ANNUAL REPORT 2017

CASABLANCA GROUP LIMITED

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

STOCK CODE: 2223

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

CONTENTS

About Casablanca

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

OUR DISTRIBUTION NETWORK

232 POS[1]

in 73 cities in well developed areas in the Greater China Region[2]

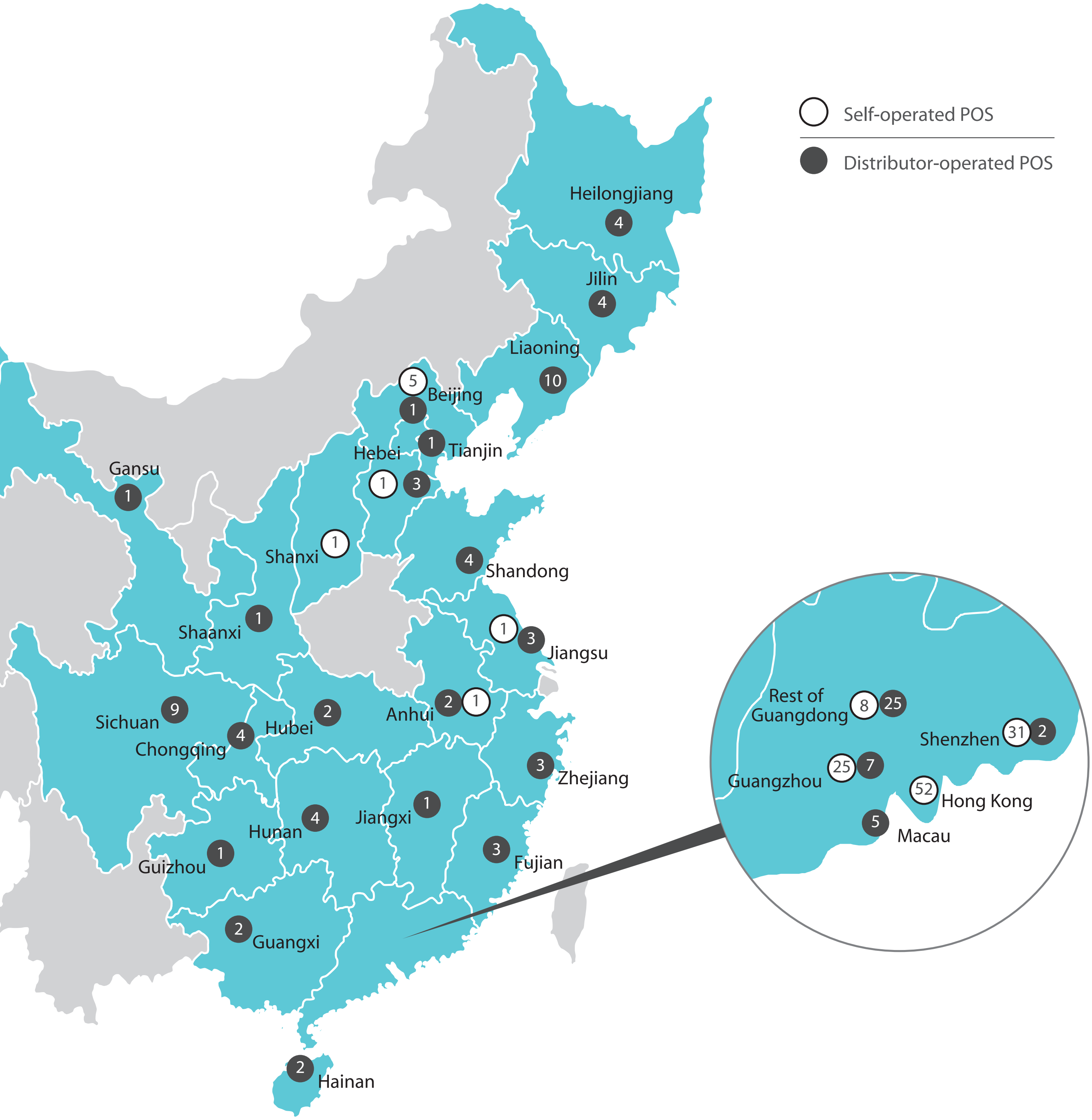
162

concession counters
in well known department stores

125

self-operated POS in Hong Kong, Macau and first-tier cities of the PRC[3]

