the case is estimated not to be material to the Group, assuming that there is no damage for loss of goodwill caused to the plaintiff or its brand names.

11. EVENT AFTER THE REPORTING PERIOD

After the outbreak of coronavirus ("COVID-19") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the globe. The Group is paying close attention to the development of, and the disruption to business and economic activities caused by, the COVID-19 outbreak and evaluate its impact on the financial position, cash flows and operating results of the Group. Given the dynamic nature of the COVID-19 outbreak, it is not practicable to provide a reasonable estimate of its impacts on the Group's financial position, cash flows and operating results at the date on which these financial statements are authorised for issue.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

In 2019, the Sino-US trade dispute remained unresolved. Though the Group did not export any of its goods to the US and the imposition of additional tariffs by the US on goods imported from Mainland China would not directly affect the Group, consumer confidence in the Greater China Region was nonetheless affected to a certain extent by the Sino-US trade war. As previously announced by the National Bureau of Statistics of the PRC, the preliminary estimate of the national GDP growth was 6.1% in 2019 while the total retail sales growth of consumer goods in the PRC slightly slowed down to 8.0% in 2019 as compared with that of 9.0% in 2018. Traditional retailers in Mainland China continued to face challenges arising from the increasing operating costs of offline sales channels, such as rentals and salaries. Together with consumers' altered consumption habits as a result of ever-changing online sales models, the operation of traditional offline sales channels was increasingly difficult.

With regard to the Hong Kong market, consumption sentiment remained normal during most of the first half of 2019; however, the overall retail market was significantly affected towards the latter part of the second quarter due to social incidents. Many shopping malls and department stores were unable to open for business or needed to shorten their opening hours for a number of days (including Saturdays and Sundays) during the second half of the year, yet most shopping mall owners and department stores refused to offer reduction or exemption of rentals and commissions. Meanwhile, consumers turned to purchases on online shopping platforms to avoid going outdoors; and the number of foreign and Mainland Chinese tourists visiting Hong Kong decreased significantly. With the drastic reduction in sales revenue and sustained high operating costs, retailers in Hong Kong experienced extreme difficulties in their operations during the second half of 2019. Apart from the above challenges, bedding product enterprises in Hong Kong also had to launch promotional activities in response to the unseasonably warm winter to stimulate customer spending.

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 developing new products for its business. For the year ended 31 December 2019, the Group's total revenue was HK$378.9 million, representing an increase of 12.2% as compared with HK$337.6 million in the corresponding period of 2018. The profit attributable to owners of the Company was HK$18.5 million, a surge of 136.0% as compared with HK$7.8 million in the corresponding period of 2018, which was mainly attributable to: (1) the increase in total sales; and (2) no share-based payment expenses. Since the publication of the interim results for the six months ended 30 June 2019, there had been no material changes in the Group's operational and segmental information.

Comprehensive Enhancement of Sales Channels

The income from self-operated retail sales continued to be 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 has almost been completed. The number of POS in Hong Kong, Macau and Mainland China remained substantially stable. As at 31 December 2019, the Group had a total of 229 POS (31 December 2018: 224), among which 125 were self-operated POS and 104 were distributor-operated POS, covering a total of 65 cities in the Greater China Region.

Regarding the self-operated business in Mainland China, the Group closed down some of the non-profitable POS during the year. The Group adopted the "cross-sector alliance" strategy in Mainland China to share cross-sector membership resources with enterprises from industries engaging in wedding dress, beauty, fitness centers and interior design-related activities, through which it has actively expanded the sales channels for corporate gifts, and has achieved satisfactory results as expected.

Regarding the Hong Kong market, the Group's department store concession counter business was affected to a certain extent by the interior renovation of several department stores during the Year and the social incidents in the second half of the year. In order to reduce the reliance on retail income, the Group has continued its active expansion in the commercial-customer market during the Review Period. Apart from receiving purchase orders from the Hong Kong government, the Group offered items to various commercial customers for their point redemption loyalty schemes, including personal care chain stores, food chain stores, personal care product brands, telecommunications network providers, credit card centres of banks, infant and healthy food brands and electrical appliances brands.

