CASABLANCA GROUP LIMITED

(INCORPORATED IN THE CAYMAN ISLANDS
WITH LIMITED LIABILITY)

STOCK CODE: 2223

30th

SLEEP GREEN
GO WITH CASA TECH

ANNUAL REPORT
2022

MIX
Paper from responsible sources
FSC™ C120915
www.fsc.org

CASABLANCA 卡撒天嬌 · CASABLANCA HOME · Casa Calvin · CASA-V · Casatino · Dolce Sogno · FORCETECH · C2 BEDDING · VOSSEN A Touch of Energy

CONTENTS

2 Our Distribution Network
4 Financial Highlights and Summary
6 Chairman's Statement
8 Management Discussion and Analysis
24 Directors and Senior Management
27 Directors' Report
41 Corporate Governance Report

57 Independent Auditor's Report
63 Consolidated Statement of Profit or Loss and Other Comprehensive Income
64 Consolidated Statement of Financial Position
65 Consolidated Statement of Changes in Equity
66 Consolidated Statement of Cash Flows
68 Notes to the Consolidated Financial Statements
127 Financial Summary
128 Corporate Information

About Casablanca

Casablanca Group Limited, since its establishment in 1993 in Hong Kong, primarily engages in designing, manufacturing, distribution and retailing of bedding products with a focus on the high-end and premium markets under its proprietary "Casa Calvin", "Casablanca" and "CASA-V" brands. The Group's products include three main categories: bed linens, duvets and pillows, and home accessories. The Group is one of the leading branded bedding products companies in the PRC and Hong Kong.

OUR DISTRIBUTION NETWORK

205

POS(1) in 46 cities in well developed areas in the Greater China Region(2)

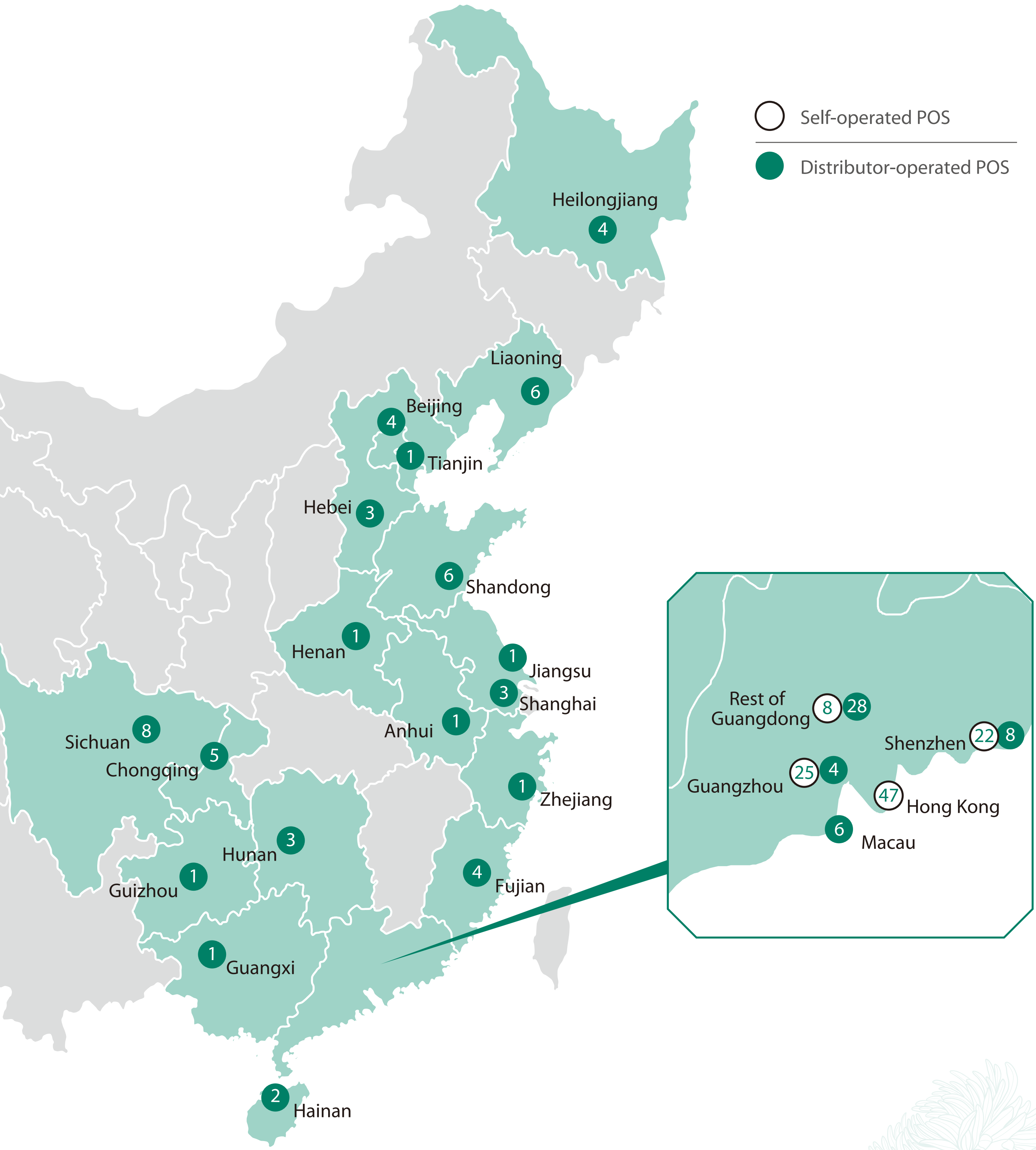
140

concession counters in well known department stores

102

self-operated POS in Hong Kong and southern district of Mainland China(3)

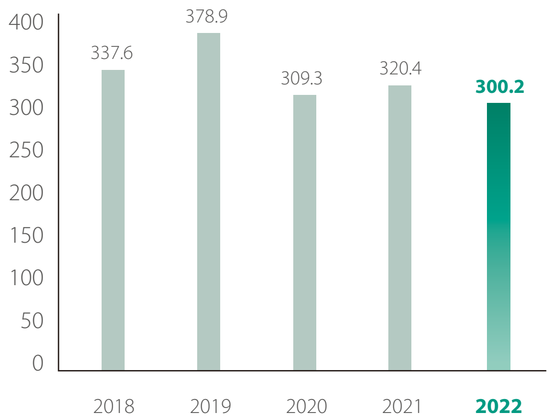
(1) POS stands for points-of-sale
(2) The region comprises the People's Republic of China (the "PRC"), Hong Kong and Macau
(3) "Mainland China" for purpose of this annual report, means the PRC, other than the regions of Hong Kong and Macau


Self-operated POS
Distributor-operated POS
Heilongjiang
4
Liaoning
6
Beijing
4
Tianjin
1
Hebei
3
Shandong
6
Henan
1
Jiangsu
1
Shanghai
3
Anhui
1
Sichuan
8
Chongqing
5
Zhejiang
1
Hunan
3
Guizhou
1
Fujian
4
Guangxi
1
Hainan
2
Rest of Guangdong
8
28
Shenzhen
22
8
Guangzhou
25
4
Hong Kong
47
Macau
6

FINANCIAL HIGHLIGHTS AND SUMMARY

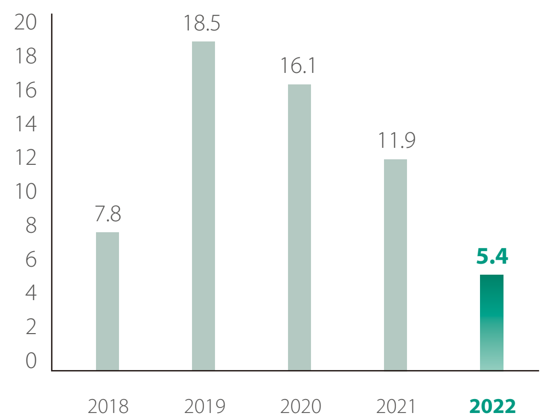
REVENUE

HK$ million



PROFIT

HK$ million



CONSOLIDATED RESULTS

	For the year ended 31 December				
	2022 HK$'000	2021 HK$'000	2020 HK$'000	2019 HK$'000	2018 HK$'000
Revenue	**300,163**	320,403	309,279	378,854	337,624
Gross profit	**186,778**	196,374	191,702	228,776	213,328
EBITDA[1]	**30,775**	41,110	38,152	56,309	28,085
Profit attributable to owners of the Company	**5,378**	11,936	16,129	18,498	7,837

Note:

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

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				
	2022	2021	2020	2019	2018
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**484,836**	522,259	510,573	511,252	514,733
Total liabilities	**89,074**	117,541	85,780	104,984	116,070
Total equity	**395,762**	404,718	424,793	406,268	398,663
Total bank borrowings	**5,298**	3,980	2,375	6,432	9,961
Total bank balances and cash	**145,595**	142,335	194,629	175,889	181,914
Net cash[1]	**140,297**	138,355	192,254	169,457	171,953

KEY FINANCIAL RATIOS

	For the year ended 31 December				
	2022	2021	2020	2019	2018
Gross profit margin	**62.2%**	61.3%	62.0%	60.4%	63.2%
EBITDA margin	**10.3%**	12.8%	12.3%	14.9%	8.3%
Net profit margin	**1.8%**	3.7%	5.2%	4.9%	2.3%
Return on assets	**1.1%**	2.3%	3.2%	3.6%	1.5%
Return on equity	**1.4%**	2.9%	3.8%	4.6%	2.0%
Interest coverage[2]	**26.1**	45.6	32.5	36.1	76.9
Current ratio	**3.4**	2.8	4.3	3.6	3.4
Quick ratio	**2.6**	2.0	3.3	2.7	2.5
Gearing ratio[3]	**1.3%**	1.0%	0.6%	1.6%	2.5%
Net gearing ratio[3]	**N/A**	N/A	N/A	N/A	N/A
Inventory turnover (days)	**232.2**	238.4	257.9	228.0	235.5
Trade and bills receivables turnover (days)	**50.8**	53.5	63.5	61.4	70.6
Trade and bills payables turnover (days)	**152.1**	142.9	139.8	155.6	186.2

Notes:

1. Net cash represents total bank balances and cash less total bank borrowings.

2. Interest coverage is calculated as EBITDA divided by finance costs.

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

CHAIRMAN’S STATEMENT

I am pleased to present to the shareholders (the “Shareholders”) the annual report of Casablanca Group Limited (the “Company”) and its subsidiaries (together the “Group”) for the year ended 31 December 2022 (the “Year” or the “Review Period”).

The conflict which broke out between Russia and Ukraine in 2022 saddled countries with problems such as inflation, supply chain and energy price hike, and cast a dark shadow over the global economy. Meanwhile, the variants of the novel coronavirus disease (“COVID-19”) spread widely at the beginning of the Year, resulting in a significant increase in the number of confirmed cases in the Greater China Region (for the purpose of this report, comprising the People’s Republic of China (the “PRC” or “Mainland China”), Hong Kong and Macau). Local governments in Mainland China implemented stringent pandemic control measures, such as the two-month lockdown in Shanghai, which dampened customer sentiment in the Greater China Region. During the fifth wave of COVID-19, the Hong Kong government imposed strict measures including business suspensions for designated premises and dinnertime dine-in bans at restaurants, in addition to anti-pandemic control measures for inbound travellers, causing a sharp drop in footfall. Fortunately, as the fifth wave of COVID-19 subsided, the Hong Kong government relaxed various anti-pandemic restrictions in stages and distributed electronic consumption vouchers again, leading to the gradual recovery in footfall and signs of improvement in the retail market sentiment.

In such a difficult operating environment, the Group achieved an operating revenue of HK$300.2 million for the Review Period, down by 6.3% as compared to HK$320.4 million for the corresponding period of 2021. Profit attributable to owners of the Company was HK$5.4 million for the Year, down by approximately 54.9% as compared to HK$11.9 million for the corresponding period of 2021. Since a recovery of the retail market will take time, and the Company plans to increase its capital investment in livestreaming promotion business and in the development of technological sleeping products, the board of directors (the “Board”) of the Company has resolved not to recommend payment of a final dividend for the Year, so as to maintain adequate cash reserve to deal with the uncertainties ahead and meet future business development needs.

During the COVID-19 pandemic which lasted about three years, the Group has observed a change in the shopping habits of consumers in the Greater China Region. As citizens tended to spend more time at home due to the COVID-19 control measures, consumers in Mainland China have been paying markedly more attention to short video promotions and e-commerce livestreaming in recent years. In view of that, apart from the continued facilitation of the co-development of physical retail business (including self-operated and distributor-operated), commercial customers business and online sales business, the Group decided that in the fourth quarter of 2022 to form a subsidiary in partnership with a team experienced in e-commerce livestreaming, to commence livestreaming promotion business and explore new sources of income.

In 2022, frequent natural disasters all over the world resulted in large numbers of fatalities and casualties. Such heart-wrenching scenes were also a reminder that climate change demands our immediate attention. In addition, the fluctuating COVID-19 pandemic has raised the attention of consumers in the Greater China Region on products with health enhancing functions. The Group in recent years has spared no effort in promoting bedding products made of natural materials with healthy enhancing functions, so as to encourage consumers to select and use environmental friendly products in their daily lives and contribute their part to the sustainable development of the world. In 2022, the Group launched a large-scale promotion under the theme of “Love CASA Love ECO”. The series of natural and environmental friendly products with healthy enhancing functions drew a sympathetic response from consumers who are keen on safeguarding the health of their families and protecting the environment.

2023 marks the 30th anniversary of the establishment of the Group. Over the past 30 years, the Group has developed from a small-scale trading company to a group of companies that designs, manufactures and sells bedding products. The products of its proprietary "Casablanca", "Casa Calvin" and "CASA-V" brands have entered many households in Hong Kong and have become an important part of their lives. The Group appreciates how consumers in Hong Kong have supported its growth. 2023 also marks about 20 years since the Group entered the Mainland China market. During that time, we have experienced many complex and rapid changes, such as the transformation of the shopping model, or the consumption upgrades. We deeply understand the operating difficulties in the Mainland China market. The Group is determined to enhance its own competitiveness so as to be able to nimbly respond to an ever-changing operating environment.

The new building B of the Group located in phase II of the Casablanca Industrial Park in Huizhou officially commenced operations during the first quarter of 2023. Not only does it provides more space for research and development as well as the manufacturing of products and for the business operations, but also serves the base of the newly commenced livestreaming marketing business. We expect that the new facility will boost the strengths of the Group and help make the most of the opportunities arising from the return to normalcy in the Greater China Region and the post-pandemic resumption of economic development.

The Group will keep following the changes in the market and the needs of the consumers, and develop more products which improve sleep quality with its innovative spirit and technology, while promoting an environmental friendly lifestyle with its warm and sincere care for the global environment. The Group will work hard to provide consumers with more bedding products of fashionable designs, fine craftsmanship and with health enhancing functions through diverse sales channels, both online and offline.

On behalf of the Board, I would like to extend my sincere gratitude to our valued customers, business partners and all of our Shareholders for their unwavering support and trust in the Company. My appreciation also goes to the management team and our employees for their contributions to the development of the Group. Lastly, I wish all of the Group's stakeholders good health.

Cheng Sze Kin
Chairman
Hong Kong, 24 March 2023

MANAGEMENT DISCUSSION AND ANALYSIS

Overview/Retail Market during the Pandemic

The conflict between Russia and Ukraine, which broke out in the beginning of 2022, has taken a toll on the operation of the global supply chain. Consumer confidence in the Greater China Region has been heavily affected by inflation, steeper prices for energy and food and other uncertain factors faced by all countries, not to mention tensions in international relations and a gloomy economic outlook. Moreover, the spread of variants of COVID-19 during the first quarter of 2022 drove global infections to a record high, and local authorities in Mainland China had to implement a range of measures to slow down the spread of the pandemic, such as the two-month lockdown in Shanghai, which further dampened the confidence of consumers in the Greater China Region. In Hong Kong, the government adopted stringent anti-pandemic measures against the fifth wave of COVID-19. Consequently, the once rather healthy footfall at large shopping malls in various districts plunged, posing dire operational challenges to retail enterprises. To protect the health of its employees, the Group followed the government's recommendation and coordinated with the arrangements of department stores to shorten the opening hours of its points-of-sale ("POS") in Hong Kong during the period. Footfall at shopping malls did not recover until late April when COVID-19 eased slightly and the Hong Kong government started lifting various anti-pandemic restrictions in stages, including gradually allowing dinnertime dine-ins at restaurants and resuming operations of specified businesses. As part of the efforts to boost consumer sentiment, the Hong Kong government disbursed electronic consumption vouchers during the second quarter and the third quarter of 2022 respectively, which brightened the market outlook for retail businesses. Afterwards, the Hong Kong government also relaxed the strict compulsory quarantine requirements for inbound travellers. Although these moves encouraged more outbound travels rather than attracting inbound tourists, the local market witnessed a gradual recovery of consumer sentiment on the back of a strong sentiment of society returning to normalcy and more promotional offers introduced by department stores and shopping malls around the end of the Year.

Business Review

Apart from the formation in October 2022 of a new subsidiary (held as to 51% by the Group) engaging in e-commerce and online retail business and applying new technologies such as short video clips, livestreaming and big data, there was no material change in the Group's operational and segmental information since the interim results for the six months ended 30 June 2022 were published. During the Review Period, total revenue of the Group amounted to HK$300.2 million, representing a decrease of 6.3% compared to HK$320.4 million for the corresponding period of 2021. During the Review Period, profit attributable to owners of the Company was HK$5.4 million, down by approximately 54.9% compared to HK$11.9 million for the corresponding period of 2021. The decrease in profit attributable to owners of the Company for the Year was primarily attributable to (a) the decline in sales revenue in Mainland China due to the rebound in the number of COVID-19 infection cases in major regions of Mainland China in 2022, and (b) the net exchange losses arising from the depreciation of RMB against HKD for the Year, despite COVID-19 related grants were received from the Hong Kong and Mainland China governments and the gain on disposal of property, plant and equipment were recorded for the Year.

Optimised Sales Channels

With COVID-19 prevailing for three years, the pattern of Mainland China and Hong Kong consumers purchasing bedding products online has continued, and the trend of livestreaming consumption in Mainland China is increasingly booming. During the Review Period, we launched promotional offers under various themes at our Hong Kong official online store from time to time and upgraded the back-end radio frequency identification (RFID) system to improve the efficiency of delivery logistics. In terms of the online retail business in Mainland China, while the Group put most of the resources on managing self-operated online stores on well-known platforms such as TMall and JD.com, it also jointly established a new subsidiary with an experienced team during the fourth quarter of 2022 to grasp the business opportunities brought by new technologies such as short video clips, livestreaming and big data. During the Review Period, the revenue contribution from the online sales business in Mainland China and Hong Kong remained stable.

As of 31 December 2022, the Group had a total of 205 physical POS (31 December 2021: 200), among which 102 were self-operated POS and 103 were distributor-operated POS, covering a total of 46 cities in the Greater China Region. The retail markets in Mainland China and Hong Kong picked up slightly in the second half of 2022 due to the gradual containment of COVID-19. The Group also invested more resources in exploring new distributors. In the second half of 2022, there was a net increase of 8 distributor-operated POS.

	Self-operated POS			**Distributor-operated POS**			
	Concession counters	**Retail stores**	**Sub-total**	**Concession counters**	**Retail stores**	**Sub-total**	**Total**
Hong Kong and Macau Total	29	18	47	2	4	6	53
PRC							
Southern[1]	53	2	55	17	26	43	98
Northern[2]	0	0	0	6	2	8	8
Eastern[3]	0	0	0	10	6	16	16
Northeast[4]	0	0	0	10	0	10	10
Southwest[5]	0	0	0	11	3	14	14
Central[6]	0	0	0	2	2	4	4
Northwest[7]	0	0	0	0	2	2	2
PRC subtotal	53	2	55	56	41	97	152
Total	82	20	102	58	45	103	205

Notes:

(1) "Southern" includes Guangxi, Shenzhen, Guangdong and Hainan.
(2) "Northern" includes Tianjin, Hebei, Shanxi, Beijing and Inner Mongolia.
(3) "Eastern" includes Shanghai, Jiangsu, Zhejiang, Anhui, Shandong, Jiangxi and Fujian.
(4) "Northeast" includes Heilongjiang, Liaoning and Jilin.
(5) "Southwest" includes Sichuan, Guizhou, Tibet, Yunnan and Chongqing.
(6) "Central" includes Henan, Hubei and Hunan.
(7) "Northwest" includes Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2022, apart from providing bedding products for Hong Kong government authorities, the Group supplied items for giveaway campaigns and point redemption schemes of various commercial customers in Hong Kong, including supermarkets, convenience stores, electrical appliance chain stores, public utility companies, telecommunication network providers, infant and health food brands and electrical appliance brands. In addition, the Group provided original equipment manufacturing (OEM) products to various customers. In terms of the export business, since COVID-19 was relatively contained in the second half of 2022, export customers too resumed their orders.

Enhanced Product Mix

Adhering to the core concept of "Contemporary, Innovative and Functional" in product design, the Group is committed to providing quality products and attentive customer services. It endeavours to become the "Healthy Sleeping Expert" of every customer through untiring efforts in developing products that embody green concepts and health enhancing functions. In February 2022, the Group launched its first mattress series named "Casa Sleep-Lab Earth Mantle Series" comprising six mattress products with "5A features" of the CASA-V brand in Hong Kong. The products come each with a different efficient support system and material combinations with reference to ergonomics. Together with the two new mattress toppers launched in the second half of the Year, different sleeping support needs and preferences of consumers are well accommodated. In addition to setting up dedicated mattress experience area in six large specialised stores in Hong Kong, the Group actively participated in mattress exhibitions in department stores to introduce its brand-new mattress products to the wider consumers.

COVID-19 has triggered the attention of customers on bedding products with health enhancing functions. As such, the Group stepped up the promotion of its CASA-V brand products with "5A features", namely air purification, anti-bacterial, anti-mould, anti-mites and anti-odour. To capitalise on the growing interest in bacteria-resistant products among consumers in the wake of the pandemic, during the second half of the Year, the Group launched the "Casablanca Cosmo Anti-bacterial Temperature Control Quilt", a brand-new product made with CLEANCOOL® material which features silver ion technology that effectively inhibits various harmful bacteria and three drug-resistant "Superbugs", enabling anti-bacterial and anti-odour performance in addition to long-lasting temperature control and antistatic functions. The "Casablanca Cosmo Anti-bacterial Temperature Control Quilt" has also obtained OEKO-TEX® Standard 100 certification, proving it is free from substances known to be harmful to human health.

Cartoon products, meticulously designed to match consumer preferences, are one of the key businesses the Group is developing. During the Review Period, sales of licensed and authorised brand products were in line with expectations, while the Group continued to expand the "Beloved Series" featuring in-house designs, which remained well-received by the market with the various products with adorable animal cartoons. In 2022, the Group also donated a portion of the revenue from specified products of the "Beloved Series" during a designated period to the Hong Kong Rabbit Society and gained the support from consumers concerning animal rights. Moreover, the Group owns bedding product licences for a number of popular cartoons. During the Review Period, it launched new licensed cartoon bedding products, including "Kakao Friends", "BT21", "Chibi Maruko Chan", "Pokemon", "Mr. Men Little Miss", "B.Duck", "PEANUTS", "LuLu the Piggy" and "Crayon Shin-chan". During the Review Period, "The Smurfs", "Bananya" (an original anime from Japan) and "Lan Lan Cat" from Taiwan were added to our authorised cartoon portfolio, and those products enjoyed strong support from consumers.

