# Casablanca Group Limited

(INCORPORATED UNDER THE LAWS OF THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

STOCK CODE: **2223**

*Leading Branded bedding products companies in the Greater China region*

## Annual Report **2013**

CASABLANCA HOME | Casa Calvin | ELLE DECO | CENTA-STAR the bed & bath company | TRU TRUSSARDI HOME

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## 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 "Casablanca" and "Casa Calvin" 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

**397 POS**[1] in 77 cities in well developed areas in the Greater China Region[2]

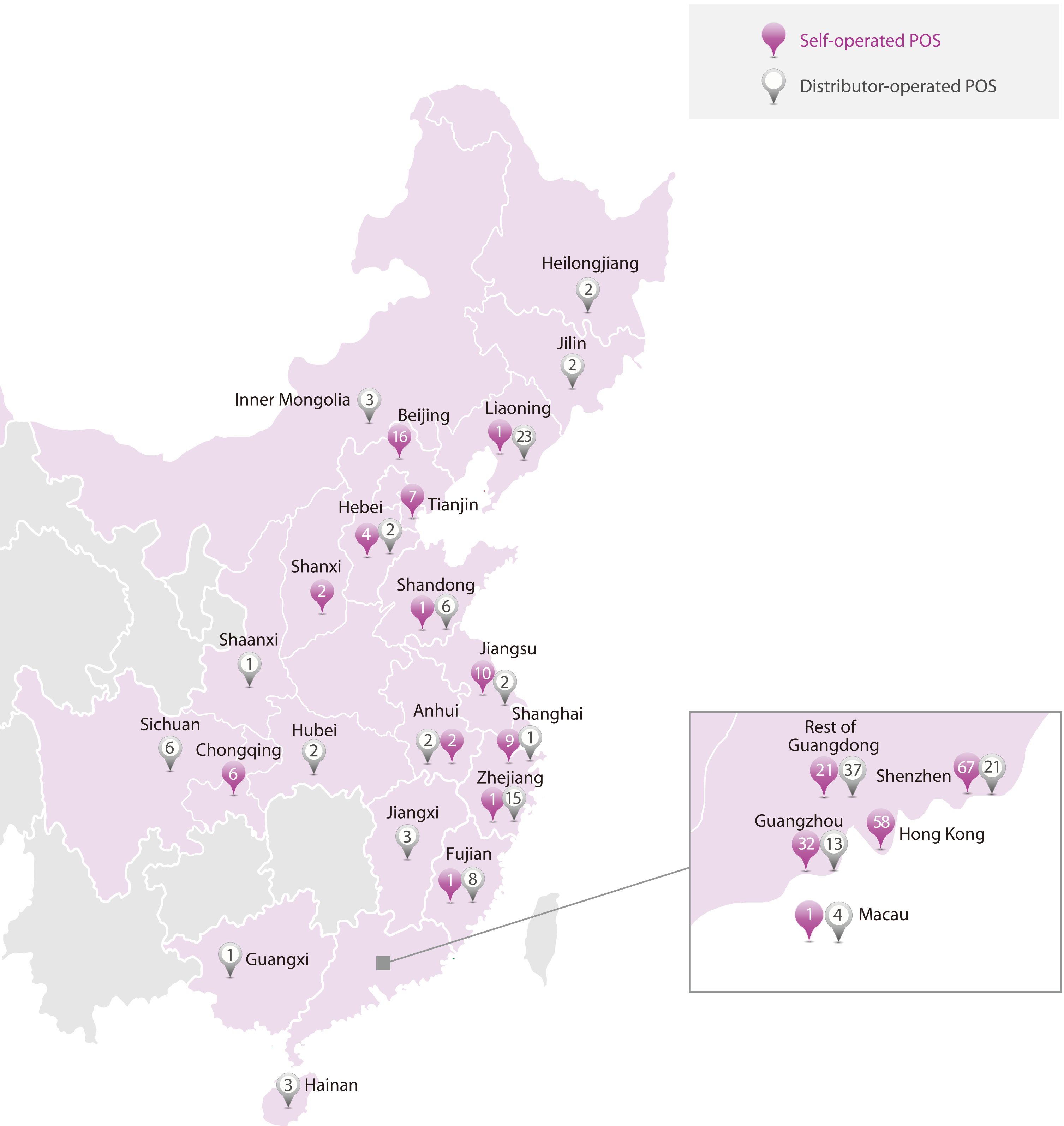
**311 concession counters** in well known department stores

**239 self-operated POS** in Hong Kong, Macau and first-tier cities of the PRC

**89 new POS** were opened in 2013 with 13 new POS in Hong Kong and Macau and 76 new POS in the PRC


(1) POS stands for points of sales

(2) The region comprises the People's Republic of China (the "PRC"), Hong Kong and Macau

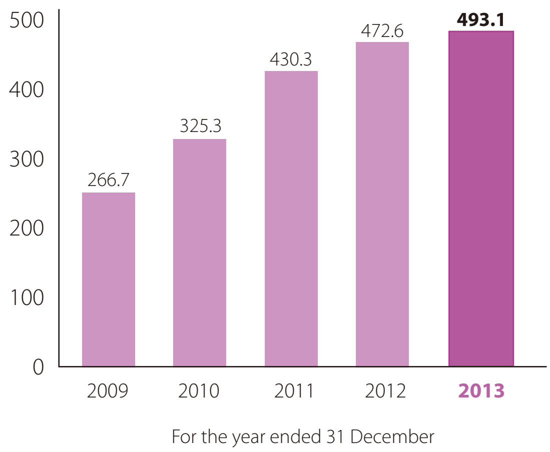


Self-operated POS
Distributor-operated POS
Heilongjiang 2
Jilin 2
Inner Mongolia 3
Beijing 16
Liaoning 1 23
Tianjin 7
Hebei 4 2
Shanxi 2
Shandong 1 6
Shaanxi 1
Jiangsu 10 2
Shanghai 9 1
Anhui 2 2
Sichuan 6
Chongqing 6
Hubei 2
Zhejiang 1 15
Jiangxi 3
Fujian 1 8
Guangxi 1
Hainan 3
Rest of Guangdong 21 37
Shenzhen 67 21
Guangzhou 32 13
Hong Kong 58
Macau 1 4

# Financial Highlights and Summary

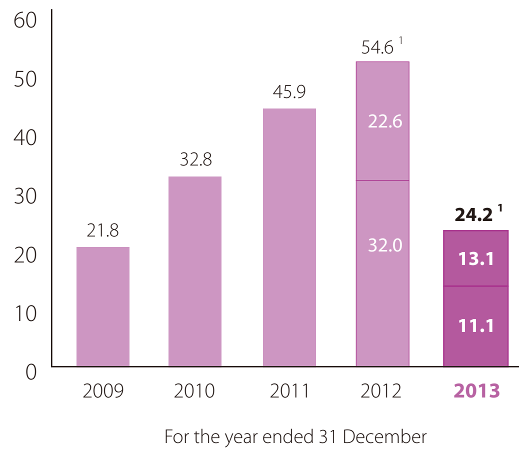
## Revenue

HK$ mn




## Profit for the Year

HK$ mn




## Consolidated Results[2]

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2013 HK$'000** | 2012 HK$'000 | 2011 HK$'000 | 2010 HK$'000 | 2009 HK$'000 |
| Revenue | **493,104** | 472,593 | 430,263 | 325,284 | 266,667 |
| Gross Profit | **303,778** | 292,082 | 253,749 | 198,394 | 144,184 |
| EBITDA[3] | **42,430** | 71,154 | 55,743 | 39,626 | 26,135 |
| Profit for the year attributable to owners of the Company[1] | **11,061** | 32,019 | 45,864 | 32,830 | 21,775 |

Notes:

1. If the sum of share-based payments and listing expenses amounted to HK$13.1 million for 2013 and HK$22.6 million for 2012 are excluded, the adjusted profit for the year attributable to owners of the Company becomes HK$24.2 million for 2013 and HK$54.6 million for 2012.

2. The summary of the consolidated results of the Group for each of the three years ended 31 December 2011 which were extracted from the Company's prospectus dated 13 November 2012 have been prepared on a combined basis to present the results of the Group as if the Group structure, at the time when the Group Reorganisation was completed on 22 October 2012, has been in existence throughout those years.

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

## Consolidated Assets and Liabilities[1]

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2013 HK$'000** | 2012 HK$'000 | 2011 HK$'000 | 2010 HK$'000 | 2009 HK$'000 |
| Total assets | **559,485** | 500,951 | 362,905 | 271,749 | 195,867 |
| Total liabilities | **255,713** | 229,102 | 201,874 | 154,285 | 111,001 |
| Total equity | **303,772** | 271,849 | 161,031 | 117,464 | 84,866 |
| Total bank borrowings | **136,223** | 95,858 | 57,395 | 35,326 | 3,271 |
| Pledged bank deposit and bank balances and cash | **135,641** | 137,774 | 107,050 | 60,796 | 49,815 |
| (Net bank borrowings)/Net cash | **(582)** | 41,916 | 49,655 | 25,470 | 46,544 |

## Key Financial Ratios

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2013** | 2012 | 2011 | 2010 | 2009 |
| Gross profit margin | **61.6%** | 61.8% | 59.0% | 61.0% | 54.1% |
| EBITDA margin | **8.6%** | 15.1% | 13.0% | 12.2% | 9.8% |
| Net profit margin[2] | **2.2%** | 6.8% | 10.7% | 10.1% | 8.2% |
| Return on assets[2] | **2.0%** | 6.4% | 12.6% | 12.1% | 11.1% |
| Return on equity[2] | **3.6%** | 11.8% | 28.5% | 27.9% | 25.7% |
| Interest coverage[3] | **14.6** | 103.0 | 67.2 | 69.9 | 66.7 |
| Current ratio | **2.0** | 1.7 | 1.4 | 1.3 | 1.3 |
| Quick ratio | **1.4** | 1.3 | 1.0 | 0.8 | 1.0 |
| Gearing ratio[4] | **44.8%** | 35.3% | 35.6% | 30.1% | 3.9% |
| Net gearing ratio[4] | **0.2%** | N/A | N/A | N/A | N/A |
| Inventory turnover (days) | **184.5** | 165.5 | 155.5 | 147.9 | 104.2 |
| Trade and bills receivables turnover (days) | **73.4** | 65.2 | 54.7 | 54.5 | 50.3 |
| Trade and bills payables turnover (days) | **141.6** | 103.9 | 82.6 | 83.7 | 73.1 |

Notes:

1. The summary of the consolidated assets and liabilities as at 31 December 2011, 2010 and 2009 which were extracted from the Company's prospectus dated 13 November 2012 have been prepared on a combined basis as if the Group structure, at the time when the Group Reorganisation was completed on 22 October 2012, has been in existence throughout those years.

2. If the sum of share-based payments and listing expenses amounted to HK$13.1 million for 2013 and HK$22.6 million for 2012 are excluded, the adjusted profit for the year attributable to owners of the Company, net profit margin, return on assets and return on equity become HK$24.2 million, 4.9%, 4.3%, 8.0% respectively for 2013 and HK$54.6 million, 11.6%, 10.9% and 20.1% respectively for 2012.

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

4. 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

> **OUR MISSION** Casablanca Group Limited is dedicated to be a global leading branded company of home-textile products. Incorporating "Contemporary, Innovative and Functional" features in our product design concept, we target to provide premium quality bedding products to our customers at reasonable prices, creating a comfortable and relaxing sleeping environment for our customers.

***Dear Shareholders,***

I am pleased to present to the shareholders of Casablanca Group Limited (the "Company") the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2013 (the "Year" or the "Review Period").

The year 2013 was full of challenges. With the intention of the Federal Reserve of the United States to taper Quantitative Easing or its bond purchases, the direction of global fund flows was still in doubt, adding uncertainty to the economic outlook and the fragile retail market. As department stores and shopping malls have faced increases in staff costs and selling expenses as well as the challenges to the traditional retail models by e-commerce, the retail business environment encountered increasingly difficult conditions. As an industry leader, the Group does it utmost for steady development riding on a solid groundwork. Pursuing our design concept of "Contemporary, Innovative and Functional," the Group endeavors to provide premium quality bedding products to our customers, and aims at bringing greater returns to our shareholders.

Striving to seize the unprecedented opportunities brought about by the continuous growth of the PRC economy, particularly the increase in the per capita disposable income and the continued progress of urbanization, the Group undertook a thorough evaluation and restructured the sales network during the Year in order to enhance its operating efficiency. To better control selling expenses during the Year, the Group focused on the business development of its own concession counters in department stores across southern China and encouraged distributors to open stand-alone shops in other regions. As at 31 December 2013, the Group's POS increased to 397 from 382 compared to the same period last year.

In addition, in line with the future development of the Group, phase I of the Huizhou plant (the "Huizhou Plant") of the Group commenced operation in May 2013. The Huizhou Plant is equipped with advanced production facilities and a centralised logistic centre, both of which effectively enhance the overall production capacity and logistics capability, improve inventory management efficiency and lay a substantial foundation for the business growth of the Group.

Looking into the future, the global economy has much uncertainty. Although the growth of Chinese economy tends to be slow down, the PRC government targets to still maintain a steady economic growth. With the continuous improvement in the per capita income of the Chinese people, the popular favourable trends in marriage and fertility, the loosening restrictions of the one-child policy and people's demand for higher living standard, the Group expects a good growth potential in the high-end and premium markets of bedding products in the PRC. The Group will continue to offer quality products at a reasonable price to customers under its proprietary "Casablanca" and "Casa Calvin" brands, and introduce more international brands in bedding products while continue our cooperation with Tru Trussardi, Centa-Star, Move, N.H. and Home Concept so as to provide customers with diversified products and create a comfortable and relaxing sleeping experience for our customers, and ultimately bringing the best returns to our shareholders, employees and society.

Guided by the philosophy of "Broadening income sources while saving costs; Exploring business opportunities actively and pragmatically," the Group will steadily forge ahead by undertaking various measures. The Company will control its operating costs, streamline its internal structure and raise its management professionalism as internal improvement. At the same time, the Company will consolidate its competitive edge in regional markets, explore new business models and develop new markets.

On behalf of the Board, I would like to extend my sincere gratitude to our valued customers, business partners and shareholders for their constant support, and express my appreciation to the management team and employees for their valuable contributions to the development of the Group during the Year.

**Cheng Sze Kin**
*Chairman*
Hong Kong, 24 March 2014

# Management Discussion and Analysis

## Overview

2013 was a challenging year for the Group. However, with more than 20 years' experience in the bedding products market, the Group strives to adjust its pace through addressing the challenges it faces and preparing for the future opportunities. During the Review Period, the Group's revenue sustained continuous growth and increased by 4.3% from HK$472.6 million in 2012 to HK$493.1 million in 2013; profit attributable to owners of the Company was HK$11.1 million, representing a drop of 65.5% as compared with that in the previous year. EBITDA for the Year was HK$42.4 million, representing a decline of 40.4% as compared with HK$71.2 million in 2012.

## Business Review

During 2013, with the intention of the Federal Reserve of the United States to taper Quantitative Easing or its bond purchases, the prospects of the emerging markets became uncertain, and the outlook for the global economy was grim and full of uncertainty. Meanwhile, the economy of the PRC still sustained continuous growth. Its gross domestic product ("GDP") in 2013 grew by 7.7% on a year over year basis, while total retail sales of consumer goods rose by 13.1% in nominal terms and annual per capita disposable income of urban residents grew by 9.7% in nominal terms. Despite this, all these figures suggested that the domestic growth slowed down and the confidence of consumers was thus affected.

The retail market was facing added challenges. The traditional retail corporations not only encountered the twin pressures of increasing rental and staff costs, but also to cope with the competition from online retailers. Concession-counter operators bore higher selling expenses and additional concessionaire commissions as a result of major domestic brands clearing their stock with aggressive pricing strategies and more frequent promotional activities launched by department stores.

### Adopted prudent sales network expansion approach

The Group restructured its sales network in 2013. We continued to adopt a well balanced network expansion strategy: integrating our self-operated POS in Hong Kong and first-tier cities in China with other POS operated by distributors and third-party merchants in second-tier and third-tier cities, as well as starting to explore e-commerce sales efforts. Besides, the Group continued to actively expand the market of its business customers by cooperating with various retail chains, banks and websites, and participating in gift exchange campaigns and group purchases.

As at 31 December 2013, our sales network was extended to 397 POS (2012: 382 POS), covering 77 cities in 23 provinces, autonomous regions and municipalities across the Greater China Region, including a total of 239 self-operated POS and 158 POS operated by our distributors. During the Year, we had 6 more self-operated POS across the Hong Kong and Macau regions, including a Lifestyle Shop in Happy Valley. We strengthened development in the Guangdong Province market and reduced the proportion of self-operated POS in the PRC to reduce administrative costs, and encouraged distributors to open stand-alone retail stores in southern China. As a result, 20 more stand-alone retail stores operated by distributors across southern China were added in the Review Period.