During the Review Period, the revenue contributed by the online sales business in Mainland China as well as Hong Kong increased significantly, which is mainly attributable to the measures taken for broadening the sources of income and improving cost control. These measures included the adoption of wholly-owned direct sales management for online sales business, streamlining manpower, strategic promotional activities and increasing the proportion of products with higher gross margin. In addition to contribution to sales revenue, the official eShop in Hong Kong was also positioned as one of the channels for building up the Group's brand image. Moreover, the Group sold its products through various renowned retail sales websites for consumer goods in Hong Kong, attaining a satisfactory sales performance.

In 2019, the Group's revenue from the export business recorded substantial growth. During the Review Period, apart from export orders from original equipment manufacturers (OEM), the Group also sold products under its own brands on a wholesale basis to overseas markets, such as Taiwan and Canada, so as to provide its branded products with a greater reach of overseas consumers, thereby enhancing the brand recognition abroad. By actively participating in large-scale industry exhibitions in Hong Kong and Mainland China, the Group has also introduced its brands to procurement personnel from all over the world, which was considered to be a great foundation for future cooperation.

Enhanced Product Mix

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". In the first quarter of 2019, it launched the revolutionary Sleeptech Pillow Series (科技枕頭系列). The series includes a total of three products featuring various technological fabrics and quality latex rubber imported from Thailand, namely, the Universe Thermocules™ Pillow (恆溫宇宙枕), the Auto-Sanitised Protect Pillow (納米淨化枕) and the Magnetic Stress-Relief Pillow (零壓磁療枕). All of these new products have received a highly encouraging response from the market.

In respect of product planning for the Mainland China market, the Group has enhanced its presence in high-end markets by increasing the sales proportion of imported products during the Review Period. In addition, the Group has added more duvet items in the series of "warmth-preserving system" products, including the introduction of premium duvets produced from quality materials and down quilts directly imported from Eastern Europe, in order to offer consumers with an even wider range of duvet product options.

During the Year, the Group introduced new licensed products, including Coca-Cola, the world renowned beverage brand, "BT21" and "Kakao Friends", famous trendy cartoon characters from Korea, and "Chibi Maruko-chan", a well-known Japanese cartoon character, providing consumers with more diversified cartoon product offerings. Apart from bedding products, the Group also designed and launched various travelling products for certain authorised cartoon characters and collaborated with a hotel in Hong Kong to launch cartoon-themed rooms, with highly positive effects in terms of promoting the Group's brand image.

In respect of the "Healthy Lifestyle Store" business, the Group continued to provide one-stop shopping experiences for customers seeking bedding and customised furniture products with the goal of "Full House Output (全屋輸出)". During the first half of 2019, the Group participated in a renowned furniture exhibition organised by the interior design industry in Guangdong Province, which not only enhanced recognition of its "Healthy Lifestyle Store" business in the industry, but also attracted interior designers to engage in in-depth cooperation, thus further enhancing its brand position.

Optimised Marketing Strategies

During the Review Period, apart from the application of traditional promotion channels, the Group has also actively promoted its brands through online promotion channels such as Facebook, Instagram and WeChat, to enhance its interaction with target consumer groups. At the same time it has increased the broadcast frequency of the promotional video clips featuring various artists, thereby attracting more young consumers to become more interested in the Group's brands.

In December 2019, the Group held a grand opening event of a concession counter with its brand-new image at one of the key department stores in Hong Kong and, for the first time, invited a young pop group to be the guest performer which aroused the attention of a large number of young consumers. In response to the theme of "Global Tour" on that day, various quality products from around the world were exhibited in order to promote the Group's vision of continuous innovation and commitment to create a comfortable living environment for consumers.

The Group has always placed great emphasis on contributing to society and supporting charitable events. During the Review Period, the Group collaborated with the Crossroads Foundation, a non-profit organisation in Hong Kong, and launched the first "Bedding Products Recycling Scheme (床品回收計劃)" in Hong Kong to encourage consumers to donate used bedding products that are in good condition to people in need. During the Year, the Group also proactively supported the environmental activities organised by charitable institutions, including the sponsorship of "Charity Hike", a charitable fundraising event organised by the Green Sense, the donation of proceeds from products to the Society for the Prevention of Cruelty to Animals, as well as the participation and donation of "Yan Chai's Care of Elderly (仁濟安老送關懷)" and "Yan Chai Charity Walk 2019". All of the above measures have positive effects on the Group's image.