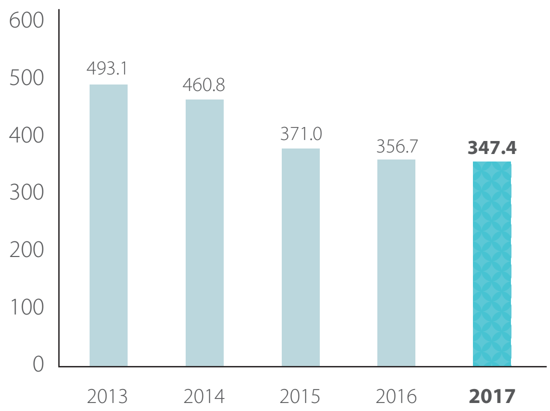
(1) POS stands for points of sales
(2) The region comprises the People's Republic of China (the "PRC"), Hong Kong and Macau
(3) "PRC" for purpose of this annual report, means the People's Republic of China, other than the regions of Hong Kong, Macau and Taiwan


Self-operated POS
Distributor-operated POS
Heilongjiang 4
Jilin 4
Liaoning 10
Beijing 5 1
Tianjin 1
Hebei 1 3
Gansu 1
Shanxi 1
Shandong 4
Shaanxi 1
Jiangsu 1 3
Sichuan 9
Chongqing 4
Hubei 2
Anhui 2 1
Zhejiang 3
Hunan 4
Jiangxi 1
Guizhou 1
Fujian 3
Guangxi 2
Hainan 2
Rest of Guangdong 8 25
Shenzhen 31 2
Guangzhou 25 7
Hong Kong 52
Macau 5

FINANCIAL HIGHLIGHTS AND SUMMARY

REVENUE

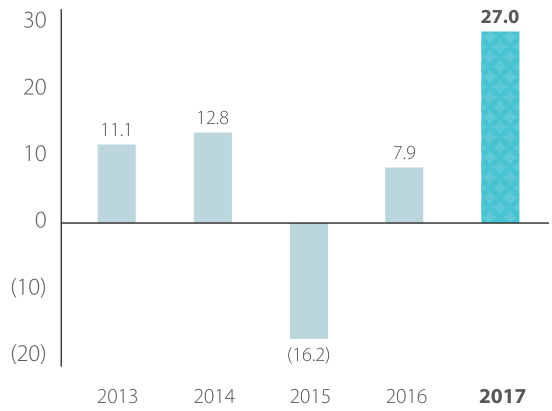
HK$ million



For the year ended 31 December

PROFIT/(LOSS)

HK$ million



For the year ended 31 December

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
Revenue	**347,449**	356,717	370,969	460,824	493,104
Gross profit	**224,345**	223,941	229,205	278,294	303,778
EBITDA[1]	**44,584**	35,776	11,193	42,321	42,430
Profit/(Loss) attributable to owners of the Company	**27,037**	7,930	(16,230)	12,753	11,061

Note:

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

CONSOLIDATED ASSETS AND LIABILITIES

	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
Total assets	**475,787**	490,105	526,491	515,780	559,485
Total liabilities	**78,207**	133,782	156,938	204,070	255,713
Total equity	**397,580**	356,323	369,553	311,710	303,772
Total bank borrowings	**3,575**	50,171	74,495	96,437	136,223
Pledged bank deposit and bank balances and cash	**164,710**	180,482	184,185	141,433	135,641
Net cash/(bank borrowings)	**161,135**	130,311	109,690	44,996	(582)

KEY FINANCIAL RATIOS

	For the year ended 31 December				
	2017	2016	2015	2014	2013
Gross profit margin	**64.6%**	62.8%	61.8%	60.4%	61.6%
EBITDA margin	**12.8%**	10.0%	3.0%	9.2%	8.6%
Net profit/(loss) margin	**7.8%**	2.2%	-4.4%	2.8%	2.2%
Return on assets	**5.7%**	1.6%	-3.1%	2.5%	2.0%
Return on equity	**6.8%**	2.2%	-4.4%	4.1%	3.6%
Interest coverage[1]	**35.5**	17.3	3.9	9.9	14.6
Current ratio	**4.1**	2.7	2.6	2.0	2.0
Quick ratio	**3.2**	2.1	2.0	1.5	1.4
Gearing ratio[2]	**0.9%**	14.1%	20.2%	30.9%	44.8%
Net gearing ratio[2]	**N/A**	N/A	N/A	N/A	0.2%
Inventory turnover (days)	**207.5**	218.0	222.1	199.5	184.5
Trade and bills receivables turnover (days)	**69.9**	68.4	74.8	74.9	73.4
Trade and bills payables turnover (days)	**159.1**	160.3	166.1	162.8	141.6

Note:

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

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

CHAIRMAN'S STATEMENT

I am pleased to present to the shareholders of Casablanca Group Limited (the "Company") the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2017 (the "Year" or the "Review Period").