## Breakdown of POS (as at 31 December 2013)

| | Self-operated POS | | | Distributor-operated POS | | | |
|---|---|---|---|---|---|---|---|
| | Concession counters | Stand-alone retail stores | Subtotal | Concession counters | Stand-alone retail stores | Subtotal | Total |
| **Hong Kong and Macau total** | 39 | 20 | 59 | 2 | 2 | 4 | **63** |
| **PRC** | | | | | | | |
| Southern[1] | 119 | 1 | 120 | 19 | 56 | 75 | **195** |
| Northern[2] | 29 | – | 29 | 5 | – | 5 | **34** |
| Eastern[3] | 24 | – | 24 | 34 | 3 | 37 | **61** |
| Northeast[4] | 1 | – | 1 | 26 | 1 | 27 | **28** |
| Southwest[5] | 6 | – | 6 | 5 | 1 | 6 | **12** |
| Central[6] | – | – | – | 1 | 1 | 2 | **2** |
| Northwest[7] | – | – | – | 1 | 1 | 2 | **2** |
| **PRC subtotal** | 179 | 1 | 180 | 91 | 63 | 154 | **334** |
| **Total** | **218** | **21** | **239** | **93** | **65** | **158** | **397** |

Notes:

(1) "Southern" includes Guangxi, 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

## Enhanced marketing and branding activities

In order to improve the awareness of our core brands, the Group organized a series of promotional activities in 2013, including placing advertisements in home textiles and fashion magazines and outdoor advertising on public buses and MTR carriages as well as platforms in both Hong Kong and the PRC, complemented by online media advertising so as to reinforce our sales and marketing activities and enhance our brand exposure. Apart from the large-scale product exhibition held in the well-known Shin Kong Place in Beijing, the Group also added catwalk show elements into the product display of its 2013 Autumn/Winter Product Release Conference, which attracted prominent coverage by a number of PRC media. Besides, the Company also invited a renowned actor in Hong Kong to host the opening ceremony of our Happy Valley Lifestyle Shop, which successfully attracted extensive coverage by the media.

## Enhanced corporate facilities

In line with the future growth of the Group, Huizhou Plant commenced operation in May 2013. Currently, the Group is boosting the production efficiency of the Huizhou Plant, as well as actively looking into ways to address the shortage of experienced labour. The plant originally operated by its subsidiary Forcetech (Shenzhen) Company Limited ("Forcetech (Shenzhen)") has completed the entire relocation process in 2013.

The timely and accurate generation and analysis of sales data is crucial for the Group to better understanding customers' behavior, improving shop efficiency, controlling inventory levels and monitoring aggregate customer trends. To realize this advantage, the Group has been gradually installing points of sale systems ("POS systems") in its self-operated POS in the PRC during the Review Period. As at 31 December 2013, the Group has installed POS systems in 85 POS across the PRC, covering about 47% of its self-operated POS. Whilst our self-operated POS in the Hong Kong and Macau region are already fully equipped with POS systems, the Group plans to have POS systems in all of its self-operated POS throughout the PRC market by the end of 2014.

## Adoption of a multi-brand strategy; enriching product collection

The Group adopts a multi-brand strategy to fulfill the needs of consumers in different market segments. In addition to our proprietary brands of "Casablanca" and "Casa Calvin", we have also reaped satisfactory sales of products from our exclusively franchised "Elle Deco" (a renowned French fashion brand) in the PRC, Hong Kong and Macau. In addition, we have also engaged in the sales of other international brands, including "Tru Trussardi", "Home Concept", "Move" and "Centa Star" in the PRC, Hong Kong and Macau. In addition to the popular Disney cartoon characters, we have also been authorised to sell some locally branded bedding products such as "B Duck" to target the children's market during the Year. Boosted by Disney's release of its new movie "Monsters University" and the gigantic "Rubber Duck" created by a Dutch artist to tour across Asia this year, both "Monsters University" and "B Duck" collection have received overwhelming responses.

It is our mission to provide customers with products guided by the concept of "Contemporary, Innovative and Functional". During the Year, we have successfully attained a patent for our newly developed "honeycomb structure functional fabric" applied in the "3D honeycomb blanket". The new functional fabric is soft and light, effective in heat retention and moisture absorption, as well as antibacterial and deodorizing. During 2013, sales of our proprietary brands, including our core brands "Casablanca" and "Casa Calvin", maintained continuous growth with turnover increasing by 4.8% from HK$390.3 million in 2012 to HK$408.9 million for the Year. The aggregate turnover for our licensed brands also maintained growth with turnover increasing by 2.2% from HK$82.3 million in 2012 to HK$84.2 million for the Year.

## Future Prospects

Looking ahead, as the global economy has much uncertainty and the growth of Chinese economy tends to be slowing down, the overall consumer confidence remains low. However, the PRC government has announced its target to double the 2010 GDP and per capita income for both urban and rural residents by 2020 and continued to promote the advance of urbanization, thus the Group believes that the PRC retail market can still sustain a steady growth. The Group is optimistic yet cautious about the overall economic situation in the PRC in 2014. Facing the challenge of increasing costs of rent and wages, along with the competition to the traditional retail channels from online sales, the Group is adopting the strategy of "**Broadening income sources while saving cost; Exploring business opportunities actively and pragmatically**" to pave the way for future business expansion.

### Control operating costs, streamline internal structure and raise management professionalism

Spiraling increases in costs will present a great challenge for each retail industry segment. The Group will dedicate efforts to control selling expenses and participate in the promotional activities of department stores selectively to control the expenditures of concession counters in department stores. Moreover, good management will facilitate enterprises to bring their businesses to success with less effort. The Group will carry out a comprehensive adjustment of its internal structure aimed at providing staff and distributors with detailed guidelines and targets. At the same time we will also continue installing the POS system in each self-operated POS to capture the most up-to-date sales data, develop more innovative and functional products, and optimize inventory management.

### Consolidate its competitive edge in regional markets, explore new business models and develop new markets

With more than 20 years' experience in the Hong Kong bedding products market, the Group pays close attention to the Hong Kong and Macau market, while remaining committed to apply its experience and expand its business from these regions to Guangdong Province and the whole southern China region, and further extends its presence from there across the Greater China Region. Therefore, it is vital for the Group to consolidate its strengths in the Greater China Region for its future development. For the immediate future, we are focusing on expanding the sales network in Guangdong Province, as well as enhancing brand promotion efforts in southern China to boost the market share in that region. On the other hand, we will try to find appropriate collaborative partners to develop new markets.

Under the challenge from e-commerce, the Group will seize the opportunity brought about by this trend. We will explore new business models on an ongoing basis, and proactively evaluate a hybrid online-offline operating model to lay the solid groundwork to cope with the future upsurge in e-commerce.

Adhering to the design concept of "Contemporary, Innovative and Functional" in product features, the Group endeavors to provide consumers with more reasonably priced, high-quality and stylishly-designed bedding products. We will also introduce suitable and trendy home accessories to enrich our selling series. We are confident that we will be able to achieve a steady growth in China's bedding products market which is offering outstanding potential, and continue to bring better returns to our shareholders.

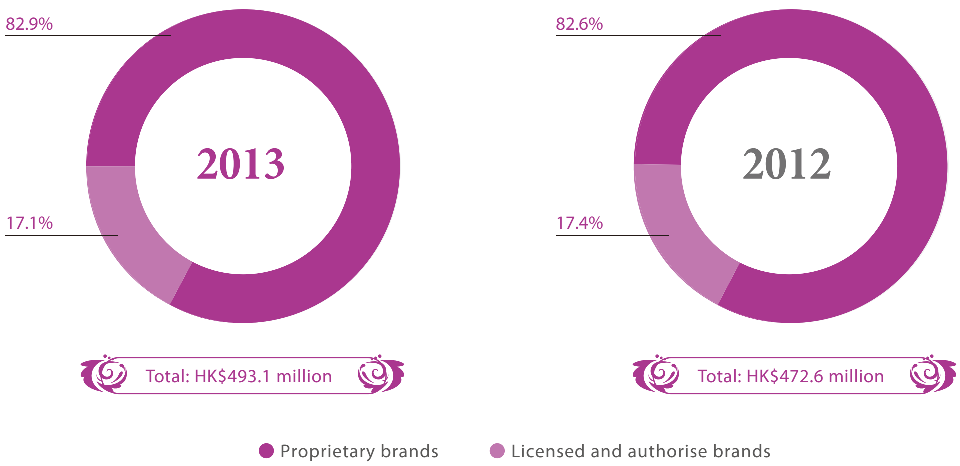
# Management Discussion and Analysis

## Financial Review

### Revenue

For the year 2013, the Group recorded revenue of HK$493.1 million (2012: HK$472.6 million), representing a growth of 4.3% over 2012. The growth in revenue was primarily attributable to (i) an increase in consumer demand of our products in the PRC, and (ii) an increase in sales to wholesale customers in Hong Kong.

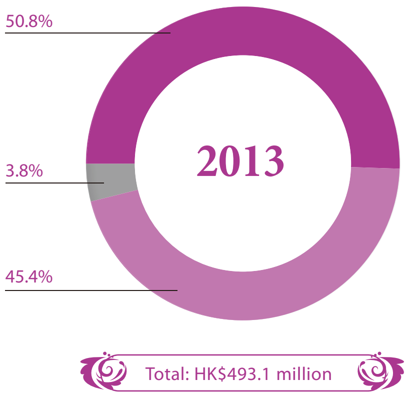
**Breakdown of revenue by brands:**

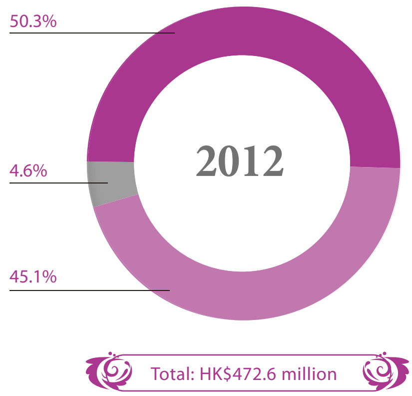



| | **2013** | | 2012 | | Change | |
|---|---|---|---|---|---|---|
| | **HK$'000** | **% of Total** | HK$'000 | % of Total | HK$'000 | % |
| Proprietary brands | **408,947** | **82.9%** | 390,253 | 82.6% | 18,694 | 4.8% |
| Licensed and authorised brands | **84,157** | **17.1%** | 82,340 | 17.4% | 1,817 | 2.2% |
| **Total** | **493,104** | **100.0%** | 472,593 | 100.0% | 20,511 | 4.3% |

Casablanca and Casa Calvin are our major proprietary brands. Sales of proprietary brands achieved a continued rising trend in sales for 2013, which rose by 4.8% to HK$408.9 million (2012: HK$390.3 million). Sales of our licensed and authorised brands for 2013 increased by 2.2% to HK$84.2 million (2012: HK$82.3 million).

## Breakdown of revenue by products:




● Bed linens ● Duvets and pillows ● Other home accessories

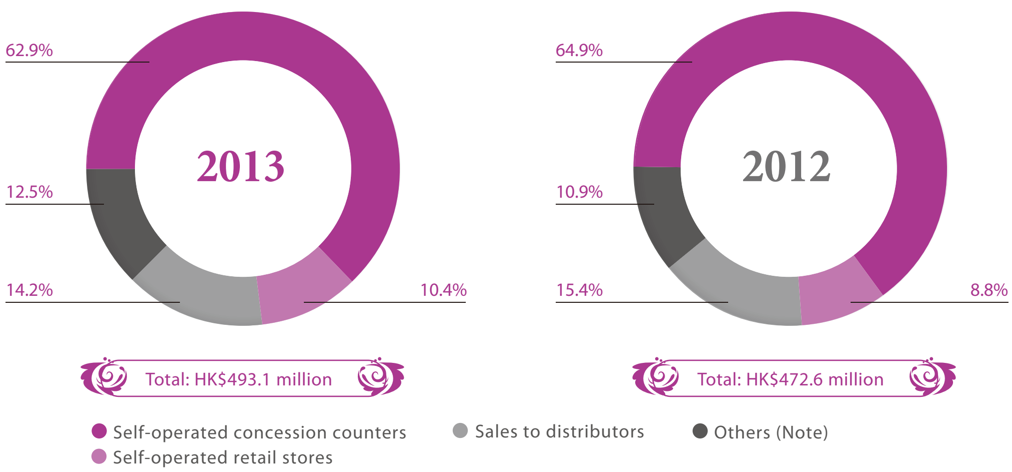
| | **2013** | | 2012 | | Change | |
|---|---|---|---|---|---|---|
| | **HK$'000** | **% of Total** | HK$'000 | % of Total | HK$'000 | % |
| Bed linens | **250,613** | **50.8%** | 237,796 | 50.3% | 12,817 | 5.4% |
| Duvets and pillows | **223,577** | **45.4%** | 213,020 | 45.1% | 10,557 | 5.0% |
| Other home accessories | **18,914** | **3.8%** | 21,777 | 4.6% | (2,863) | -13.1% |
| **Total** | **493,104** | **100.0%** | 472,593 | 100.0% | 20,511 | 4.3% |

Bed linens and duvets and pillows are major products of the Group. Sales of bed linens and duvets and pillows for 2013 were HK$250.6 million (2012: HK$237.8 million) and HK$223.6 million (2012: HK$213.0 million) respectively. Both sales of bed linens and duvets and pillows increased with similar rate of growth.

CASABLANCA HOME

# Management Discussion and Analysis

**Breakdown of revenue by channels:**

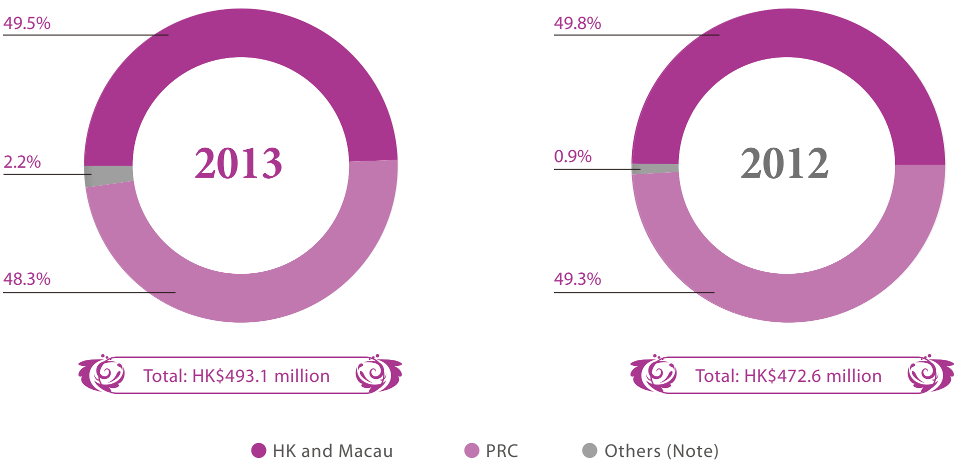



| | **2013** | | 2012 | | Change | |
|---|---|---|---|---|---|---|
| | **HK$'000** | **% of Total** | HK$'000 | % of Total | HK$'000 | % |
| **Self-operated retail sales** | | | | | | |
| Self-operated concession counters | **310,207** | **62.9%** | 306,809 | 64.9% | 3,398 | 1.1% |
| Self-operated retail stores | **51,206** | **10.4%** | 41,387 | 8.8% | 9,819 | 23.7% |
| **Sub-total for self-operated retail sales** | **361,413** | **73.3%** | 348,196 | 73.7% | 13,217 | 3.8% |
| **Sales to distributors** | **69,951** | **14.2%** | 72,904 | 15.4% | (2,953) | -4.1% |
| **Others** (Note) | **61,740** | **12.5%** | 51,493 | 10.9% | 10,247 | 19.9% |
| **Total** | **493,104** | **100.0%** | 472,593 | 100.0% | 20,511 | 4.3% |

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

Self-operated retail sales for 2013 amounted to HK$361.4 million (2012: HK$348.2 million), accounting for 73.3% of the total revenue and representing an increase of 3.8% as compared to that of 2012. Sales to distributors for 2013 decreased by 4.1% to HK$70.0 million (2012: HK$72.9 million). The decrease in sales to distributors for 2013 was mainly attributable to the decrease in number of distributors in the PRC during the Year. Sales to others for 2013 was HK$61.7 million (2012: HK$51.5 million) representing a significant increase of 19.9% primarily due to sales of duvets under a bulk-purchase agreement to a wholesale customer in Hong Kong and the increase in export sales to overseas markets.

**Breakdown of revenue by geographic regions:**




| | **2013** | | 2012 | | Change | |
|---|---|---|---|---|---|---|
| | **HK$'000** | **% of Total** | HK$'000 | % of Total | HK$'000 | % |
| HK and Macau | **244,191** | **49.5%** | 235,292 | 49.8% | 8,899 | 3.8% |
| PRC | **237,901** | **48.3%** | 233,024 | 49.3% | 4,877 | 2.1% |
| Others (Note) | **11,012** | **2.2%** | 4,277 | 0.9% | 6,735 | 157.5% |
| **Total** | **493,104** | **100.0%** | 472,593 | 100.0% | 20,511 | 4.3% |

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

Revenue from Hong Kong and Macau, the PRC and others for 2013 were HK$244.2 million (2012: HK$235.3 million), HK$237.9 million (2012: HK$233.0 million) and HK$11.0 million (2012: HK$4.3 million) respectively. Revenue from others increased in 2013 due to the increase in export sales to overseas markets.