FUTURE PROSPECTS

With the signing of the Phase I Trade Deal between China and the US in January 2020, the Sino-US trade conflict has temporarily de-escalated. However, the outbreak of COVID-19 during the same month has resulted in a sharp decrease of economic activities in various cities across Mainland China. The manufacturing industrial chain and the consumption market were among the worst hit, which looks set to adversely affect the development of the Chinese economy in the first half of 2020. With regard to the Hong Kong retail sector, after the social incidents, coupled with the outbreak of COVID-19, people avoided going to public places for the time being. It is expected that the Hong Kong economy will remain under pressure with the sluggish consumer and retail spending in the market.

During this period of operational difficulties for retail business in both Mainland China and Hong Kong, the Group will actively promote innovative bedding products with health enhancing functions to demonstrate the superiority of its brands in the market. At the same time it will consistently work on the development of online sales channels, access commercial customers and build its export business with a view to overcoming the impact of the expected contraction of retail business on the Group's revenue.

Expand Sales Channels

In order to minimise the impact of changes in the operating environment of individual markets on revenue, the Group will devote greater resources to expand its export business in 2020. In addition to actively seeking export orders for OEM, the Group will deepen the cooperation with existing overseas customers to expand the overseas distribution business of its branded products. The Group anticipates that the export business will realise growth in 2020 and beyond.

The Group will accelerate the development of the online sales business. Towards that end, it will strengthen the cooperation with online shopping platforms in Mainland China, and intends to cooperate with famous internet celebrities to promote the concept of its "CASA-V" brand and conduct direct sales of its hero products. With regard to the Hong Kong market, the Group plans to enrich the exclusive product offering on its official eShop in Hong Kong with periodic launches of "flash sales" events and themed promotion campaigns. It is anticipated that the optimisation of the back-office system of the official eShop in Hong Kong will be completed in the second quarter of 2020, which will then improve its data analytics capability. The delivery efficiency and logistics arrangement of the warehouse will also be upgraded simultaneously with a view to gaining more market share in online sales of bedding products in Hong Kong.

The Group will pursue opportunities to sell products to commercial customers in Hong Kong and Mainland China. In respect of the Mainland China market, it will continue to adopt the strategy of "cross-sector alliance" to share cross-sector membership resources. It will provide exclusive products to banks as their point redemption gifts, at the same time strenuously expanding the sales channels for corporate gifts. In addition, greater efforts will be devoted to expand the businesses with hotel customers in Mainland China, including the provision of the relevant textile and furniture products for hotel guest rooms, restaurants and lounges and bars. For the Hong Kong market, the Group will actively explore diversified cooperation opportunities with its existing commercial customers, including the launch of free gifts or redemption schemes in various forms, rebates for online purchases, etc. Moreover, it will proactively establish cooperation with new customers from industries such as personal care product brands, cosmetic brands, supermarkets, chain food stores and major home appliances brands.

Enhance Product Mix

To keep pace with the consumption upgrade in Mainland China in recent years, the Group has increased the sales proportion of imported goods in Mainland China and developed more luxury bedding products with simple design with a view to increasing its penetration in the high-end market. With the consumers' increasing concern about a healthy lifestyle and environmental protection, the Group will step up its efforts in the research and development of more products with 5A features.

In respect of the Hong Kong market, the Group will carry out research and development of products that embody green concepts and health enhancing functions. At the beginning of 2020, it launched the Royal Dragonfly Quilt（御蜓暖芯被）that is suitable for all seasons and has effectively promoted the concept of green living. In order to offer more choices to consumers, the Group will also seek collaboration with illustrators in Hong Kong so as to support local original creative culture as well as increase the market share of the Group's brands.

The Group has placed strong emphasis on the development of the "Healthy Lifestyle Store" business and successfully invited business personnel with extensive experience in the furniture industry to join the relevant management team at the end of 2019. The "Healthy Lifestyle Store" business will focus mainly on attracting potential distributors. Catering for the demand of the mainstream market, the Group will develop more high-quality furniture products with affordable prices, while enhancing its competitiveness by optimising the furniture ordering process and strengthening its after-sales services.