Strengthened Brand Leadership Position

During the Review Period, we actively interacted with consumers on Facebook. Apart from sharing opinions on choosing mattresses, knowledge of bedding product care and notes on fabric thread counts, we launched various games with prizes to promote the Group's brand philosophy and its products, while attracting consumers' attention to the latest updates of the Group. During the Review Period, we set up pop-up stores under different themes of authorised cartoons for promotion in various large shopping malls and department stores in Hong Kong, with photo-taking areas featuring large cartoon characters and limited-edition souvenirs to attract consumer patronage.

In 2022, the Group launched a series of television commercials and related advertisements under the theme of "Love CASA Love ECO", with a view to promoting the concepts of environmental protection and sustainable lifestyle advocated by the brand, and encouraging the use of products made of natural materials which are harmless to the environment by consumers in daily life. The key products of "Love CASA Love ECO" for promotion included pure cotton products with the "Seal of Cotton" trademark and the "Cotton LEADS℠" label, products made with environmental-friendly and sustainably produced TENCEL™ materials, natural and eco-friendly soya bean fibre products and VOSSEN pure cotton towels made in Austria. Along with the new television commercials in Hong Kong and product sponsorship for television game programme series, the Group also through product sponsorship and advertising placement tied in with two popular television dramas, namely "Rope A Dope" and "Million Dollar Family", in the fourth quarter of the Year. This succeeded in attracting a lot of consumer inquiries and purchases of the bedding products used by the leading characters in the dramas, reaping great publicity value.

Prospects

In 2023, lingering uncertainties such as the conflict between Russia and Ukraine, inflation across countries and volatile energy prices, together with a turbulent geopolitical scene and gloomy economic outlook, will continue to dampen consumer confidence in the Greater China Region. However, as the National Health Commission of the PRC announced at the end of December 2022 its decision to rename the term "novel coronavirus pneumonia" to "novel coronavirus infection" and to lift the stringent quarantine and infectious diseases management measures against COVID-19, the domestic retail market is expected to see positive sentiment. At the end of December 2022, the Hong Kong government also announced the lifting of compulsory quarantine arrangement for inbound travellers and canceled the issuance of quarantine orders and "Vaccine Pass" requirements in all premises, as well as the mask mandate arrangement and all social distancing measures, officially bringing Hong Kong back on the track to normalcy. It is expected that the impact of COVID-19 on the retail markets in Mainland China and Hong Kong will be less profound in 2023. The Group will remain cautiously optimistic and will actively develop new income sources, reduce expenditure, allocate resources to businesses with higher growth potential, and focus on developing bedding products with health enhancing functions, so as to strengthen its leadership in the bedding products industry in the Greater China Region.

MANAGEMENT DISCUSSION AND ANALYSIS

Mainland China

Regarding sales channels, apart from continuing the development of businesses such as self-operated retail sales, distributor-sales, online sales and wholesaling, livestreaming marketing business will become the new development focus of the Group in Mainland China in 2023. In terms of self-operated physical retail business, the Group will implement graded management for self-operated POS based on respective positioning. For example, resources for product structure, promotional events and operational initiatives will be allocated to stores according to different grades to focus on enhancing the profitability of self-operated POS. In March 2023, the Group opened a "CASA Life Flagship Store" in Shenzhen and one in Huizhou respectively. Livestreaming studios were set up in the stores, in which influencers will be invited regularly for e-commerce livestreaming, with a view to capitalising on the opportunities arising from the post-COVID border reopening between Mainland China and Hong Kong and the retail market recovery with a business model of integrating online and offline channels, as well as serving as demonstration stores for recruiting new distributors. In terms of distributor-sales business, the Group will continue to recruit new distributors and target to add a net of 8 distributor-operated POS in 2023. In terms of wholesale business, the Group will enhance the cooperation with the point redemption platforms of various corporate customers as the economy recovers. In terms of online sales business, the Group will improve product structure and planning, such as increasing the stock of high-value products and key products appropriately based on sales volume on platforms, to increase revenue contribution and avoid the risk of stock depletion during promotional and group purchase events.

The new building B of the Group in phase II of the Casablanca Industrial Park in Huizhou officially commenced operation during the first quarter of 2023. Not only does it accommodate production facilities for new products (especially for research and development) and provide more office, showroom, training and conference room spaces, it also serves as the operation base of livestreaming marketing business of the Group. The newly established "Sleeping Culture Experience Hall" in building B, which introduces the materials and technology development of sleeping products as well as the development journey and key products of the Group, is expected to open for public visits in the second quarter of 2023. In terms of livestreaming marketing business, we are actively working on product and promotion planning, and will invite star hosts for annual cooperation and core hosts for livestreaming marketing of key products, in an effort to generate higher income within a short period of time. The Group also plans to utilise the extra space in building B to promote the development of technologically innovative industries of the younger generation. Earlier, the Group was awarded the "Huizhou, Hong Kong, Macao, Taiwan and Overseas Chinese Digital Entrepreneurship Livestreaming Base" (惠州港澳台僑數字創業直播基地) by the United Front Work Department of the Huizhou Municipal Committee of the Communist Party of China (中共惠州市委統一戰線工作部).

With healthy household products catching the eyes of more consumers during COVID-19 in recent years, the Group has continued to focus on the research and development of products with "5A features" and employ high-quality materials to ensure its products are safe for use by consumers. In addition, the Group insists on integrating technology into sleeping products to improve consumers' sleep quality. Following its research and development efforts in 2022, the Group launched the new "AI Ecological Pillow" in early 2023. The "AI Ecological Pillow" is the Group's first smart pillow compatible with Huawei's HarmonyOS operating system, having obtained the "HarmonyOS Connect Ecological Product Technology Certification". Equipped with an intelligent monitoring module to provide 24-hour sleep status monitoring, the "AI Ecological Pillow" allows users to transmit data to mobile applications through the NFC function and to adjust the height of the support according to their needs with the built-in adjustable airbag. Looking ahead, the Group will keep developing AI-powered functional quilt and pillow products.

Hong Kong

2023 marks the 30th anniversary of the establishment of the Casablanca brand in Hong Kong. In addition to promoting the integration of environmental protection and technology into household life, the Group has been paying great attention to the creative development of the younger generation. As a theme event for the 30th anniversary, the Group, the School of Fashion and Textiles of the Hong Kong Polytechnic University and Cotton Incorporated have jointly organised a bedding product design competition. The winning designs will be made into bedding products with environmentally-friendly and functional materials, which are expected to be available in the market in 2023. The Group will also launch a large-scale promotional campaign under the "Sleep Green Go With Casa Tech" theme to promote the Group's high-quality bedding products made with environmentally-friendly and technology-embedded materials.

In addition to strengthening staff training to enhance consumers' shopping experience at the Group's physical POS, the Group will launch time-limited promotions and members-only offers at the Hong Kong official online store, and will timely adjust its product portfolio and improve delivery processes to optimise consumers' experience of purchasing the Group's products online. In terms of wholesale channels, the Group will remain committed to expanding diverse business opportunities with commercial customers, such as seeking the opportunities to supply products to commercial customers for different types of giveaway campaigns, point redemption schemes or online shopping rebates. The Group will also look for more cooperation opportunities in different forms.

As for promotion, the Group has strengthened online promotion over the past few years to more effectively convey its brand positioning and messages to its target consumers and succeeded in bolstering awareness of the brand among young people in Hong Kong. In 2023, it will continue to enhance its online promotional content, create more short videos and increase interaction with consumers. The Group will actively seek opportunities to promote its brands in shopping malls or department stores, including introducing pop-up stores and staging themed exhibitions, to capture the interest of consumers with different shopping habits. In terms of the mattress business, the Group will take more initiatives in negotiating sales and promotional opportunities with major department stores and shopping malls, in order to enhance the brand awareness of the mattress products. It will also try to build up its own big data through public surveys. As more time is required to study the market response, the Group has postponed the plan of opening a specialty store for the mattress business until 2024.

Adhering to its "Contemporary, Innovative and Functional" design concept, the Group strives to integrate sustainable growth, environmental protection and social responsibility in its business strategies to provide consumers with quality bedding products of fashionable designs and at reasonable prices, as well as home accessories that are trendy yet practical and bring benefits to society. The Group will also continue to broaden revenue streams and enhance its brand value so as to bring satisfactory returns to the Shareholders in the long run.

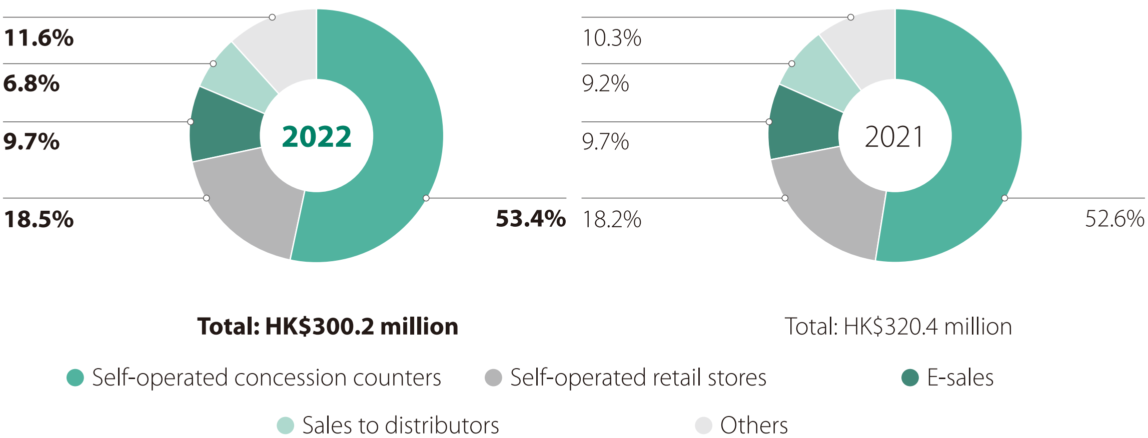
MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

During the Year, the Group recorded revenue of HK$300.2 million (2021: HK$320.4 million), representing a decrease of 6.3%. The decrease in revenue was primarily attributable to the decline of sales in Mainland China, which, in turn, was attributable to the resurgence of COVID-19 infected cases in various major regions of Mainland China during 2022, and the decline of sales in Hong Kong during the fifth wave of COVID-19 broke out during the first quarter of 2022.

Breakdown of revenue by channels:

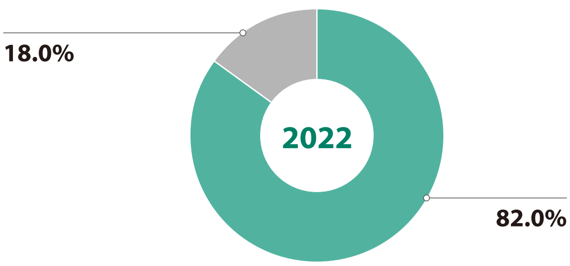


	2022 HK$'000	2022 % of Total	2021 HK$'000	2021 % of Total	Change HK$'000	Change %
Self-operated retail sales						
Self-operated concession counters	**160,367**	**53.4%**	168,613	52.6%	(8,246)	-4.9%
Self-operated retail stores	**55,543**	**18.5%**	58,323	18.2%	(2,780)	-4.8%
Sub-total for self-operated retail sales	**215,910**	**71.9%**	226,936	70.8%	(11,026)	-4.9%
E-sales	**29,035**	**9.7%**	30,900	9.7%	(1,865)	-6.0%
Sales to distributors	**20,504**	**6.8%**	29,573	9.2%	(9,069)	-30.7%
Others (Note)	**34,714**	**11.6%**	32,994	10.3%	1,720	5.2%
Total	**300,163**	**100.0%**	320,403	100.0%	(20,240)	-6.3%

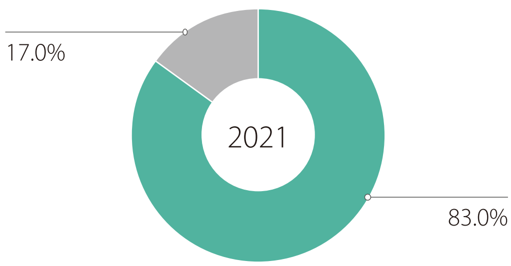
Note: "Others" includes sales to wholesale customers in Hong Kong and Mainland China and also exports to overseas markets.

Self-operated retail sales for the Year accounted for 71.9% of the total revenue and represented a slight decrease of 4.9% as compared to 2021. The decrease in self-operated retail sales was attributable to the weak consumer sentiment under strict anti-pandemic measures imposed by the government of Mainland China for the resurgence of COVID-19 infected cases during 2022. With a similar level of revenue from e-sales in Hong Kong for the Year, the decrease in e-sales was mainly attributable to the decrease in e-sales in Mainland China as compared to 2021. The significant decrease in sales to distributors for 2022 was mainly attributable to distributors in Mainland China suffered the same as our self-operated retail sales as a result of the resurgence of COVID-19 infected cases in various major regions of Mainland China during 2022. Owing to the increase in export sales offsetting against the decrease in wholesales in Mainland China, sales to others was at similar level as compared to 2021.

Breakdown of revenue by brands:



Total: HK$300.2 million



Total: HK$320.4 million

Proprietary brands

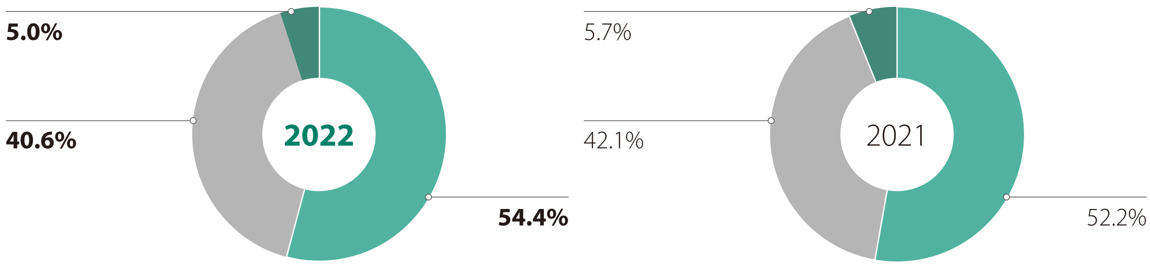
Licensed and authorized brands

	2022		2021		Change	
	HK$'000	% of Total	HK$'000	% of Total	HK$'000	%
Proprietary brands	**246,054**	**82.0%**	265,949	83.0%	(19,895)	-7.5%
Licensed and authorized brands	**54,109**	**18.0%**	54,454	17.0%	(345)	-0.6%
Total	**300,163**	**100.0%**	320,403	100.0%	(20,240)	-6.3%

Casablanca, Casa Calvin and CASA-V are our major proprietary brands. The decrease of 7.5% in sales of proprietary brands was attributable to the decrease in sales during the Year. Sales of our licensed and authorized brands for 2022 were at similar level as compared to 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of revenue by products:



Total: HK$300.2 million

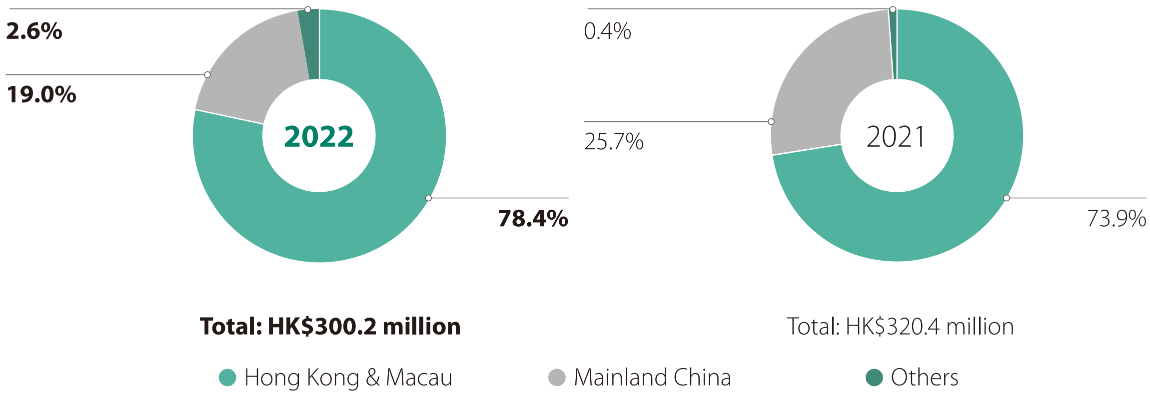
Total: HK$320.4 million

	2022		2021		Change	
	HK$'000	**% of Total**	HK$'000	% of Total	HK$'000	%
Bed linens	**163,350**	**54.4%**	167,311	52.2%	(3,961)	-2.4%
Duvets and pillows	**121,751**	**40.6%**	134,844	42.1%	(13,093)	-9.7%
Others (Note)	**15,062**	**5.0%**	18,248	5.7%	(3,186)	-17.5%
Total	**300,163**	**100.0%**	320,403	100.0%	(20,240)	-6.3%

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

Bed linens and duvets and pillows are major products of the Group. The decrease in sales of bed linens and duvets and pillows for 2022 was primarily due to the decrease in overall sales during the Year.

Breakdown of revenue by geographic regions:



	2022		2021		Change	
	HK$'000	**% of Total**	HK$'000	% of Total	HK$'000	%
Hong Kong and Macau	**235,366**	**78.4%**	236,672	73.9%	(1,306)	-0.6%
Mainland China	**56,937**	**19.0%**	82,482	25.7%	(25,545)	-31.0%
Others (Note)	**7,860**	**2.6%**	1,249	0.4%	6,611	529.3%
Total	**300,163**	**100.0%**	320,403	100.0%	(20,240)	-6.3%

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

Revenue from Hong Kong and Macau for 2022 was at similar level as compared to 2021, which was primarily due to the increases in sales at self-operated retail counters in department stores and wholesales. The significant decrease in revenue from Mainland China by 31.0% for 2022, when compared to 2021, was attributable to decreases in sales through all channels as a result of the resurgence of COVID-19 infected cases in various major regions of Mainland China during 2022. Revenue from others for 2022 significantly increased since some of our export customers re-activated their purchase orders which were on hold under the impact of COVID-19 during 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit and Gross Profit Margin

Gross profit decreased by 4.9% to HK$186.8 million for 2022 as compared to HK$196.4 million for 2021. The gross profit margin for 2022 was 62.2% which was slightly higher than 61.3% for 2021 and mainly due to the increase in proportion of retail sales for 2022 at a higher margin.

Other Income

Other income for the Year increased by 345.8% to HK$6.5 million (2021: HK$1.5 million). The increase during the Year was mainly due to the presence of subsidies of about HK$4.5 million received from governments of Hong Kong and Mainland China primarily in relation to COVID-19 in 2022.

Other Losses/Gains

Other losses for the Year amounted to HK$2.3 million (2021 gains: HK$0.8 million), mainly representing net exchange loss of HK$5.8 million (2021 gain: HK$1.3 million), loss allowance on trade receivables of HK$0.4 million (2021 reversal of loss allowance: HK$0.1 million) and net loss on financial assets at fair value through profit or loss (the "FVTPL") of HK$0.1 million (2021: HK$1.3 million) offsetting gain on disposal of property, plant and equipment of HK$4.0 million in total (2021 loss on disposal and impairment loss: HK$0.5 million) and gain on lease modification of nil (2021: HK$1.4 million).

Operating Expenses

Selling and distribution costs for 2022 decreased by 2.2% to HK$135.3 million (2021: HK$138.3 million). The decrease was mainly due to decreases in salaries and allowances to sales staff, repair maintenance and other expenses.

Administrative expenses for 2022 increased by 6.8% to HK$46.7 million (2021: HK$43.7 million). The increase was primarily due to increases in entertainment, bank charges and other expenses for the Year.

Taxation

The Group's effective tax rate for 2022 was 40.9% as compared to 24.0% for 2021. The effective tax rate for 2022 was calculated with non-taxable subsidies and gains offsetting against operation losses of subsidiaries in Mainland China and other non-tax deductible expenses. Had these subsidies, operation losses, the loss allowances on trade and other receivables and inventory, and the exchange loss for 2022 and 2021 been excluded, the adjusted effective tax rate would be approximately 16.4% for 2022 and 17.5% for 2021.

Profit for the Year

Profit attributable to owners of the Company for the Year was HK$5.4 million, representing a decrease of 54.9% when compared to HK$11.9 million for 2021. The decrease in profit attributable to the owners of the Company for the Year was mainly due to (a) the decline of sales in Mainland China, which, in turn, was attributable to the resurgence of COVID-19 infected cases in various major regions of Mainland China during 2022, and (b) the net exchange loss arising from depreciation of Renminbi against Hong Kong dollar during the Year, despite the presence of subsidies received from governments of Hong Kong and Mainland China in relation to COVID-19 and the gain on disposal of property, plant and equipment recorded for the Year.

EBITDA represents gross profit less selling and distribution costs and administrative expenses adding back depreciation. EBITDA for 2022 decreased by 25.1% to HK$30.8 million (2021: HK$41.1 million) which was primarily attributable to the decrease in sales for the Year.

Major Operating Efficiency Ratios

	2022	2021
Inventory turnover *(days)*	**232.2**	238.4
Trade receivables turnover *(days)*	**50.8**	53.5
Trade and bills payables turnover *(days)*	**152.1**	142.9

Inventory turnover

The inventory turnover is equal to the average of opening and closing inventory divided by total cost of sales for the year and multiplied by 365 days. The reason for inventory turnover for 2022 slightly decreased to 232.2 days from 238.4 days for 2021 was due to the decrease in inventory. The inventory at 31 December 2022 decreased by 31.9% to HK$58.5 million from HK$85.8 million at 31 December 2021 with more raw materials and finished goods kept at 31 December 2021 for promotional events in January 2022 in Hong Kong.

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. With the decrease in sales for 2022 and the lower closing trade receivables at 31 December 2022, the trade receivables turnover for 2022 decreased to 50.8 days from 53.5 days for 2021.

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 2022 increased to 152.1 days from 142.9 days for 2021 was attributable to the higher opening trade and bills payables at 1 January 2022 despite the decrease in cost of sales for 2022. The decrease of 30.9% in trade and bill payables of HK$38.6 million at 31 December 2022 from HK$55.9 million at 31 December 2021 was due to less raw materials purchased in the fourth quarter of 2022 as compared to that of 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Capital Resources

The gearing structure is set out below:

	As at 31 December	
	2022	2021
	HK$'000	HK$'000
Total bank borrowings	**5,298**	3,980
Total bank balances and cash	**145,595**	142,335
Net cash	**140,297**	138,355
Total assets	**484,836**	522,259
Total liabilities	**89,074**	117,541
Total equity	**395,762**	404,718

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 settlement of payables for the construction of the new building B under phase II of Casablanca industrial Park in Huizhou in order to improve the working capital of the PRC subsidiary.