## Gross profit and gross profit margin

Gross profit increased by 4.0% to HK$303.8 million for 2013 when compared to HK$292.1 million for 2012. The gross profit margin for 2013 was 61.6% which was slightly lower than 61.8% for 2012. Proper cost control measures maintained the gross margin for 2013 at similar level as 2012. The increase in production overhead that was induced by soaring labour wages and increasing number of workers in the PRC was offset by the decrease in raw materials costs during the Year.

# Management Discussion and Analysis

## Other gains and losses

Other gains and losses increased by 56.8% to HK$4.2 million for 2013 as compared to HK$2.7 million for 2012. The increase in other gains and losses amounted to HK$1.5 million for 2013 was attributable to the gain amounted to HK$2.7 million on disposal of fixed assets and the decrease in provision for doubtful debts amounted to HK$1.8 million and the increase in exchange gains amounted to HK$1.2 million offset by the absence of a gain on disposal of a subsidiary amounted to HK$4.2 million for 2012 prior to the reorganisation in preparation for the listing.

## Operating expenses

Selling and distribution costs for 2013 increased by 25.3% to HK$220.8 million from HK$176.3 million for 2012. The increase in selling and distribution costs was mainly due to extra concessionaire commissions paid for participation in more promotional activities introduced by department stores, rises in staff costs, more expenditures in advertising and promotions and the share-based payments as compared to 2012.

Administrative expenses for 2013 increased by 23.1% to HK$64.0 million compared with HK$52.0 million for 2012. The increase was mainly due to the increase in the share-based payments and post-listing professional expenses for 2013.

The pre-IPO share option scheme was established for purposes of rewarding eligible persons, including Directors, employees, suppliers and others, for their contributions to the Group before listing of the Company's shares on The Stock Exchange of Hong Kong Limited, motivating them to optimise their performance efficiency and retaining relationships with them for the benefit of the Company and its shareholders as a whole. Despite share options under the pre-IPO share option scheme with different vesting dates, the share-based payments are amortised over the period from the grant date to respective vesting dates of share options according to HKFRS 2 "Share-based Payment". The estimated total amount of share-based payments is about HK$16.2 million, which will be amortised during the period from 7 November 2012 till 22 November 2014 according to HKFRS 2 "Share-based Payment", and the total amount amortised in 2013 was HK$13.1 million.

## Listing expenses

During the year 2012, the Group incurred non-recurring listing expenses of HK$21.5 million, which related to the initial public offering (the "IPO") of the Company's shares, as recognised in the Group's consolidated statement of profit or loss and other comprehensive income.

## Taxation

The Group's effective tax rate for 2013 was 50.7% as compared to 29.4% for 2012. The increase in effective tax rate for 2013 was mainly due to the inclusion of withholding tax and deferred tax on accumulated distributable profit of a PRC wholly-owned subsidiary, almost all share-based payments not being tax deductible and operation losses of PRC subsidiaries. Had these items for 2013 and listing expenses, share-based payments and gain on disposal of a subsidiary for 2012 been excluded, the effective tax rate for 2013 and 2012 would become approximately 20.7% and 20.4% respectively.

## Profit for the Year

The Group's profit for the year for 2013 decreased to HK$11.1 million from HK$32.0 million for 2012, representing a decrease of 65.5%. This was mainly attributable to the increase in selling and distribution costs as well as share-based payments.

If the sum of share-based payments and listing expenses amounted to HK$13.1 million for 2013 and HK$22.6 million for 2012 are excluded, the adjusted profit for 2013 would decrease by 55.8% to HK$24.2 million as compared to HK$54.6 million for 2012.

EBITDA represents gross profit less selling and distribution costs and administrative expenses adding back depreciation, amortisation and share-based payments. The EBITDA for 2013 decreased by 40.4% to HK$42.4 million from HK$71.2 million for 2012.

## Major operating efficiency ratios

| | **2013** | 2012 |
|---|---|---|
| Inventory turnover (days) | **184.5** | 165.5 |
| Trade and bills receivables turnover (days) | **73.4** | 65.2 |
| Trade and bills payables turnover (days) | **141.6** | 103.9 |

### 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 increase in inventory turnover to 184.5 days for 2013, from 165.5 days for 2012, was due to inventory kept as at 31 December 2013 for sales to the wholesale customer with bulk-purchases in January 2014 and the increase in self-operated POS.

### Trade and bills receivables turnover

The trade and bills receivables turnover is equal to the average of opening and closing trade and bills receivables divided by total sales for the year and multiplied by 365 days. The trade and bills receivables turnover increased to 73.4 days for 2013 from 65.2 days for 2012 due to trade receivables from some distributors in the PRC prolonged.

Details of the Group's aged analysis of trade and bills receivables are set out in note 20 to the consolidated financial statements. Up to the date of this annual report, 59.5% of total trade and bills receivable and 33.8% of those aged more than 60 days (based on the invoice dates) as at 31 December 2013 have been settled.

The management of the Group closely monitors and reviews the credit conditions of department stores, distributors and wholesale customers. For those customers with long outstanding receivables, we urge payments by sending reminders, stop further delivery of goods and take legal actions to enforce payments if the situation persists.

### Trade and bills payables turnover

The trade and bills payables turnover is equal to the average of opening and closing trade and bills payables divided by total cost of sales for the year and multiplied by 365 days. The trade and bills payables turnover increased to 141.6 days for 2013 from 103.9 days for 2012, primarily due to longer credit periods granted by more suppliers.

# Management Discussion and Analysis

## Liquidity and capital resources

The gearing structure is set out below:

| | As at 31 December | |
|---|---|---|
| | **2013** **HK$'000** | 2012 HK$'000 |
| Total bank borrowings | **136,223** | 95,858 |
| Pledged bank deposit and bank balances and cash | **135,641** | 137,774 |
| (Net bank borrowing)/Net cash | **(582)** | 41,916 |
| Total assets | **559,485** | 500,951 |
| Total liabilities | **255,713** | 229,102 |
| Total equity | **303,772** | 271,849 |

The Group has been adhering to the principal of prudent financial management in order to minimise financial and operational risks. The Group generally finances its operations with internally generated cash flows. Bank borrowings are primarily for financing the construction of the Huizhou Plant. The financial position of the Group was healthy during 2013.

### Pledged bank deposit and bank balances and cash

As at 31 December 2013, the pledged bank deposit of the Group was approximately HK$1.2 million (2012: Nil), which was denominated all in Hong Kong dollars, and the bank balances and cash of the Group were approximately HK$134.4 million (2012: HK$137.8 million) which were denominated in Hong Kong dollars and Renminbi except for about 3.5% in United States dollars and Euro. Details of the Group's pledged bank deposit and bank balances and cash are set out in note 21 to the consolidated financial statements.

### Bank borrowings

As at 31 December 2013, the bank borrowings of the Group was approximately HK$136.2 million (2012: HK$95.9 million), which were denominated as to 81.3% and 18.7% in Hong Kong dollars and Renminbi respectively, with about 8.8% being fix-rated borrowings with fixed interest rates at 7.32% per annum and about 91.2% being variable-rated borrowings with effective interest rates ranging from 1.71% to 7.32% per annum. Details of the Group's bank borrowings are set out in note 23 to the consolidated financial statements.

On 14 March 2014, Casablanca Hong Kong Limited, Casablanca International Limited and Casablanca Home Limited, the wholly-owned subsidiaries of the Company, as borrowers (the "Borrowers"), the Company as guarantor confirmed their acceptance of the facility letters (the "Facility Letters") issued by Bank of China (Hong Kong) Limited as lender (the "Lender"). The Facility Letters, which consist of banking facilities granted by the Lender to the Borrower, impose a covenant relating to specific performance of the Controlling Shareholders (as defined below) of the Company.

Under the Facility Letters, it is (among other matters) an event of default if Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung (the "Controlling Shareholders") collectively cease to hold and control shares of the Company directly or indirectly so that they collectively cannot remain as the single largest group of shareholders of the Company, and in such event all facilities under the Facility Letters will be terminated and all outstanding loans under the Facility Letters may immediately become payable on demand. At the date of this annual report, the Controlling Shareholders ultimately hold 74.7% of the issued share capital of the Company through World Empire Investment Inc.

### Current ratio

The Group's total current assets increased to HK$369.7 million as at 31 December 2013 from HK$329.2 million as at 31 December 2012, while total current liabilities decreased to HK$188.8 million as at 31 December 2013 from HK$196.9 million as at 31 December 2012. As a result, the current ratio improved to 2.0 as at 31 December 2013 from 1.7 as at 31 December 2012.

### Gearing ratio

Gearing ratio is calculated as total bank borrowings divided by total equity at the end of the year, whereas the net gearing ratio is calculated as net bank borrowings divided by total equity. As at 31 December 2013, the gearing ratio was 44.8% (2012: 35.3%) with the increase in the bank borrowings by HK$40.4 million for financing the construction of the Huizhou Plant. The net gearing ratio was merely 0.2% at 31 December 2013. The Group was at net cash position at 31 December 2012.

### Pledge of assets

As at 31 December 2013, the Group had pledged its leasehold land and buildings, prepaid lease payments and bank deposit with an aggregate carrying value of HK$157.8 million (2012: HK$58.3 million) to certain banks in Hong Kong and the PRC to secure banking facilities granted to the Group.

### Capital expenditures

During the year 2013, the Group invested HK$26.7 million (2012: HK$122.8 million) for construction of Huizhou Plant and acquisition of property, plant and equipment.

### Capital commitments

As at 31 December 2013, the Group had no capital commitment (2012: HK$8.4 million).

## Use of Proceeds from the Listing

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 23 November 2012 (the "Listing"). The Company received net proceeds raised from the Listing of approximately HK$44.2 million.

The use of net proceeds until 31 December 2013 was as below:

| | **Planned Amount** HK$ million | **Utilised Amount** HK$ million | **Unutilised Amount** HK$ million |
|---|---|---|---|
| Expansion of sales network | 37.0 | 14.4 | 22.6 |
| Upgrade of management information system | 4.0 | 0.4 | 3.6 |
| Brand building and product promotion | 2.2 | 2.2 | – |
| General working capital | 1.0 | 1.0 | – |
| Total | 44.2 | 18.0 | 26.2 |

# Management Discussion and Analysis

## Share Capital

The total number of shares of the Company as at 31 December 2013 was 200,788,000 shares (2012: 200,000,000 shares) of HK$0.1 each. As at 31 December 2013, the total issued share capital of Company was HK$20,079,000 (2012: HK$20,000,000).

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 pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") before the Listing. Details of the Pre-IPO Share Option Scheme and movements of share options during the Year are set out in note 26 to the consolidated financial statements.

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

## Dividend

The Directors do not recommend the payment of a final dividend and propose that the profit for the Year be retained.

During the year 2012, dividends of HK$25.0 million were paid to the shareholders before the Listing. Details of dividends paid are set out in note 14 to the consolidated financial statements.

## Employee and Remuneration Policy

As at 31 December 2013, the employee headcount of the Group was 965 (2012: 990) and the total staff costs, including directors' emoluments, for the Year amounted to HK$110.2 million (2012: HK$80.1 million). The decrease in employee headcount as at 31 December 2013 was primarily due to the decrease in number of sales staff after the consolidation of sales teams during the Year. The significant increase in staff costs for the Year was due to the amount of share-based payments increased by HK$12.0 million, more workers employed during the period with two factories parallel running in the first half of the Year and the soaring salaries and wages in the PRC.

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.

## Contingent Liabilities

As at 31 December 2013, the Group did not have material contingent liabilities.

## Significant Investments

As at 31 December 2013, the Group did not have significant investments.

## Foreign Exchange Exposure

The Group carries on its business mainly in Hong Kong and the PRC. The Group is exposed to foreign exchange risk principally in Renminbi which can be largely offset by revenue and expenditure. It is the policy of the Group to continue maintaining the balance of its revenue and expenditure in the same currency. The Group does not expect any appreciation or depreciation of the Hong Kong Dollar against foreign currencies to materially affect the Group's results on operations. The Group 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.

## Material Acquisitions and Disposals of Subsidiaries and Associated Companies

Save as disclosed in notes 1 and 28 to the consolidated financial statements for acquisitions and disposals of subsidiaries as part of group reorganisation before the Listing, the Group did not have any acquisitions and disposals of subsidiaries and associated companies after the Listing.

# Directors and Senior Management

## Executive Directors

**Mr. Cheng Sze Kin (鄭斯堅)**, aged 53, 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 the Director of all the subsidiaries of the Group incorporated in Hong Kong and the British Virgin Islands ("BVI") and the legal representative of all the subsidiaries of the Group established in the PRC. He is responsible for strategic planning of the Group, in particular product development and production. He has over 20 years of experience in the production of bedding products and textile trading. Mr. Cheng 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 Tsan (鄭斯燦)**, aged 41, 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 the Director of all the subsidiaries of the Group incorporated in Hong Kong and BVI. He is responsible for strategic planning of the Group, in particular product development and sales management in the PRC. He has over 20 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. Mr. Cheng is awarded for "Young Industrialists of Hong Kong 2013" by Federation of Hong Kong Industries.

**Ms. Wong Pik Hung (王碧紅)**, aged 47, has been a Director of a subsidiary of the Group 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 the Director of all the subsidiaries of the Group 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 20 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.

**Mr. Sung Shuk Ka (宋叔家)**, aged 45, joined the Group as the Chief Executive Officer in June 2010 and was appointed as an Executive Director on 22 October 2012. He is responsible for strategic planning and general management of the Group. He has over 20 years of experience in finance and investment. Prior to joining the Group, Mr. Sung has worked for several financial institutions and listed companies. Mr. Sung was the head of the investment operations department of Shanghai Industrial Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 363) from August 2002 to January 2009. Mr. Sung holds a bachelor's degree in economics from Xiamen University and a master degree in business administration from the Chinese University of Hong Kong.

## Independent Non-executive Directors

**Mr. Tse Yat Hong (謝日康)**, aged 44, was appointed as an Independent Non-executive Director on 22 October 2012. He has extensive experience in accounting, finance and corporate governance matters of listed companies and has broad knowledge in accounting and financial rules and regulations in Hong Kong and China. Mr. Tse is currently the chief financial officer of Shenzhen International Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code:152). He is also a non-executive director of Shenzhen Expressway Company Limited, a company listed on the Main Board of the Stock Exchange (stock code: 548) and the Shanghai Stock Exchange (stock code: 600548), and an independent non-executive director of China Huirong Financial Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1290). Mr. Tse worked in the audit profession in one of the international accounting firms for over 7 years. He is a Fellow of the Hong Kong Institute of Certified Public Accountants and a FCPA of CPA Australia. Mr. Tse graduated from Monash University in Australia with a bachelor's degree in accounting and computer science.

**Mr. Leung Lin Cheong (梁年昌)**, aged 60, was appointed as an Independent Non-executive Director on 22 October 2012. He has over 30 years of experience in legal affairs and compliance, listed corporate secretarial practice and administration. Mr. Leung was the chief legal and compliance officer of Shanghai Industrial Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 363) and its parent company Shanghai Industrial Investment (Holdings) Co. Ltd., and he had been the company secretary of Shanghai Industrial Holdings Limited. He is also an independent non-executive director of Guangzhou Automobile Group Co., Ltd, a company listed on the Main Board of the Stock Exchange (stock code: 2238) and Shanghai Stock Exchange (stock code: 601238). He is a fellow member of each of The Institute of Chartered Secretaries and Administrators, The Hong Kong Institute of Chartered Secretaries, The Chartered Institute of Management Accountants, the Hong Kong Institute of Certified Public Accountants and The Hong Kong Institute of Directors and also a professional member of the Hong Kong Institute of Human Resource Management. Mr. Leung has served as a member of the Standing Committee of the Legal Affairs Steering Committee of the Hong Kong Chinese Enterprises Association from 2007 to 2013. Mr. Leung has also been appointed as a Committee Member of the Financial and Regulatory Affairs Committee of the Chamber of Hong Kong Listed Companies since June 2012. He holds a master degree in law which is a long distance course from University of London and a master degree in business administration from Brunel University in the United Kingdom in conjunction with Henley Management College.

**Mr. Li Kai Fat (李啟發)**, aged 55, was appointed as an Independent Non-executive Director on 22 October 2012. He has over 25 years of experience in sales management which include 10 years in China retail market. Mr. Li has been the general manager of J.M. Times Garments (Shenzhen) Co., Ltd. since March 2007. He obtained a diploma in business management from the Hong Kong Polytechnic University.

# Directors and Senior Management

## Senior Management

**Mr. Ho Yiu Leung (何耀樑)**, aged 47, 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 20 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 and the Association of Chartered Certified Accountants and also an associate member of each of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. He holds a master degree in business administration which is a long distance course from the University of Strathclyde.