In 2017, consumer confidence in the PRC and Hong Kong saw improvement and the bedding products industry recovered gradually from the subdued condition in the past few years. For the year ended 31 December 2017, the Group's total revenue was HK$347.4 million, representing a slight decrease of 2.6% as compared to HK$356.7 million in the corresponding period of 2016. During the Review Period, the Group's gross profit margin increased to 64.6% as compared to 62.8% in the corresponding period last year, which was attributable to the gradual increase in the income contributed by "CASA-V", a high-end positioned brand of the Group. Besides, our stringent cost control measures began to yield results. As a result, profit attributable to owners of the Company for the Year amounted to HK$27.0 million, representing a substantial increase of 240.9% as compared to HK$7.9 million last year.

During the Review Period, the Group focused on strengthening its brand value from business model development, optimisation of sales channels and product research and development, with a view to enhancing the Group's position in the industry. We invested more resources in exploring the commercial-customer market, for example, recruiting more staff and co-organising product promotion events, etc., and redeployed resources to explore the opportunities for export business. Moreover, the Group attached great importance to improving the revenue from online sales business. To this end, the Group formed alliance with a team of professionals in the operation of e-commerce in the PRC to improve online sales business in the PRC, while rolling out eShop in Hong Kong, in order to provide consumers with different channels for purchasing the Group's products and increase the Group's market share. We also continued to increase brand differentiation in terms of product design by adding more products of quality materials featuring Italian design style to "Casa Calvin" brand and offering more products which are fashionable and durable but reasonably priced under "Casablanca" brand. As for "CASA-V", the brand renowned for its pioneer "5A Features" in the market, mosquitos and insects repellent series products were launched during the Year, with a view to providing consumers with a more comfortable sleeping environment with comprehensive protection, which further demonstrated the image of "Healthy Sleeping Expert (健康睡眠專家)" of the Group. In respect of the authorised cartoon characters portfolio, we achieved breakthrough in 2017 by obtaining the first authorisation of the trendy cartoon characters "Fumeancats" and "SHIBAinc" on bedding products in the world and incorporating such cartoon characters into our products. The limited edition products launched attracted strong market attention and were in short supply.

As had the president of China Home Textile Association mentioned in the earlier public speech, it is a good opportunity for home textile enterprises to undergo transformation and upgrade despite numerous difficulties in 2017, including rising costs, more stringent environmental standards and regulations, complicated situation of both domestic and international markets and subdued growth of traditional channels. For future development of the industry, apart from taking initiative in enhancing corporate management capabilities, broadening sources of income and improving cost control, it is also necessary for enterprises to enhance added values of their products, with an aim to facilitating transformation and upgrade of enterprises, so as to explore and expand new profit margin. The Group concurs with the abovementioned and will be committed to achieving transformation and upgrade through business diversity and product upgrades, in order to broaden the sources of income.

In view of robust demand for one-stop home shopping experience in China, the Group has proactively prepared to commence such business in recent years. We have noticed that the buoyant property market in China in recent years leads to a high number of people moving into new flats and moving houses, resulting in huge demand in the Chinese market for quality furniture which is well-designed. However, consumers with high purchasing power encounter the problem of long waiting time when ordering high-end furniture from overseas as it takes a relatively long production time and transportation time. In our opinion, consumers can have better shopping experience if we can offer quality bedding products with well design and tailor-made furniture and home accessories with a foreign touch without long lead time. As such, the Group commenced strategic cooperation with a competent furniture manufacturer and retailer in Guangdong in 2017 after selective assessment, with an aim to exploring the entire home shopping sector in joint efforts leveraging its experience in the furniture industry together with the Group's recognition in Southern China.

We will continue to adopt the strategy of developing online and offline sales channels in parallel. In 2017, we commenced cooperation with a team of professionals in the operation of e-commerce in the PRC, with an aim to improving deficiency in online sales business in the PRC of the Group and optimising the structure of offline sales network, so as to achieve mutual support between online and offline businesses. I look forward to the increase in contribution from online sales business in the future in the light of optimisation of online sales business in the PRC as well as development of the self-operated official eShop in Hong Kong.