Strengthen Brand Leadership

In light of the frequent environmental pollution and epidemic outbreak in recent years, the Group will actively promote its products under "CASA-V" brand with 5A features to improve the sleeping environment of its customers. It will focus on the marketing of the "CASA-V" brand and the healthy sleeping environment concept. In addition, it will step up its promotional efforts in e-commerce platforms, and increase the use of short videos featuring popular artists or internet celebrities to promote the Group's brand philosophy and products in tandem with the market trends.

At the beginning of 2020, the Group's official eShop in Hong Kong collaborated with a Hong Kong television channel targeting the youth market for the first time. Customers may enjoy the paid services of the television channel free-of-charge for three months upon spending a certain amount in our official eShop, while members of this television channel may enjoy year-round shopping discounts in the Group's official eShop in Hong Kong. As a new initiative of the Group, this collaboration with the television channel was believed to be effective in nurturing young members for both parties and increasing their spending.

Striving to incorporate "Contemporary, Innovative and Functional" features in all of its products, the Group will endeavour to provide consumers with quality bedding products that are fashionably designed and reasonably priced, and home accessories that are trendy yet practical. The Group will also continue to broaden revenue streams and enhance its brand value to bring satisfactory returns to shareholders over the long term.

FINANCIAL REVIEW

Revenue

For the Year, the Group recorded revenue of HK$378.9 million (2018: HK$337.6 million), representing an increase of 12.2%. The increase in revenue was primarily attributable to the significant increase in wholesales despite the decreases in retail sales and sales to distributors during the Year.

Breakdown of revenue by brands:

	2019		2018		Change	
	HK$'000	***% of Total***	*HK$'000*	*% of Total*	*HK$'000*	*%*
Proprietary brands	**334,888**	**88.4%**	293,111	86.8%	41,777	14.3%
Licensed and authorized brands	**43,966**	**11.6%**	44,513	13.2%	(547)	–1.2%
Total	**378,854**	**100.0%**	337,624	100.0%	41,230	12.2%

Casablanca, Casa Calvin and CASA-V are our major proprietary brands. The increase in sales of proprietary brands by 14.3% was attributable to the increase in sales to wholesale customers during the Year. Sales of our licensed and authorized brands for 2019 were at similar level as 2018.

Breakdown of revenue by channels:

	2019		2018		Change	
	HK$'000	***% of Total***	*HK$'000*	*% of Total*	*HK$'000*	*%*
Self-operated sales						
Self-operated concession counters	**182,782**	**48.2%**	187,684	55.6%	(4,902)	–2.6%
Self-operated retail stores	**59,754**	**15.8%**	66,291	19.6%	(6,537)	–9.9%
Sub-total for self-operated retail sales	**242,536**	**64.0%**	253,975	75.2%	(11,439)	–4.5%
Sales to distributors	**33,624**	**8.9%**	36,099	10.7%	(2,475)	–6.9%
Others *(Note)*	**102,694**	**27.1%**	47,550	14.1%	55,144	116.0%
Total	**378,854**	**100.0%**	337,624	100.0%	41,230	12.2%

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

Self-operated retail sales for 2019 accounted for 64.0% of the total revenue and represented a decrease of 4.5% as compared to 2018. The decrease in self-operated retail sales for 2019 was due to the number of self-operated POS in Hong Kong reduced and the adverse impacts on retail operations and consumer sentiment by continuous social incidents in Hong Kong throughout the second half of the Year. The decrease in sales to distributors for 2019 was attributable to decreases in sales to distributors in both the PRC and Macau. With significant increases in sales to wholesale customers and export sales during the Year, sales to others for 2019 recorded a significant increase of 116.0% as compared to 2018.

Breakdown of revenue by products:

	2019		2018		Change	
		% of		*% of*		
	HK$'000	***Total***	*HK$'000*	*Total*	*HK$'000*	*%*
Bed linens	**195,992**	**51.7%**	176,628	52.3%	19,364	11.0%
Duvets and pillows	**160,857**	**42.5%**	140,880	41.7%	19,977	14.2%
Others *(Note)*	**22,005**	**5.8%**	20,116	6.0%	1,889	9.4%
Total	**378,854**	**100.0%**	337,624	100.0%	41,230	12.2%

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

Bed linens and duvets and pillows are major products of the Group. The significant increases in sales of bed linens and duvets and pillows for 2019 were due to increases in sales to wholesale customers and export sales during the Year. The increase in sales of others for 2019 was due to more furniture sold during the Year.