**Mr. Gao Yan (高岩)**, aged 55, joined the Group in June 2007. He is currently the General Manager of Casablanca Home (Huizhou) Company Limited. He is responsible for the production, procurement and logistics management in the PRC. Prior to joining the Group, he had been the general manager of Shaanxi Tanghua No. 3 Textile Co., Ltd. (陝西唐華三棉有限責任公司) from 1983 to 2004. Mr. Gao obtained a diploma in weaving machinery from Northwest Institute of Textile Science and Technology (西北紡織工學院) and was awarded a qualification of senior engineer from Guangdong Province Personnel Office (廣東省人事廳).

**Mr. Lin Yi Kai (林奕凱)**, aged 44, 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 our operations in the PRC. Mr. Lin has approximately 20 years of experience in audit and accounting. He was awarded qualification of 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 International Financial Management Association and The Chinese Institute of Certified Financial Planners. Mr. Lin holds a bachelor's degree in accounting which is a long distance course from Guangdong Polytechnic Normal University.

## Company Secretary

**Mr. Ho Yiu Leung (何耀樑)**, aged 47, 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 2013.

## Principal Activities

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 34 to the consolidated financial statements.

## Results and Appropriations

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on page 45 of this annual report.

The Directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

## 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 16 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.

## Use of Proceeds from the Listing

The shares of the Company have been listed on the Main Board of the Stock Exchange since 23 November 2012. The Company received net proceeds raised from the Listing of approximately HK$44,161,000.

The use of net proceeds until 31 December 2013 was as below:

| | **Planned Amount** HK$ million | **Utilised Amount** HK$ million | **Unutilised Amount** HK$ million |
|---|---|---|---|
| Expansion of sales network | 37.0 | 14.4 | 22.6 |
| Upgrade of management information system | 4.0 | 0.4 | 3.6 |
| Brand building and product promotion | 2.2 | 2.2 | – |
| General working capital | 1.0 | 1.0 | – |
| Total | 44.2 | 18.0 | 26.2 |

# Directors' Report

## Distributable Reserves

The Company's reserves available for distribution to shareholders as at 31 December 2013 calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$82,537,000, comprising share premium of approximately HK$80,879,000 and retained earnings of HK$1,658,000.

## Directors

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

### Executive Directors:

Mr. Cheng Sze Kin *(Chairman)*
Mr. Cheng Sze Tsan *(Vice Chairman)*
Ms. Wong Pik Hung
Mr. Sung Shuk Ka *(Chief Executive Officer)*

### Independent Non-executive Directors:

Mr. Tse Yat Hong
Mr. Leung Lin Cheong
Mr. Li Kai Fat

In accordance with Article 16.18 of the Company's Articles of Association ("Articles of Association"), Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung will retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

## 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.

## Directors' and Chief Executive's Interests in Shares

At 31 December 2013, the interests of the Directors and the chief executive and their associates in the shares and share options of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

### Long positions

#### (a) Ordinary shares of HK$0.1 each of the Company

| Name of Director | Nature of interest | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| Mr. Cheng Sze Kin | Interest in a controlled corporation (Note 1) | 150,000,000 | 74.7% |
| Mr. Cheng Sze Tsan | Interest in a controlled corporation (Note 2) | 150,000,000 | 74.7% |
| Ms. Wong Pik Hung | Spouse interest (Note 3) | 150,000,000 | 74.7% |

#### (b) Share options

| Name of Director | Nature of interest | Number of options held | Number of underlying shares interested |
|---|---|---|---|
| Mr. Cheng Sze Kin | Beneficial interest (Note 1) | 4,500,000 | 4,500,000 |
| | Spouse interest (Note 1) | 3,375,000 | 3,375,000 |
| | | 7,875,000 | 7,875,000 |
| Mr. Cheng Sze Tsan | Beneficial interest (Note 2) | 4,125,000 | 4,125,000 |
| Ms. Wong Pik Hung | Beneficial interest (Note 3) | 3,375,000 | 3,375,000 |
| | Spouse interest (Note 3) | 4,500,000 | 4,500,000 |
| | | 7,875,000 | 7,875,000 |
| Mr. Sung Shuk Ka | Beneficial interest | 2,000,000 | 2,000,000 |

# Directors' Report

Notes:

(1) Mr. Cheng Sze Kin is interested in 40% of World Empire Investment Inc. ("World Empire"), which is in turn interested in 74.7% of the Company's issued share capital. Therefore, Mr. Cheng Sze Kin is deemed to be interested in such 74.7% of the Company's issued share capital, by virtue of Mr. Cheng Sze Kin's interests in World Empire. Mr. Cheng Sze Kin is also interested in the options granted under the Pre-IPO Share Option Scheme to subscribe 4,500,000 shares and is deemed to be interested in the options granted to his spouse, Ms. Wong Pik Hung, under the Pre-IPO Share Option Scheme to subscribe 3,375,000 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

(2) Mr. Cheng Sze Tsan is interested in 35% of World Empire, which is in turn interested in 74.7% of the Company's issued share capital. Therefore, Mr. Cheng Sze Tsan is deemed to be interested in such 74.7% of the Company's issued share capital, by virtue of Mr. Cheng Sze Tsan's interests in World Empire. Mr. Cheng Sze Tsan is also interested in the options granted under the Pre-IPO Share Option Scheme to subscribe 4,125,000 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 World Empire, thus, Ms. Wong Pik Hung will be deemed to be interested in 74.7% of the Company's issued share capital. Ms. Wong Pik Hung is also interested in the options granted under the Pre-IPO Share Option Scheme to subscribe 3,375,000 shares and is deemed to be interested in the options granted to her spouse, Mr. Cheng Sze Kin, under the pre-IPO share option scheme to subscribe 4,500,000 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.

Save as disclosed above, none of 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 2013.

## Pre-IPO Share Option Scheme

Particulars of the Company's Pre-IPO Share Option Scheme 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:

| | | | | Number of share options | | | |
|---|---|---|---|---|---|---|---|
| | **Date of grant** | **Exercisable Period** (Note 1) | **Exercise price** HK$ | **Outstanding as at 1.1.2013** | **Exercised during the year** (Note 2) | **Lapsed during the year** | **Outstanding as at 31.12.2013** |
| **Directors and Chief Executive** | | | | | | | |
| Mr. Cheng Sze Kin | 7.11.2012 | 23.5.2013 – 6.11.2022 | 1.2 | 4,500,000 | – | – | **4,500,000** |
| Mr. Cheng Sze Tsan | 7.11.2012 | 23.5.2013 – 6.11.2022 | 1.2 | 4,125,000 | – | – | **4,125,000** |
| Ms. Wong Pik Hung | 7.11.2012 | 23.5.2013 – 6.11.2022 | 1.2 | 3,375,000 | – | – | **3,375,000** |
| Mr. Sung Shuk Ka | 7.11.2012 | 23.5.2013 – 6.11.2022 | 1.2 | 2,000,000 | – | – | **2,000,000** |
| Total Directors and Chief Executive | | | | 14,000,000 | – | – | **14,000,000** |
| **Employees** | 7.11.2012 | 23.5.2013 – 6.11.2022 | 1.2 | 6,800,000 | (708,000) | (988,000) | **5,104,000** |
| **Suppliers** | 7.11.2012 | 23.5.2013 – 6.11.2022 | 1.2 | 120,000 | – | – | **120,000** |
| **Others** | 7.11.2012 | 23.5.2013 – 6.11.2022 | 1.2 | 1,400,000 | (80,000) | (72,000) | **1,248,000** |
| Total | | | | 22,320,000 | (788,000) | (1,060,000) | **20,472,000** |

Notes:

(1) The options, granted on 7 November 2012, are exercisable from 23 May 2013 to 6 November 2022 (both days inclusive) in the following manner:

(i) 40% of the total number of options granted under the Pre-IPO Share Option Scheme commencing 23 May 2013;

(ii) 30% of the total number of options granted under the Pre-IPO Share Option Scheme commencing 23 November 2013; and

(iii) 30% of the total number of options granted under the Pre-IPO Share Option Scheme commencing 23 November 2014.

(2) The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was HK$2.28 per share.

## Arrangements to Purchase Shares and Debentures

Save as disclosed 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.

## Directors' Interests in Contracts of Significance

Other than those transactions disclosed in the section "Continuing Connected Transactions" below, no contract of significance, to which the Company, its holding company or subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Management Contract

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 Company during the year.

## Substantial Shareholders

As at 31 December 2013, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows 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 in the issued share capital of the Company.

### Long positions in ordinary shares of HK$0.1 each of the Company

| Name of shareholder | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|---|---|---|---|
| World Empire | Beneficial owner | 150,000,000 | 74.7% |

Note: World Empire is a company incorporated in BVI, 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.

# Directors' Report

## Independent Non-executive Directors

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.

## Continuing Connected Transactions

During the year, the Company's subsidiaries had the following continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

| | Notes | 2013 HK$'000 |
|---|---|---|
| Rental expenses paid to a related company in the PRC | (a) | **2,170** |
| Rental expenses paid to related companies in Hong Kong | (b) | **2,760** |
| Sales to connected distributors | (c) | **10,280** |

Notes:

(a) The subsidiaries of the Group in PRC have entered into lease agreements with 深圳富盛宏業貿易有限公司 ("Shenzhen Fusheng") which is wholly-owned by Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung, for lease terms until 31 December 2014. The rental expenses paid to Shenzhen Fusheng were for use of the leased properties as office premises in Shenzhen. The rentals were determined by the parties through arm's length negotiations by reference to the market rate for similar premises in the vicinity of each premise.

(b) The subsidiaries of the Group in Hong Kong have entered into 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 lease terms until 31 December 2014. The rental expenses paid to Gain Harvest and Wealth Pine were for use of the leased properties by the Directors as staff quarters in Hong Kong. The rentals were determined by the parties through arm's length negotiations by reference to the market rate for similar premises in the vicinity of each premise.

(c) The subsidiaries of the Group in PRC have entered into distributorship agreements with Mr. Zheng Zhuo Hao, who is a brother-in-law of Mr. Cheng Sze Tsan, and Mr. Zheng Kai Tian, Mr. Zheng Kai Ming and Mr. Zheng Kai Shun, all of whom are cousins of Mr. Cheng Sze Kin and Mr. Cheng Sze Tsan (collectively known as "Connected Distributors"). Prices of products to Connected Distributors are determined with reference to the ex-works price prevalent in the PRC at the time of supply and such pricing policy applies equally to all other distributors of our products.

The Directors are of the opinion that above transactions were conducted in the ordinary course of business of the Group.

The Independent Non-executive Directors have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Deloitte Touche Tohmatsu, the auditor of the Company, was engaged to report on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing findings and conclusions in respect of the continuing connected transactions disclosed by the Group as above in accordance with Rule 14A.38 of the Listing Rules.

## Directors' Interests in 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.

## 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 scheme. 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 PRC. The staff remuneration will be reviewed regularly.

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

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

## Audit Committee

The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Tse Yat Hong, Mr. Leung Lin Cheong and Mr. Li Kai Fat.

The Audit Committee is primarily responsible for the review and supervision of the Group's financial reporting process and internal control system. It has reviewed the accounting principles and practices adopted by the Group and the audited annual results of the Group for the year ended 31 December 2013.

## Major Customers and Suppliers

For the year ended 31 December 2013, sales to the Group's five largest customers and the largest customer accounted for approximately 12.7% and 6.0% respectively of the Group's total turnover for the year.

For the year ended 31 December 2013, the Group's purchases attributable to the five largest suppliers and the largest supplier accounted for approximately 47.7% and 13.7% respectively of the Group's total purchases for the year.

At no time during the year did a Director, an associate of a Director or a shareholder of the Company (which to the 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.

## 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.

# Directors' Report

## No Changes in Articles of Association

The Company's current Articles of Association were adopted on 22 October 2012. There have been no changes in the Company's Articles of Association up to the date of this report.

## Pre-Emptive Rights

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

## Annual General Meeting

The Annual General Meeting of the Company for the year ended 31 December 2013 is scheduled to be held on Friday, 23 May 2014 (the "AGM"). A notice convening the Annual General Meeting will be issued and disseminated to shareholders of the Company in due course.

## Closure of Register of Members

The share register of the Company will be closed from Tuesday, 20 May 2014 to Friday, 23 May 2014 (both days inclusive), during which no transfer of shares will be effected. In order to be eligible to attend and vote at the forthcoming AGM of the Company, all completed transfer documents accompanying with the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on Monday, 19 May 2014.

## Corporate Governance Practices Code

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules (the "CG Code") as its own code of corporate governance. The Company has complied with the code provisions as set out in the CG Code during the year ended 31 December 2013, save for the following:

Under Code Provision A.6.7 of the CG Code, the independent non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders. Under Code Provision E.1.2, the chairman of the Board as well as Board members should be available to answer questions at the annual general meeting. At the annual general meeting of the Company held on 16 May 2013 (the "2013 AGM"), an Independent Non-executive Director, who is also the chairman of the Audit Committee, was unable to attend the 2013 AGM due to other pre-arranged business engagements. Despite his absence, all other members of the Audit Committee together with the external auditor attended the 2013 AGM being able to answer relevant questions raised by and understand the views of the shareholders of the Company thereat.

## 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$186,000.

## Auditor

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

**Cheng Sze Kin**
*Chairman*
Hong Kong, 24 March 2014

# Corporate Governance Report

The Board and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. 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.

## Corporate Governance Practices

The Company has adopted the code provisions on 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 as set out in the CG Code during the year ended 31 December 2013 (the "Review Period"), save for the following:

Under Code Provision A.6.7 of the CG Code, the independent non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders. Under Code Provision E.1.2, the chairman of the Board as well as Board members should be available to answer questions at the annual general meeting. At the 2013 AGM, an Independent Non-executive Director, who is also the chairman of the Audit Committee, was unable to attend the 2013 AGM due to other pre-arranged business engagements. Despite his absence, all other members of the Audit Committee together with the external auditor attended the 2013 AGM being able to answer relevant questions raised by and understand the views of the shareholders of the Company thereat.

## Directors' Securities Transactions

The Company has adopted its own code of conduct for the Directors in their dealing in Company's securities on terms no less than the Model Code. Having made specific enquiry to all Directors, all the Directors confirmed that they had complied with the required standard of dealings throughout the Review Period.

## 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.

### Board Composition

During the Review Period and subsequently up to the date of this annual report, the Board comprised four 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:

### Executive Directors

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

### Independent Non-executive Directors

Mr. Tse Yat Hong
Mr. Leung Lin Cheong
Mr. Li Kai Fat

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 22 to 24 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.

## 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 for the benefits of diversity on the Board.

As at the date of this report, the Board comprises seven Directors. One of them is a woman. All the Executive Directors possess extensive experience in management and the design, production and marketing of bedding products while the three Independent Non-executive Directors possess professional knowledge and broad experience in finance, law and management 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.

## Directors' Continuing Professional Development

All Directors are encouraged to participate in continuous professional development courses and seminars to develop and refresh their knowledge and skills. The Company updates the Directors 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.

According to records provided by the Directors, a summary of training received by the Directors for the year ended 31 December 2013 is as follows:

| Directors | Type 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 |
| Mr. Sung Shuk Ka | A, B |
| **Independent Non-executive Directors** | |
| Mr. Tse Yat Hong | A, B |
| Mr. Leung Lin Cheong | A, B |
| Mr. Li Kai Fat | A, B |

# Corporate Governance Report

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 of the Company; and

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

The Board is responsible for performing the corporate governance duties as set out in Code Provision D.3 of the CG Code.

## Board Meetings

During the Review Period, the Board considered that all meetings had been legally and properly convened. 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 of at least 14 days convening the Board meeting was despatched to the Directors setting out the matters to be discussed. At the meeting, the Directors were provided with the relevant documents to be discussed and approved. The Company Secretary was responsible for keeping minutes for the Board meetings.

The minutes of Board meetings record in sufficient details the matters considered by the Board, including all concerns raised by the Directors and dissenting views expressed. The minutes of all Board meetings and Board committee meetings and written resolutions signed by all Directors were kept by the Company Secretary and are available for inspection by any Director, 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 of the Company held for the year ended 31 December 2013 is set out in the table below:

| | Number of Meetings Attended/ Held | | | | |
|---|---|---|---|---|---|
| | **Board** | **Audit Committee** | **Remuneration Committee** | **Nomination Committee** | **Annual General Meeting** |
| **Executive Directors** | | | | | |
| Mr. Cheng Sze Kin *(Chairman)* | 5/5 | N/A | N/A | 1/1 | 1/1 |
| Mr. Cheng Sze Tsan *(Vice-chairman)* | 5/5 | N/A | N/A | N/A | 1/1 |
| Ms. Wong Pik Hung | 5/5 | N/A | N/A | N/A | 1/1 |
| Mr. Sung Shuk Ka *(Chief Executive Officer)* | 5/5 | N/A | N/A | N/A | 1/1 |
| **Independent Non-executive Directors** | | | | | |
| Mr. Tse Yat Hong | 5/5 | 4/4 | 2/2 | 1/1 | 0/1 |
| Mr. Leung Lin Cheong | 4/5 | 4/4 | 2/2 | 1/1 | 1/1 |
| Mr. Li Kai Fat | 5/5 | 4/4 | 2/2 | 1/1 | 1/1 |

Apart from five Board meetings held during the year ended 31 December 2013, approvals from the Board were also obtained by written resolutions signed by all the Board members on a number of matters. During the year, the Chairman held a meeting with all the Independent Non-executive Directors without the presence of Executive Directors.