The increase in bank balances and cash at 31 December 2022 was primarily attributable to no dividend payment, improvement in the management of working capital and less payments for the construction of the new building B under phase II of Casablanca Industrial Park in Huizhou and the subsequent decoration during the Year. Even reserving cash for full settlements of capital commitments, outstanding payables for the decoration for the new building B under phase II of Casablanca Industrial Park in Huizhou and bank borrowings at 31 December 2022, the Group would still have available net cash of about HK$127.6 million and unutilized banking facilities of about HK$68.6 million as at 31 December 2022 which will be sufficient for its future operations in absence of unforeseen circumstances.

Pledged bank deposits and bank balances and cash

As at 31 December 2022, the pledged bank deposits of the Group were approximately HK$6.4 million (2021: HK$7.2 million), which were denominated in HKD and RMB, and the bank balances and cash of the Group were approximately HK$139.2 million (2021: HK$135.1 million), which were denominated in HKD and RMB except for about 1.3% in United States dollars and Euro. Details of the Group's pledged bank deposits and bank balances and cash are set out in note 20 to the consolidated financial statements.

Bank borrowings

As at 31 December 2022, the bank borrowings of the Group were approximately HK$5.3 million (2021: HK$4.0 million), which were denominated as to 100.0% in RMB, with all bank borrowings balances repayable not more than one year and being fixed-rated borrowings with effective interest rates at 5.42% per annum. During the Year, the financial position of the Group was healthy. Details of the Group's bank borrowings are set out in note 22 to the consolidated financial statements.

Current ratio

The Group's total current assets and the total current liabilities at 31 December 2022 decreased to HK$268.6 million (2021: HK$301.4 million) and HK$80.2 million (2021: HK$107.8 million) respectively. As a result, the current ratio increased to 3.4 as at 31 December 2022 from 2.8 as at 31 December 2021. The increase in current ratio was mainly due to the decrease in current assets less than that in current liabilities.

Gearing ratio

Gearing ratio is calculated as total borrowings divided by total equity at the end of the year. As at 31 December 2022, the gearing ratio was only 1.3% (2021: 1.0%) with the bank borrowings increased by HK$1.3 million in Mainland China when the total equity also decreased by HK$9.0 million. The Group was at net cash position at 31 December 2022 as well as 31 December 2021.

Pledge of assets

As at 31 December 2022, no leasehold land and buildings were pledged to banks as securities for banking facilities granted to the Group (2021: Nil). The Group had pledged only its fixed deposits with an aggregate value of HK$6.4 million (2021: HK$7.2 million) to certain banks in Hong Kong and Mainland China to secure banking facilities granted to the Group at 31 December 2022.

Capital expenditures

During the Year, the Group invested HK$10.1 million (2021: HK$59.2 million) mainly for acquisition of properties, leasehold improvements and equipment and the construction and decoration for the new building B under phase II of Casablanca Industrial Park in Huizhou, the PRC.

Capital commitments

As at 31 December 2022, the Group had capital commitments of approximately HK$9.5 million (2021: HK$5.1 million) of which mainly a sum of about HK$9.5 million related to the decoration (2021 Construction: HK$4.6 million) for the new building B under phase II of Casablanca Industrial Park.

Share Capital

The total number of issued ordinary shares of the Company ("Shares") as at 31 December 2022 was 257,854,000 Shares (2021: 257,854,000 Shares). As at 31 December 2022, the total issued share capital of the Company was HK$25,785,400 (2021: HK$25,785,400). The movements of share capital during the Year are set out in note 25 to the consolidated financial statements.

In order to provide incentive or reward to eligible persons for their contribution to the Group and to enable the Group to recruit and retain human resources that are valuable to the Group, the Company adopted a share option scheme before the listing, which had been terminated upon the approval of a new share option scheme at the annual general meeting held on 6 June 2022. Details of the share option schemes and movements of share options during the Year are set out in note 26 to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Foreign Exchange Exposure

The Group carries on its business mainly in Hong Kong and Mainland China. The Group is exposed to foreign exchange risk principally in RMB which may affect the Group's performance. RMB depreciated by about 7.8% against HKD in 2022 (2021 appreciated: 3.3%). The management is aware of the possible exchange rate exposure due to the continuing fluctuation of RMB and will closely monitor its impact on the performance of the Group to see if any hedging arrangement is necessary. The Group currently does not use derivative financial instruments to hedge against the volatility associated with foreign currency transactions and other financial assets and liabilities arising in the ordinary course of business.

Contingent Liabilities

As at 31 December 2021 and 31 December 2022, the Company and two of its subsidiaries in Hong Kong were defendants in a litigation involving a copyright dispute in Hong Kong.

The parties of the litigation have reached a full and final settlement in March 2023, thereby resolved the dispute in lieu of trial. The Board considers that the settlement (including the terms thereof) has no material adverse effect to the business operation and financial position of the Group.

As at 31 December 2022, the Group did not have any significant contingent liabilities.

Employee and Remuneration Policy

As at 31 December 2022, the employee headcount of the Group was 519 (2021: 516) and the total staff costs, including directors' emoluments, for the Year amounted to HK$89.6 million (2021: HK$91.8 million). The Group maintained similar employee headcount at 31 December 2022 and 31 December 2021. The slight decrease in total staff costs for 2022 was mainly due to less wages paid by the factory in Mainland China and the decrease in salaries and allowances to sales staff for the Year.

The Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to employees including medical benefits, social insurance, provident funds, bonuses and a share option scheme.

Material Acquisitions and Disposals of Subsidiaries and Associates

Save as those disclosed in the announcement of the Company dated 5 October 2022 in relation to joint venture agreement entered for formation of a joint venture company, which became a subsidiary of the Group in Mainland China with effective interest of 51%, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures in the course of the Year.

Significant Investments

The Group did not hold any significant investments save as those disclosed in this annual report.

Financial Assets at Fair Value Through Profit or Loss

The financial assets at FVTPL represent the Group's investments in shares of companies being constituents of Hang Seng Index as listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") which were held for medium to long-term investment purposes. As at 31 December 2022, the Company had total investments with fair value of HK$7.7 million (2021: HK$7.3 million) which were not more than 5% of the Group's total assets. The increase in financial assets at FVTPL was mainly attributable to the net increase in total investments in shares listed on the Stock Exchange during the Year. Dividend income for the Year from these investments in shares of companies listed on the Stock Exchange was HK$0.5 million (2021: HK$0.4 million). As the Group's investments are constituents of Hang Seng Index as listed on the Stock Exchange, they are expected to bring returns to the Group in the long run.

Future Plans for Material Investments or Capital Assets

The Group is actively identifying and exploring suitable investments with potential and synergy effect to its existing businesses. Only potential investments, which are in the interests of the Company and the Shareholders as a whole, will be considered. For medium to long-term investment purposes, the Group may consider to invest in shares of companies listed on the Stock Exchange and investment properties to strive for better return in the medium to long-term from surplus cash on hand. The Group will review its business strategy in respect of its capital assets (including but not limited to properties owned by the Group) from time to time. With a view to optimising the overall benefits of the Group, adjustments may be made or new initiatives may be undertaken as regards the business plans formulated for properties owned by the Group having regard to the operational needs of the Group, actual circumstance and the interest of the Group as a whole.

References are made to the announcements of the Company dated 18 January 2022, 16 April 2021 and 30 October 2020 and the circular of the Company dated 15 December 2020 in relation to the construction of complex with four floors for the new building B under phase II of the Casablanca Industrial Park in Huizhou, the PRC (the "Construction"). The Group entered into a construction agreement on 30 October 2020 and a supplemental agreement on 16 April 2021 (collectively the "Construction Agreements") with an independent third party contractor for the Construction which was duly completed in April 2022 with a total construction area of 25,255.09 square metres. The total consideration to the independent third party contractor for the Construction and other small constructions not under the Construction Agreements was finalised to be RMB55.2 million (equivalent to approximately HK$62.4 million).

To cope with the business development, the interior designs of the new building B under phase II of the Casablanca Industrial Park had been modified into a complex comprising research and development centre, office, conference rooms, training rooms, showroom, livestreaming centres, and catering facilities.

References are made to the announcements of the Company dated 1 September 2022 and 5 September 2022 in relation to the Showroom Decoration for the phase II of Casablanca Industrial Park. The Group entered into a construction agreement on 1 September 2022 with an independent third party contractor for a consideration of RMB4.8 million (equivalent approximately to HK$5.4 million) to carry out the Showroom Decoration. Including the Showroom Decoration, the Group finally incurred a total consideration of RMB21.3 million (equivalent approximately to HK$24.0 million) in interior works and decorations for the new building B under phase II of the Casablanca Industrial Park. The new building B under phase II of the Casablanca Industrial Park in Huizhou has been in use since March 2023.

Other than those disclosed above, there was no plan authorised by the Board for material investments or additions of capital assets at the date of this annual report.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Cheng Sze Kin (**鄭斯堅**), aged 62, is one of the founders of the Group to establish the Group's business in May 1993. He was appointed as a Director on 2 April 2012 and re-designated as an Executive Director and the Chairman of the Board on 22 October 2012. He is currently a director of all the subsidiaries of the Company incorporated in Hong Kong and the British Virgin Islands ("BVI"). He is responsible for strategic planning of the Group, in particular product development and production. He has over 25 years of experience in the production of bedding products and textile trading. He is the spouse of Ms. Wong Pik Hung (王碧紅) and the brother of Mr. Cheng Sze Tsan (鄭斯燦), both of whom are also Executive Directors. Mr. Cheng Sze Kin is a director of World Empire Investment Inc. ("World Empire"), which is interested in the Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

Mr. Cheng Sze Tsan (**鄭斯燦**), aged 50, is one of the founders of the Group to establish the Group's business in May 1993. He was appointed as a Director on 2 April 2012 and re-designated as an Executive Director and Vice-chairman of the Board on 22 October 2012. He is currently a director of all the subsidiaries of the Company incorporated in Hong Kong and BVI. He has been appointed as the Chief Executive Officer of the Company since 1 September 2016 and is responsible for strategic planning of the Group, in particular product development and sales management. He has over 25 years of experience in the bedding products industry. He is the brother of Mr. Cheng Sze Kin (鄭斯堅) and the brother-in-law of Ms. Wong Pik Hung (王碧紅), both of whom are also Executive Directors. He was awarded by the Federation of Hong Kong Industries as "Young Industrialists of Hong Kong" in 2013. He has taken up a variety of roles, including a vice president of the Hong Kong Young Industrialists Council, a vice president of Federation of Hong Kong Huangpu Community and a committee member of Chinese People's Political Consultative Conference Guangzhou Committee (Huangpu District). Mr. Cheng Sze Tsan is a director of World Empire, which is interested in the Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

Ms. Wong Pik Hung (**王碧紅**), aged 56, has been a Director of a subsidiary of the Company since August 1993. She was appointed as a Director on 2 April 2012 and re-designated as an Executive Director on 22 October 2012. She is currently a director of all the subsidiaries of the Company incorporated in Hong Kong and BVI. She is responsible for strategic planning of the Group, in particular procurement and sales management in Hong Kong. She has over 25 years of experience in the bedding products industry. She obtained a diploma in international economic cooperation at the University of International Business and Economics (對外經濟貿易大學) in Beijing. Ms. Wong is the spouse of Mr. Cheng Sze Kin (鄭斯堅) and the sister-in-law of Mr. Cheng Sze Tsan (鄭斯燦), both of whom are also Executive Directors. Ms. Wong is a director of World Empire, which is interested in the Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

Independent Non-executive Directors

Mr. Lo Siu Leung (盧紹良), aged 44, was appointed as an Independent Non-executive Director on 9 April 2018. He has over 20 years of experience in auditing, accounting, tax and finance. Mr. Lo is a Chartered Financial Analyst. He is also a fellow member of each of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and The Institute of Chartered Accountants in England and Wales. He holds a master's degree in Business Administration from The Hong Kong Polytechnic University.

Dr. Cheung Wah Keung (張華強), aged 61, was appointed as an Independent Non-executive Director on 26 May 2017. He is currently the chairman of each of Shinhint Group and Tai Sing Industrial Company Limited. He has more than 30 years of experience in trading and manufacturing of consumer electronic products. Dr. Cheung is currently an independent non-executive director of PanAsialum Holdings Company Limited (stock code: 2078) and Activation Group Holdings Limited (stock code: 9919), respectively. He was also the independent non-executive chairman of PanAsialum Holdings Company Limited (stock code: 2078) during the period from 2 August 2019 to 30 June 2022 and an independent non-executive director of Sky Light Holdings Limited (stock code: 3882) during the period from 12 June 2015 to 28 February 2023. The shares of above companies with stock code indicated are listed on the Stock Exchange.

Dr. Cheung holds a bachelor's degree in business administration, a master's degree in global political economy from The Chinese University of Hong Kong and a master's degree in corporate governance, and a doctorate degree in business administration from The Hong Kong Polytechnic University. He was awarded by the Federation of Hong Kong Industries as "Young Industrialist of Hong Kong" in 2005 and "Certificates of Merit in Directorship" by the Hong Kong Institutes of Directors in 2006. He has taken up a variety of roles, including the president of the Hong Kong Young Industrialists Council from 2015 to 2016, the chairman of the Advisory Board for Master of Corporate Governance of The Hong Kong Polytechnic University and a committee member of the Council of The Hang Seng University of Hong Kong.

Mr. Chow On Wa (周安華), aged 61, was appointed as an Independent Non-executive Director on 26 May 2017. He is currently the director of JTF Development Limited which provides professional management and investment consulting services to various clients. Mr. Chow has over 20 years of experience in management of retail business of home accessories in the PRC. During 1986 to 2001, he worked for IKEA Group for 15 years. He was a general manager for India and Pakistan regional office of IKEA and subsequently stationed in the PRC. During 1995 to 2001, Mr. Chow was responsible for IKEA's retail and operational management in the PRC and opened the first retail shopping mall in the PRC for IKEA Group in 1997. He established Amfield Consultants Limited, which engaged in consultancy on management and strategic planning in business and retailing in the PRC, in 2001. Mr. Chow established New Concept International Enterprise Limited, in 2004, which was engaged in retailing of home accessories across the PRC focusing on shopping malls and department stores, and mainly distributed internationally renowned brands, including Frette, Trussardi-home and Esprit-home etc., until its business was sold in 2013 to Li & Fung Limited, the shares of which were listed on the Stock Exchange (stock code: 494) and withdrawn from listing with effect from 28 May 2020. From 2013 to June 2016, Mr. Chow was a senior vice president of Global Brands Group Holding Limited, the shares of which are listed on the Stock Exchange (stock code: 787) after its spin-off from Li & Fung Limited in 2014, and was responsible for management of its multi-branded home accessory business covering all over Asia. Mr. Chow holds a bachelor's degree in engineering from University of Manchester in the United Kingdom.

DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Mr. Ho Yiu Leung (**何耀樑**), aged 56, joined the Group as the Financial Controller and Company Secretary in January 2012. He is responsible for the Group's overall financial reporting, finance and company secretarial matters. He has over 30 years of experience in auditing, accounting and financial management. He is a fellow member of each of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, The Hong Kong Chartered Governance Institute and The Chartered Governance Institute. He holds a master's degree in business administration from the University of Strathclyde.

Dr. Lin Yi Kai (**林奕凱**), aged 53, joined the Group in May 2007. He is currently the Deputy General Manager of Casablanca Home (Shenzhen) Limited. He is responsible for the financial management of the Group's operations in the PRC. Dr. Lin has over 25 years of experience in audit, tax and accounting. He was awarded Qualification Certificate of International Association of Accounting Professionals, qualifications of certified internal control specialist from Internal Control Institute, senior international finance manager from International Financial Management Association and certified financial planner from The Chinese Institute of Certified Financial Planners, and is a member of Institute of Public Accountants, and an associate member of each of Institute of Financial Accountants and The Association of International Accountants. He was conferred qualification of assistant accountant in accounting (corporate) speciality and intermediate level in accounting speciality from Ministry of Finance of the PRC and qualification of senior accountant from Human Resources and Social Security Department of Guangdong Province. Dr. Lin holds an executive doctor's degree in business administration from EuroPort Business School.

Company Secretary

Mr. Ho Yiu Leung (**何耀樑**), aged 56, joined the Group as the Financial Controller and Company Secretary in January 2012. Please refer to the paragraph headed "Senior Management" above for his biography.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2022 (the "Year").

Principal Activities

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 1 to the consolidated financial statements.

Business Review

A review of the Group's business for the Year and a discussion on the Group's future business development are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 6 to 23 of this annual report. Discussion and information therein forms part of this Director's Report.

Principal Risks and Uncertainties

The Group's results of operations and prospects may be exposed to a number of risks and uncertainties. The following are key risks that are considered to be of most significance to the Group at this time. They are not exhaustive or comprehensive and there may be other risks which are not known by the Group or which may not be material now but could turn out to be material in the future.

(i) Business Risk

The Group's sales and results significantly depend on economic conditions, consumer habits and competition of operating markets in Hong Kong and Mainland China.

The resurgence of COVID-19 in Hong Kong and Mainland China during the Year had significant impacts on economic conditions and consumer market sentiment. People tended to stay at home so as to boost the increasing trend for sales through new media. Owing to the intense competition in bedding products market in Mainland China, the Group sustained loss in operating retail business through physical POS network in Mainland China for the Year.

Furthermore, the Group operates in markets subject to pricing and other competitive pressures such as advertising, designs, product innovations and technological advances. Changes in economic conditions, consumer habits and competition are uncertain such that the Group cannot accurately predict any material adverse effect of these changes on the current or future business and results of operations of the Group. However, the Group has strengthened its business in sales of mattress, increased its investment in the development of new channels of sales (including new media), strengthened its advertising and marketing, and enhanced its research and development of new products in order to mitigate the impact.

(ii) Operational Risk

In view of over-reliance on physical retail businesses in Hong Kong and Mainland China, the Group has endeavoured to develop sales through new media and wholesale businesses during the recent years. At the same time, the Group also strives in building strong and long term relationships with different wholesale customers and exploring export business opportunities in order to mitigate the risk. In addition, the Group strives to extend its reach to consumers who prefer to shop online by opening shops on different online shopping platforms, exposing its presence on new media and increasing its online advertising resources.

The Group's success and growth also depend on skilled and experienced managers, sales and marketing personnel and front-line sales promoters. It is important to attract, train, motivate and retain employees in support of the future growth of the Group. The risk of the loss of key personnel or the inability to attract qualified personnel is mitigated by regular reviews of retention and recruitment practices, remuneration packages and succession planning within the Group.

(iii) Financial Risk

The Group's results are subject to interest rate risk, foreign currency risk, credit risk and liquidity risk. The financial risk management objectives and policies of the Group in managing these financial risks are set out in note 33 to the consolidated financial statements. These discussions form part of this Directors' Report.

Financial Key Performance Indicators

An analysis of the Group's performance for the Year using financial key performance indicators (the "KPIs") is set out in the section headed "Financial Highlights and Summary" on pages 4 and 5 of this annual report. Such KPIs are selected on basis of their effectiveness in measuring the performance of Group's business with nature in manufacturing and trading.

Environmental Policies and Performance

The Group is committed to build an environmentally-friendly corporation that pays close attention to conserving natural resources and protecting environment. The Group strives to minimise the impact on environment by saving electricity and water and has implemented internal recycling programmes on a continuous basis for office consumables such as carbon toners, cartridges and papers. We also arrange tablet computers at our self-operated POS to show product catalogues to customers in order to reduce printed versions of the product catalogues. Casablanca Hong Kong Limited, the principal subsidiary of the Company in Hong Kong, was awarded the certificate under the CarbonSmart Programme organised by the Hong Kong Productivity Council in collaboration with the Federation of Hong Kong Industries, Hong Kong General Chamber of Commerce and Business Environment Council. The Company participated in the Onsite Improvement Assessment Projects of Cleaner Production Partnership Programme organised by Environmental Protection Department of Hong Kong SAR in collaboration with the Economic and Information Commission of Guangdong Province. Casablanca Hong Kong Limited had been awarded "U Green Awards – Excellence of Environmental Contribution Award (Bedding Products)" by U Magazine for six years consecutively from 2016 to 2021.

In contribution to the environment, the Group uses environmentally-friendly raw materials for its products such as milk protein fibres and soybean protein fibres for the fill materials in our duvets and pillows. In addition, the Group has also introduced new products with health enhancing functions such as products under "CASA-V" brand with "5A Features" as well as mosquitos and insects repellent functions. In addition to "5A Features", users of these products can avoid being disturbed by insects and enjoy good sleep. The Group intends to make "CASA-V" a brand for healthy and environmentally-friendly home living. Casablanca Hong Kong Limited was awarded with the "Seal of Cotton" trademark and the "Cotton LEADS^{SM}" label in 2020 in recognition of its contribution to the environment by utilising sustainable cotton in its products.

The Company has published an Environmental, Social and Governance Report separately on the websites of the Company and the Stock Exchange for the year ended 31 December 2022 on the same date as publishing this annual report.

Compliance with Laws and Regulations

The Group's operations are mainly carried out by the Company's subsidiaries in Hong Kong and Mainland China. The Directors are not aware of any material changes in relevant laws and regulations in Hong Kong and Mainland China with significant potential impacts on the Group's operations. During the Year, the Group has complied, to the best knowledge of the Directors, in material aspects with the relevant laws and regulations that have a significant impact on the operations of the Group.

Key Relationships with Employees, Customers, Distributors and Suppliers

Human resources are one of the valuable assets of the Group. The Group intends to be an attractive employer for competent employees. The objective of the Group's human resource management is to provide employees with competitive remuneration packages and to promote career development and progression of employees by appropriate training and providing opportunities within the Group for career advancement. The Group has also adopted share option schemes to reward, motivate and retain Directors and employees for contributions to the growth and development of the Group.

We are committed to offer a broad and diverse range of innovative, value-for-money and good-quality bedding products with our various brands to our customers. We also stay connected with our customers by maintaining database of VIP members to have ongoing communications with them and offer special benefits to them such as favourable prices and private sales. A customer complaint handling mechanism is in place to collect, analyse and study complaints from customers and make recommendations on remedies with the aim of improving service quality.

We also sell our products to end customers through distributors. We regard our distributors as business partners and share views for upholding the brand value and customer services, specifically focusing on attracting and retaining customers in order to drive sales growth. We require our distributors to comply with our retail policies, including but not limited to unified product retail selling price, standard store images and promotional activities.

We have developed long and good relationships with a number of suppliers to maintain steady supplies of raw materials and outsourced products with good qualities. We carefully select our suppliers and require them to satisfy certain criteria including track record, experience, reputation, ability to produce high-quality products and quality control effectiveness in order to ensure that our suppliers share our commitments to quality and ethics.

Results and Appropriations

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 63 of this annual report.

The Directors do not recommend the payment of a final dividend for the Year (2021: Nil).

Distributable Reserves

The Company may pay dividends out of share premium and retained earnings provided that immediately following the payment of such dividends the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

The Company's reserves available for distribution to Shareholders as at 31 December 2022 calculated in accordance with the Companies Act of the Cayman Islands, amounted to approximately HK$171,972,000, comprising share premium of approximately HK$166,376,000 and retained earnings of approximately HK$5,596,000.

Five-Year Financial Summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on pages 4 to 5 of this annual report.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group during the Year are set out in note 14 to the consolidated financial statements.