Breakdown of revenue by geographic regions:

	2019		2018		Change	
		% of		*% of*		
	HK$'000	***Total***	*HK$'000*	*Total*	*HK$'000*	*%*
Hong Kong & Macau	**265,880**	**70.2%**	241,060	71.4%	24,820	10.3%
Mainland China	**106,438**	**28.1%**	95,586	28.3%	10,852	11.4%
Others *(Note)*	**6,536**	**1.7%**	978	0.3%	5,558	568.3%
Total	**378,854**	**100.0%**	337,624	100.0%	41,230	12.2%

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

Revenue from Hong Kong and Macau had an increase of 10.3% primarily due to the increase in sales to wholesale customers in Hong Kong offsetting the decrease in self-operated retail sales in Hong Kong and sales to the distributor in Macau. The increase in revenue from Mainland China was due to the increase in sales to wholesale customers in Mainland China. With more export sales for 2019, revenue from others significantly increased by 568.3%.

Gross Profit and Gross Profit Margin

Gross profit of HK$228.8 million for 2019 increased by 7.2% as compared to HK$213.3 million for 2018. The gross profit margin for 2019 was 60.4% which was lower than 63.2% for 2018 due to the significant increase in sales to others at lower gross profit margin as compared to self-operated retail sales.

Other Losses

Other losses for the Year amounted to HK$1.7 million (2018: HK$2.7 million). The decrease in other losses was due to decreases in net exchange loss and the loss allowance on trade receivable for 2019.

Operating Expenses

Selling and distribution costs for 2019 increased by 2.1% to HK$154.6 million (2018: HK$151.4 million). The increase was mainly due to increases in staff and related expenses, advertising and marketing expenses in offsetting against the decrease in concessionaires commissions to department stores.

Administrative expenses for 2019 decreased by 1.8% to HK$48.8 million (2018: HK$49.7 million). The decrease was due to decreases in the share-based payments and rental expenses despite increases in directors' remuneration and legal and professional fee for the Year.

Finance Expenses

Finance costs for 2019 increased by 327.7% to HK$1.6 million (2018: HK$0.4 million). The increase in finance costs was primarily due to interest of HK$1.1 million (2018: Nil) on lease liabilities arising from the adoption of HKFRS 16 with effect from the Year.

Taxation

The Group's effective tax rate for 2019 was 28.1% as compared to 43.6% for 2018. The high effective tax rate for 2019 was mainly due to operation losses of subsidiaries in Mainland China and non-tax deductible expenses. Had these operation losses, the share-based payments, the loss allowance on trade receivables and the exchange loss for 2019 and 2018 been excluded, the effective tax rate for 2019 and 2018 would be approximately 16.9% and 16.4% respectively.

Profit for the Year

Profit attributable to owners of the Company for 2019 was HK$18.5 million, representing an increase of 136.0% when compared to HK$7.8 million for 2018. Reasons for significant increase in profit for 2019 were mainly attributable to (1) the increase in total sales; and (2) none of expenses of share-based payment.

EBITDA represents gross profit less selling and distribution costs and administrative expenses adding back depreciation, amortisation and share-based payments. EBITDA for 2019 increased by 100.5% to HK$56.3 million (2018: HK$28.1 million). In addition to the increase in total sales, the reason for the increase in EBITDA was also due to the increase in depreciation of right of use assets amounting to HK$17.1 million (2018: Nil) arising from the adoption of HKFRS 16 with effect from the Year.

Major Operating Efficiency Ratios

	2019	2018
Inventory turnover *(days)*	**228.0**	235.5
Trade and bills receivables turnover *(days)*	**61.4**	70.6
Trade and bills payables turnover *(days)*	**155.6**	186.2

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 2019 decreased to 228.0 days from 235.5 days for 2018. The inventory at 31 December 2019 decreased by 7.8% to HK$89.9 million from HK$97.5 million at 31 December 2018 because part of raw materials and finished goods at 31 December 2018 were specifically kept for sales to a wholesale customer in the first two months of 2019.

Trade and bills receivables turnover

The trade and bills receivables turnover is equal to the average of opening and closing trade and bills receivables divided by total sales for the year and multiplied by 365 days. The trade and bills receivables turnover for 2019 decreased to 61.4 days from 70.6 days for 2018 because the trade and bills receivables at 31 December 2019 reduced by 9.7% to HK$60.5 million from HK$67.0 million at 31 December 2018.