Under Code Provision A.6.7 of the CG Code, the independent non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders. Under Code Provision E.1.2, the chairman of the Board as well as Board members should be available to answer questions at the annual general meeting. At the 2013 AGM, Mr. Tse Yat Hong, who is an Independent Non-executive Director and also the chairman of the Audit Committee, was unable to attend the 2013 AGM due to other pre-arranged business engagements. Despite his absence, all other members of the Audit Committee together with the external auditor attended the 2013 AGM being able to answer relevant questions raised by and understand the views of the shareholders of the Company thereat.

## Independent Non-executive Directors

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. The Board considers that all Independent Non-executive Directors are being considered to be independent by reference to the factors stated in the Listing Rules.

## 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 entered into with the Company.

# Corporate Governance Report

## 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.

## Chairman and Chief Executive Officer

Code Provision A.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. To ensure a balance of power and authority, the Company has appointed Mr. Cheng Sze Kin as the Chairman and Mr. Sung Shuk Ka as the Chief Executive Officer. Both of Mr. Cheng Sze Kin and Mr. Sung Shuk Ka are also Executive Directors of the Company.

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.

The Board announced on 31 March 2014 that Mr. Sung Shuk Ka had tendered his resignation as an Executive Director and the Chief Executive Officer of the Company with effect from 1 May 2014 in order to pursue his other personal interests. Mr. Sung had confirmed that he had no disagreement with the Board and there were no other matters that needed to be brought to the attention of the Shareholders in relation to his resignation. The Board is in the course of identifying a suitable candidate as the new Chief Executive Officer of the Company and will make further announcement upon the appointment of the position.

## Appointment and Re-election of Directors

Each of the Executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date and may only be terminated in accordance with the provisions of the service contract of the Executive Director 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 appointed for a term of three years commencing from the Listing Date subject to 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 term of appointment shall be terminable by either the Independent Non-executive Director or the Company by giving the other party not less than three months' prior notice in writing.

Under Code Provision A.4.2 of the CG Code, 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 at least once every three years.

## Board Committees

The Company has established three Board committees (the "Board Committees"), namely the Audit Committee, the Remuneration Committee and the Nomination 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 Audit Committee was established on 22 October 2012 with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the Group's financial reporting process and internal control system.

The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Tse Yat Hong, Mr. Leung Lin Cheong and Mr. Li Kai Fat. The Chairman of the Audit Committee is Mr. Tse Yat Hong.

During the Review Period, the Audit Committee held four meetings without the presence of Executive Directors. The record of attendance of individual Directors at the committee meetings is set out on page 37 of this annual report.

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

(i) review of the annual report and results announcement of the Company for the year ended 31 December 2012, with a recommendation to the Board for approval;

(ii) review of the external auditors' independence and their report, with a recommendation to the Board for the reappointment of the external auditors by the shareholders of the Company at its 2013 AGM;

(iii) review of continuing connected transactions;

(iv) review of the interim report and results announcement of the Company for the six months ended 30 June 2013, with a recommendation to the Board for approval;

(v) review of the effectiveness of the system of internal control of the Company and its subsidiaries;

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

(vii) review of audit fees quoted by the external auditors for the year ended 31 December 2013, with a recommendation to the Board for approval.

## Auditors' Remuneration

The annual audit services for the year ended 31 December 2013 was provided by Deloitte Touche Tohmatsu, the external auditors.

For the year ended 31 December 2013, the remuneration paid or payable to Deloitte Touche Tohmatsu in respect of audit and non-audit services provided is set out below:

| **Services Rendered** | **Remuneration Paid/Payable** HK$'000 |
|---|---|
| Annual audit services | 1,350 |
| Non-audit services | 729 |
| Total | 2,079 |

# Corporate Governance Report

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

The Audit Committee is responsible to make recommendation to the Board as to the appointment, reappointment and removal of the external auditors, which is subject to the approval by the shareholders at the annual general meetings of the Company.

## Remuneration Committee

The Remuneration Committee was established on 22 October 2012 with 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.

The Remuneration Committee comprises three Independent Non-executive Directors, namely Mr. Tse Yat Hong, Mr. Leung Lin Cheong and Mr. Li Kai Fat. The Chairman of the Remuneration Committee is Mr. Li Kai Fat.

During the Review Period, the Remuneration Committee held two meetings. The record of attendance of individual Directors at the committee meetings is set out on page 37 of this annual report.

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

(i) consideration and approval of 2012 year-end bonus to Executive Directors and senior management; and

(ii) review of the remuneration package of Executive Directors and senior management.

Pursuant to Code Provision B. 1.5 of the CG Code, details of the annual remuneration of the senior management by band for the year ended 31 December 2013 are as follows:

| | **Number of employees** |
|---|---|
| Nil to HK$1,000,000 | 2 |
| HK$1,000,001 to HK$2,000,000 | 1 |
| | 3 |

Details of the remuneration of each director for the year ended 31 December 2013 are set out in note 12 to the consolidated financial statements.

## Nomination Committee

The Nomination Committee was established on 22 October 2012 with 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 Nomination Committee has four members, comprising Mr. Cheng Sze Kin, Mr. Tse Yat Hong, Mr. Leung Lin Cheong and Mr. Li Kai Fat, a majority of whom are Independent Non-executive Directors. The Chairman of the Nomination Committee is Mr. Cheng Sze Kin.

During the Review Period, the Nomination Committee held a meeting. The record of attendance of individual Directors at the committee meetings is set out on page 37 of this annual report.

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

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

(ii) assessment of independence of the Independent Non-executive Directors.

# Accountability and Audit

The Directors acknowledge their responsibilities for preparing the financial statement 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 43 and 44.

# Internal Control

The internal control system has been designed to safeguard the assets of the Group, maintaining proper accounting records, execution with appropriate authority and compliance with the relevant laws and regulations.

The Board is responsible for maintaining and reviewing the effectiveness of the Group's internal control system. SHINEWING Risk Services Limited has been appointed to carry out an annual review of the implemented system and procedures, including areas covering financial, operational and legal compliance controls and risk management functions. The internal control system is implemented to minimize the risk to which the Group is exposed and used as a management tool for the day-to-day operation of business. The system can only provide reasonable but not absolute assurance against misstatement or losses.

The Board conducts at least annually a review of the effectiveness of the Group's internal control systems. For the year ended 31 December 2013, the Board considered that the Group's internal control system was adequate and effective and the Company has complied with the code provisions on internal control of the CG Code.

# 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.

# Corporate Governance 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 are followed; advises the Board on governance matters, facilitates induction 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.

## Communications with Shareholders and Investors

The Company has engaged professional public relation consultancy companies to organise various investor relations programs (including regular briefing meetings with the media and analysts) 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 information and updates on the Company's financial information, corporate governance practices and other useful information are posted and available for access by the public investors.

## 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 called 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 voting 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 the expiration of 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, commencing on the day after the date when the notice of the general meeting convened for such election is dispatched and ending 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

Deloitte.
德勤

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

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 45 to 94, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' Responsibility for the Consolidated Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Independent Auditor's Report

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
24 March 2014

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

*For the year ended 31 December 2013*

| | NOTES | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|---|
| Revenue | 7 | **493,104** | 472,593 |
| Cost of goods sold | | **(189,326)** | (180,511) |
| Gross profit | | **303,778** | 292,082 |
| Other income | 8 | **2,216** | 1,050 |
| Other gains and losses | 9 | **4,161** | 2,654 |
| Selling and distribution costs | | **(220,780)** | (176,269) |
| Administrative expenses | | **(64,045)** | (52,039) |
| Finance costs | 10 | **(2,915)** | (691) |
| Listing expenses | | **–** | (21,457) |
| Profit before taxation | 11 | **22,415** | 45,330 |
| Taxation | 13 | **(11,354)** | (13,311) |
| Profit for the year | | **11,061** | 32,019 |
| Other comprehensive income | | | |
| Items that may be subsequently reclassified to profit or loss: | | | |
| Exchange differences arising on translation of financial statements of foreign operations | | **6,823** | 1,675 |
| Total comprehensive income for the year | | **17,884** | 33,694 |
| Profit for the year attributable to owners of the Company | | **11,061** | 32,019 |
| Total comprehensive income attributable to owners of the Company | | **17,884** | 33,694 |
| Earnings per share | | | |
| – Basic (HK cents) | 15 | **5.52** | 20.61 |
| – Diluted (HK cents) | 15 | **5.33** | 20.61 |

# Consolidated Statement of Financial Position

*At 31 December 2013*

| | NOTES | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 16 | **159,079** | 140,142 |
| Prepaid lease payments | 17 | **28,860** | 28,630 |
| Intangible assets | 18 | **6** | 8 |
| Deposits paid for acquisition of property, plant and equipment | | **–** | 282 |
| Rental deposits | | **1,796** | 2,708 |
| | | **189,741** | 171,770 |
| Current assets | | | |
| Inventories | 19 | **108,563** | 82,796 |
| Trade and other receivables | 20 | **124,919** | 107,929 |
| Prepaid lease payments | 17 | **621** | 603 |
| Taxation recoverable | | **–** | 79 |
| Pledged bank deposit | 21 | **1,213** | – |
| Bank balances and cash | 21 | **134,428** | 137,774 |
| | | **369,744** | 329,181 |
| Current liabilities | | | |
| Trade and other payables | 22 | **113,061** | 126,379 |
| Taxation payable | | **4,406** | 6,017 |
| Bank borrowings | 23 | **71,377** | 64,515 |
| | | **188,844** | 196,911 |
| Net current assets | | **180,900** | 132,270 |
| Total assets less current liabilities | | **370,641** | 304,040 |
| Non-current liabilities | | | |
| Bank borrowings | 23 | **64,846** | 31,343 |
| Deferred tax liabilities | 24 | **2,023** | 848 |
| | | **66,869** | 32,191 |
| Net assets | | **303,772** | 271,849 |

| | NOTE | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | 25 | **20,079** | 20,000 |
| Reserves | | **283,693** | 251,849 |
| Total equity | | **303,772** | 271,849 |

The consolidated financial statements on pages 45 to 94 were approved and authorised for issue by the Board of Directors on 24 March 2014 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 2013*

| | 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 | **Total** HK$'000 |
| At 1 January 2012 | 1 | – | – | 1,319 | 5,497 | 12,514 | – | 141,700 | 161,031 |
| Profit for the year | – | – | – | – | – | – | – | 32,019 | 32,019 |
| Exchange differences arising on translation of financial statements of foreign operations and other comprehensive income for the year | – | – | – | – | – | 1,675 | – | – | 1,675 |
| Total comprehensive income for the year | – | – | – | – | – | 1,675 | – | 32,019 | 33,694 |
| Recognition of equity-settled share-based payments | – | – | – | – | – | – | 1,133 | – | 1,133 |
| Dividends paid | – | – | – | – | – | – | – | (25,000) | (25,000) |
| Transfers | – | – | – | – | 2,295 | – | – | (2,295) | – |
| Capitalisation and waiver of amount due to a related company | 32,993 | – | 2,000 | – | – | – | – | – | 34,993 |
| Effect of share swap pursuant to the group reorganisation (note 25(c)) | (32,974) | 32,974 | – | – | – | – | – | – | – |
| Issue of shares at date of incorporation | 380 | – | – | – | – | – | – | – | 380 |
| Capitalisation issue (note 25(d)) | 14,600 | (14,600) | – | – | – | – | – | – | – |
| Issue of shares on public share offering | 5,000 | 70,000 | – | – | – | – | – | – | 75,000 |
| Expenses incurred in connection with the issue of shares | – | (9,382) | – | – | – | – | – | – | (9,382) |
| At 31 December 2012 | 20,000 | 78,992 | 2,000 | 1,319 | 7,792 | 14,189 | 1,133 | 146,424 | 271,849 |
| Profit for the year | – | – | – | – | – | – | – | 11,061 | 11,061 |
| Exchange differences arising on translation of financial statements of foreign operations and other comprehensive income for the year | – | – | – | – | – | 6,823 | – | – | 6,823 |
| Total comprehensive income for the year | – | – | – | – | – | 6,823 | – | 11,061 | 17,884 |
| Recognition of equity-settled share-based payments | – | – | – | – | – | – | 13,093 | – | 13,093 |
| Transfers | – | – | – | – | 1,041 | – | – | (1,041) | – |
| Exercise of share options | 79 | 1,467 | – | – | – | – | (600) | – | 946 |
| **At 31 December 2013** | **20,079** | **80,459** | **2,000** | **1,319** | **8,833** | **21,012** | **13,626** | **156,444** | **303,772** |

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 ("Jollirich"), Casablanca International Limited ("Casablanca International") and Rich Creation Asia Investment Limited and transfer of 11.76% of equity interest in Forcetech (Shenzhen) Company Limited ("Forcetech (Shenzhen)") 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 statutory reserve fund can be used to make up the prior year losses, if any. The statutory reserve fund is non-distributable other than upon liquidation.

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2013*

| | NOTE | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|
| Operating activities | | | |
| Profit before taxation | | **22,415** | 45,330 |
| Adjustments for: | | | |
| Interest income | | **(688)** | (609) |
| Interest expenses | | **2,915** | 691 |
| (Reversal of allowance) allowance for doubtful debts | | **(554)** | 1,202 |
| Allowance of inventories | | **670** | 713 |
| Amortisation of intangible assets | | **2** | 2 |
| Amortisation of prepaid lease payments | | **611** | 645 |
| Bad debts written off | | **–** | 9 |
| Depreciation of property, plant and equipment | | **9,771** | 5,600 |
| Gain on disposal of property, plant and equipment | | **(2,698)** | (10) |
| Gain on disposal of a subsidiary | | **–** | (4,179) |
| Write-back of trade payables | | **(785)** | – |
| Share-based payment expense | | **13,093** | 1,133 |
| Operating cash flows before movements in working capital | | **44,752** | 50,527 |
| Increase in inventories | | **(24,152)** | (1,996) |
| Increase in trade and other receivables | | **(10,208)** | (26,606) |
| Decrease (increase) in rental deposits | | **912** | (538) |
| Increase in trade and other payables | | **25,948** | 10,425 |
| Cash generated from operations | | **37,252** | 31,812 |
| Hong Kong Profits Tax paid | | **(5,273)** | (12,428) |
| PRC Enterprise Income Tax paid | | **(5,303)** | (6,201) |
| Net cash generated from operating activities | | **26,676** | 13,183 |
| Investing activities | | | |
| Proceeds from disposal of property, plant and equipment | | **1,467** | 604 |
| Interest received | | **688** | 609 |
| Purchase of property, plant and equipment | | **(68,405)** | (75,724) |
| Placement of pledged bank deposit | | **(1,213)** | – |
| Disposal of a subsidiary | 28 | **–** | (587) |
| Net cash used in investing activities | | **(67,463)** | (75,098) |

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Financing activities | | |
| New bank loans raised | **106,388** | 97,419 |
| Exercise of share options | **946** | – |
| Repayments of bank borrowings | **(66,891)** | (37,930) |
| Interest paid | **(4,148)** | (1,918) |
| Proceeds from issue of shares | **–** | 75,000 |
| Dividends paid | **–** | (25,000) |
| Expenses incurred in connection with the issue of shares | **–** | (9,382) |
| Repayment to directors | **–** | (4,322) |
| Repayments of obligations under a finance lease | **–** | (1,198) |
| Repayments to related companies | **–** | (523) |
| Net cash from financing activities | **36,295** | 92,146 |
| Net (decrease) increase in cash and cash equivalents | **(4,492)** | 30,231 |
| Cash and cash equivalents at beginning of the year | **137,774** | 107,050 |
| Effect of foreign exchange rate changes | **1,146** | 493 |
| Cash and cash equivalents at end of the year represented by bank balances and cash | **134,428** | 137,774 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2013*

## 1. General

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Stock Exchange on 23 November 2012. Its parent company is World Empire Investment Inc. ("World Empire"), a company incorporated in the British Virgin Islands ("BVI"), and its ultimate controlling parties are Mr. Cheng Sze Kin, who is also 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" in the annual report.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are manufacture and trading of home textile products and accessories.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

| | |
|---|---|
| Amendments to HKFRSs | Annual improvements to HKFRSs 2009 – 2011 cycle |
| Amendments to HKFRS 7 | Disclosures – Offsetting financial assets and financial liabilities |
| Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 | Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance |
| HKFRS 10 | Consolidated financial statements |
| HKFRS 11 | Joint arrangements |
| HKFRS 12 | Disclosure of interests in other entities |
| HKFRS 13 | Fair value measurement |
| HKAS 19 (as revised in 2011) | Employee benefits |
| HKAS 27 (as revised in 2011) | Separate financial statements |
| HKAS 28 (as revised in 2011) | Investments in associates and joint ventures |
| Amendments to HKAS 1 | Presentation of items of other comprehensive income |
| HK(IFRIC) – INT 20 | Stripping costs in the production phase of a surface mine |

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### New and revised standards on consolidation, joint arrangements, associates and disclosures

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 "Consolidated financial statements", HKFRS 11 "Joint arrangements", HKFRS 12 "Disclosure of interests in other entities", HKAS 27 (as revised in 2011) "Separate financial statements" and HKAS 28 (as revised in 2011) "Investments in associates and joint ventures", together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

## 2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

### New and revised standards on consolidation, joint arrangements, associates and disclosures (continued)

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The application of these five standards effective for annual period beginning 1 January 2013 will not have significant impact on the results and financial position of the Group as the Group owns 100% equity interest in all of its subsidiaries and does not have any associates or joint ventures at 31 December 2013.