Share Capital

Details of the movements in the share capital of the Company during the Year are set out in note 25 to the consolidated financial statements.

Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2022 are set out in note 35 to the consolidated financial statements.

Borrowings

Particulars of the Group's bank borrowings as at 31 December 2022 are set out in note 22 to the consolidated financial statements.

Directors

The Directors of the Company during the Year and up to the date of this annual report were:

Executive Directors

Mr. Cheng Sze Kin *(Chairman)*
Mr. Cheng Sze Tsan *(Vice-chairman and Chief Executive Officer)*
Ms. Wong Pik Hung

Independent Non-executive Directors

Mr. Lo Siu Leung
Dr. Cheung Wah Keung
Mr. Chow On Wa

Mr. Cheng Sze Kin and Mr. Cheng Sze Tsan will retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

In accordance with Article 16.3 of the Company's amended and restated articles of association (the "Articles of Association"), Dr. Cheung Wah Keung and Mr. Chow On Wa will hold office only until the forthcoming annual general meeting and shall then be eligible for re-election.

Changes to Information in Respect of Directors

There was no change to information which is required to be disclosed and has been disclosed by Directors pursuant to Rule 13.51B of the Listing Rules up to the date of this annual report, save as disclosed in this annual report and that Dr. Cheung Wah Keung resigned from his position as an independent non-executive director of Sky Light Holdings Limited (stock code: 3882), the shares of which are listed on the Stock Exchange, with effect from 28 February 2023.

Confirmation of Independence

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

Directors' Service Contracts

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Share Option Schemes

The Group adopted a share option scheme which was approved by the sole Shareholder's resolution passed on 22 October 2012 with a life for 10 years until 21 October 2022 (the "2012 Share Option Scheme"). The total number of Shares that might be issued under the 2012 Share Option Scheme was 20,000,000 Shares, representing 10% of the issued Shares of the Company at the date of listing. Share options to subscribe for a total of 5,250,000 Shares, which had been granted by the Group on 2 July 2020 with the exercise price of HK$0.48 per Share and the exercisable period from 2 July 2020 to 1 July 2023, remained unexercised under the 2012 Share Option Scheme as at the date of this annual report. Based on the valuation report of an independent valuer, the aggregate estimated fair value of the options granted on 2 July 2020 under the 2012 Share Option Scheme was approximately HK$445,000, of which HK$417,000 and HK$28,000 represented the estimated fair value of the share options granted to Directors and employees respectively.

At the last annual general meeting of the Company held on 6 June 2022, a new share option scheme had been approved and adopted as the Company's share option scheme (the "2022 Share Option Scheme") and the 2012 Share Option Scheme had been terminated and ceased to have any further effect save for and except that the 2012 Share Option Scheme will remain in force to the extent necessary to give effect to the exercise of the options granted thereunder prior to the termination thereof and any such options (to the extent not already exercised) shall continue to be valid and exercisable in accordance with the terms of the 2012 Share Option Scheme.

As at 31 December 2022, no share options under the 2012 Share Option Scheme were available for issue to subscribe for any Share. As at the date of this annual report, the total number of Shares that may be issued under the 2012 Share Option Scheme upon the exercise of the granted share options was 5,250,000 Shares, representing 2.04% of the issued Shares of the Company as at the date of this annual report. As at the date of this annual report, the total number of Shares that may be issued under the 2022 Share Option Scheme was 25,785,400 Shares, representing 10% of the issued Shares of the Company as at the date of this annual report.

Particulars of the Company's share option schemes are set out in note 26 to the consolidated financial statements. The following table discloses movements in the Company's share options during the Year:

	Date of grant	Exercisable period (Note)	Exercise price (HK$)	Number of options as at 1.1.2022	Movement during the Year Granted	Cancelled	Exercised	Lapsed	Number of options as at 31.12.2022
Directors and Chief Executives									
Mr. Cheng Sze Kin	2.7.2020	2.7.2020 – 1.7.2023	0.48	1,400,000	–	–	–	–	1,400,000
Mr. Cheng Sze Tsan	2.7.2020	2.7.2020 – 1.7.2023	0.48	1,400,000	–	–	–	–	1,400,000
Ms. Wong Pik Hung	2.7.2020	2.7.2020 – 1.7.2023	0.48	1,400,000	–	–	–	–	1,400,000
Mr. Lo Siu Leung	2.7.2020	2.7.2020 – 1.7.2023	0.48	250,000	–	–	–	–	250,000
Dr. Cheung Wah Keung	2.7.2020	2.7.2020 – 1.7.2023	0.48	250,000	–	–	–	–	250,000
Mr. Chow On Wa	2.7.2020	2.7.2020 – 1.7.2023	0.48	250,000	–	–	–	–	250,000
Total Directors and Chief Executives				4,950,000	–	–	–	–	4,950,000
Employees	2.7.2020	2.7.2020 – 1.7.2023	0.48	300,000	–	–	–	–	300,000
Total Employees				300,000	–	–	–	–	300,000
Total				5,250,000	–	–	–	–	5,250,000

Note: The options, granted and vested on 2 July 2020, are exercisable from 2 July 2020 to 1 July 2023 (both days inclusive).

Directors' and Chief Executive's Interests in Shares

As at 31 December 2022, the interests and short positions of the Directors and the chief executive and their associates in the Shares, underlying Shares and debentures and share options of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") (the "Model Code"), were as follows:

Long positions

(a) Shares

Name of Director	Nature of interest	Number of Shares held/ interested	Percentage of the issued share capital of the Company (Note 4)
Mr. Cheng Sze Kin	Beneficial interest	4,500,000	1.7%
	Spouse interest	3,375,000	1.3%
	Interest in a controlled corporation (Note 1)	150,000,000	58.2%
		157,875,000	61.2%
Mr. Cheng Sze Tsan	Beneficial interest	4,125,000	1.6%
	Interest in a controlled corporation (Note 2)	150,000,000	58.2%
		154,125,000	59.8%
Ms. Wong Pik Hung	Beneficial interest	3,375,000	1.3%
	Spouse interest (Note 3)	154,500,000	59.9%
		157,875,000	61.2%

(b) Share options

Name of Director	Nature of interest	Number of options held/ interested	Number of underlying Shares interested
Mr. Cheng Sze Kin	Beneficial interest	1,400,000	1,400,000
	Spouse interest	1,400,000	1,400,000
		2,800,000	2,800,000
Mr. Cheng Sze Tsan	Beneficial interest	1,400,000	1,400,000
Ms. Wong Pik Hung	Beneficial interest	1,400,000	1,400,000
	Spouse interest (Note 3)	1,400,000	1,400,000
		2,800,000	2,800,000
Mr. Lo Siu Leung	Beneficial interest	250,000	250,000
Dr. Cheung Wah Keung	Beneficial interest	250,000	250,000
Mr. Chow On Wa	Beneficial interest	250,000	250,000

Notes:

(1) Mr. Cheng Sze Kin is interested in 40% of World Empire, a holder of 150,000,000 Shares, representing 58.2% of the Company's issued share capital. Therefore, Mr. Cheng Sze Kin is deemed to be interested in such 150,000,000 Shares, representing 58.2% of the Company's issued share capital. Mr. Cheng Sze Kin is also the beneficial owner of 4,500,000 Shares, representing 1.7% of the Company's issued share capital, and holds options granted under the 2012 Share Option Scheme to subscribe for 1,400,000 Shares. Mr. Cheng Sze Kin is deemed to be interested in the 3,375,000 Shares held by Ms. Wong Pik Hung (his spouse) representing 1.3% of the Company's issued share capital; and the options granted to his spouse, Ms. Wong Pik Hung, under the 2012 Share Option Scheme to subscribe for 1,400,000 Shares. However, each of Mr. Cheng Sze Kin and Ms. Wong Pik Hung has confirmed that he/she will not exercise any option if as a result of which the Company will not be able to comply with the public float requirements of the Listing Rules.

(2) Mr. Cheng Sze Tsan is interested in 35% of World Empire, a holder of 150,000,000 Shares, representing 58.2% of the Company's issued share capital. Therefore, Mr. Cheng Sze Tsan is deemed to be interested in such 150,000,000 Shares, representing 58.2% of the Company's issued share capital. Mr. Cheng Sze Tsan is also the beneficial owner of 4,125,000 Shares, representing 1.6% of the Company's issued share capital, and holds options granted under the 2012 Share Option Scheme to subscribe for 1,400,000 Shares. However, Mr. Cheng Sze Tsan has confirmed that he will not exercise any option if as a result of which the Company will not be able to comply with the public float requirements of the Listing Rules.

(3) Ms. Wong Pik Hung is the spouse of Mr. Cheng Sze Kin and is interested in 25% of the equity interest in World Empire, thus, Ms. Wong Pik Hung is deemed to be interested in 150,000,000 Shares, representing 58.2% of the Company's issued share capital. Ms. Wong Pik Hung holds 3,375,000 Shares, representing 1.3% of the Company's issued share capital, and holds options granted under the 2012 Share Option Scheme to subscribe for 1,400,000 Shares. Ms. Wong Pik Hung is deemed to be interested in the 4,500,000 Shares held by Mr. Cheng Sze Kin (her spouse) representing 1.7% of the Company's issued share capital; and the options granted to her spouse, Mr. Cheng Sze Kin, under the 2012 Share Option Scheme to subscribe for 1,400,000 Shares. However, each of Mr. Cheng Sze Kin and Ms. Wong Pik Hung has confirmed that he/she will not exercise any option if as a result of which the Company will not be able to comply with the public float requirements of the Listing Rules.

(4) The percentage is calculated on the basis of 257,854,000 Shares in issue at the date of this annual report.

Save as disclosed above, none of the Directors, chief executive and their associates had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations as at 31 December 2022.

Substantial Shareholders

As at 31 December 2022, the register of substantial Shareholders maintained by the Company pursuant to Section 336 of the SFO showed that other than the interests disclosed above in respect of certain Directors and chief executive, the following Shareholders had notified the Company of relevant interests and underlying Shares in the issued share capital of the Company.

Long positions in Shares

Name of Shareholder	Capacity	Number of Shares held	Percentage of the issued share capital of the Company (Note 2)
World Empire (Note 1)	Beneficial owner	150,000,000	58.2%

Notes:

(1) World Empire is a company incorporated in the British Virgin Islands, the issued share capital of which is owned as to 40%, 35% and 25% by Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung, respectively.

(2) The percentage is calculated on the basis of 257,854,000 Shares in issue at the date of this annual report.

Save as disclosed above, as at 31 December 2022, the Directors were not aware of any person who had an interest or short position in the shares and the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

Competing Business

During the Year, no Directors have interests in any business which directly or indirectly competes, or is likely to compete, with the business of the Group.

In accordance with the non-competition undertakings set out in the deed of non-competition (the "Deed of Non-Competition") executed by Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan, Ms. Wong Pik Hung and World Empire (collectively the "Controlling Shareholders") in favour of the Company to the effect that with effect from 23 November 2012 when the Company was successfully listed on the main board of the Stock Exchange (the "Listing Date"), each of the Controlling Shareholders will not, except through the Group, (i) directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of the Group or be in competition with any member of the Group in any business activities (the "Restricted Business") which any member of the Group may undertake in the future in Hong Kong, Macau and Mainland China (the "Restricted Territory") save for the holding of not more than 5% shareholding interests in any listed company and (ii) directly or indirectly take any action which constitutes an interference with or a disruption of any of the Group's business activities in the Restricted Territory.

Each of the Controlling Shareholders has also undertaken that with effect from the Listing Date, if any new business opportunity relating to the Restricted Business in the Restricted Territory (the "Business Opportunity") is made available to each of them, it shall direct to the Group such Business Opportunity and provide all reasonable assistance to enable the Group to secure the Business Opportunity. The Controlling Shareholders shall not be allowed to pursue the Business Opportunity even if the Group decides not to pursue such Business Opportunity. Details of the Non-Competition Undertakings have been set out in the Company's prospectus dated 13 November 2012.

In order to ensure the Controlling Shareholders' compliance with the terms of the Deed of Non-Competition for the Year, (i) each of the Controlling Shareholders has given a written confirmation to the Company that he/she/it has complied with the terms of the Deed of Non-Competition for the Year, (ii) the Company has enquired each of the Controlling Shareholders from time to time, about whether he/she/it has been interested, involved or engaged in any business which competes with the business of the Group, and enquiries about the same have been made with each of them before publication of this annual report, and (iii) the Independent Non-Executive Directors of the Company have reviewed the available information and understood that, as far as they can ascertain, the Controlling Shareholders have complied with the terms of the Deed of Non-Competition for the Year.

Arrangements to Purchase Shares and Debentures

Save as disclosed under the section "Share Option Schemes" above, at no time during the Year was the Company, its holding company, or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

Equity-linked Agreements

Save as disclosed under the section "Share Option Schemes" above, no equity-linked agreements were entered into by the Group or existed during the Year.

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.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Articles of Association or the Companies Act of the Cayman Islands, which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

Permitted Indemnity Provision

Pursuant to the Articles of Association, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred and sustained by him/her as a Director in defending any proceedings, in which judgement is given in his/her favour, or in which he/she is acquitted. The Company has arranged appropriate directors' and officers' liability insurance which provides coverage for the Directors and officers of the Group throughout the Year.

Connected Transactions

Related party transactions disclosed in note 31 to the consolidated financial statements were one-off connected transactions of the Company under Chapter 14A of the Listing Rules in relation to the renewal of the lease agreements as disclosed in the announcement of the Company dated 18 December 2020. Save for the renewal of lease agreements disclosed below, there was no related party transaction which constitutes any connected transaction or continuing connected transaction which should be disclosed pursuant to the Listing Rules during the Year.

Casablanca Hong Kong Limited, a subsidiary of the Group in Hong Kong, had entered into lease agreements ("Lease Agreements") with Gain Harvest Investment Limited ("Gain Harvest") and Wealth Pine Asia Limited ("Wealth Pine") which are wholly-owned by Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung, for the two properties located as House No. 29, Kensington Path, The Royal Oaks, 8 Kam Tsin Nam Road, Kwu Tung, Sheung Shui, New Territories, Hong Kong and House No. A25, Constellation Cove, 1 Hung Lam Drive, Tai Po, New Territories, Hong Kong, respectively (the "Leased Properties"). The Lease Agreements were renewed on 18 December 2020 at revised market rentals for lease terms for 3 years from 1 January 2021 to 31 December 2023. The Leased Properties were used by our Directors as staff quarters in Hong Kong.

The Directors, including the Independent Non-executive Directors, were of the view that the Lease Agreements and the transactions contemplated thereunder were entered into (i) in the ordinary and usual course of business of the Group; and (ii) on normal commercial terms; and are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

In accordance with HKFRS 16, the Group recognized rental payments under the Lease Agreements as right-of-use assets with an estimated value of approximately HK$6,444,000 as at 1 January 2021. The transactions contemplated under the Lease Agreements were recognized as the acquisitions of right-of-use assets which constituted one-off connected transactions of the Company in 2020 under Chapter 14A of the Listing Rules. The Company complied with the disclosure requirements in 2020 in accordance with Chapter 14A of the Listing Rules.

Gain Harvest and Wealth Pine are ultimately beneficially owned by Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung, each of whom are an Executive Director and a substantial Shareholder of the Company. Each of Gain Harvest and Wealth Pine is therefore an associate of Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung and a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the transactions contemplated under the Renewed Lease Agreements constituted connected transactions of the Company in 2020 under Chapter 14A of the Listing Rules.

Directors' and Controlling Shareholders' Interests in Transactions, Arrangements or Contracts of Significance

Other than those transactions disclosed under the section "Connected Transactions" above, no transaction, arrangement or contract of significance, to which a Director or an entity connected with a Director was a party and in which a Director of the Company is or was materially interested, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year nor was there any other transaction, arrangement or contract of significance in relation to the Company's business between the Company or any of its subsidiaries and any of Controlling Shareholders or any companies under its/his/her control.

Management Contract

Save as those disclosed in the announcement of the Company dated 5 October 2022 in relation to joint venture agreement entered for formation of joint venture company, the Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Group during the Year.

Directors' Remunerations and the Five Highest Paid Individuals

Details of the Directors' remunerations and those of the five highest paid individuals in the Group are set out in note 10 to the consolidated financial statements.

Emolument Policy

The Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to all employees of the Group including social insurance coverage, provident funds, bonus and share option schemes. The Group mainly determines staff remuneration on basis of the competence, qualifications and performance of individual employee and the salary trends in Hong Kong and Mainland China. The staff remuneration will be reviewed regularly.

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the emolument policy of the Company taking into account the Group's operating results, individual performance and comparable market statistics.

The Company has adopted share option schemes as an incentive to Directors and eligible employees, details of the schemes are set out in note 26 to the consolidated financial statements.

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.

Events After the Reporting Period

There is no material subsequent event undertaken by the Group up to the date of this annual report after 31 December 2022.

Major Customers and Suppliers

For the Year, sales to the Group's five largest customers and the largest customer accounted for approximately 7.8% and 2.5%, respectively of the Group's total turnover for the Year.

For the Year, the Group's purchases attributable to the five largest suppliers and the largest supplier accounted for approximately 37.5% and 12.4%, respectively of the Group's total purchases for the Year.

At no time during the Year, did a Director, a close associate of a Director, or a Shareholder (which to the best knowledge of the Directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest suppliers or customers.

Changes in Memorandum and Articles of Association

The Company's current amended and restated memorandum and articles of association (the "Memorandum and Articles") was approved by the Shareholders by way of a special resolution at the annual general meeting on 27 May 2019. There have been no changes in the Company's Memorandum and Articles up to the date of this annual report.

In order to update the Memorandum and Articles so as to, among other things, reflect the current requirements of the Listing Rules and make other housekeeping improvements to the Memorandum and Articles, the Directors propose to make certain amendments to the Memorandum and Articles (the "Proposed Amendments").

The Directors further propose to restate the Memorandum and Articles incorporating and consolidating the Proposed Amendments and all previous amendments to the Memorandum and Articles approved and adopted by the Company to replace the Memorandum and Articles (the "Proposed Restatement").

The Proposed Amendments and Proposed Restatement are subject to the approval of Shareholders by way of a special resolution at the forthcoming annual general meeting of the Company.

DIRECTORS' REPORT

Annual General Meeting

The forthcoming annual general meeting of the Company for the year ended 31 December 2022 (the "AGM") is scheduled to be held on Monday, 15 May 2023. 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 Tuesday, 9 May 2023 to Monday, 15 May 2023 (both days inclusive) during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the 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 Monday, 8 May 2023.

Corporate Governance Practices

The Company has adopted the code provisions of the Corporate Governance Code as set out 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.

None of the Directors is aware of any information which would reasonably indicate that the Company has not, for any part of the Year, complied with the code provisions of the CG Code.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and to the best of the knowledge of the Directors, the Company has maintained sufficient public float during the Year as required under the Listing Rules.

Donations

During the Year, the Group made charitable donations amounting to HK$764,000.

Auditor

A resolution will be proposed at to the AGM to re-appoint Messrs. CHENG & CHENG LIMITED, Certified Public Accountants, as the auditor of the Company. There was no change in the Company's auditor in any of the preceding three years.

On behalf of the Board

Cheng Sze Kin
Chairman
Hong Kong, 24 March 2023

CORPORATE GOVERNANCE REPORT

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

This corporate governance report ("Corporate Governance Report") is to outline the major principles of the Company's corporate governance. Shareholders are encouraged to make their views known to the Group if they have issues with the Company's corporate governance and to directly raise any matters of concern to the chairman of the Board ("Chairman").

Corporate Governance Practices

The Company has adopted the code provisions of the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Directors consider that the Company has complied with the code provisions of the CG Code during the year ended 31 December 2022. Save as disclosed herein, the Company considers that there has been no deviation from the code provisions of the CG Code during the year ended 31 December 2022.

Board of Directors

The Board provides leadership, guidance and strategic decisions to the Group's activities and oversees its financial performances. The Board has delegated its powers to the management for the Group's daily management and operations.

Business Strategies and Corporate Culture

The Board has established the Company's mission and values to integrate sustainable growth, environmental protection and social responsibility in business strategies for providing consumers with quality bedding products of fashionable designs and at reasonable prices, as well as home accessories that are trendy yet practical and driving benefits to the communities. It will also continue to broaden revenue streams and enhance the Group's brand value so as to bring satisfactory returns to Shareholders in the long run and avoid short term gains with undue risks at the expense of long term objectives.

A healthy corporate culture across the Group is vital for the Company to achieve its mission and value. The Board's role is to foster a corporate culture with integrity and innovation to guide the behaviours of its employees, and ensure that the Company's mission, values and business strategies are aligned to it.

Division of Responsibilities between the Board and Management

The management team of the Group has a wide range of skills, knowledge and experience necessary to govern the Group's operations. All management team members are required to report directly to the Chairman on a regular basis to report business performance and operational and functional issues of the Group. This will allow the Group's management to allocate resources more efficiently for its decision-making and facilitate its daily operations.

CORPORATE GOVERNANCE REPORT

The Board is responsible for overseeing the processes by which the management team identifies business opportunities and risks. The Board has set up formal procedures for the Board's decisions. Matters of which the Board considers suitable for delegation to its committees are contained in the specific terms of reference of its committees. The terms of reference clearly define the powers and responsibilities of the Board committees. In addition, the Board will receive reports and/or recommendations from time to time from the Board committees on any matter significant to the Group.

Chairman and Chief Executive Officer

Code Provision C.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and not be performed by the same individual. The Chairman is responsible for the leadership and effective running of the Board and ensuring that all material issues are discussed by the Board in a timely and constructive manner. The Chief Executive Officer is responsible for the management of the day-to-day operations and the implementation of the approved strategies of the Group.

To ensure a balance of power and authority, the Company has appointed Mr. Cheng Sze Kin as the Chairman of the Company and Mr. Cheng Sze Tsan as the Chief Executive Officer of the Company for the Review Period. Mr. Cheng Sze Kin and Mr. Cheng Sze Tsan are also Executive Directors of the Company.

Board Composition

The Board currently comprises three Executive Directors and three Independent Non-executive Directors. The Board has at least one-third of its membership comprising Independent Non-executive Directors in accordance with Rule 3.10A of the Listing Rules. The following are the members of the Board during the Review Period and as at the date of this annual report:

Executive Directors

Mr. Cheng Sze Kin *(Chairman)*
Mr. Cheng Sze Tsan *(Vice-chairman and Chief Executive Officer)*
Ms. Wong Pik Hung

Independent Non-executive Directors

Mr. Lo Siu Leung
Dr. Cheung Wah Keung
Mr. Chow On Wa

The biographical details and responsibilities of the Directors as well as the senior management are set out in the section headed "Directors and Senior Management" on pages 24 to 26 of this annual report.

Save as disclosed in the section headed "Directors and Senior Management" to this annual report, the Directors have no other financial, business, family or other material/relevant relationships with one another.

Appointment and Re-election of Directors

Each of Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung renewed his/her service agreement with the Company as an Executive Director for a term of three years commencing from 1 April 2021. All of such service agreements may only be terminated by either party giving to the other not less than three months' prior notice in writing.