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 2019 decreased to 155.6 days from 186.2 days for 2018. The trade and bill payables at 31 December 2019 decreased by 38.3 % to HK$48.8 million from HK$79.1 million at 31 December 2018 was due to more purchases of raw materials in the late 2018 for production of goods for sales to a wholesale customer in the first two months of 2019.

Liquidity and Capital Resources

The gearing structure is set out below:

	As at 31 December	
	2019	2018
	HK$'000	*HK$'000*
Total bank borrowings	**6,432**	9,961
Pledged bank deposits and bank balances and cash	**175,889**	181,914
Net cash	**169,457**	171,953
Total assets	**511,252**	514,733
Total liabilities	**104,984**	116,070
Total equity	**406,268**	398,663

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 and the total current liabilities at 31 December 2019 decreased to HK$343.3 million (2018: HK$367.8 million) and to HK$95.3 million (2018: HK$108.4 million) respectively. As a result, the current ratio increased to 3.6 as at 31 December 2019 from 3.4 as at 31 December 2018.

Gearing ratio

Gearing ratio is calculated as total borrowings divided by total equity at the end of the year. As at 31 December 2019, the gearing ratio was only 1.6% (2018: 2.5%) with the decrease in the bank borrowings by HK$3.5 million in Mainland China when the total equity also increased by HK$7.6 million. The Group was at net cash position at 31 December 2019 as well as 31 December 2018.

Pledge of assets

As at 31 December 2019, no leasehold land and buildings were pledged to banks as securities for banking facilities granted to the Group (2018: Nil). The Group had pledged only its fixed deposits with an aggregate value of HK$7.1 million (2018: HK$10.5 million) to certain banks in Hong Kong and Mainland China to secure banking facilities granted to the Group at 31 December 2019.

Capital expenditures

During the Year, the Group invested HK$19.7 million (2018: HK$8.6 million) for acquisition of properties, leasehold improvements and equipment.

Capital commitments

As at 31 December 2019, the Group had capital commitments of approximately HK$1.5 million (2018: HK$0.3 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, which had fully been utilised as at 31 December 2018, and the placement of shares completed in March 2015 (the “Placing”) of approximately HK$57.0 million.

The remaining amount of net proceeds from the Placing was fully utilized for general working capital and possible investments during the Year.

Contingent Liabilities

The Company and two of its subsidiaries in Hong Kong are defendants in a litigation involving an alleged copyright infringement in Hong Kong. Based on legal advice, it is difficult in the usual course of such litigation to predict the exposure to the Group at this early stage pending for closure of pleadings and witness statements.

Based on legal advice on preliminary assessment, the exposure in the event of failure to defend the case is estimated not to be material to the Group, assuming that there is no damage for loss of goodwill caused to the plaintiff or its brand names. The Board considers that the alleged claim would not bring any material adverse effect to the business operation and financial position of the Group.

DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK$0.03 per ordinary share for the year ended 31 December 2019 (2018: Nil) to the Shareholders whose names appear on the register of members of the Company on Wednesday, 3 June 2020. Together with an interim dividend of HK$0.02 (2018: Nil) per ordinary share, the total dividend for the Year amounts to HK$0.05 (2018: Nil) per ordinary share, representing about 69.8% of this year's basic earnings per share of HK$0.0716 (2018: HK$0.0303).

Subject to approval by the Shareholders at the forthcoming annual general meeting to be held on Monday, 25 May 2020, the final dividend will become payable on Wednesday, 17 June 2020.

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 2019.

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year ended 31 December 2019 is scheduled to be held on Monday, 25 May 2020 (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, 20 May 2020 to Monday, 25 May 2020 (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, 19 May 2020.

For determining the entitlement of the proposed final dividend, the register of members of the Company will also be closed from Monday, 1 June 2020 to Wednesday, 3 June 2020 (both days inclusive) during which period no transfer of shares will be effected. In order to be eligible to qualify for the proposed final dividend, 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 Friday, 29 May 2020.

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 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 2019.

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 2019 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, 27 March 2020

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, and Mr. Lo Siu Leung, Dr. Cheung Wah Keung and Mr. Chow On Wa as Independent Non-executive Directors.