### HKFRS 13 "Fair value measurement"

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. The application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

### Amendments to HKAS 1 "Presentation of items of other comprehensive income"

The Group has applied the amendments to HKAS 1 "Presentation of items of other comprehensive income". Upon the adoption of the amendments to HKAS 1, the Group's "statement of comprehensive income" is renamed as the "statement of profit or loss and other comprehensive income". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2013*

## 2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (continued)

### Amendments to HKAS 1 "Presentation of items of other comprehensive income" (continued)

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

| | |
|---|---|
| Amendments to HKFRSs | Annual improvements to HKFRSs 2010 – 2012 cycle[4] |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2011 – 2013 cycle[2] |
| HKFRS 9 | Financial instruments[3] |
| HKFRS 14 | Regulatory deferred accounts[5] |
| Amendments to HKFRS 9 and HKFRS 7 | Mandatory effective date of HKFRS 9 and transition disclosures[3] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 27 | Investment entities[1] |
| Amendments to HKAS 19 | Defined benefit plans: Employee contributions[2] |
| Amendments to HKAS 32 | Offsetting financial assets and financial liabilities[1] |
| Amendments to HKAS 36 | Recoverable amount disclosures for non-financial assets[1] |
| Amendments to HKAS 39 | Novation of derivatives and continuation of hedge accounting[1] |
| HK(IFRIC) – INT 21 | Levies[1] |

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 July 2014, except as disclosed below. Early application is permitted.
3 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.
5 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

The directors of the Company anticipate that the application of these new and revised HKFRSs, amendments or interpretation, will have no material impact on the consolidated financial statements of the Group.

## 3. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis and in accordance with the following accounting policies which conform to HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

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

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, leasing transactions that are within the scope of HKAS 17, 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".

## 3. Significant Accounting Policies (continued)

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 Company and its subsidiaries. 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into 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.

When the Group loses control of a subsidiary, 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 previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. 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 HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2013*

## 3. Significant Accounting Policies (continued)

### Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amount receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## 3. Significant Accounting Policies (continued)

### Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) 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 sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

### Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2013*

## 3. Significant Accounting Policies (continued)

### Leasehold land and building (continued)

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

### Intangible assets

#### Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. 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) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

#### Financial assets

The Group's financial assets are mainly classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

## 3. Significant Accounting Policies (continued)

### Financial instruments (continued)

#### Financial assets (continued)

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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 debt instrument or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposit and bank balances and cash) are carried at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss of financial assets below).

***Impairment of financial assets***

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- breach of contract, such as default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2013*

## 3. Significant Accounting Policies (continued)

### Financial instruments (continued)

#### Financial assets (continued)

***Impairment of financial assets (continued)***

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### 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.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

***Financial liabilities***

Financial liabilities including trade and 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 and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

## 3. Significant Accounting Policies (continued)

### 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 retained profits.

***Share options granted to supplier/consultant/customers***

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

### Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its 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 to sell 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 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. 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) 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 a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2013*

## 3. Significant Accounting Policies (continued)

### 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.

Exchange differences on 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.

### 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 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.

### Retirement benefit costs

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

## 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 goodwill or 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.

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 is recognised in profit or loss. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2013*

## 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 and liabilities within the next financial year.

### Estimated impairment loss recognised on trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2013, the carrying amounts of trade receivables are HK$99,625,000 (2012: HK$96,661,000) (net of allowance for doubtful debts of HK$1,590,000 (2012: HK$2,091,000)), respectively.

### Estimated impairment loss of inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgment and estimates on the conditions and marketability of the inventories. Where the subsequent selling prices decline or increase in costs of completion and those necessary to make the sales, additional allowance may arise.

The carrying amount of inventories at 31 December 2013 is HK$108,563,000 (2012: HK$82,796,000) (net of allowance for inventories of HK$1,416,000 (2012: HK$713,000)).

## 5. 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 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.

## 6. Financial Instruments

### Categories of financial instruments

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Financial assets | | |
| Loans and receivables (including cash and cash equivalents) | **242,172** | 236,468 |
| Financial liabilities | | |
| Amortised cost | **241,282** | 214,013 |

### Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposit, bank balances and cash, 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 and bank borrowings (see notes 21 and 23 for details of these balances). Interest charged on the Group's borrowings are mainly at variable rates and are mainly at the interest rate offered by the People's Bank of China and Hong Kong Interbank Offered Rate. 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. However, the management considers the fair value interest rate risk on the fixed deposits is insignificant as the fixed deposits is relatively short-term. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

*Sensitivity analysis*

The sensitivity analysis below have been determined based on the exposure to interest rates for variable-rate bank borrowings. The analysis is prepared assuming that the amount of liabilities outstanding at the end of the reporting period were outstanding for the whole year. 50 basis point increase or decrease represent the management's assessment of the reasonably possible change in interest rates of bank borrowings. No sensitivity analysis is presented for bank balances as the directors of the Company considered the Group's exposure to cash flow interest rate risk is not material.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2013*

## 6. Financial Instruments (continued)

### Financial risk management objectives and policies (continued)

**Market risk (continued)**

***Interest rate risk (continued)***

*Sensitivity analysis (continued)*

If interest rates on bank borrowings had been 50 basis points higher/lower and all other variables were held constant, the potential effect on the Group's post-tax profit for the year ended 31 December 2013 is as follows:

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| (Decrease) increase in profit for the year | | |
| – as a result of increase in interest rate | (512) | (386) |
| – as a result of decrease in interest rate | 512 | 386 |

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

***Foreign currency risk***

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

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | 2013 HK$'000 | 2012 HK$'000 | 2013 HK$'000 | 2012 HK$'000 |
| HK$ | 4,758 | 600 | – | – |
| Renminbi ("RMB") | 23,527 | 26,446 | 309 | – |
| Euro ("EUR") | 87 | 117 | – | – |
| United States dollars ("USD") | 4,854 | 1,166 | 5,890 | 5,362 |
| Macau pataca ("MOP") | 70 | 592 | – | – |

*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 EUR and MOP, no sensitivity analysis has been prepared as the amount involved is insignificant.

The sensitivity analysis below details the Group's sensitivity to a 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 and monetary liabilities denominated in RMB. A positive (negative) number indicates an increase (decrease) in post-tax profit for the year when HK$ strengthens 5% against RMB. For a 5% weakening of HK$ against RMB, there would be an equal but opposite impact on the post-tax profit for the year.

# 6. Financial Instruments (continued)

## Financial risk management objectives and policies (continued)

### Market risk (continued)

***Foreign currency risk (continued)***

*Sensitivity analysis (continued)*

| | **2013** | 2012 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| RMB | **(791)** | (1,104) |

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.

### 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 2013 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. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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 or contracted with 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 receivables with exposure spread over a number of counterparties.

### 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. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. 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 curve at the end of the reporting period.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2013*

## 6. Financial Instruments (continued)

### Financial risk management objectives and policies (continued)

**Liquidity risk (continued)**

***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 | Over 5 years | Total undiscounted cash flows | Carrying amounts |
|---|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **At 31 December 2013** | | | | | | | | |
| Trade and other payables | **–** | **54,083** | **48,585** | **2,391** | **–** | **–** | **105,059** | **105,059** |
| Bank borrowings | **3.59** | **38,317** | **1,787** | **34,781** | **64,406** | **5,765** | **145,056** | **136,223** |
| | | **92,400** | **50,372** | **37,172** | **64,406** | **5,765** | **250,115** | **241,282** |
| **At 31 December 2012** | | | | | | | | |
| Trade and other payables | – | 111,541 | 6,614 | – | – | – | 118,155 | 118,155 |
| Bank borrowings | 4.77 | 61,941 | 403 | 4,613 | 28,599 | 9,804 | 105,360 | 95,858 |
| | | 173,482 | 7,017 | 4,613 | 28,599 | 9,804 | 223,515 | 214,013 |

Bank borrowings with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2013, the aggregate undiscounted principal amounts of these bank loans amounted to HK$37,407,000 (2012: HK$61,729,000). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid in eight years (2012: nine years) after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements and the aggregate principal and interest cash outflows according to the scheduled repayment dates are set out as follows:

| | Weighted average interest rate | On demand or less than 1 month | 1 – 3 months | 3 months to 1 year | 1 – 5 years | Over 5 years | Total undiscounted cash flows | Carrying amounts |
|---|---|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Bank borrowings** | | | | | | | | |
| **At 31 December 2013** | **2.41** | **523** | **1,047** | **4,709** | **25,117** | **8,810** | **40,206** | **37,407** |
| At 31 December 2012 | 4.77 | 19,545 | 1,090 | 4,904 | 26,158 | 15,639 | 67,336 | 61,729 |

### Fair value measurements of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

## 7. Revenue and Segment Information

The Group's operating activities are attributable to a single operating segment focusing on manufacture and sales of bedding products. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies conform to HKFRSs, that are regularly reviewed by the executive directors of the Company, the chief operating decision maker of the Group. The executive directors of the Company regularly review revenue analysis by (i) self-operated retail sales; (ii) sales to distributors and (iii) others. However, other than revenue analysis, no operating results and other discrete financial information is available for the assessment of performance of the respective products. The executive directors of the Company review the revenue and the profit for the year of the Group as a whole to make decision about resources allocation. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the executive directors of the Company. Accordingly, no analysis of this single operating segment is presented.

- Self-operated retail sales: Sales through the self-operated retail sales channel refer to sales at the self-operated concession counters in department stores and self-operated retail stores.

- Sales to distributors: Sales to distributors refer to the sales to distributors who resell the products to end-user consumers, typically at concession counters in department stores and retail stores operated by distributors.

- Others: Other sales include sales to wholesale customers located in the PRC and Hong Kong and Macau, and sales made to overseas customers.

The information of segment revenue is as follows:

| | **2013**<br>**HK$'000** | 2012<br>HK$'000 |
|---|---|---|
| Self-operated retail sales | **361,413** | 348,196 |
| Sales to distributors | **69,951** | 72,904 |
| Others | **61,740** | 51,493 |
| | **493,104** | 472,593 |

### Entity-wide information

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

| | **2013**<br>**HK$'000** | 2012<br>HK$'000 |
|---|---|---|
| Bed linens | **250,613** | 237,796 |
| Duvets and pillows | **223,577** | 213,020 |
| Other home accessories | **18,914** | 21,777 |
| | **493,104** | 472,593 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2013*

## 7. Revenue and Segment Information (continued)

### Geographical information

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

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| PRC | **237,901** | 233,024 |
| Hong Kong and Macau | **244,191** | 235,292 |
| Others | **11,012** | 4,277 |
| | **493,104** | 472,593 |

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

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| PRC | **177,526** | 157,681 |
| Hong Kong | **10,419** | 11,381 |
| | **187,945** | 169,062 |

### Information about major customers

No individual customer accounted for over 10% of the Group's total revenue during both years.

## 8. Other Income

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Interest income | **688** | 609 |
| Government subsidies | **505** | 46 |
| Write-back of trade payables | **785** | – |
| Others | **238** | 395 |
| | **2,216** | 1,050 |

## 9. Other Gains and Losses

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Reversal of allowance (allowance) for doubtful debts | **554** | (1,202) |
| Gain on disposal of property, plant and equipment | **2,698** | 10 |
| Gain on disposal of a subsidiary (note 28) | **–** | 4,179 |
| Net exchange gains (losses) | **909** | (333) |
| | **4,161** | 2,654 |

## 10. Finance Costs

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Interest on: | | |
| Bank borrowings wholly repayable | | |
| – within five years | **230** | 440 |
| – after five years | **3,918** | 1,442 |
| Finance lease | **–** | 36 |
| Total borrowing costs | **4,148** | 1,918 |
| Less: amounts capitalised (note) | **(1,233)** | (1,227) |
| | **2,915** | 691 |

Note: Borrowing costs capitalised during the two years ended 31 December 2013 and 2012 solely arose from the specific bank borrowings for expenditure on qualifying assets. The effective interest rate of corresponding borrowings is 3% (2012: 4%) per annum.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2013*

## 11. Profit Before Taxation

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Profit before taxation has been arrived at after charging (crediting): | | |
| Directors' and chief executive's remuneration (note 12) | **17,471** | 8,735 |
| Other staff costs | **82,518** | 66,576 |
| Retirement benefit schemes contributions for other staff | **6,590** | 4,425 |
| Share-based payments for other staff | **3,580** | 345 |
| Total staff costs | **110,159** | 80,081 |
| Auditor's remuneration | | |
| – current year | **1,384** | 1,284 |
| – overprovision in prior year | **–** | (9) |
| | **1,384** | 1,275 |
| Amortisation of intangible assets | **2** | 2 |
| Amortisation of prepaid lease payments | **611** | 645 |
| Allowance for inventories (included in costs of goods sold) | **670** | 713 |
| Bad debts written off | **–** | 9 |
| Cost of inventories recognised as expenses | **189,326** | 180,511 |
| Depreciation of property, plant and equipment | **9,771** | 5,600 |
| Share-based payments for customers, supplier and consultant (included in selling and distributions costs and administrative expenses) | **895** | 78 |
| Operating lease rentals in respect of | | |
| – rented premises (note a) | **6,765** | 6,379 |
| – retail stores (note b) | **9,524** | 8,383 |
| – department store counters (note b) (including concessionaire commission) (included in selling and distribution costs) | **96,917** | 83,036 |
| | **113,206** | 97,798 |
| Design costs (included in administrative expenses) (note c) | **1,624** | 1,425 |

Notes:

(a) Included rental expenses paid to related companies of HK$2,760,000 (2012: HK$2,388,000) for the year ended 31 December 2013 for directors' quarters provided to Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung.

(b) Included contingent rent of HK$60,411,000 (2012: HK$53,011,000) for the year ended 31 December 2013. The contingent rent refers to the operating lease rentals based on pre-determined percentages to realised sales less basic rentals of the respective leases.

(c) The design costs comprised of staff salaries of HK$1,235,000 (2012: HK$1,101,000) for the year ended 31 December 2013, which were included in the staff costs disclosed above.

## 12. 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 | Retirement benefit schemes contributions HK$'000 | Share-based payments HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **For the year ended 31 December 2013** | | | | | |
| *Executive directors* | | | | | |
| Mr. Cheng Sze Kin | **–** | **2,140** | **120** | **2,770** | **5,030** |
| Mr. Cheng Sze Tsan | **–** | **2,380** | **120** | **2,539** | **5,039** |
| Ms. Wong Pik Hung | **–** | **2,140** | **120** | **2,078** | **4,338** |
| *Executive director and chief executive* | | | | | |
| Mr. Sung Shuk Ka | **–** | **1,300** | **65** | **1,231** | **2,596** |
| *Non-executive directors* | | | | | |
| Mr. Tse Yat Hong | **156** | **–** | **–** | **–** | **156** |
| Mr. Leung Lin Cheong | **156** | **–** | **–** | **–** | **156** |
| Mr. Li Kai Fat | **156** | **–** | **–** | **–** | **156** |
| | **468** | **7,960** | **425** | **8,618** | **17,471** |
| For the year ended 31 December 2012 | | | | | |
| *Executive directors* | | | | | |
| Mr. Cheng Sze Kin (appointed on 2 April 2012) | – | 2,090 | 120 | 228 | 2,438 |
| Mr. Cheng Sze Tsan (appointed on 2 April 2012) | – | 2,108 | 120 | 209 | 2,437 |
| Ms. Wong Pik Hung (appointed on 2 April 2012) | – | 2,090 | 120 | 171 | 2,381 |
| *Executive director and chief executive* | | | | | |
| Mr. Sung Shuk Ka (appointed as executive director on 22 October 2012) | – | 1,226 | 61 | 102 | 1,389 |
| *Non-executive directors* | | | | | |
| Mr. Tse Yat Hong (appointed on 22 October 2012) | 30 | – | – | – | 30 |
| Mr. Leung Lin Cheong (appointed on 22 October 2012) | 30 | – | – | – | 30 |
| Mr. Li Kai Fat (appointed on 22 October 2012) | 30 | – | – | – | 30 |
| | 90 | 7,514 | 421 | 710 | 8,735 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2013*

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

### (a) Directors' and chief executive's emoluments (continued)

Mr. Sung Shuk Ka is also the chief executive of the Company and his emoluments disclosed above included those for services rendered by him as the chief executive.

Neither the chief executive nor any of the directors waived any emoluments during the two years ended 31 December 2013 and 2012.