Each of the Independent Non-executive Directors has been re-appointed by a letter of re-appointment for a term of 1 year commencing from 1 April 2022 and ending on 31 March 2023 in compliance with the Listing Rules and the CG Code. Upon the expiry of the term, the re-appointment shall be subject to the approval by the Board and compliance with the Listing Rules and the CG Code. The letter of re-appointment shall be terminable by either the Independent Non-executive Director or the Company by giving the other party not less than one month's prior notice in writing. As at the date of this annual report, no Independent Non-executive Director has served the Company for more than nine years.

Directors appointed to fill casual vacancies should be subject to election by Shareholders at the first general meeting after appointment and every Director, including those appointed for a specific term, should be subject to retirement by rotation and re-election at least once every three years.

Appointments and re-appointments of Directors by the Board are subject to recommendations from the Nomination Committee of the Company, after having reviewed and assessed their suitability by reference to the board diversity policy and the nomination policy adopted by the Company.

Board Diversity Policy

The Board has established a board diversity policy. The Company recognises the benefits of Board diversity and endeavours to ensure that the Board has the balance of skills, experience and diversity of perspectives appropriate to the Company's business. Diversity of Board members can be achieved through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, race, professional experience, skill, knowledge and length of service. All Board appointments will be based on merits, and candidates will be considered against objective criteria for their potential contribution to the Board and the Company, having due regard to the benefits of diversity on the Board. No measurable objective was set as at the date of this annual report. The implementation and effectiveness of board diversity policy have been reviewed by the Board during the Review Period and will be reviewed annually.

As at the date of this annual report, the Board comprises six Directors. One of them is female. The age of the Directors ranges from 44 to 62 representing, in the opinion of the Board, an appropriate balance of refreshment of ideas and experience. All the Executive Directors possess extensive experience in management, design, production and marketing of bedding products while the Independent Non-executive Directors possess professional knowledge and broad experience in accounting, management and retail business respectively. The Directors believe that the composition of the Board reflects the necessary diversity, whether considered in terms of gender, professional knowledge, skills and experience, appropriate to the requirements of the business development of the Group and effective leadership. The Directors are of the opinion that the present structure of the Board can ensure the independence and objectivity of the Board and provide a system of checks and balances to safeguard the interests of the Shareholders and the Company. As at the date of this annual report, the Board has not set any numerical targets and timelines for achieving gender diversity on the Board. The Nomination Committee will discuss periodically and when necessary, agree on further measurable objectives and plans for achieving diversity, including gender diversity, on the Board and recommend them to the Board for adoption.

The Board is mindful of the objectives for the factors as set out in the diversity policy for assessing the candidacy of the Board members and will ensure that any successors to the Board shall follow the diversity policy.

The Company understands and recognizes the benefits of diversified staff structure and regards it as one of the important elements in sustaining a long-term competitive advantage of the Company. A multicultural company should be comprised of employees with different gender, age, religion, skills, educational background, industry experience and other qualities so as to achieve the most appropriate structure and balance. As at 31 December 2022, the total number of employees (including the senior management) of the Group was 519 (2021: 516) with 125 male staff and 394 female staff. The male to female ratio in the workforce was about 1:3 and had been stable for last five years. The Company deemed this gender ratio as adequate and appropriate for a company with major business in retail and trading of bedding products and home accessories.

Nomination Policy

The Company has adopted a nomination policy. The Nomination Committee invites nominations of candidates from members of the Board and may also put forward other candidates when vacancies on the Board exist. Before making recommendations to the Board, the Nomination Committee reviews and assesses the suitability of candidates for directorship, according to certain assessment criteria, including but not limited to reputation for integrity, experience in the relevant industry, contributions to the Board and time commitments, and by making reference to the board diversity policy, the Company's needs and the current composition of the Board. The Board will also consider the independence of Independent Non-executive Directors before making appointments or recommendations. The Board may consider engaging an external recruitment agency to carry out the recruitment and selection process when necessary. A Shareholder can serve a notice, at least 7 days prior to the date of the general meeting with candidates standing for election as Directors, to the Company of intention to propose a person as a Director without nomination by the Nomination Committee or recommendation by the Board.

Independent Views and Input

In order to ensure independent views and input are available to the Board, the Board has developed the following mechanisms, including but not limited to:

(i) at least one-third of Board members are Independent Non-executive Directors;

(ii) every Independent Non-executive Director is appointed for a specific term and subject to retirement by rotation at least once every three years;

(iii) Independent Non-executive Directors possess professional knowledge and broad experience;

(iv) no Independent Non-executive Director has served the Company for more than nine years;

(v) no Independent Non-executive Director holds more than six listed company directorships to make sure that each of Independent Non-executive Directors has sufficient time to make contributions to the Board;

(vi) every Independent Non-executive Director has made an annual confirmation of his independence to the Company; and

(vii) the Board, each of its Committees or every Director is able to seek professional advice in appropriate circumstances at the Company's expenses.

The implementation and effectiveness of relevant mechanisms have been reviewed by the Board during the Review Period and will be reviewed annually.

Directors' Training and Continuing Professional Development

Upon appointing a new Director, each new Director receives an induction package so as to ensure that the new Director has appropriate understanding of the Group's business and of a director's duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements.

The Directors are continually updated on the latest development regarding the Listing Rules and relevant statutory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices. All Directors are encouraged to participate in continuous professional development courses and seminars to develop and refresh their knowledge and skills. During the Review Period, a training regarding updates on Listing Rules had been provided to all Directors by the legal adviser of the Company. The Company provided all Directors as well as the management with a training about anti-corruption by the Independent Commission Against Corruption (the "ICAC") in 2021 and updated anti-corruption materials of the ICAC and other organisations during the Review Period. The Company intend to invite the ICAC to provide updated trainings to Directors and the management of the Company from time to time.

According to records maintained by the Company, a summary of training received by the Directors for the Review Period is as follows:

	Types of continuous professional development programmes
Executive Directors	
Mr. Cheng Sze Kin	A, B
Mr. Cheng Sze Tsan	A, B
Ms. Wong Pik Hung	A, B
Independent Non-executive Directors	
Mr. Lo Siu Leung	A, B
Dr. Cheung Wah Keung	A, B
Mr. Chow On Wa	A, B

Notes:

A. Attending briefing sessions and/or seminars

B. Reading materials to update the latest development of the Listing Rules and relevant statutory requirements

Functions and Duties of the Board

The main functions and duties conferred on the Board include:

(i) overall management of the business and strategic development;

(ii) deciding business plans and investment plans;

(iii) convening general meetings and reporting to the Shareholders; and

(iv) exercising other powers, functions and duties conferred by the Shareholders in general meetings.

The Board is responsible for performing the corporate governance duties as set out in Code Provision A.2 of the CG Code.

Board Meetings

During the Review Period, the Board held six meetings. Apart from the adhoc meetings, the Board met regularly to monitor the operation as well as the financial performance of the Group and review and approve, among other things, the annual results, the interim results and the overall strategy of the Group. The Board considers that all meetings have legally and properly been convened during the Review Period.

With the assistance of the Company Secretary, the Chairman of the Board took the lead to ensure that Board meetings and Board committee meetings were convened in accordance with the requirements set out in the Articles of Association of the Company, the terms of reference of the respective Board committees and the Listing Rules.

Prior notice convening the Board meetings were despatched to the Directors setting out the matters to be discussed. Before the meetings, the Directors were provided with the relevant documents to be discussed and approved for review in advance. The Company Secretary was responsible for keeping minutes of the Board meetings.

The minutes of Board and Board Committees meetings recorded in sufficient details the matters considered by Directors, including all concerns raised by the Directors and dissenting views expressed. The minutes of all Board and Board Committees meetings and Board committee meetings and written resolutions signed by all Directors are kept by the Company Secretary and are available for inspection by any Directors, auditors or any relevant eligible parties who can have access to such minutes.

Attendance Record

The attendance record of each Director at the Board and Board committee meetings and the annual general meeting of the Company held for the Review Period is set out in the table below:

	Number of Meetings Attended/Held					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Investment Committee	Annual General Meeting
Executive Directors						
Mr. Cheng Sze Kin	6/6	N/A	N/A	1/1	2/2	1/1
Mr. Cheung Sze Tsan	6/6	N/A	N/A	N/A	2/2	1/1
Ms. Wong Pik Hung	6/6	N/A	N/A	N/A	N/A	1/1
Independent Non-executive Directors						
Mr. Lo Siu Leung	6/6	3/3	2/2	1/1	N/A	1/1
Dr. Cheung Wah Keung	6/6	3/3	2/2	1/1	N/A	1/1
Mr. Chow On Wa	6/6	3/3	2/2	1/1	2/2	1/1

During the Review Period, the Chairman held an annual meeting with all Independent Non-executive Directors without the presence of other Directors.

Confirmation of Independence

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three Independent Non-executive Directors. The Board considers that all Independent Non-executive Directors have appropriate and sufficient industry or finance experience and qualifications to carry out their duties so as to protect the interests of the Shareholders.

The Company has received a written confirmation from each of the Independent Non-executive Directors in respect of their independence in accordance with Rule 3.13 of the Listing Rules. The Board considers that all Independent Non-executive Directors are considered to be independent by reference to the factors stated in the Listing Rules.

Directors' Securities Transactions

The Company has adopted its own code of conduct for the Directors in their dealings in the Company's securities on terms no less than the required standard set out in the Model Code. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they had complied with the required standard of dealings as required by the Company's code of conduct and the Model Code throughout the Review Period. Save as disclosed herein, the Company considers that there has been no deviation from the Company's code of conduct and the Model Code during the Review Period.

Directors' and Officers' Liability Insurance

The Company has subscribed an insurance policy with an aim to indemnify its Directors and senior executives from any losses, claims, damages, liabilities and expenses arising from, including but not limited to, any proceedings brought against them during the performance of their duties pursuant to their respective service agreements or letters of re-appointment entered into with the Company.

Procedure for Seeking Independent Professional Advice by Directors

The Directors are able, upon reasonable request to seek professional advice in appropriate circumstances at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties.

Board Committees

The Company has established four Board committees (the "Board Committees"), namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Investment Committee, to assist the Board in discharging its duties and responsibilities. The Board Committees are provided with sufficient resources to discharge their duties and are able to obtain outside independent professional advice in connection with their duties at the Company's expenses.

Audit Committee

The Company has established the Audit Committee with specific written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review the Group's financial reporting process, risk management and internal control systems.

Mr. Lo Siu Leung is the Chairman of the Audit Committee. The Audit Committee comprises the following Independent Non-executive Directors:

Mr. Lo Siu Leung
Dr. Cheung Wah Keung
Mr. Chow On Wa

During the Review Period, the Audit Committee held three meetings without the presence of Executive Directors. The record of attendance of individual Directors at the committee meetings is set out on page 47 of this annual report.

The following is a summary of the work performed by the Audit Committee during the Review Period:

(i) reviewed the annual results of the Company for the year ended 31 December 2021 and made a recommendation to the Board for approval;

(ii) reviewed the external auditor's independence and their report and made a recommendation to the Board for re-appointment of the external auditor by the Shareholders at the annual general meeting which was held on 6 June 2022;

(iii) reviewed the interim results of the Company for the six months ended 30 June 2022 and made a recommendation to the Board for approval;

(iv) reviewed the effectiveness of risk management and internal control systems of the Company and its subsidiaries, including reports from SHINEWING Risk Services Limited ("SHINEWING") in relation to internal audit, internal control and risk management of the Group;

(v) reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget;

(vi) assessed the reasonableness of audit fee quoted for the year ended 31 December 2022 and made a recommendation to the Board for approval; and

(vii) discussed audit planning with external auditor for the year ended 31 December 2022.

Auditor's Remuneration

The annual audit services for the year ended 31 December 2022 was provided by CHENG & CHENG LIMITED, Certified Public Accountants, ("CHENG & CHENG"), the external auditor.

For the Review Period, the remuneration paid or payable to CHENG & CHENG in respect of audit and non-audit services provided is set out below:

Services Rendered	**Remuneration Paid/Payable** HK$'000
Annual audit services	970
Non-audit services in respect of – interim review – tax services	491

The Audit Committee has expressed its views to the Board that the level as well as the increment of fees paid/payable to the Company's external auditor for annual audit services are reasonable and justifiable. There has been no major disagreement between the auditor and the management of the Company during the Review Period.

The Audit Committee is responsible for making recommendation to the Board as to the appointment, re-appointment and removal of the external auditor, which is subject to the approval by the Shareholders at the general meetings of the Company.

Remuneration Committee

The Company has established the Remuneration Committee with specific written terms of reference in compliance with the CG Code. The main function of the Remuneration Committee is to assist the Board in establishing a formal and transparent procedure for setting policy on the remuneration packages for all Directors and senior management.

With the delegated responsibility, the Remuneration Committee determines the remuneration packages of individual Executive Directors and senior management. In determining such remuneration packages, the Remuneration Committee makes reference to companies of comparable business or scale, and the nature and volume of work in order to compensate the Directors reasonably for their time and efforts spent. The Remuneration Committee also makes recommendations to the Board on the remunerations of Independent Non-executive Directors.

Dr. Cheung Wah Keung is the Chairman of the Remuneration Committee. The Remuneration Committee comprises the following Independent Non-executive Directors:

Dr. Cheung Wah Keung
Mr. Lo Siu Leung
Mr. Chow On Wa

The Remuneration Committee held two meetings during the Review Period. The record of attendance of individual Directors at the committee meetings is set out on page 47 of this annual report.

The following is a summary of the work performed by the Remuneration Committee during the Review Period:

(i) reviewed and approved 2021 year-end bonus and 2022 salary to Executive Directors and senior management;

(ii) reviewed and made a recommendation to the Board for approval of amendments to the Group's remuneration policy; and

(iii) reviewed and made a recommendation to the Board for approval of director fees to the Independent Non-executive Directors.

Pursuant to Code Provision E.1.5 of the CG Code, details of the annual remuneration of the senior management by band for the Review Period are as follows:

	Number of employees
Nil to HK$1,000,000	1
HK$1,000,000 to HK$2,000,000	1

Details of the remuneration of each Director for the Review Period are set out in note 10 to the consolidated financial statements.

Nomination Committee

The Company has established the Nomination Committee with specific written terms of reference in compliance with the CG Code. The primary duties of the Nomination Committee are to make recommendations to the Board on the appointment of Directors and senior management.

The Chairman of the Nomination Committee is Mr. Cheng Sze Kin. The Nomination Committee has four members, comprising the following Directors (except for Mr. Cheng Sze Kin who is an Executive Director, all of which are Independent Non-executive Directors):

Mr. Cheng Sze Kin
Mr. Lo Siu Leung
Dr. Cheung Wah Keung
Mr. Chow On Wa

The Nomination Committee held a meeting during the Review Period. The record of attendance of individual Directors at the committee meetings is set out on page 47 of this annual report.

The following is a summary of the work performed by the Nomination Committee during the Review Period:

(i) reviewed the structure, size and composition of the Board;

(ii) reviewed the nomination policy;

(iii) reviewed and made a recommendation to the Board for approval of the revised board diversity policy;

(iv) assessed independence of the Independent Non-executive Directors;

(v) reviewed and assessed the suitability of directors re-appointed; and

(vi) proposed the re-appointment of the Directors who would retire from office by rotation at the forthcoming annual general meeting and offer themselves for re-election.

Investment Committee

The Company has established the Investment Committee with specific written terms of reference. The primary duties of the Investment Committee are to make recommendations to the Board on investments of the Company.

The Chairman of the Investment Committee is Mr. Cheng Sze Kin. The Investment Committee has three members, comprising the following Directors (except for Mr. Chow On Wa who is an Independent Non-executive Director, all of which are Executive Directors):

Mr. Cheng Sze Kin
Mr. Cheng Sze Tsan
Mr. Chow On Wa

The Investment Committee held two meetings during the Review Period. The record of attendance of individual Directors at the committee meetings is set out on page 47 of this annual report.

The following is a summary of the work performed by the Investment Committee during the Review Period:

(i) reviewed the investment strategies of the Company;

(ii) made investment decisions for and on behalf of the Company in accordance with the investment policy of the Company approved by the Board; and

(iii) reviewed and evaluated the performance of the investment portfolio regularly to assure adherence to the investment policy and achieve investment objectives of the Company.

CORPORATE GOVERNANCE REPORT

Corporate Governance Function

The Board is responsible for the overall oversight of corporate governance policies (with the aid of the Audit Committee). The primary corporate governance duties are to develop and review the Company's policies and practices on corporate governance; to review and monitor the training and continuous professional development of Directors and senior management; to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

Accountability and Audit

The Company provides the annual budget and monthly updates on the business performance with explanatory information to the Directors for them to understand the position, development and prospects of the Group.

The Directors acknowledge their responsibilities for preparing the financial statements of the Group in accordance with the statutory requirements and accounting standards and other financial disclosure requirements under the Listing Rules. The Directors also acknowledge their responsibilities to ensure that the financial statements of the Group are published in a timely manner as required by the Listing Rules.

The external auditor's statement about reporting responsibility is set out on pages 57 to 62.

Risk Management and Internal Control

During the Review Period, the Group has complied with the Principle D.2 of the CG Code by establishing appropriate and effective risk management and internal control systems. The management is responsible for the design, implementation and monitoring of such systems, while the Board oversees the management in performing its duties on an ongoing basis. Main features of the risk management and internal control systems are described in the sections below.

Risk Management System

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- *Identification:* Identify ownership of risks (including, amongst others, material risks relating to environment, social and governance ("ESG")), business objectives and risks that could affect the achievement of objectives.
- *Evaluation:* Analyse the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- *Management:* Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

Internal Control System

The Company has in place an internal control system which is compatible with the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013 framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are shown as follows:

- *Control Environment:* A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.

- *Risk Assessment:* A dynamic and iterative process for identifying and analysing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.

- *Control Activities:* Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.

- *Information and Communication:* Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.

- *Monitoring:* Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

The Group's risk management and internal control systems have been designed to mitigate significant risks in achieving its strategic objectives, safeguard its assets, maintain proper accounting records, execute appropriate limits of authority and ensure compliance with relevant laws and regulations. Such systems are to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

Disclosure of Inside Information

The Group acknowledges its responsibilities to ensure potential inside information being captured and confidentiality of such information being maintained until consistent and timely disclosure are made in accordance with the Listing Rules. The Group has an inside information policy with the procedures and internal controls for the handling and dissemination of inside information as follows:

- the Group conducts its affairs with close regard to the disclosure requirements under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong in June 2012;

- the Group has implemented its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through public announcements and the Company website;

- the access of information is restricted to a limited number of employees on a need-to-know basis such that employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality; and

- the Group has established and implemented procedures for responding to external enquiries about the Group's affairs and only designated persons are authorised to speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

Whistle-blowing Policy and Anti-corruption Measures

The Company has established a whistle-blowing policy for employees and those who deal with the Company, including customers and suppliers, to raise concerns, in confidence and anonymity, (1) first to the management and then to the Audit Committee, if dissatisfied with the process handled by the management; or (2) direct to the Audit Committee, if deemed appropriate, about possible improprieties in any matter related to the Company. The management are required to refer serious cases to the Audit Committee for handling in order to ensure that proper arrangements are in place for fair and independent investigations of the matters.

With integrity and innovation as the core element of the Company's corporate culture, all employees of the Company are required to abide by the code of conduct of the Company, which strictly prohibits any form of corruptions, crimes or other immoral events that are detrimental to the Group or illegal and requires employees to declare any conflict of interests on business and work-related situations if arisen. Incidents and allegations or suspicions of fraud will be assessed and investigated by the management and would be escalated to the Audit Committee, where appropriate.

During the Review Period, a supplier had reported to the senior management of the Group that two staff (collectively the "Concerned Staff") of one of our subsidiaries (the "Concerned Subsidiary") had colluded to request secret commissions from suppliers of the Group. After further investigations, one of the Concerned Staff had been found to also arrange the Concerned Subsidiary for purchasing goods from companies owned by his relatives without declaration of his interests to the Concerned Subsidiary. Although the Group's loss was estimated to be insignificant, the Concerned Subsidiary had filed the corruption-related case to the local police and dismissed the Concerned Staff. The Audit Committee had reviewed the case and recommended corrective actions for strengthening the internal control systems on procurement of the Concerned Subsidiary.

Effectiveness of the Risk Management and Internal Control Systems

The Board is responsible for maintaining and reviewing the effectiveness of the Group's risk management (including ESG risks) and internal control systems and ensuring review of the effectiveness of these systems is conducted annually (which has been done by the Board for the Review Period). While the Company does not have an internal audit function, it has appointed SHINEWING to carry out the internal audit function such as the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems covering financial, operational and legal compliance controls.

For the Review Period, the Audit Committee had a meeting with SHINEWING to review findings on the Group's risk management and internal control systems and respective corrective actions done on an on-going basis. The Board, through its review and the reviews by Audit Committee, concluded that the Group's risk management (including ESG risks) and internal control systems were adequate and effective and the Company had complied with the code provisions on risk management and internal control of the CG Code during the Review Period despite the corruption-related case of the Concerned Subsidiary as disclosed above, which was regarded as a single and minor incident and did not affect the effectiveness of the Group's overall internal control systems. The Board also considered that the resources, staff qualifications and experience of the Group for accounting, internal audit, financial reporting functions as well as those relating to ESG performance and reporting were adequate and the training programs and budget provided were sufficient.

Company Secretary

The Company Secretary of the Company is Mr. Ho Yiu Leung who fulfils the requirements under Rules 3.28 and 3.29 of the Listing Rues. His biography is set out in the "Directors and Senior Management" section of this annual report.

As an employee of the Company, the Company Secretary supports the Board, ensures good information flow within the Board and Board policy and procedures being followed, advises the Board on corporate governance matters, facilitates induction to each new Director and monitors the training and continuous professional development of Directors. He attained not less than 15 hours of relevant professional training during the Review Period.

Dividend Policy

The Company has adopted a dividend policy setting out the principles for the Board to determine appropriate amount of dividends to be distributed by way of interim dividends and/or final dividend to the Shareholders after taking into consideration of the factors stated in the policy, inter alia, (i) the actual and expected financial results of the Group; (ii) economic conditions and other factors with impacts on the business or financial performance and position of the Group; (iii) current and future operations, liquidity position and capital requirements; (iv) future development and investment needs; and (v) any other factors that the Board deems appropriate. The declaration of dividends or recommendation on such payment shall be subject to all applicable laws, rules and regulations including but not limited to the Listing Rules, the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the applicable laws of Cayman Islands and the Memorandum and Articles of the Company.

Communications with Shareholders and Investors

The Company has established a shareholders communication policy. The Company engages professional public relation consultancy companies to organise various investor relations programs (including regular briefing meetings with the media and analysts), whenever necessary, aiming at increasing the transparency of the Company, enhancing communication with Shareholders and investors, increasing their understanding of and confidence in the Group's businesses.

The general meetings of the Company provide a forum for communication between the Board and the Shareholders. The Chairmen of the Board as well as Board Committees and other Board members are available to answer questions at the general meeting of the Shareholders. The Company recognises the importance of maintaining on-going communications with the Shareholders and encourages them to attend Shareholders' meetings to stay informed of the Group's businesses and convey any concerns they may have to the Directors and senior management.