### (b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2012: four) were directors and the chief executive of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining one (2012: one) individual was as follows:

| | **2013**<br>**HK$'000** | 2012<br>HK$'000 |
|---|---|---|
| Salaries and allowances | **765** | 674 |
| Performance related incentive payments | **100** | 170 |
| Retirement benefit schemes contributions | **15** | 13 |
| Share-based payments | **246** | 20 |
| | **1,126** | 877 |

Their emoluments were within the following bands:

| | **2013** | 2012 |
|---|---|---|
| Nil to HK$1,000,000 | **–** | 1 |
| HK$1,000,001 or above | **1** | – |

During the two years ended 31 December 2013 and 2012, 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 the both years.

## 13. Taxation

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Current tax | | |
| Hong Kong | **5,266** | 5,817 |
| PRC Enterprise Income Tax (the "EIT") | **2,800** | 8,610 |
| | **8,066** | 14,427 |
| Under(over)provision in prior years | | |
| Hong Kong | **32** | (584) |
| PRC EIT | **384** | (512) |
| | **416** | (1,096) |
| Withholding tax on interest and distributed profits of a subsidiary in the PRC | **1,697** | – |
| Deferred taxation (note 24) | **1,175** | (20) |
| | **11,354** | 13,311 |

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both years.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

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:

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Profit before taxation | **22,415** | 45,330 |
| Tax at Hong Kong Profits Tax rate of 16.5% | **3,698** | 7,479 |
| Tax effect of expenses not deductible for tax purposes | **3,412** | 4,807 |
| Tax effect of income not taxable for tax purposes | **(727)** | (772) |
| Tax effect of tax losses not recognised | **939** | – |
| Under(over)provision in prior years | **416** | (1,096) |
| Utilisation of tax losses previously not recognised | **(116)** | (175) |
| Effect of different tax rate of subsidiaries operating in other jurisdictions | **310** | 2,615 |
| Tax effect of undistributed profits of a subsidiary in the PRC | **1,308** | – |
| Withholding tax on interest and distributed profits of a subsidiary in the PRC | **1,697** | – |
| Others | **417** | 453 |
| Taxation charge | **11,354** | 13,311 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2013*

## 14. Dividends

No dividend was paid or proposed by the Company during the year ended 31 December 2013, nor has any dividend been proposed since the end of the reporting period.

During the year ended 31 December 2012, Casablanca Home Holdings Limited ("Casablanca Home Holdings"), a subsidiary of the Group, made distributions to the Ultimate Beneficial Owners as follows:

| | HK$'000 |
|---|---|
| Dividends declared and paid/payable to Ultimate Beneficial Owners during the year and dividends attributable to owners of the Company | |
| – final dividend declared for 2011 | 14,000 |
| – interim dividend declared for 2012 | 11,000 |
| | 25,000 |

## 15. Earnings Per Share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---|---|
| **Earnings** | | |
| Profit for the year attributable to owners of the Company for the purposes of basic and diluted earnings per share | **11,061** | 32,019 |

| | **2013** | 2012 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **200,408,017** | 155,327,869 |
| Effect of dilutive potential ordinary shares on share options | **7,065,641** | – |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **207,473,658** | 155,327,869 |

The computation of diluted earnings per share for the year ended 31 December 2012 has not assumed the exercise of the Company's share options because the adjusted exercise price of the share options (after the adjustment of the fair value of the unvested share options) were higher than the average market prices of those shares for the outstanding period during the year ended 31 December 2012.

For the year ended 31 December 2012, the weighted average number of ordinary shares for the purpose of basic earnings per share has been taken into account the shares issued pursuant to the group reorganisation and the capitalisation issue of 146,000,000 ordinary shares of HK$0.10 each of the Company at par value on 22 October 2012 as stated in note 25 as if it had been effective on 1 January 2012.

## 16. Property, Plant and Equipment

| | Leasehold land and buildings HK$'000 | Leasehold improvements HK$'000 | Plant and machinery HK$'000 | Furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | |
| At 1 January 2012 | 45,935 | 6,801 | 7,011 | 7,716 | 10,008 | 4,678 | 82,149 |
| Exchange adjustments | – | 13 | 103 | 60 | 18 | 1,390 | 1,584 |
| Additions | – | 2,297 | 3,207 | 1,727 | 3,119 | 112,471 | 122,821 |
| Disposals | – | (468) | – | (1,977) | (1,521) | – | (3,966) |
| Disposal of a subsidiary (Note 28) | (39,712) | (4,340) | – | – | – | – | (44,052) |
| At 31 December 2012 | 6,223 | 4,303 | 10,321 | 7,526 | 11,624 | 118,539 | 158,536 |
| Exchange adjustments | 2,045 | 97 | 325 | 249 | 57 | 1,602 | 4,375 |
| Additions | – | 8,211 | 2,146 | 4,833 | 624 | 10,884 | 26,698 |
| Disposals | – | (2,218) | (961) | (506) | (554) | – | (4,239) |
| Transfer | 131,025 | – | – | – | – | (131,025) | – |
| **At 31 December 2013** | **139,293** | **10,393** | **11,831** | **12,102** | **11,751** | **–** | **185,370** |
| **DEPRECIATION** | | | | | | | |
| At 1 January 2012 | 4,799 | 2,119 | 3,814 | 5,742 | 4,961 | – | 21,435 |
| Exchange adjustments | – | 2 | 42 | 40 | 6 | – | 90 |
| Provided for the year | 646 | 1,527 | 511 | 838 | 2,078 | – | 5,600 |
| Eliminated on disposals | – | (245) | – | (1,976) | (1,151) | – | (3,372) |
| Disposal of a subsidiary (Note 28) | (3,430) | (1,929) | – | – | – | – | (5,359) |
| At 31 December 2012 | 2,015 | 1,474 | 4,367 | 4,644 | 5,894 | – | 18,394 |
| Exchange adjustments | 45 | 15 | 132 | 135 | 20 | – | 347 |
| Provided for the year | 3,162 | 2,558 | 820 | 1,486 | 1,745 | – | 9,771 |
| Eliminated on disposals | – | (788) | (743) | (317) | (373) | – | (2,221) |
| **At 31 December 2013** | **5,222** | **3,259** | **4,576** | **5,948** | **7,286** | **–** | **26,291** |
| **CARRYING VALUES** | | | | | | | |
| **At 31 December 2013** | **134,071** | **7,134** | **7,255** | **6,154** | **4,465** | **–** | **159,079** |
| At 31 December 2012 | 4,208 | 2,829 | 5,954 | 2,882 | 5,730 | 118,539 | 140,142 |

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

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---|---|
| In Hong Kong under medium-term leases | **3,959** | 4,208 |
| In PRC under medium-term leases | **130,112** | – |
| | **134,071** | 4,208 |

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*For the year ended 31 December 2013*

## 16. Property, Plant and Equipment (continued)

The leasehold land and buildings with carrying values of HK$127,070,000 (2012: HK$4,208,000) were pledged to banks as securities for banking facilities granted to the Group as at 31 December 2013.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives, using the straight-line method at the following rates per annum:

| | |
|---|---|
| Leasehold land and buildings | Over the shorter of the term of the lease or 25 years |
| Leasehold improvements | Over the shorter of the term of the lease or $33^1/_3$% |
| Plant and machinery | 10% |
| Furniture and fixtures | 20% |
| Motor vehicles | 20% |

## 17. Prepaid Lease Payments

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Current asset | **621** | 603 |
| Non-current asset | **28,860** | 28,630 |
| | **29,481** | 29,233 |

The Group's prepaid lease payments comprise:

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---|---|
| Leasehold land located in the PRC under medium-term leases | **29,481** | 29,233 |

The leasehold land is amortised over the contractual life of 50 years using the straight-line method.

The prepaid lease payments with carrying values of HK$29,481,000 (2012: HK$29,233,000) were pledged to a bank as securities for a banking facility granted to the Group as at 31 December 2013.

## 18. Intangible Assets

| | Patents HK$'000 |
|---|---:|
| **COST** | |
| At 1 January 2012, 31 December 2012 and 31 December 2013 | 15 |
| **AMORTISATION** | |
| At 1 January 2012 | 5 |
| Charge for the year | 2 |
| At 31 December 2012 | 7 |
| Charge for the year | 2 |
| **At 31 December 2013** | **9** |
| **CARRYING VALUES** | |
| **At 31 December 2013** | **6** |
| At 31 December 2012 | 8 |

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

## 19. Inventories

| | **2013 HK$'000** | 2012 HK$'000 |
|---|---:|---:|
| Raw materials | **18,053** | 15,319 |
| Finished goods | **90,510** | 67,477 |
| | **108,563** | 82,796 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2013*

## 20. Trade and Other Receivables

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Trade receivables | **101,215** | 98,752 |
| Less: Allowance for doubtful debts | **(1,590)** | (2,091) |
| | **99,625** | 96,661 |
| Bills receivables | **1,945** | 223 |
| Trade and bills receivables | **101,570** | 96,884 |
| Deposits | **3,595** | 2,416 |
| Prepayments | **4,166** | 4,196 |
| Value added tax recoverable | **10,627** | 2,623 |
| Advances to employees | **914** | 713 |
| Other receivables | **4,047** | 1,097 |
| | **23,349** | 11,045 |
| Total trade and other receivables | **124,919** | 107,929 |

Retailing sales are mainly made at concession counters in department stores, the department stores collect cash from the ultimate customers and then repay the balance after deducting the concessionaire commission to the Group. The credit period granted to department stores ranging from 30 to 75 days. For distributors and wholesale sales, the Group allows a credit period up to 60 days to its trade customers, which may be extended to 180 days for selected customers. The following is an aged analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates.

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Within 30 days | **58,372** | 59,419 |
| 31 to 60 days | **17,791** | 23,436 |
| 61 to 90 days | **6,924** | 9,880 |
| 91 to 180 days | **10,369** | 3,798 |
| 181 to 365 days | **7,857** | 351 |
| Over 1 year | **257** | – |
| | **101,570** | 96,884 |

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

## 20. Trade and Other Receivables (continued)

The management of the Group closely monitors the credit quality of trade receivables and considers the debtors that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$15,043,000 (2012: HK$24,503,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

The following is an aged analysis of trade receivables based on the invoice date which are past due but not impaired at the end of the reporting period.

| | **2013**<br>**HK$'000** | 2012<br>HK$'000 |
|---|---|---|
| Within 30 days | **–** | 194 |
| 31 to 60 days | **2,757** | 11,382 |
| 61 to 90 days | **856** | 8,778 |
| 91 to 180 days | **3,316** | 3,798 |
| 181 to 365 days | **7,857** | 351 |
| Over 365 days | **257** | – |
| | **15,043** | 24,503 |

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there were no history of default.

Based on the historical experience of the Group, trade receivables that are past due but not impaired are generally recoverable.

### Movement in the allowance for doubtful debts

| | **2013**<br>**HK$'000** | 2012<br>HK$'000 |
|---|---|---|
| Balance at beginning of the year | **2,091** | 867 |
| (Reversal of allowance) allowance for doubtful debts | **(554)** | 1,202 |
| Exchange adjustments | **53** | 22 |
| Balance at end of the year | **1,590** | 2,091 |

Included in the allowance for doubtful debts are individually impaired trade receivables relating to distributors with an aggregate balance of HK$1,590,000 (2012: HK$2,091,000). Full provision has been made for individual trade receivables aged over one year with no subsequent settlements as historical evidence shows that such amounts are not recoverable.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2013*

## 20. 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:

| | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|
| USD | **297** | 223 |
| MOP | **70** | 592 |

## 21. Pledged Bank Deposit/Bank Balances and Cash

Pledged bank deposit represents deposit pledged to a bank for a banking facility to the Group. The pledged bank deposit carries fixed interest rate of 1.3% per annum as at 31 December 2013. The pledged bank deposit will be released upon the settlement of relevant bank borrowings.

The bank balances include fixed deposits with maturity less than three months which carry fixed interests rates ranging from 0.2% to 2.9% (2012: 0.01% to 3.02%) per annum. Other bank balances carry interest at market rates of 0.01% to 0.38% (2012: 0.01% to 0.36%) per annum as at 31 December 2013.

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

| | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|
| HK$ | **4,758** | 600 |
| RMB | **23,527** | 26,446 |
| EUR | **87** | 117 |
| USD | **4,557** | 943 |

## 22. Trade and Other Payables

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Trade payables | 65,700 | 49,388 |
| Bills payables | 25,198 | 6,615 |
| Trade and bills payables | 90,898 | 56,003 |
| Deposits received from customers | 1,603 | 2,248 |
| Accrued expenses | 4,337 | 5,976 |
| Salaries payables | 6,921 | 3,862 |
| Listing expenses payables | – | 8,167 |
| Payable for acquisition of property, plant and equipment | 2,830 | 46,052 |
| Other payables | 6,472 | 4,071 |
| | 22,163 | 70,376 |
| Total trade and other payables | 113,061 | 126,379 |

The credit period of trade and bills payables is from 30 to 90 days (2012: 30 to 60 days).

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

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Within 30 days | 39,922 | 49,225 |
| 31 to 60 days | 28,998 | 6,198 |
| 61 to 90 days | 19,587 | 111 |
| 91 to 180 days | 2,169 | 2 |
| Over 180 days | 222 | 467 |
| | 90,898 | 56,003 |

Included in trade and other payables is the following amount denominated in a currency other than functional currency of the respective group entity which it relates:

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| RMB | 309 | – |
| USD | 5,890 | 5,362 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2013*

## 23. Bank Borrowings

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Secured | **136,223** | 95,858 |
| Carrying amount repayable* | | |
| Within one year | **39,460** | 26,947 |
| More than one year, but not more than two years | **17,028** | 5,572 |
| More than two years, but not more than five years | **42,225** | 16,716 |
| More than five years | **5,593** | 9,055 |
| | **104,306** | 58,290 |
| Carrying amount of bank borrowings that are not repayable within one year from the end of the reporting period but contain a repayable on demand clause (shown under current liabilities) | **31,917** | 37,568 |
| | **136,223** | 95,858 |
| Less: Amounts due within one year shown under current liabilities | **(71,377)** | (64,515) |
| Amounts shown under non-current liabilities | **64,846** | 31,343 |

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The above bank borrowings bear interests ranging from Hong Kong Interbank Offered Rate plus 1.5% to 10% margin over the interest rate offered by the People's Bank of China for the year ended 31 December 2013 and 2012.

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

| | 2013 | 2012 |
|---|---|---|
| Effective interest rates: | | |
| Fixed-rate borrowings | **7.32%** | – |
| Variable-rate borrowings | **1.71% to 7.32%** | 1.76% to 7.48% |

Details of bank borrowings guaranteed by related parties are set out in note 33.

## 24. Deferred Tax Liabilities

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

| | Accelerated tax depreciation HK$'000 | Undistributed profits HK$'000 | Total HK$'000 |
|---|---|---|---|
| Charged to profit or loss for the year ended 31 December 2012 | 868 | – | 868 |
| Credited to profit or loss (note 13) | (20) | – | (20) |
| As at 31 December 2012 | 848 | – | 848 |
| (Credited) charged to profit or loss (note 13) | (133) | 1,308 | 1,175 |
| **As at 31 December 2013** | **715** | **1,308** | **2,023** |

At the end of the reporting period, the Group has unused tax losses of approximately HK$6,916,000 (2012: HK$3,811,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in the unrecognised tax losses are losses of HK$5,683,000 (2012: HK$1,877,000) that will expire up to 2018 (2012: up to 2017). Other losses may be carried forward indefinitely.

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. A deferred tax liability has been recognised in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB19,007,000 (equivalent to HK$23,414,000) (2012: nil). Deferred taxation has not been provided for in the consolidated financial statements in respect of the remaining temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB16,527,000 (equivalent to HK$20,846,000) (2012: RMB50,863,000 (equivalent to HK$62,524,000)) 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.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2013*

## 25. Share Capital

The share capital of the Group as at 1 January 2012 represented the share capital of Casablanca Home Holdings.

The movement of share capital of the Company are as follows:

| | Number of shares | Amount HK$'000 |
|---|---|---|
| **Ordinary shares of HK$0.1 each** | | |
| Authorised: | | |
| On 2 April 2012 (date of incorporation) (note a) | 3,800,000 | 380 |
| Increased pursuant to the group reorganisation (note b) | 496,200,000 | 49,620 |
| **At 31 December 2012 and 31 December 2013** | **500,000,000** | **50,000** |
| Issued and fully paid: | | |
| On 2 April 2012 (date of incorporation) (note a) | 1 | – |
| Issue of shares on 16 April 2012 (note a) | 3,799,999 | 380 |
| Issue of shares upon the share swap on 22 October 2012 (note c) | 200,000 | 20 |
| Issue of shares by capitalisation of share premium (note d) | 146,000,000 | 14,600 |
| Issue of shares upon the public share offering on 23 November 2012 (note e) | 50,000,000 | 5,000 |
| At 31 December 2012 | 200,000,000 | 20,000 |
| Exercise of share options (note f) | 788,000 | 79 |
| **At 31 December 2013** | **200,788,000** | **20,079** |

Notes:

(a) The Company was incorporated in the Cayman Islands with limited liability under the Companies Law on 2 April 2012 with an authorised share capital of HK$380,000 divided into 3,800,000 shares of HK$0.10 each. On 2 April 2012, 1 share of HK$0.10 each was issued to Mapcal Limited at par to provide initial capital of the Company. The share was then transferred to World Empire on the same date. On 16 April 2012, 3,799,999 shares of HK$0.10 each were issued and allotted to World Empire and was settled by offsetting with the amounts due to directors.