The Company maintains a website at http://www.casablanca.com.hk where extensive information and updates on the Company's financial information, corporate governance practices and other useful information are posted and available for access by public investors.

The Board reviewed the implementations and effectiveness of the shareholders communication policy during the Year. After review, the Board considered that the shareholders communication policy remained effective and was properly implemented given the multiple channels of communication in place during the Year.

Shareholders' Rights

How Shareholders can convene an extraordinary general meeting and putting forward proposals at Shareholders' meetings

Pursuant to Article 12.3 of the Articles of Association, any two or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition deposited at the principal office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionist(s), to require an extraordinary general meeting to be convened by the Board. If the Board does not within 21 days of such deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) himself (themselves) representing more than one-half of the total rights of all of them may do so in the same manner as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after three months from the date of deposit of the requisition. All reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

In respect of proposing a person for election as a Director at general meetings, the period during which a written notice of intention to propose a person for election as a Director and a written notice by that person of his willingness to be elected are to be given to the Company shall be at least 7 days, such period shall commence on the day after the date when the notice of the general meeting convened for such election is dispatched and end no later than 7 days prior to the date of such meeting.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the Company Secretary by mail to the principal office of the Company in Hong Kong. The Company Secretary forwards communications relating to matters within the Board's purview to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and consumer complaints, to the Chief Executive Officer.

INDEPENDENT AUDITOR'S REPORT

CHENG & CHENG LIMITED
CERTIFIED PUBLIC ACCOUNTANTS
鄭 鄭 會 計 師 事 務 所 有 限 公 司

TO THE SHAREHOLDERS OF CASABLANCA GROUP LIMITED
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Casablanca Group Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 63 to 126, which comprise the consolidated statement of financial position as at 31 December 2022 and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Estimated allowance for finished goods	
Refer to notes 4 and 17 to the consolidated financial statements	
At 31 December 2022, the carrying amount of finished goods is HK$45,690,000 (net of allowance for finished goods of HK$16,388,000). We identified the estimated allowance for finished goods as a key audit matter due to the use of judgment and estimates by the management in identifying aged or obsolete, or out-of-season finished goods and estimating the allowance for finished goods. Aged or obsolete, or out-of-season finished goods were identified by the management based on aging, conditions and marketability of finished goods. Allowance is applied to finished goods based on assessment of net realisable value by the management, by considering the current market conditions, product life cycle, marketing and promotion plans, historical sales records, aging analysis and subsequent selling prices of the finished goods.	Our procedures in relation to assessing the appropriateness of the estimated allowance for finished goods included: • Obtaining an understanding of how allowance for finished goods is estimated by the management. • Discussing with the management and evaluating the basis of identification of aged or obsolete, or out-of-season finished goods by the management, based on the current market conditions, product life cycle and marketing and promotion plans. • Testing the aging analysis of finished goods, on a sample basis, to the goods received notes or the warehouse receipts. • Assessing the reasonableness of allowance for finished goods with reference to historical sales records, current market conditions, product life cycle, marketing and promotion plans, aging analysis and subsequent selling prices of the finished goods. • Tracing of finished goods with subsequent selling prices to the sales invoices, on a sample basis. • Evaluating the historical accuracy of the allowance estimation by the management by comparing historical allowance made to the actual selling prices and actual loss incurred, and tracing the selling prices, on a sample basis, to the sales invoices.

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Estimated loss allowance for trade receivables due from distributors	
Refer to notes 4, 18 and 33 to the consolidated financial statements	
As at 31 December 2022, included in the trade receivables of HK$36,751,000, HK$5,372,000 were due from distributors (net of loss allowance of HK$5,906,000). We identified the estimated loss allowance for trade receivables due from distributors as a key audit matter due to the use of judgment and estimates by the management on the recoverability of trade receivables due from distributors. In general, the credit terms granted by the Group to the distributors ranged between 30 to 90 days. Management performed periodic assessment on the recoverability of the trade receivables and the sufficiency of provision for impairment based on information including credit profile of different distributors, aging of the trade receivables, historical settlement records, expected timing and amount of realization of outstanding balances, and on-going trading relationships with the relevant distributors. Management also considered forward looking information that may impact the distributors' ability to repay the outstanding balances in order to estimate the expected credit losses ("ECL") for the impairment assessment.	Our procedures in relation to assessing the appropriateness of the estimated loss allowance for trade receivables due from distributors included: • Reviewing and assessing the Group's policy for calculating the ECL. • Assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information and examining the actual losses recorded during the current financial year and assessing whether there was an indication of management bias when recognising loss allowances. • Evaluating techniques and methodology in the ECL model against the requirements of HKFRS 9. • Evaluating the design, implementation and operating effectiveness of key internal controls which govern credit control, debt collection and estimation of ECL. • Testing the aging analysis of the trade receivables due from distributors, on a sample basis, to the sales invoices. • Discussing with the management and evaluating the basis of identification of distributors with distribution agreements early terminated or not renewed or distributors who delayed settlements and their assessment on the recoverability of trade receivables due from these distributors. • Tracing of the subsequent settlements to the bank receipts, on a sample basis.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

The directors of the Company are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable actions taken to eliminate threats or safeguard applied.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

CHENG & CHENG LIMITED
Certified Public Accountants
Hong Kong, 24 March 2023

Lui Chun Yip
Practising Certificate number P07004

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	NOTES	2022 HK$'000	2021 HK$'000
Revenue	5	**300,163**	320,403
Cost of goods sold		**(113,385)**	(124,029)
Gross profit		**186,778**	196,374
Other income	6	**6,495**	1,457
Other (losses) gains	7	**(2,281)**	843
Selling and distribution costs		**(135,304)**	(138,333)
Administrative expenses		**(46,699)**	(43,738)
Finance costs	8	**(1,178)**	(902)
Profit before taxation	9	**7,811**	15,701
Taxation	11	**(3,194)**	(3,765)
Profit for the year		**4,617**	11,936
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		**(15,837)**	6,667
Other comprehensive (expense) income		**(15,837)**	6,667
Total comprehensive (expense) income for the year		**(11,220)**	18,603
Profit (loss) for the year attributable to:			
Owners of the Company		**5,378**	11,936
Non-controlling interests		**(761)**	–
		4,617	11,936
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(10,711)**	18,603
Non-controlling interests		**(509)**	–
		(11,220)	18,603
Earnings per share	13		
– Basic (HK cents)		**2.09**	4.63
– Diluted (HK cents)		**2.09**	4.60

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	NOTES	2022 HK$'000	2021 HK$'000
Non-current assets			
Property, plant and equipment	14	**157,247**	180,317
Right-of-use assets	15	**33,694**	37,874
Investment properties	14	**10,213**	–
Intangible assets	16	**–**	–
Deposits paid for acquisition of property, plant and equipment		**13,381**	296
Rental and other deposits		**1,399**	2,290
Deferred tax assets	24	**266**	96
		216,200	220,873
Current assets			
Inventories	17	**58,457**	85,804
Trade and other receivables	18	**56,730**	65,442
Financial assets at fair value through profit or loss	19	**7,659**	7,349
Taxation recoverable		**195**	456
Pledged bank deposits	20	**6,362**	7,213
Bank balances and cash	20	**139,233**	135,122
		268,636	301,386
Current liabilities			
Trade and other payables	21	**60,960**	91,585
Lease liabilities	23	**12,758**	11,536
Taxation payable		**1,225**	736
Bank borrowings	22	**5,298**	3,980
		80,241	107,837
Net current assets		**188,395**	193,549
Total assets less current liabilities		**404,595**	414,422
Non-current liabilities			
Payable for acquisition of property, plant and equipment		**2,861**	–
Lease liabilities	23	**5,471**	9,165
Deferred tax liabilities	24	**501**	539
		8,833	9,704
Net assets		**395,762**	404,718
Capital and reserves			
Share capital	25	**25,785**	25,785
Reserves		**368,222**	378,933
Equity attributable to owners of the Company		**394,007**	404,718
Non-controlling inerests		**1,755**	–
Total equity		**395,762**	404,718

The consolidated financial statements on pages 63 to 126 were approved and authorised for issue by the Board of Directors on 24 March 2023 and are signed on its behalf by:

Cheng Sze Kin
DIRECTOR

Cheng Sze Tsan
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Attributable to owners of the Company										
	Share capital HK$'000	**Share premium** HK$'000	**Capital reserve** HK$'000 (Note i)	**Merger reserve** HK$'000 (Note ii)	**PRC Statutory reserve** HK$'000 (Note iii)	**Translation reserve** HK$'000	**Share options reserve** HK$'000	**Accumulated profits** HK$'000	**Sub-total** HK$'000	**Non-controlling interests** HK$'000	**Total** HK$'000
At 1 January 2021	25,785	165,956	2,000	1,319	4,146	(7,607)	2,349	230,845	424,793	–	424,793
Profit for the year	–	–	–	–	–	–	–	11,936	11,936	–	11,936
Exchange differences arising on translation of financial statements of foreign operations	–	–	–	–	–	6,667	–	–	6,667	–	6,667
Total comprehensive income for the year	–	–	–	–	–	6,667	–	11,936	18,603	–	18,603
Transfer of reserve	–	–	–	–	154	–	–	(154)	–	–	–
Lapse of share options	–	–	–	–	–	–	(1,904)	1,904	–	–	–
Dividend paid	–	–	–	–	–	–	–	(38,678)	(38,678)	–	(38,678)
At 31 December 2021	25,785	165,956	2,000	1,319	4,300	(940)	445	205,853	404,718	–	404,718
Profit (loss) for the year	–	–	–	–	–	–	–	5,378	5,378	(761)	4,617
Exchange differences arising on translation of financial statements of foreign operations	–	–	–	–	–	(16,089)	–	–	(16,089)	252	(15,837)
Total comprehensive (expense) income for the year	–	–	–	–	–	(16,089)	–	5,378	(10,711)	(509)	(11,220)
Transfer of reserve	–	–	–	–	227	–	–	(227)	–	–	–
Contributions from non-controlling interests	–	–	–	–	–	–	–	–	–	2,264	2,264
At 31 December 2022	**25,785**	**165,956**	**2,000**	**1,319**	**4,527**	**(17,029)**	**445**	**211,004**	**394,007**	**1,755**	**395,762**

Notes:

(i) The capital reserve represents the waiver of the amount due to a related company.

(ii) The merger reserve of the Group represented the difference between the par value of the shares of Company issued in exchange for the entire share capital of Jollirich Investment Limited, Casablanca International Limited and Rich Creation Asia Investment Limited and transfer of 11.76% of equity interest in Forcetech (Shenzhen) Company Limited pursuant to the group reorganisation prior to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

(iii) According to the relevant requirements in the Articles of Association of the Group's subsidiaries in the People's Republic of China ("PRC"), a portion of their profits after taxation is transferred to PRC statutory reserve. The transfer must be made before the distribution of a dividend to equity owners. The PRC statutory reserve can be used to make up the prior year losses, if any. The PRC statutory reserve is non-distributable other than upon liquidation.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	2022 HK$'000	2021 HK$'000
Operating activities		
Profit before taxation	**7,811**	15,701
Adjustments for:		
Dividend income	**(512)**	(439)
Interest income	**(694)**	(360)
Interest expenses	**1,178**	902
Net loss allowance (reversal of loss allowance) on trade receivables	**378**	(1)
Allowance for inventories	**4,182**	4,167
Bad debts written off	**–**	39
COVID-19-related rent concessions received	**(170)**	(107)
Depreciation of property, plant and equipment	**10,002**	11,317
Depreciation of investment properties	**236**	–
Depreciation of right-of-use assets	**15,762**	15,490
Impairment loss on property, plant and equipment	**–**	507
Net realised gain on financial assets at fair value through profit or loss	**(211)**	–
Net unrealised loss on financial assets at fair value through profit or loss	**272**	1,318
(Gain) loss on disposals and written off of property, plant and equipment	**(3,962)**	32
Gain on lease modification	**–**	(1,449)
Operating cash flows before movements in working capital	**34,272**	47,117
Decrease (increase) in inventories	**18,672**	(11,739)
Decrease (increase) in trade and other receivables	**6,157**	(2,137)
Increase in financial assets at fair value through profit or loss	**–**	(3,423)
Decrease (increase) in rental and other deposits	**891**	(673)
(Decrease) increase in trade and other payables	**(12,268)**	12,250
Cash generated from operations	**47,724**	41,395
Hong Kong Profits Tax paid	**(2,227)**	(853)
PRC Enterprise Income Tax (the "EIT") paid	**(361)**	(858)
Net cash from operating activities	**45,136**	39,684
Investing activities		
Withdrawal of pledged bank deposits	**25,517**	22,226
Dividend received	**512**	439
Interest received	**671**	376
Proceeds from disposal of financial assets at fair value through profit or loss	**1,513**	–
Proceeds from disposal of property, plant and equipment	**3,982**	37
Purchases of financial assets at fair value through profit or loss	**(1,884)**	–
Purchase of property, plant and equipment	**(19,802)**	(39,962)
Placement of pledged bank deposits	**(25,143)**	(23,005)
Deposit paid for acquisition of property, plant and equipment	**(13,777)**	(217)
Net cash used in investing activities	**(28,411)**	(40,106)

	2022 HK$'000	2021 HK$'000
Financing activities		
Dividend paid	**–**	(38,678)
New bank loans raised	**8,455**	13,910
Repayments of bank loans	**(6,776)**	(12,411)
Interest paid	**(1,178)**	(902)
Repayments of lease liabilities	**(15,263)**	(15,501)
Capital contribution from non-controlling interests	**2,264**	–
Net cash used in financing activities	**(12,498)**	(53,582)
Net increase (decrease) in cash and cash equivalents	**4,227**	(54,004)
Cash and cash equivalents at beginning of the year	**135,122**	188,383
Effect of foreign exchange rate changes	**(116)**	743
Cash and cash equivalents at end of the year represented by bank balances and cash	**139,233**	135,122

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. General

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on 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 addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section in the annual report.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are manufacture and trading of bedding 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 Amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

(a) Overview

The Institute of Certified Public Accountants ("HKICPA") has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

Amendments to HKAS 16	Property, plant and equipment: Proceeds before intended use
Amendments to HKAS 37	Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract

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

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

2. Application of Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

(b) Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2022

Up to the date of issue of these financial statements, the HKICPA has issued a number of new or amended standards, which are not yet effective for the year ended 31 December 2022 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

HKFRS 17	*Insurance contracts*[1]
Amendments to HKAS 1	*Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5(2020)*[2]
Amendments to HKAS 1and HKFRS Practice Statement 2	*Disclosure of Accounting Policies*[1]
Amendments to HKAS 8	*Definition of Accounting Estimates*[1]
Amendments to HKAS 12	*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*[1]

1 Effective for annual periods beginning on or after 1 January 2023.
2 Effective for annual periods beginning on or after 1 January 2024.

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

3. Significant Accounting Policies (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are accounted for in accordance with HKFRS 16, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Group. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. Significant Accounting Policies (continued)

Basis of consolidation (continued)

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Revenue from contracts with customers

The Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

3. Significant Accounting Policies (continued)

Revenue from contracts with customers (continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

For retail customers, including e-sales, sales are recognised when the customers accept and take the control of the products.

For the distributor customers and wholesale customers, sales are recognised when control of the products has transferred, being when the products are delivered and the customers has inspected and accepted the products. Distributors have full discretion over the channel and price to sell the products, and there is no more unfulfilled obligation that could affect the acceptance of the products. Delivery occurs when the products have been shipped to the specific location. The risks of obsolescence and loss have been transferred to the customers when either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes other than properties under construction as described below. Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Buildings in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. Significant Accounting Policies (continued)

Property, plant and equipment (continued)

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land is presented as "right-of-use assets" in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to write off the cost of assets other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application or arising from business combinations, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

3. Significant Accounting Policies (continued)

Leases (continued)

The Group as a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component and are accounted for by applying other applicable standards.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of rented premises and department store counters that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities other than adjustments to lease liabilities resulting from COVID-19-related rent concessions in which the Group applied the practical expedient.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

3. Significant Accounting Policies (continued)

Leases (continued)

The Group as a lessee (continued)

Right-of-use assets (continued)

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position, except for certain leasehold land that the allocation of the relevant payments cannot be made reliably.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

3. Significant Accounting Policies (continued)

Leases (continued)

The Group as a lessee (continued)

Lease modifications

Except for COVID-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

COVID-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the COVID-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

- any reduction in lease payments affects only payments originally due on or before 30 June 2022; and

- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

3. Significant Accounting Policies (continued)

Leases (continued)

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model. Variable lease payments for operating leases that depend on an index or a rate are estimated and included in the total lease payments to be recognised on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate are recognised as income when they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method and, in case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3. Significant Accounting Policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction cost directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains/(losses)" line item.

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade receivables) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL (continued)

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Lifetime ECL for certain trade receivables are considered on a collective basis taking into consideration past due information and relevant credit information such as forward looking macroeconomic information.

For collective assessment, the Group takes into consideration the following characteristics when formulating the grouping:

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities

Financial liabilities including trade and bills payables, other payables and bank borrowings are subsequently measured at amortised cost using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

3. Significant Accounting Policies (continued)

Impairment losses on right-of-use assets, tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its right-of-use assets, tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlements of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

3. Significant Accounting Policies (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under "other income".

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the "MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

3. Significant Accounting Policies (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary differences arise for the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

4. Key Sources of Estimation Uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

Estimated allowance for finished goods

Aged or obsolete, or out-of-season finished goods were identified by the management based on aging, conditions and marketability of finished goods. Allowance is applied to finished goods based on assessment of net realisable value by the management, by considering the current market conditions, product life cycle, marketing and promotion plans, historical sales records, aging analysis and subsequent selling prices of the finished goods.

As at 31 December 2022, the carrying amount of finished goods is HK$45,690,000 (2021: HK$66,461,000) (net of allowance for finished goods of HK$16,388,000 (2021: HK$13,594,000)).

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on debtors' aging as groupings of various debtors that have same credit periods and similar payment patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonably and supportably available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with significant balances and credit impaired are assessed for ECL individually.

As at 31 December 2022, the carrying amount of trade receivables due from distributors is HK$5,372,000 (2021: HK$8,614,000) (net of loss allowance of HK$5,906,000 (2021: HK$6,062,000)).

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 18 and 33 respectively.

5. 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) e-sales; (iii) sales to distributors and (iv) 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 retail sales to end-user consumers at the self-operated concession counters in department stores and self-operated retail stores.

5. Revenue and Segment Information (continued)

- E-sales: E-sales refer to retail sales to end-user consumers through online platforms on internet or mobile devices operated by the Group or third parties, but not by distributors or wholesale customers.

- 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:

	2022 **HK$'000**	2021 HK$'000
Self-operated retail sales	**215,910**	226,936
E-sales	**29,035**	30,900
Sales to distributors	**20,504**	29,573
Others	**34,714**	32,994
	300,163	320,403

Entity-wide information

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

	2022 **HK$'000**	2021 HK$'000
Bed linens	**163,350**	167,311
Duvets and pillows	**121,751**	134,844
Other home accessories	**15,062**	18,248
	300,163	320,403

Geographical information

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

	2022 **HK$'000**	2021 HK$'000
Hong Kong and Macau	**235,366**	236,672
PRC	**56,937**	82,482
Others	**7,860**	1,249
	300,163	320,403

5. Revenue and Segment Information (continued)

Geographical information (continued)

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:

	2022 HK$'000	2021 HK$'000
PRC	**183,136**	182,056
Hong Kong	**31,399**	36,431
	214,535	218,487

Information about major customer

For the year ended 31 December 2022, revenue from transactions with each external customer is less than 10% (2021: less than 10%) of the total revenue of the Group.

6. Other Income

	2022 HK$'000	2021 HK$'000
Bank interest income	**694**	360
Dividend income	**512**	439
Government subsidies (Note)	**4,537**	47
Rental income	**267**	–
Others	**485**	611
	6,495	1,457

Note: For the year ended 31 December 2022, government grants of HK$4,537,000 mainly included the COVID-19-related subsidies of HK$4,247,000, which relates to Employment Support Scheme provided by the Hong Kong government.

7. Other (Losses) Gains

	2022 HK$'000	2021 HK$'000
Net exchange (loss) gain	**(5,804)**	1,250
Net (loss allowance) reversal of loss allowance on trade receivables	**(378)**	1
Net realised gain on financial assets at FVTPL	**211**	–
Net unrealised loss on financial assets at FVTPL	**(272)**	(1,318)
Impairment loss on property, plant and equipment	**–**	(507)
Gain (loss) on disposals and written off of property, plant and equipment	**3,962**	(32)
Gain on lease modification	**–**	1,449
	(2,281)	843

8. Finance Costs

	2022 HK$'000	2021 HK$'000
Interest on:		
Bank borrowings	**376**	61
Lease liabilities	**802**	841
Total finance costs	**1,178**	902

9. Profit Before Taxation

	2022 HK$'000	2021 HK$'000
Profit before taxation has been arrived at after charging:		
Staff costs (including directors' remuneration):		
Salaries, wages and other benefits	**83,508**	85,810
Retirement benefit schemes contributions	**6,067**	5,981
Total staff costs	**89,575**	91,791
Auditor's remuneration	**1,020**	971
Allowance for inventories (included in cost of goods sold)	**4,182**	4,167
Bad debts written off	**–**	39
Cost of inventories recognised as expenses	**109,203**	119,862
Depreciation of property, plant and equipment	**10,002**	11,317
Depreciation of investment properties	**236**	–
Depreciation of right-of-use assets	**15,762**	15,490
Design costs (included in administrative expenses) (Note)	**532**	565

Note: The design costs comprise of staff salaries of HK$303,000 (2021: HK$300,000) for the year ended 31 December 2022, which are included in the staff costs disclosed above.

10. Directors' and Chief Executive's and Employees' Emoluments

(a) Directors' and chief executive's emoluments

The emoluments paid or payable to each of the directors and the chief executive were as follows:

	Fees HK$'000	Salaries and allowances HK$'000 (Note)	Performance related incentive payments HK$'000	Retirement benefit schemes contributions HK$'000	Total HK$'000
For the year ended 31 December 2022					
Executive directors					
Mr. Cheng Sze Kin	**–**	**3,169**	**250**	**254**	**3,673**
Ms. Wong Pik Hung	**–**	**3,169**	**250**	**232**	**3,651**
Executive director and chief executive officer					
Mr. Cheng Sze Tsan	**–**	**3,337**	**430**	**243**	**4,010**
Independent non-executive directors					
Dr. Cheung Wah Keung	**246**	**–**	**–**	**–**	**246**
Mr. Chow On Wa	**246**	**–**	**–**	**–**	**246**
Mr. Lo Siu Leung	**246**	**–**	**–**	**–**	**246**
	738	**9,675**	**930**	**729**	**12,072**

	Fees HK$'000	Salaries and allowances HK$'000 (Note)	Performance related incentive payments HK$'000	Retirement benefit schemes contributions HK$'000	Total HK$'000
For the year ended 31 December 2021					
Executive directors					
Mr. Cheng Sze Kin	–	3,154	306	252	3,712
Ms. Wong Pik Hung	–	3,154	495	230	3,879
Executive director and chief executive officer					
Mr. Cheng Sze Tsan	–	3,323	392	235	3,950
Independent non-executive directors					
Dr. Cheung Wah Keung	245	–	–	–	245
Mr. Chow On Wa	245	–	–	–	245
Mr. Lo Siu Leung	245	–	–	–	245
	735	9,631	1,193	717	12,276

Note: During the year ended 31 December 2022, the Group has been providing accommodations, which are leased from related parties, as disclosed in note 31 to the consolidated financial statements, to Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung at no charge. The estimated monetary value of the benefit in kind is HK$2,148,000 (2021: HK$2,148,000) which is included in salaries and allowance above. The depreciation of right-of-use assets in relation to these non-monetary benefits amounted to HK$2,051,000 is included in the Salaries, wages and other benefits as disclosed in note 9 to the consolidated financial statements (2021: HK$2,051,000).

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The emoluments of independent non-executive directors shown above were for their services as directors of the Company.

10. Directors' and Chief Executive's and Employees' Emoluments (continued)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2021: three) were directors and the chief executive of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining two (2021: two) individuals were as follows:

	2022 **HK$'000**	2021 HK$'000
Salaries and allowances	**1,622**	1,620
Performance related incentive payments	**220**	230
Retirement benefit schemes contributions	**36**	36
	1,878	1,886

The emoluments were within the following bands:

	2022 **No. of** **employees**	2021 No. of employees
HK$500,001 to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1

The performance related incentive payments were determined with reference to the operating results, individual performance and comparable market statistics for the year.

During the two years ended 31 December 2022 and 2021, no emoluments were paid by the Group to the directors of the Company and chief executive of the Group or the five highest paid individuals (including directors, chief executive and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company nor the chief executive of the Group waived any emoluments during both years.

11. Taxation

	2022 HK$'000	2021 HK$'000
Current tax		
Hong Kong	**2,601**	3,367
PRC EIT	**861**	625
	3,462	3,992
Overprovision in prior years		
Hong Kong	**(60)**	(60)
	(60)	(60)
	3,402	3,932
Deferred taxation (Note 24)	**(208)**	(167)
	3,194	3,765

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% for the years ended 31 December 2021 and 2022, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis for the years ended 31 December 2021 and 2022.

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%.

11. Taxation (continued)

The taxation charge for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2022 HK$'000	2021 HK$'000
Profit before taxation	**7,811**	15,701
Tax charge at Hong Kong Profits Tax rate	**1,124**	2,425
Tax effect of expenses not deductible for tax purposes	**1,362**	1,307
Tax effect of income not taxable for tax purposes	**(876)**	(288)
Tax effect of tax losses not recognised	**1,875**	864
Tax effect of deductible temporary differences not recognised	**69**	3
Tax effect of origination and reversal of temporary differences	**–**	(361)
Utilisation of tax losses previously not recognised	**(2)**	(133)
Effect of different tax rate of subsidiaries operating in other jurisdictions	**(344)**	(36)
Overprovision in prior years	**(60)**	(60)
Others	**46**	44
Taxation charge	**3,194**	3,765

12. Dividends

Dividends for ordinary shareholders of the Company recognised as distribution during the year:

	2022 HK$'000	2021 HK$'000
2022 Interim – Nil (2021: HK$0.05 per share)	**–**	12,893
2021 Final – Nil (2021: 2020 Final – HK$0.10 per share)	**–**	25,785
	–	38,678

No final dividend in respect of the year ended 31 December 2022 has been proposed by the directors of the Company (2021: Nil).

13. 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:

	2022 HK$'000	2021 HK$'000
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**5,378**	11,936

	2022	2021
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**257,854,000**	257,854,000
Effect of dilutive potential ordinary shares:		
Options	**–**	1,599,754
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**257,854,000**	259,453,754

For the year ended 31 December 2022, there is no dilutive effect 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 the year.

14. Investment Properties and Property, Plant and Equipment

	Leasehold land and buildings	Buildings under development	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Computer equipment	Sub-total	Investment Properties	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST										
At 1 January 2021	154,803	2,547	18,407	12,744	9,736	19,835	5,032	223,104	–	223,104
Additions	–	55,190	2,444	133	101	499	797	59,164	–	59,164
Disposals/write off	–	–	(2,696)	–	–	(93)	–	(2,789)	–	(2,789)
Exchange adjustments	4,435	1,073	398	425	267	41	19	6,658	–	6,658
At 31 December 2021	159,238	58,810	18,553	13,302	10,104	20,282	5,848	286,137	–	286,137
Additions	–	9,433	383	–	5	52	232	10,105	–	10,105
Transfer from property, plant and equipment to investment properties	(11,906)	–	–	–	–	–	–	(11,906)	11,906	–
Disposals/write off	–	–	(355)	–	(425)	(5,396)	(56)	(6,232)	–	(6,232)
Exchange adjustments	(10,512)	(4,886)	(962)	(1,043)	(641)	(105)	(47)	(18,196)	(342)	(18,538)
At 31 December 2022	**136,820**	**63,357**	**17,619**	**12,259**	**9,043**	**14,833**	**5,977**	**259,908**	**11,564**	**271,472**
DEPRECIATION AND IMPAIRMENT										
At 1 January 2021	41,101	–	15,800	9,564	8,667	16,760	2,591	94,483	–	94,483
Provided for the year	5,826	–	1,816	946	259	1,542	928	11,317	–	11,317
Impairment loss recognised in profit or loss	–	–	507	–	–	–	–	507	–	507
Eliminated on disposals/write off	–	–	(2,633)	–	–	(88)	–	(2,721)	–	(2,721)
Exchange adjustments	1,278	–	345	334	245	18	14	2,234	–	2,234
At 31 December 2021	48,205	–	15,835	10,844	9,171	18,232	3,533	105,820	–	105,820
Provided for the year	5,511	–	1,271	777	262	1,289	892	10,002	236	10,238
Transfer from property, plant and equipment to investment properties	(1,156)	–	–	–	–	–	–	(1,156)	1,156	–
Eliminated on disposals/write off	–	–	(343)	–	(423)	(5,390)	(56)	(6,212)	–	(6,212)
Exchange adjustments	(3,406)	–	(837)	(873)	(595)	(42)	(40)	(5,793)	(41)	(5,834)
At 31 December 2022	**49,154**	**–**	**15,926**	**10,748**	**8,415**	**14,089**	**4,329**	**102,661**	**1,351**	**104,012**
CARRYING VALUES										
At 31 December 2022	**87,666**	**63,357**	**1,693**	**1,511**	**628**	**744**	**1,648**	**157,247**	**10,213**	**167,460**
At 31 December 2021	111,033	58,810	2,718	2,458	933	2,050	2,315	180,317	–	180,317

14. Investment Properties and Property, Plant and Equipment (continued)

The Group's leasehold land and buildings are situated on land:

	2022 HK$'000	2021 HK$'000
In Hong Kong	**13,025**	13,797
In the PRC	**74,641**	97,236
	87,666	111,033

No leasehold land and buildings and investment properties (2021: leasehold land and buildings) were pledged to banks as securities for banking facilities granted to the Group as at 31 December 2021 and 2022.

Depreciation is provided to write off the cost of items of investment properties and property, plant and equipment, except for buildings under development, over their estimated useful lives, using the straight-line method at the following rates per annum:

Investment properities	Over the shorter of the term of the lease or 40 years
Leasehold land and buildings	Over the shorter of the term of the lease or 25 – 40 years
Leasehold improvements	Over the lease term or $33^1/_3$%
Plant and machinery	10%
Furniture and fixtures	20%
Motor vehicles	20%
Computer equipment	20% – $33^1/_3$%

The fair value of the Group's investment properties at 31 December 2022 was HK$11,131,000 (2021: Nil). The fair value was determined based on direct comparison approach. The fair value has been arrived based on the directors' best estimation by reference to the recent market price for similar properties in similar locations. In estimating the fair value of the properties, the highest and best use of the properties are their current use.

Details of the Group's investment properties and information about the fair value hierarchy as at the end of the reporting period are as follow:

	2022	
	Carrying amount HK$'000	Fair value at Level 3 hierarchy HK$'000
Commercial property units located in PRC	**10,213**	**11,131**

The Group leases out the investment properties under an operating lease. The lease runs for one year. The lease includes variable lease payment terms that are based on the revenue of the tenant. During the year ended 31 December 2022, there were no direct outgoings arising from the Group's investment properties.

15. Right-of-use Assets

	Leasehold land HK$'000	Leased properties HK$'000	Total HK$'000
As at 31 December 2022			
Carrying amount	**15,968**	**17,726**	**33,694**
As at 31 December 2021			
Carrying amount	17,778	20,096	37,874
For the year ended 31 December 2022			
Depreciation charge	**427**	**15,335**	**15,762**
For the year ended 31 December 2021			
Depreciation charge	442	15,048	15,490

	2022 HK$'000	2021 HK$'000
Expense relating to short-term leases	**11,106**	15,593
Variable lease payments not included in the measurement of lease liabilities	**23,684**	19,555
COVID-19-related rent concessions received	**(170)**	(107)
Total cash outflow for leases	**50,855**	51,490
Additions to right-of-use assets	**13,125**	21,159

For both years, the Group leases various retail stores, department store counters and rented premises for its operations. Lease contracts are entered into for fixed term of one month to five years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns an industrial park in the PRC where its manufacturing facilities are primarily located. The Group is the registered owner of the property interests, including the underlying leasehold lands. Lump sum payments were made upfront to acquire the property interests. The leasehold land components of the owned properties are presented separately only if the payments made can be allocated reliably.

The Group regularly entered into short-term leases for rented premises and department store counters. As at 31 December 2022 and 2021, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

15. Right-of-use Assets (continued)

Leases of retail stores and department store counters are either with only fixed lease payments or contain variable lease payment that are based on 8% to 32% (2021: 8% to 32%) of the sales amount and minimum annual lease payment that are fixed over the lease term. The payment terms are common in retail stores and department store counters in Hong Kong and the PRC where the Group operates. The amount of fixed and variable lease payments paid/payable to relevant lessors during the year:

For the year ended 31 December 2022

	Fixed payments HK$'000	Variable payments HK$'000	COVID-19 rent concessions HK$'000	Total payments HK$'000
Retail stores and rented premises without variable lease payments	**4,750**	**–**	**(28)**	**4,722**
Retail stores with variable lease payments	**8,679**	**323**	**(142)**	**8,860**
Department store counters with variable lease payments	**13,912**	**23,361**	**–**	**37,273**
	27,341	**23,684**	**(170)**	**50,855**

For the year ended 31 December 2021

	Fixed payments HK$'000	Variable payments HK$'000	COVID-19 rent concessions HK$'000	Total payments HK$'000
Retail stores and rented premises without variable lease payments	5,452	–	(107)	5,345
Retail stores with variable lease payments	8,273	174	–	8,447
Department store counters with variable lease payments	18,317	19,381	–	37,698
	32,042	19,555	(107)	51,490

The overall financial effect of using variable payment terms is that higher rental costs are incurred by stores with higher sales. Variable rent expenses are expected to continue to represent a similar proportion of store sales in future years.

15. Right-of-use Assets (continued)

The Group's right-of-use assets are situated on land:

	2022 HK$'000	2021 HK$'000
In Hong Kong	**16,078**	17,932
In PRC	**17,616**	19,942
	33,694	37,874

No leasehold land and leased properties were pledged to banks as securities for banking facilities granted to the Group as at 31 December 2022 and 2021.

Leases committed

As at 31 December 2022, the Group did not enter into new leases that have not yet commenced (2021: Nil).

Details of the lease maturity analysis of lease liabilities are set out in notes 23 and 33.

Rent concessions

During the year ended 31 December 2022, lessors of various retail stores and department store counters provided rent concessions that occurred as a direct consequence of the COVID-19 pandemic to the Group through rent reductions ranging from 9% to 40% (2021: 14% to 20%) over one to two months (2021: three to six months).

These rent concessions occurred as a direct consequence of COVID-19 pandemic and met all of the conditions in HKFRS 16.46B, and the Group applied the practical expedient not to assess whether the changes constitute lease modifications. The effects on changes in lease payments due to forgiveness or waiver by the lessors for the relevant leases of HK$170,000 (2021: HK$107,000) were recognised as negative variable lease payments.

16. Intangible Assets

	Patents HK$'000
COST	
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	**15**
AMORTISATION	
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	**15**
CARRYING VALUES	
At 31 December 2022	**–**
At 31 December 2021	–

The above intangible assets are amortised on a straight-line basis over 10 years.

17. Inventories

	2022 **HK$'000**	2021 HK$'000
Raw materials	**12,767**	19,343
Finished goods	**45,690**	66,461
	58,457	85,804

18. Trade and Other Receivables

	2022 HK$'000	2021 HK$'000
Trade receivables	**42,894**	53,105
Less: Loss allowance	**(6,143)**	(6,300)
Trade receivables, net	**36,751**	46,805
Deposits	**3,412**	2,493
Prepayments	**6,549**	4,698
Value added tax recoverable	**7,041**	8,556
Advances to employees	**761**	1,016
Other receivables (Note)	**2,216**	1,874
	19,979	18,637
Total trade and other receivables	**56,730**	65,442

Note: Included in the amount is interest receivable of HK$43,000 (2021: HK$20,000).

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 receivables net of loss allowance presented based on the invoice dates at the end of the reporting period.

	2022 HK$'000	2021 HK$'000
Within 30 days	**22,796**	27,534
31 to 60 days	**8,025**	8,919
61 to 90 days	**4,998**	8,047
91 to 180 days	**846**	2,000
181 to 365 days	**52**	277
Over 365 days	**34**	28
	36,751	46,805

For sales to distributors, the Group requests new distributors for upfront payment, while the Group allows other distributors a longer credit period. For wholesale sales, before accepting any new customers with significant sales, the Group will check the historical default records of these customers through external source.

18. Trade and Other Receivables (continued)

Included in trade and other receivables are the following amounts denominated in currencies other than functional currency of the respective group entities which they relate:

	2022 HK$'000	2021 HK$'000
Renminbi ("RMB")	**58**	105

19. Financial Assets at Fair Value Through Profit or Loss

Financial assets at FVTPL as at 31 December comprise:

	2022 HK$'000	2021 HK$'000
Listed securities:		
– Equity security listed in Hong Kong	**7,659**	7,349
	7,659	7,349

20. Pledged Bank Deposits/Bank Balances and Cash

Pledged bank deposits represent deposits pledged to banks for a short-term banking facility to the Group and bills payables. The pledged bank deposits carry fixed interest rate of 0% – 0.2% (2021: 0% – 0.2%) per annum as at 31 December 2022. The pledged bank deposits will be released upon the expiry of banking facility granted and bills payables.

Included in pledged bank deposits and bank balances are the following amounts denominated in currencies other than functional currencies of the respective group entities which they relate:

	2022 HK$'000	2021 HK$'000
HK$	**77**	77
RMB	**24,056**	54,022
EUR	**95**	258
USD	**1,746**	2,875

21. Trade and Other Payables

	2022 HK$'000	2021 HK$'000
Trade payables	**20,753**	35,178
Bills payables	**17,873**	20,697
Trade and bills payables	**38,626**	55,875
Deposits received	**1,762**	1,772
Accrued expenses	**10,596**	10,147
Salaries payables	**8,075**	7,940
Payable for acquisition of property, plant and equipment	**263**	13,875
Other payables	**999**	572
Contract liabilities	**639**	1,404
	22,334	35,710
Total trade and other payables	**60,960**	91,585

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.

	2022 HK$'000	2021 HK$'000
Within 30 days	**5,198**	10,053
31 to 60 days	**11,718**	18,710
61 to 90 days	**16,307**	17,944
91 to 180 days	**5,274**	8,814
Over 180 days	**129**	354
	38,626	55,875

When the Group receives deposits from customer in advance of sales of goods, the deposits are recognised as contract liabilities until the control of the goods has been transferred to the customers.

21. Trade and Other Payables (continued)

Movements in contract liabilities

	2022 HK$'000	2021 HK$'000
Balance at the beginning of the year	1,404	–
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period	(1,404)	–
Increase in contract liabilities as a result of receipts in advance from sales of goods	639	1,404
Balance at the end of the year	639	1,404

The balance of the contract liabilities is expected to be recognised as income within one year.

Included in trade and other payables are the following amounts denominated in currency other than functional currency of the respective group entities which they relate:

	2022 HK$'000	2021 HK$'000
RMB	6	236
USD	171	62

22. Bank Borrowings

	2022 HK$'000	2021 HK$'000
Unsecured	5,298	3,980
Carrying amount repayable		
Within one year	5,298	3,980
Amounts shown under current liabilities	5,298	3,980

The fixed-rate bank borrowings at 31 December 2022 carried interest at 5.27% (2021: 5.42%) per annum.

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings for the year are as follows:

	2022	2021
Effective interest rates:		
Fixed-rate borrowings	4.85% - 5.42%	2.56% – 5.42%
Variable-rate borrowings	–	5.62%

23. Lease Liabilities

	2022 HK$'000	2021 HK$'000
Lease liabilities payable:		
Within one year	**12,758**	11,536
Within a period of more than one year but not more than two years	**4,657**	6,889
Within a period of more than two years but not more than five years	**814**	2,276
	18,229	20,701
Less: Amount due for settlement within 12 months shown under current liabilities	**(12,758)**	(11,536)
Amount due for settlement after 12 months shown under non-current liabilities	**5,471**	9,165

The weighted average incremental borrowing rates applied to lease liabilities range from 3.19% to 5.70% (2021: from 2.82% to 5.70%).

24. Deferred Taxation

The followings are the deferred tax (liabilities) assets recognised and movements thereon during the year:

	Accelerated tax depreciation HK$'000	**Unrealised gains on securities** HK$'000	**Total** HK$'000
As at 1 January 2021	(586)	(24)	(610)
Credited to profit or loss (Note 11)	143	24	167
As at 31 December 2021	(443)	–	(443)
Credited to profit or loss (Note 11)	208	–	208
As at 31 December 2022	**(235)**	**–**	**(235)**

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2022 HK$'000	2021 HK$'000
Deferred tax assets	**266**	96
Deferred tax liabilities	**(501)**	(539)
	(235)	(443)

24. Deferred Taxation (continued)

At the end of the reporting period, the Group has some deductible temporary differences available for offset against future profits. However, no deferred tax asset in respect of them had been recognised due to the unpredictability of future profit streams even though some of them may be carried forward indefinitely. Those unrecognised items are as follows:–

	2022 HK$'000	2021 HK$'000
Unused tax losses	**31,865**	26,551
Other deductible temporary differences	**6,245**	6,337
	38,110	32,888

The unrecognised tax losses will expire up to 2027 (2021: up to 2026).

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards.

Deferred taxation has not been provided for in the consolidated financial statements in respect of the temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB32,048,000 (equivalent to HK$36,237,000) (2021: RMB30,288,000 (equivalent to HK$37,164,000)) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

25. Share Capital

Details of share capital of the Company is as follows:

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	**500,000,000**	**50,000**
Issued and fully paid:		
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	**257,854,000**	**25,785**

26. Share Option Schemes

A share option scheme (the "2012 Share Option Scheme") was adopted pursuant to the sole shareholder's resolution passed on 22 October 2012 for the primary purpose of providing incentives or rewards to directors or eligible employees, motivating the eligible participants to optimise their performance efficiency for the benefit of the Company and tracking and retaining with the eligible participants. The 2012 Share Option Scheme was terminated pursuant to an ordinary resolution by the shareholders of the company passed on 6 June 2022. The principal terms of the 2012 Share Option Scheme are as follows:

(i) the 2012 Share Option Scheme is valid for 10 years from 22 October 2012 and was terminated with effect from 6 June 2022;

(ii) options may be exercised at any time during a period commencing on or after the date on which the option is accepted and granted and expiring on a date to be notified by the Board of Directors to each grantee which shall not be more than 10 years from the date on which the option is accepted and granted;

(iii) the exercise price of the share option will be determined at the highest of the closing price of the Company's shares on the Stock Exchange on the date of grant and the average of closing prices of the Company's shares on the Stock Exchange on the five business days immediately preceding the date of grant of the option;

(iv) the maximum number of shares in respect of which options may be granted shall not exceed 20,000,000 shares representing 10% of the total number of shares in issue at the date of listing of the shares of the Company on the Main Board of the Stock Exchange (representing 7.76% of the issued shares of the Company as at the date of this annual report);

(v) any offer of share options may be accepted in writing received by any director or the secretary of the Company on the date specified in the offer and the grantee shall pay HK$1.00 to the Company by way of consideration for the grant upon acceptance of the options;

(vi) the maximum entitlement of each eligible participant in any 12-month period up to the date of offer to grant shall not exceed 1% of the shares in issue as at the date of offer to grant; and

(vii) the Board of Directors may, at its discretion, fix any minimum period for which an option must be held, any performance targets that must be achieved and/or any other conditions (including the exercise price) that must be fulfilled before an option can be exercised.

At 31 December 2022, the number of shares in respect of which options had been granted and remained outstanding under the 2012 Share Option Scheme was, in aggregate, 5,250,000 (31 December 2021: 5,250,000), representing 2.0% (31 December 2021: 2.0%) of the shares of the Company in issue at that date.

26. Share Option Schemes (continued)

During the year ended 31 December 2022, a share option scheme (the "2022 Share Option Scheme") was newly adopted pursuant to the ordinary resolution by the shareholders of the Company passed on 6 June 2022 for the primary purpose of providing incentives or rewards to directors, other than independent non-executive directors, or eligible employees, motivating the eligible participants to optimize their performance efficiency for the benefit of the Company and tracking and retaining with the eligible participants. The principal terms of the 2022 Share Option Scheme are as follows:

(i) the 2022 Share Option Scheme is valid for 10 years from 6 June 2022;

(ii) options may be exercised at any time during a period commencing on or after the date on which the option is accepted and granted and expiring on a date to be notified by the Board of Directors to each grantee which shall not be more than 10 years from the date on which the option is accepted and granted;

(iii) the exercise price of the share option will be determined at the highest of the closing price of the Company's shares on the Stock Exchange on the date of grant and the average of closing prices of the Company's shares on the Stock Exchange on the five business days immediately preceding the date of grant of the option;

(iv) the maximum number of shares in respect of which options may be granted shall not exceed 25,785,400 shares representing 10% of the total number of shares in issue at the date of adoption of the 2022 Share Option Scheme and the date of this annual report;

(v) any offer of share options may be accepted in writing received by any director or the secretary of the Company on the date specified in the offe and the grantee shall pay HK$1.00 to the Company by way of consideration for the grant upon acceptance of the option;

(vi) the maximum entitlement of each eligible participant in any 12-month period up to the date of offer to grant shall not exceed 1% of the shares in issue as at the date of offer to grant; and

(vii) the Board of Directors may, at its discretion, fix any minimum period for which an option must be held, any performance targets that must be achieved and/or any other conditions (including the exercise price) that must be fulfilled before an option can be exercised.

At 31 December 2022, no options had been granted and remained outstanding under the 2022 Share Option Scheme (2021: Nil).