(b) On 22 October 2012, the authorised share capital of the Company was increased from HK$380,000 divided into 3,800,000 ordinary shares of HK$0.10 each to HK$50,000,000 divided into 500,000,000 ordinary shares of HK$0.10 each.

(c) On 22 October 2012, the Company issued and allotted 200,000 ordinary shares of HK$0.10 each to World Empire as settlement of the swap of 4,230,000 shares of USD1.00 each in Casablanca Home Holdings from the Ultimate Beneficial Owners.

(d) On 22 October 2012, the Company capitalised the amount of HK$14,600,000 standing to the credit of the share premium account of the Company to pay up in full at par 146,000,000 ordinary shares of HK$0.10 each for allotment and issue to World Empire.

(e) On 23 November 2012, the Company issued 50,000,000 shares of HK$0.10 each at HK$1.50 per share by way of public share offering. On the same date, the Company's shares were listed on the Main Board of the Stock Exchange.

(f) During the year ended 31 December 2013, 788,000 shares of HK$0.1 each were issued at HK$1.20 per share upon exercise of the share options under the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") of the Company by the option holders.

All ordinary shares issued during both years rank pari passu with the then existing ordinary shares in all respects.

## 26. Share Option Schemes

### (a) Pre-IPO share option scheme

The Pre-IPO 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, and had expired on the date of listing of the shares of the Company on the Main Board of the Stock Exchange.

At 31 December 2013, the number of shares in respect of which options had been granted upon the commencement of listing of the Company's shares and remained outstanding under the Pre-IPO Share Option Scheme was 20,472,000 (2012: 22,320,000), representing 10.24% (2012: 11.16%) of the shares of the Company in issue immediately upon completion of the public share offering and the capitalisation issue as stated in note 25(d). The maximum number of shares in respect of which options may be granted under the Pre-IPO Share Option Scheme is 22,500,000 shares, representing approximately 11.25% of the shares of the Company in issue immediately upon completion of the public share offering and the capitalisation issue as stated in note 25(d).

Options granted must be taken up within one month of the date of grant, upon payment of HK$1 on acceptance of the offer. Options may be exercised at any time during a period commencing on or after the date on which the option is accepted and deemed to be 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 deemed to be granted.

The exercise price is 80% of HK$1.50, the initial public offering price of the Company's shares. The options shall only be exercisable on or after 23 May 2013 and expire not later than 10 years from the date of grant.

The following table discloses movements of the Company's share options held by directors of the Company, employees, consultant, customers and supplier of the Group during the year:

**For the year ended 31 December 2013**

| | | | | Number of share options | | | |
|---|---|---|---|---|---|---|---|
| Categories of participants | Date of grant | Exercisable period | Exercise price | Outstanding at 1.1.2013 | Exercised during the year | Lapsed during the year | Outstanding at 31.12.2013 |
| Executive directors | 7.11.2012 | 23.5.2013 – 6.11.2022 | HK$1.20 | 14,000,000 | – | – | 14,000,000 |
| Employees | 7.11.2012 | 23.5.2013 – 6.11.2022 | HK$1.20 | 6,800,000 | (708,000) | (988,000) | 5,104,000 |
| Consultant (note a) | 7.11.2012 | 23.5.2013 – 6.11.2022 | HK$1.20 | 320,000 | – | – | 320,000 |
| Customers (note b) | 7.11.2012 | 23.5.2013 – 6.11.2022 | HK$1.20 | 1,080,000 | (80,000) | (72,000) | 928,000 |
| Supplier (note c) | 7.11.2012 | 23.5.2013 – 6.11.2022 | HK$1.20 | 120,000 | – | – | 120,000 |
| | | | | 22,320,000 | (788,000) | (1,060,000) | 20,472,000 |

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2013*

## 26. Share Option Schemes (continued)

### (a) Pre-IPO share option scheme (continued)

For the year ended 31 December 2012

| Categories of participants | Date of grant | Exercisable period | Exercise price | Number of share options granted during the year and outstanding at 31.12.2012 |
|---|---|---|---|---|
| Executive directors | 7.11.2012 | 23.5.2013 – 6.11.2022 | HK$1.20 | 14,000,000 |
| Employees | 7.11.2012 | 23.5.2013 – 6.11.2022 | HK$1.20 | 6,800,000 |
| Consultant (note a) | 7.11.2012 | 23.5.2013 – 6.11.2022 | HK$1.20 | 320,000 |
| Customers (note b) | 7.11.2012 | 23.5.2013 – 6.11.2022 | HK$1.20 | 1,080,000 |
| Supplier (note c) | 7.11.2012 | 23.5.2013 – 6.11.2022 | HK$1.20 | 120,000 |
| | | | | 22,320,000 |

Notes:

(a) The share options were granted to a consultant for providing value-added business advice on retail business for the Group.

(b) the share options were granted to customers for contribution in developing retail sales network in Macau and the PRC.

(c) The share options were granted to a major supplier with long-term relationship for providing steady supplies of raw materials for the Group.

During the year ended 31 December 2012, options were granted on 7 November 2012 with an aggregate estimated fair value of HK$17,000,000.

These fair values were calculated using the Binomial model. The inputs into the model were as follows:

| | 2012 |
|---|---|
| Share price at grant date | HK$1.50 |
| Exercise price | HK$1.20 |
| Expected volatility | 43.50% |
| Expected life | 10 years |
| Risk-free rate | 0.642% |
| Expected dividend yield | 0% |
| Sub-optimal exercise factor | 2.5 |

Expected volatility was determined by using the annualised standard deviation of historical share price daily movements of selected comparable companies in same industry. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

## 26. Share Option Schemes (continued)

### (a) Pre-IPO share option scheme (continued)

The Group recognised the share-based payments of HK$13,093,000 for the year ended 31 December 2013 (2012: HK$1,133,000) in relation to share options granted by the Company.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in the computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

### (b) Share Option Scheme

The principal terms of the share option scheme, approved by the sole shareholder's resolution passed on 22 October 2012, are substantially the same as the terms of the Pre-IPO Option Scheme except that:

(i) 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; and

(ii) the maximum number of shares in respect of which options may be granted shall not exceed 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; and

(iii) 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.

As at 31 December 2013 and 2012, no options have been granted or agreed to be granted pursuant to the Share Option Scheme.

## 27. Retirement Benefit Schemes

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees. 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$1,250 (HK$1,000 before 1 June 2012) 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 scheme 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.

The total contribution to the retirement benefit scheme charged to the consolidated statement of profit or loss and other comprehensive income is HK$7,047,000 (2012: HK$4,846,000).

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2013*

## 28. Disposal of a Subsidiary

On 26 April 2012, Casablanca International, Leading Asset Holdings Limited ("Leading Asset") and Smart Blossom Limited ("Smart Blossom"), both are related companies of the Company, entered into a share transfer agreement pursuant to which Casablanca International agreed to transfer its 100% equity interest in Wealth Pine Asia Limited ("Wealth Pine") to Smart Blossom at a consideration of HK$1,600,000, resulting in a gain on disposal of HK$4,179,000. The consideration is based on net assets value as at date of disposal adjusted with the fair value of the property, plant and equipment. The fair value of the property, plant and equipment as at date of disposal was arrived at on the basis of valuation carried out on that date by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, independent professional valuer not connected with the Group. Jones Lang LaSalle Corporate Appraisal and Advisory Limited has appropriate qualifications and recent experiences in the valuation of similar property in the relevant location. The fair value of the property, plant and equipment was arrived by reference to direct market comparison. The Group disposed of the equity interest in Wealth Pine as Wealth Pine only holds a non-core property which is not related to the Group's business. The non-core property was used by the director, Mr. Cheng Sze Tsan, as director's quarter. The Group then leases-back the quarter to provide accommodation to the director.

Assets and liabilities of Wealth Pine at the date of disposal are as follows:

| | HK$'000 |
|---|---|
| Net liabilities disposed: | |
| Property, plant and equipment | 38,693 |
| Deposits | 49 |
| Bank balance | 587 |
| Amount due to then immediate holding company | (20,386) |
| Other payable and accruals | (98) |
| Bank borrowings | (21,424) |
| | (2,579) |
| Gain on disposal of a subsidiary: | |
| Consideration (Note 29(a)) | 1,600 |
| Net liabilities disposed of | 2,579 |
| Gain on disposal | 4,179 |
| Net cash outflow arising on disposal of a subsidiary: | |
| Bank balance disposed of | (587) |

## 29. Major Non-Cash Transactions

(a) During the year ended 31 December 2012, the Group disposed of 100% equity interest in Wealth Pine at a consideration of HK$1,600,000 and the amount was settled by offsetting with the amount due to a related company.

(b) On 20 June 2012, the Group entered into a deed of novation and set off with Cheer Win Trading Limited and Smart Blossom for settlement of amount due to a related company.

(c) On 16 April 2012, 3,799,999 shares of HK$0.10 each were issued and allotted to World Empire and the amount of HK$380,000 was settled by offsetting with the amounts due to directors.

## 30. Operating Lease Commitments

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2013**<br>**HK$'000** | 2012<br>HK$'000 |
|---|---|---|
| Within one year | **23,632** | 30,700 |
| In the second to fifth years inclusive | **12,406** | 28,363 |
| Over five years | **5,568** | 23,169 |
| | **41,606** | 82,232 |

Included in the above operating lease commitments are commitments for future minimum lease payments under non-cancellable operating leases to related parties in respect of rented premises which fall due as follows:

| | **2013**<br>**HK$'000** | 2012<br>HK$'000 |
|---|---|---|
| Within one year | **3,548** | 5,882 |
| In the second to fifth years inclusive | **–** | 5,882 |
| | **3,548** | 11,764 |

Operating lease payments represent rentals payable by the Group for the retail stores, department store counters, offices, factory, staff quarters and warehouses. Leases are negotiated for terms ranging from one to ten years.

Certain retail stores and department store counters include payment obligations with rental varied with gross revenue. The additional rental payable (contingent rents) is determined generally by applying pre-determined percentages to future expected sales less the basic rentals of the respective leases.

During the year ended 31 December 2013, leases of certain retail stores are terminated before expiration of negotiated lease terms.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2013*

## 31. Capital Commitments

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Capital expenditure in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements | – | 8,371 |

## 32. Pledge of Assets

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Leasehold land and buildings | 127,070 | 4,208 |
| Prepaid lease payments | 29,481 | 29,233 |
| Trade receivables | – | 24,876 |
| Pledged bank deposit | 1,213 | – |
| | 157,764 | 58,317 |

## 33. 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 | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|---|---|
| Shenzhen Fusheng Trading Company Limited | Related company (Note) | Rental expenses | 2,170 | 2,778 |
| Gain Harvest Investment Limited ("Gain Harvest") | Related company (Note) | Rental expenses | 1,680 | 1,580 |
| Wealth Pine | Related company (Note) | Rental expenses | 1,080 | 808 |

During the year ended 31 December 2012, Gain Harvest has pledged its leasehold property to secure the Group's bank borrowings amounting to HK$35,000,000 and the pledge was released during the year.

Note: The Ultimate Beneficial Owners have directorship or direct beneficial and controlling interests in these related companies.

## 33. Related Party Transactions (continued)

### Compensation of key management personnel

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

| | 2013<br>HK$'000 | 2012<br>HK$'000 |
|---|---|---|
| Salaries and allowances | 9,776 | 9,763 |
| Performance related incentive payments | 100 | 232 |
| Retirement benefit schemes contributions | 563 | 504 |
| Share-based payments | 9,942 | 852 |
| | 20,381 | 11,351 |

## 34. Particulars of Principal Subsidiaries of the Company

Particulars of the Company's principal subsidiaries held by the Company as at 31 December 2013 and 31 December 2012 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 Group as at 31 December 2013 | 2012 | Principal activities |
|---|---|---|---|---|---|---|
| Casablanca Home Holdings[1] | BVI 5 October 2010 | Hong Kong | US$4,230,000 | 100% | 100% | Investment holding |
| Casablanca Home (Shenzhen) Limited 卡撒天嬌家居用品(深圳)有限公司[2][3] | PRC 20 August 2010 | PRC | HK$30,000,000 | 100% | 100% | Trading of home textiles products and accessories |
| Casablanca Home (Huizhou) Company Limited 卡撒天嬌家居(惠州)有限公司[2][3] | PRC 7 April 2011 | PRC | HK$85,000,000 | 100% | 100% | Manufacture and sale of home textiles products and accessories (2012: not yet commence operation) |
| Casablanca Hong Kong Limited | Hong Kong 22 June 2010 | Hong Kong | HK$1,000,000 | 100% | 100% | Trading of home textile products and accessories |
| CCW Home Tex (Shenzhen) Company Limited 創想家居用品(深圳)有限公司[2][3] | PRC 25 April 2007 | PRC | HK$20,000,000 | 100% | 100% | Trading of home textiles products and accessories |
| Forcetech (Shenzhen) 科思特家居用品(深圳)有限公司[2][3] | PRC 23 July 2003 | PRC | HK$10,200,000 | 100% | 100% | Manufacture and sale of home textiles products and accessories |
| Jollirich | Hong Kong 8 April 2002 | Hong Kong | HK$10,000 | 100% | 100% | Investment holding and trading of home textiles products and accessories |

(1) Directly held by the Company.
(2) These companies were established in the PRC in the form of wholly foreign-owned enterprise.
(3) The English name is translated for identification purpose only.

# Notes to the Consolidated Financial Statements

*For the year ended 31 December 2013*

## 34. Particulars of Principal Subsidiaries of the Company (continued)

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 the year.

# Statement of Financial Position of the Company

*At 31 December 2013*

| | 2013 HK$'000 | 2012 HK$'000 |
|---|---|---|
| Unlisted investment in a subsidiary | **36,423** | 33,304 |
| Amounts due from subsidiaries | **61,973** | 67,943 |
| Other receivables | **426** | 155 |
| Bank balances | **24,196** | 5,431 |
| Accrued expenses | **(708)** | (650) |
| Amount due to a subsidiary | **(5,918)** | (5,918) |
| Tax payable | **(150)** | – |
| Net assets | **116,242** | 100,265 |
| Share capital | **20,079** | 20,000 |
| Reserves | **96,163** | 80,265 |
| Total equity | **116,242** | 100,265 |

Movement in reserves:

| | Share premium HK$'000 | Share options reserve HK$'000 | Accumulated (loss) profit HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 2 April 2012 (date of incorporation) | – | – | – | – |
| Loss and total comprehensive expense for the period | – | – | (280) | (280) |
| Effect of share swap pursuant to the group reorganisation | 32,974 | – | – | 32,974 |
| Capitalisation issue | (14,600) | – | – | (14,600) |
| Issue of shares by the Company on public share offering | 70,000 | – | – | 70,000 |
| Expenses incurred in connection with the issue of shares | (8,962) | – | – | (8,962) |
| Recognition of equity-settled share-based payments | – | 1,133 | – | 1,133 |
| At 31 December 2012 | 79,412 | 1,133 | (280) | 80,265 |
| Profit and total comprehensive income for the year | – | – | 1,938 | 1,938 |
| Recognition of equity-settled share-based payments | – | 13,093 | – | 13,093 |
| Exercise of share options | 1,467 | (600) | – | 867 |
| **At 31 December 2013** | **80,879** | **13,626** | **1,658** | **96,163** |

# Corporate Information

## Stock Code

2223

## Board of Directors

### Executive Directors

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

### Independent Non-executive Directors

Mr. Tse Yat Hong
Mr. Leung Lin Cheong
Mr. Li Kai Fat

## Committees

### Audit Committee

Mr. Tse Yat Hong *(Chairman)*
Mr. Leung Lin Cheong
Mr. Li Kai Fat

### Remuneration Committee

Mr. Li Kai Fat *(Chairman)*
Mr. Tse Yat Hong
Mr. Leung Lin Cheong

### Nomination Committee

Mr. Cheng Sze Kin *(Chairman)*
Mr. Tse Yat Hong
Mr. Leung Lin Cheong
Mr. Li Kai Fat

## Company Secretary

Mr. Ho Yiu Leung

## Authorised Representatives

Mr. Sung Shuk Ka
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

Deloitte Touche Tohmatsu

## Compliance Advisor

Haitong International Capital Limited

## 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

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## Principal Bankers

In Hong Kong:
Bank of China (Hong Kong) Limited

In the PRC:
Bank of China Limited
Nanyang Commercial Bank (China) Ltd

## Investor Relations Consultant

Strategic Financial Relations Limited
Unit A, 29/F, Admiralty Centre 1,
18 Harcourt Road, Hong Kong

## Company Website

www.casablanca.com.hk