26. Share Option Schemes (continued)

The following tables disclose movements of the Company's share options held by directors of the Company and employees of the Group during both years:

For the year ended 31 December 2022

Categories of participants	Date of grant	Exercisable period	Exercise price HK$	Number of share options Outstanding at 1.1.2022	Lapsed during the year	Outstanding at 31.12.2022
Under the 2012 Share Option Scheme						
Executive directors	2.7.2020	2.7.2020-1.7.2023	0.48	4,200,000	–	**4,200,000**
Independent non-executive directors	2.7.2020	2.7.2020-1.7.2023	0.48	750,000	–	**750,000**
Employee	2.7.2020	2.7.2020-1.7.2023	0.48	300,000	–	**300,000**
				5,250,000	–	**5,250,000**

For the year ended 31 December 2021

Categories of participants	Date of grant	Exercisable period	Exercise price HK$	Number of share options Outstanding at 1.1.2021	Lapsed during the year	Outstanding at 31.12.2021
Under the 2012 Share Option Scheme						
Executive directors	17.4.2018	17.4.2018-16.4.2021	1.18	4,200,000	(4,200,000)	–
Independent non-executive directors	17.4.2018	17.4.2018-16.4.2021	1.18	750,000	(750,000)	–
Employee	17.4.2018	17.4.2018-16.4.2021	1.18	300,000	(300,000)	–
				5,250,000	(5,250,000)	–
Executive directors	2.7.2020	2.7.2020-1.7.2023	0.48	4,200,000	–	4,200,000
Independent non-executive directors	2.7.2020	2.7.2020-1.7.2023	0.48	750,000	–	750,000
Employee	2.7.2020	2.7.2020-1.7.2023	0.48	300,000	–	300,000
				5,250,000	–	5,250,000
				10,500,000	(5,250,000)	5,250,000

27. Retirement Benefit Schemes

The Group participates in a MPF Scheme for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of trustees. Mandatory benefits are provided under the MPF Scheme. The Group contributes the lower of 5% of the relevant payroll costs and HK$1,500 per employee to the MPF Scheme.

Employees of subsidiaries in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the state-managed retirement benefit schemes is to make the required contributions.

At 31 December 2022, the Group had no forfeited contributions available to reduce its contributions to the MPF Scheme in Hong Kong and the stated-managed retirement benefit schemes in the PRC in future years (2021: Nil).

The total contribution to the retirement benefit schemes charged to the consolidated statement of profit or loss and other comprehensive income is HK$6,067,000 (2021: HK$5,981,000).

28. OPERATING LEASING ARRANGEMENTS

The Group as lessor

All of the properties held by the Group for rental purposes have committed lessees for the next year.

Undiscounted lease payments receivable on leases are as follows:

	2022 **HK$'000**
Within one year	**57**

29. Capital Commitments

	2022 **HK$'000**	2021 HK$'000
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements	**9,527**	5,133

The Group entered into a construction agreement on 30 October 2020 and a supplementary agreement on 16 April 2021 (collectively the "Construction Agreements") with an independent third party contractor to construct a new factory building. The total consideration under the Construction Agreements was adjusted to RMB51,872,000 (equivalent to HK$63,647,000) after an upward adjustment of RMB3,292,000 (equivalent to HK$4,039,000) in December 2021. References are made to the announcements of the Company dated 16 April 2021 and 18 January 2022. The amount of capital expenditure contracted for but not provided in the consolidated financial statements at 31 December 2021 was mainly comprised of a sum of RMB3,721,000 (equivalent to HK$4,566,000) relating to the Construction Agreements.

During the year ended 31 December 2022, the Group entered into various agreements in relation to interior decoration and facilities of the new factory building after the completion of the Construction Agreements. The amount of capital expenditure contracted but not provided in the consolidated financial statements at 31 December 2022 was mainly comprised of a sum of RMB8,388,000 (equivalent to HK$9,484,000) relating to these interior decoration and facilities.

30. Pledge of Assets

	2022 HK$'000	2021 HK$'000
Pledged bank deposits	**6,362**	7,213

31. Related Party Transactions

In addition to the transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had entered into the following related party transactions:

Name of related companies	Relationship	Nature of transactions	2022 HK$'000	2021 HK$'000
Gain Harvest Investment Limited	Related company (Note a)	Interest expenses on lease liabilities	**60**	99
Wealth Pine Asia Limited	Related company (Note a)	Interest expenses on lease liabilities	**38**	62

Name of related companies	Relationship	Nature of transactions	2022 HK$'000	2021 HK$'000
Gain Harvest Investment Limited	Related company (Note a)	Lease liabilities (Note b)	**1,301**	2,561
Wealth Pine Asia Limited	Related company (Note a)	Lease liabilities (Note b)	**816**	1,606

Notes:

a. The Ultimate Beneficial Owners have directorship and beneficial and controlling interests in these related companies.

b. The lease contracts related to the directors' quarters provided to Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung renewed on 18 December 2020 and were classified as right-of-use assets on the commencement date. The rental payments paid to related companies For the year ended 31 December 2022 was HK$2,148,000 (2021: HK$2,148,000). As at 31 December 2022, the total future undiscounted cash flows over the non-cancellable period amounted to HK$2,148,000 (2021: HK$4,296,000).

The renewal of the lease contracts on 18 December 2020 constituted one-off connected transactions of the Company under Chapter 14A of the Listing Rules. None of the above transactions constituted any connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules for the year ended 31 December 2022. Reference is made to the announcement of the Company published on 18 December 2020.

31. Related Party Transactions (continued)

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2022 HK$'000	2021 HK$'000
Salaries and allowances	**11,849**	12,168
Performance related incentive payments	**1,149**	1,491
Retirement benefit schemes contributions	**791**	780
	13,789	14,439

32. Capital Risk Management

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the bank borrowings disclosed in note 22 and lease liabilities disclosed in note 23, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group reviews the capital structure regularly. As part of this review, the management considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

33. Financial Instruments

Categories of financial instruments

	2022 HK$'000	2021 HK$'000
Financial assets at amortised cost		
Trade receivables	**36,751**	46,805
Other financial assets at amortised cost	**7,552**	7,323
Cash and cash equivalents	**145,595**	142,335
Financial assets at FVTPL	**7,659**	7,349
Financial liabilities at amortised cost		
Trade and bills payables	**38,626**	55,875
Other payables	**15,322**	23,654
Bank borrowings	**5,298**	3,980

33. Financial Instruments (continued)

Financial risk management objectives and policies

The Group's major financial instruments include, trade and other receivables, pledged bank deposits, bank balances and cash, listed securities, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable rate bank balances. The Group currently does not have a policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to fair value interest rate risk in relation to the fixed deposits and fixed rate bank borrowings. However, the management considers the fair value interest rate risk on the fixed deposits and fixed rate bank borrowings is insignificant as the fixed deposits and fixed rate bank borrowings are relatively short-term. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

No sensitivity analysis is presented for bank balances and bank borrowings as the directors of the Company considered the Group's exposure to cash flow interest rate risk is not material.

33. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

Foreign currency risk

Several subsidiaries of the Group have foreign currency sales and purchases (2021: sales and purchases), which expose the Group to foreign currency risk. During the year ended 31 December 2022, 2.5% (2021: 0.3%) of the Group's sales and about 1.3% (2021: 5.1%) of the Group's purchases were denominated in currencies other than the functional currencies of the group entities.

The carrying amounts of the Group's monetary assets and liabilities denominated in currencies other than the respective group entities' functional currencies at the end of the reporting period are as follows:

	Assets		Liabilities	
	2022 HK$'000	2021 HK$'000	**2022 HK$'000**	2021 HK$'000
HK$	**77**	77	**–**	–
RMB	**24,114**	54,127	**6**	236
EUR	**95**	258	**–**	–
USD	**1,746**	2,875	**171**	62

Other than above, subsidiaries of the Group have the following intra-group receivable denominated in RMB, which are other than the foreign currency of the relevant group entities.

	Amount due from group entities	
	2022 HK$'000	2021 HK$'000
RMB	**24,521**	9,534

The Group currently does not have a foreign exchange hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

33. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

Foreign currency risk (continued)

Sensitivity analysis

The Group is mainly exposed to the foreign exchange risk of RMB and USD. Under the pegged exchange rate system, the financial impact on exchange difference between HK$ and USD will be immaterial as most USD denominated monetary assets and liabilities are held by group entities having HK$ as their functional currency, and therefore no sensitivity analysis has been prepared. For HK$ and EUR, no sensitivity analysis has been prepared as the amounts involved are insignificant.

The sensitivity analysis below details the Group's sensitivity to a 5% (2021: 5%) increase and decrease in HK$ against RMB. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign currency rate. The sensitivity analysis includes the Group's monetary assets denominated in RMB. A negative number indicates a decrease in post-tax profit for the year when HK$ strengthens 5% against RMB and vice versa. For a 5% weakening of HK$ against RMB, there would be an equal but opposite impact on the post-tax profit or loss for the year.

	2022 **HK$'000**	2021 HK$'000
RMB	**(2,030)**	(2,648)

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign currency risk as the year end exposures do not reflect the exposures during the year.

Other price risk

The Group's financial assets at FVTPL are measured at fair value at end of the reporting period. Therefore, the Group is exposed to security price risk. Management manages this exposure by maintaining a portfolio of investments with different risk profiles.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

In respect of financial assets at FVTPL, the following table demonstrates the impact on profit after tax, other comprehensive income and equity if the price had been 5% higher/lower (2021: 5% higher/lower).

33. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

Other price risk (continued)

	Carrying amount of equity investments	Increase/ decrease in profit after tax	Increase/ decrease in equity
	HK$'000	HK$'000	HK$'000
2022			
Financial asset at FVTPL			
– Listed securities	**7,659**	**320**	**320**
2021			
Financial asset at FVTPL			
– Listed securities	7,349	307	307

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2022 in relation to each class of recognised financial assets is the carrying amount of these assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significant reduced. The Group does not hold any collaterals over these balances.

For other receivables and deposits, the management makes periodic individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The management believes that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended 31 December 2022, the Group assessed the ECL for other receivables are insignificant and thus no loss allowance is recognised.

33. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Credit risk (continued)

The Group also has concentration of credit risk on the fixed deposits placed with bank, however, the credit risk is limited because all bank deposits are deposited in several financial institutions with good reputation and with high credit-ratings assigned by international credit-rating agencies.

Other than the concentration of credit risk on liquid funds, the Group does not have any other significant concentration of credit risk. The Group has no significant concentration of credit risk in trade and other receivables with exposure spread over a number of counterparties.

As part of the Group's credit risk management, the Group measures loss allowances for trade receivables at an amount equal to lifetime ECL, which is calculated using a provision matrix. The Group segments its trade receivables based on geographic regions, due to different loss patterns experienced in the different regions.

The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix within lifetime ECL (not credit-impaired). Debtors with credit-impaired with gross carrying amounts of HK$6,053,000 as at 31 December 2022 (2021: HK$$6,464,000) were assessed individually.

	2022			2021		
	Expected loss rate %	**Gross carrying amount HK$'000**	**Loss allowance HK$'000**	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000
Hong Kong and Macau						
Current	**0.00%**	**22,490**	**–**	0.00%	23,090	–
0 to 30 days	**0.00%**	**3,620**	**–**	0.00%	3,914	–
31 to 60 days	**0.00%**	**328**	**–**	0.00%	2,248	–
61 to 90 days	**0.00%**	**–**	**–**	0.00%	1,025	–
Over 91 days	**0.00%**	**–**	**–**	0.00%	6	–
		26,438	**–**		30,283	–
PRC						
Current	**0.00%**	**8,782**	**–**	0.00%	13,975	–
0 to 30 days	**2.34%**	**856**	**20**	0.09%	1,483	7
31 to 60 days	**2.34%**	**514**	**12**	0.56%	362	2
61 to 90 days	**4.00%**	**100**	**4**	0.00%	248	2
Over 91 days	**57.62%**	**151**	**87**	6.00%	290	37
		10,403	**123**		16,358	48

33. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Credit risk (continued)

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2022, the Group provided HK$83,000 (2021: reversed HK$11,000) loss allowance for trade receivable based on the provision matrix. The Group provided HK$295,000 (2021: provided HK$10,000) loss allowance for credit impaired debtors.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	2022 Lifetime ECL (Non-credit impaired) HK$'000	**2022 Lifetime ECL (Credit impaired) HK$'000**	**2022 Lifetime ECL Total HK$'000**	2021 Lifetime ECL (Non-credit impaired) HK$'000	2021 Lifetime ECL (Credit impaired) HK$'000	2021 Lifetime ECL Total HK$'000
Balance at 1 January	**48**	**6,252**	**6,300**	57	6,042	6,099
Transfer to credit impaired	**(2)**	**2**	**–**	–	–	–
Impairment losses recognised (reversed) during the year	**83**	**295**	**378**	(11)	10	(1)
Written-offs	**–**	**(31)**	**(31)**	–	–	–
Exchange adjustment	**(6)**	**(498)**	**(504)**	2	200	202
Balance at 31 December	**123**	**6,020**	**6,143**	48	6,252	6,300

The following significant changes in the gross carrying amounts of trade receivables contributed to the changes in the loss allowance during 2022 and 2021:

- one trade debtor with a gross carrying amount of HK$254,783 (2021: HK$276,422) defaulted and transferred to credit-impaired during the year resulted in an increase in loss allowance of HK$219,000 (2021: Nil).

- partial settlement of HK$241,000 of certain credit impaired trade debtors with gross carrying amount of HK$338,000 resulted in a decrease in loss allowance of HK$213,000 during 2021.

33. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity date for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Liquidity and interest risk tables

	Weighted average interest rate	On demand or less than 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Total undiscounted cash flows	Carrying amounts
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2022							
Trade and other payables	**–**	**40,013**	**7,329**	**3,745**	**2,861**	**53,948**	**53,948**
Bank borrowings	**5.27**	**24**	**45**	**5,314**	**–**	**5,383**	**5,298**
Lease liabilities	**3.38**	**1,358**	**2,579**	**9,442**	**6,145**	**19,524**	**18,229**
		41,395	**9,953**	**18,501**	**9,006**	**78,855**	**77,475**
At 31 December 2021							
Trade and other payables	–	55,574	8,963	14,992	–	79,529	79,529
Bank borrowings	5.42	–	53	4,011	–	4,064	3,980
Lease liabilities	3.47	1,346	2,438	7,847	9,286	20,917	20,701
		56,920	11,454	26,850	9,286	104,510	104,210

33. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Fair value measurement

The carrying amounts of the Group's financial instruments carried at amortised cost were not materially different from their fair values as at 31 December 2022 and 2021.

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

- Level 3 valuations: Fair value measured using significant unobservable inputs.

	2022 Level 1 and total HK$'000	2021 Level 1 and total HK$'000
Financial assets at FVTPL		
– Listed securities	**7,659**	7,349

During the years ended 31 December 2022 and 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

34. Statement of Financial Position of the Company

	2022 HK$'000	2021 HK$'000
Non-current assets		
Property, plant and equipment	**460**	731
Investment in a subsidiary	**36,553**	36,553
	37,013	37,284
Current assets		
Other receivables	**568**	676
Amounts due from subsidiaries	**148,644**	151,749
Financial assets at fair value through profit or loss	**7,659**	7,349
Taxation recoverable	**136**	133
Bank balances	**4,969**	1,436
	161,976	161,343
Current liabilities		
Accrued expenses	**711**	618
	711	618
Net current assets	**161,265**	160,725
Total assets less current liabilities	**198,278**	198,009
Non-current liability		
Deferred tax liabilities	**76**	121
Net assets	**198,202**	197,888
Capital and reserves		
Share capital	**25,785**	25,785
Reserves	**172,417**	172,103
Total equity	**198,202**	197,888

34. Statement of Financial Position of the Company (continued)

Movement in reserves:

	Share premium HK$'000	Share options reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1 January 2021	166,376	2,349	33,063	201,788
Profit and total comprehensive income for the year	–	–	8,993	8,993
Lapse of share options	–	(1,904)	1,904	–
Dividend paid	–	–	(38,678)	(38,678)
At 31 December 2021 and 1 January 2022	166,376	445	5,282	172,103
Profit and total comprehensive income for the year	–	–	314	314
At 31 December 2022	**166,376**	**445**	**5,596**	**172,417**

35. Particulars of Principal Subsidiaries of the Company

Particulars of the Company's principal subsidiaries held by the Company as at 31 December 2022 and 2021 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Place of operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Company as at 31 December		Principal activities
				2022	2021	
Casablanca Home Holdings Limited[1]	BVI 5 October 2010	Hong Kong	USD4,230,000	**100%**	100%	Investment holding
Casablanca Home Limited	Hong Kong 22 June 2010	Hong Kong	HK$1,000,000	**100%**	100%	Trading of bedding products and home accessories
Casablanca Home (Huizhou) Company Limited 卡撒天嬌家居(惠州)有限公司[2][5]	PRC 7 April 2011	PRC	HK$178,000,000 (2021: HK$160,000,000)	**100%**	100%	Manufacture and sale of bedding products and home accessories
Casablanca Home (Shenzhen) Limited 卡撒天嬌家居用品(深圳)有限公司[3][5]	PRC 20 August 2010	PRC	RMB120,000,000	**100%**	100%	Trading of bedding products and home accessories
Casablanca Hong Kong Limited	Hong Kong 22 June 2010	Hong Kong	HK$1,000,000	**100%**	100%	Trading of bedding products and home accessories
Casa Life New Retail (Guangdong) Company Limited ("Casa Life") 卡撒生活新零售(廣東)有限公司[3][5]	PRC 12 October 2022	PRC	RMB150,000,000 (2021: Nil)	**51%**	–	Trading of bedding products and home accessories
CCW Home Tex (Shenzhen) Company Limited 創想家居用品(深圳)有限公司[2][5]	PRC 25 April 2007	PRC	HK$20,000,000	**100%**	100%	Trading of bedding products and home accessories
Colorway Furniture Company Limited 惠州市卡璐威家居有限公司[4][5]	PRC 25 January 2018	PRC	RMB5,000,000	**100%**	100%	Trading of furniture

(1) Directly held by the Company.
(2) These companies are registered as wholly owned foreign enterprises.
(3) These companies are registered as sino-foreign joint ventures.
(4) This company is registered as a domestic limited liability company.
(5) The English name is translated for identification purpose only.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of both years.

36. Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank Borrowings HK$'000	Lease Liabilities HK$'000	Total HK$'000
At 1 January 2021	2,375	17,521	19,896
Financing cash flows (Note)	1,438	(16,342)	(14,904)
New leases entered	–	21,159	21,159
Lease modification	–	(2,445)	(2,445)
COVID-19-related rent concessions received	–	(107)	(107)
Interest expenses	61	841	902
Exchange adjustments	106	74	180
At 31 December 2021 and 1 January 2022	3,980	20,701	24,681
Financing cash flows (Note)	1,303	(16,065)	(14,762)
New leases entered	–	13,125	13,125
COVID-19-related rent concessions received	–	(170)	(170)
Interest expenses	376	802	1,178
Exchange adjustments	(361)	(164)	(525)
At 31 December 2022	**5,298**	**18,229**	**23,527**

Note: The cash flows represent the addition and repayment of bank borrowings and lease liabilities and interest paid in the consolidated statement of cash flows.

37. Major Non-Cash Transactions

During the year ended 31 December 2022, the Group entered into new lease agreements for the use of the retail stores (2021: retail stores and directors' quarters) for one to three years (2021: two to five years). On the lease commencement, the Group recognised both right-of-use assets and lease liabilities of HK$13,125,000 (2021: HK$21,159,000) respectively.

38. Contingent Liabilities

As at 31 December 2021 and 31 December 2022, the Company and two of its subsidiaries in Hong Kong were named as defendants in a litigation commenced by a plaintiff in 2017 involving an alleged copyright infringement. In March 2023, the plaintiff and the defendants have reached a full and final settlement on the copyright dispute, thereby resolving the dispute. The directors of the Company consider that the settlement (including the terms thereof) has no material adverse effect to the business operation and financial position of the Group.

As at 31 December 2022, the Group did not have any significant contingent liabilities.

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2018 HK$'000	2019 HK$'000	2020 HK$'000	2021 HK$'000	**2022 HK$'000**
Revenue	337,624	378,854	309,279	320,403	**300,163**
Profit before taxation	10,717	24,504	19,339	15,701	**7,811**
Taxation	(4,672)	(6,886)	(3,228)	(3,765)	**(3,194)**
Profit for the year	6,045	17,618	16,111	11,936	**4,617**
Profit (loss) for the year attributable to:					
Owners of the Company	7,837	18,498	16,129	11,936	**5,378**
Non-controlling interests	(1,792)	(880)	(18)	–	**(761)**
	6,045	17,618	16,111	11,936	**4,617**

ASSETS AND LIABILITIES

	At 31 December				
	2018 HK$'000	2019 HK$'000	2020 HK$'000	2021 HK$'000	**2022 HK$'000**
Total assets	514,733	511,252	510,573	522,259	**484,836**
Total liabilities	(116,070)	(104,984)	(85,780)	(117,541)	**(89,074)**
Total equity	398,663	406,268	424,793	404,718	**395,762**
Equity attributable to:					
Owners of the Company	396,897	406,331	424,793	404,718	**394,007**
Non-controlling interests	1,766	(63)	–	–	**1,755**
	398,663	406,268	424,793	404,718	**395,762**

CORPORATE INFORMATION

Stock Code

2223

Board of Directors

Executive Directors

Mr. Cheng Sze Kin *(Chairman)*
Mr. Cheng Sze Tsan
(Vice-chairman and Chief Executive Officer)
Ms. Wong Pik Hung

Independent Non-executive Directors

Mr. Lo Siu Leung
Dr. Cheung Wah Keung
Mr. Chow On Wa

Committees

Audit Committee

Mr. Lo Siu Leung *(Chairman)*
Dr. Cheung Wah Keung
Mr. Chow On Wa

Remuneration Committee

Dr. Cheung Wah Keung *(Chairman)*
Mr. Lo Siu Leung
Mr. Chow On Wa

Nomination Committee

Mr. Cheng Sze Kin *(Chairman)*
Mr. Lo Siu Leung
Dr. Cheung Wah Keung
Mr. Chow On Wa

Investment Committee

Mr. Cheng Sze Kin *(Chairman)*
Mr. Cheng Sze Tsan
Mr. Chow On Wa

Company Secretary

Mr. Ho Yiu Leung

Authorised Representatives

Ms. Wong Pik Hung
Mr. Ho Yiu Leung

Registered Office

PO Box 309, Ugland House
Grand Cayman KY1-1104
Cayman Islands

Headquarters and Principal Place of Business

5/F Yan Hing Centre
9-13 Wong Chuk Yeung Street
Fotan, New Territories
Hong Kong

Auditor

CHENG & CHENG LIMITED,
Certified Public Accountants
Level 35, Tower 1, Enterprise Square Five,
38 Wang Chiu Road, Kowloon Bay, Kowloon.,
Hong Kong

Principal Share Registrar and Transfer Office

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman KY1-1102
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Union Registrars Limited
Suites 3301-04, 33/F,
Two Chinachem Exchange Square,
338 King's Road,
North Point, Hong Kong

Principal Bankers

Standard Chartered Bank (Hong Kong) Limited
Standard Chartered Bank (China) Limited
Bank of China (Hong Kong) Limited
Bank of China Limited

Company Website

www.casablanca.com.hk