The year 2018 marks the 25th anniversary of the establishment of the Group. I would like to extend my gratitude to Hong Kong consumers for their constant support to the Group's products, which enable us to grow from a small-scale startup to an industry-leading enterprise today. The year 2018 is also the 15th year since we first launched our brands in the PRC market. Looking forward, we will endeavor to increase market share of the Group's brands in the PRC leveraging our recognition and advantages in Southern China. In 2018, we will revisit with consumers the classic products rolled out by the Group over years and launch key innovative products under the theme of "The Heritage of Italian Craftsmanship (意藝傳承 25)", with a view to delivering new success for another 25 years by investing in the future on the back of previous achievements.

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 trust, and express my appreciation to the management team and employees for their contributions to the development of the Group.

Cheng Sze Kin
Chairman
Hong Kong, 26 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

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

Business Review

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

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

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

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

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

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

	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	32	20	52	2	3	5	57
PRC							
Southern[(1)]	62	2	64	11	27	38	102
Northern[(2)]	7	0	7	5	0	5	12
Eastern[(3)]	2	0	2	10	6	16	18
Northeast[(4)]	0	0	0	18	0	18	18
Southwest[(5)]	0	0	0	10	4	14	14
Central[(6)]	0	0	0	1	5	6	6
Northwest[(7)]	0	0	0	2	3	5	5
PRC subtotal	71	2	73	57	45	102	175
Total	**103**	**22**	**125**	**59**	**48**	**107**	**232**

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.

Launched Innovative Functional Products and Reorganised Cartoon Characters Portfolio

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

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

Strengthened Marketing Promotion and Consolidated Market Leadership Position in Hong Kong

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

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

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

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

Future Prospects

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

Launch Different Sales Models and Enhance Product Diversification

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

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

Introduce Innovative Products and Develop Different Sales Channels

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

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

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

Strengthen Marketing Promotion and Enhance Brand Image

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

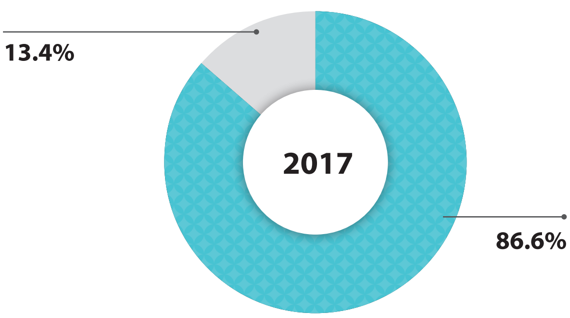
Incorporating "Contemporary, Innovative and Functional" features in our product design, the Group will, in addition to continuously endeavoring to provide consumers with quality bedding products with health functions which are fashionably designed but reasonably priced, explore ways to provide more quality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

FINANCIAL REVIEW

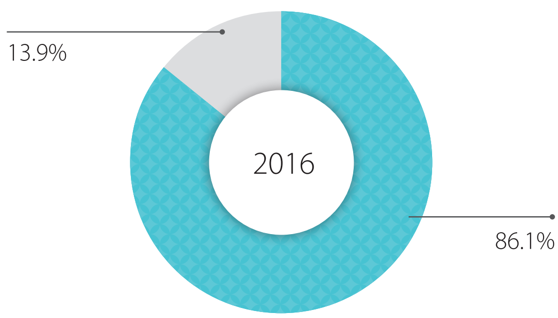
Revenue

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

Breakdown of revenue by brands:



Total: HK$347.4 million



Total: HK$356.7 million

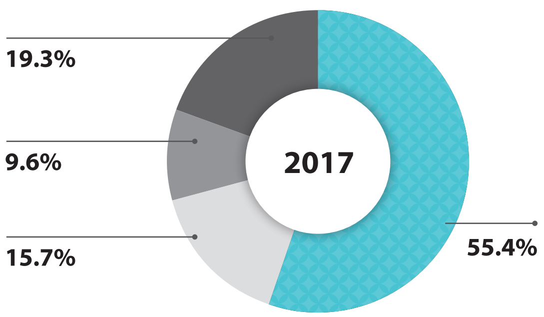
Proprietary brands   Licensed and authorised brands

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

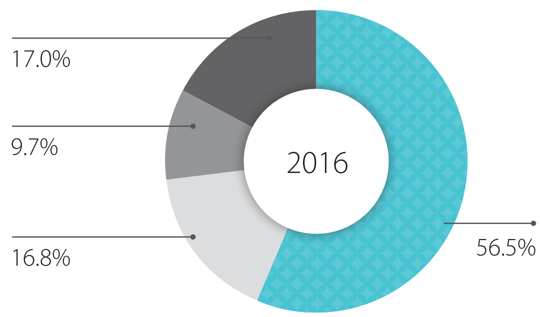
Casablanca, Casa Calvin and CASA-V are our major proprietary brands. Despite the significant increase in sales of CASA-V, the decrease in sales of proprietary brands by 2.1% was attributable to the decline in overall sales for 2017. Sales of our licensed and authorised brands for 2017 decreased by 5.9%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

MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of revenue by channels:



Total: HK$347.4 million



Total: HK$356.7 million

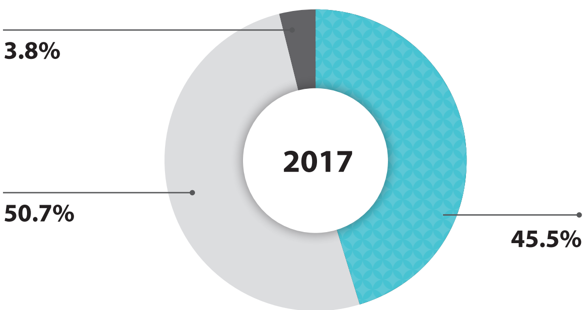
Self-operated concession counters · Self-operated retail stores · Sales to distributors · Others

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

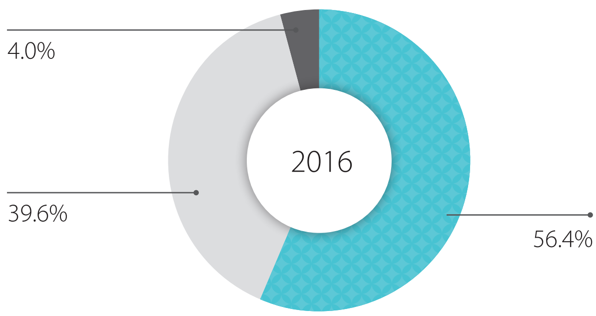
Note: "Others" includes sales to wholesale customers in Hong Kong and the PRC and also exports to overseas markets.

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

Breakdown of revenue by products:



Total: HK$347.4 million



Total: HK$356.7 million

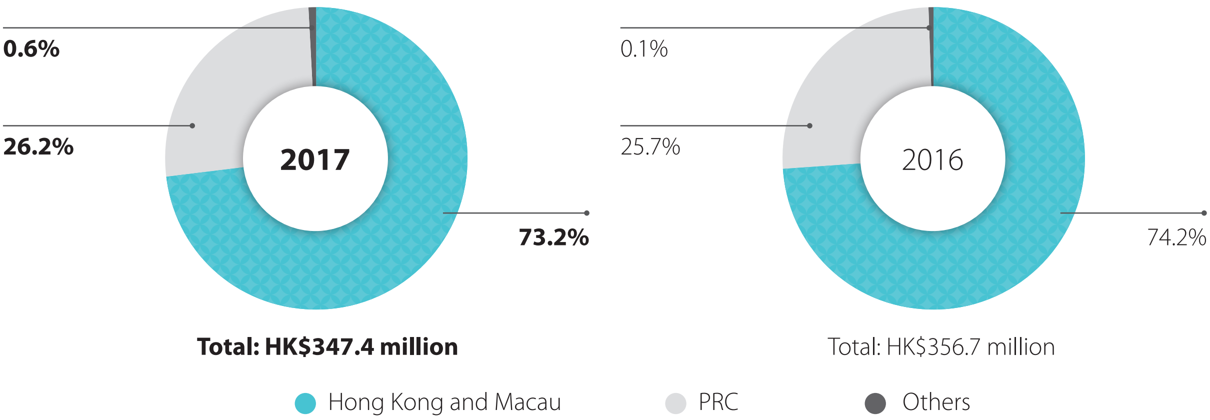
Bed linens Duvet and pillows Other home accessories

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of revenue by geographic regions:



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

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

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

Gross Profit and Gross Profit Margin

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

Other Gains and Losses

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

Operating Expenses

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

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

Finance Expenses

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

Taxation

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

Profit for the Year

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

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

Major Operating Efficiency Ratios

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

Inventory turnover

The inventory turnover is equal to the average of opening and closing inventory divided by total cost of sales for the year and multiplied by 365 days. The inventory turnover for 2017 decreased to 207.5 days from 218.0 days for 2016. The inventory at 31 December 2017 decreased by 18.5% to HK$62.8 million from HK$77.1 million at 31 December 2016 owing to better control on inventory and more promotional activities for clearing aged inventory during the Year.

Trade receivables turnover

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

Trade and bills payables turnover

The trade and bills payables turnover is equal to the average of opening and closing trade and bills payables divided by total cost of sales for the year and multiplied by 365 days. The trade and bills payables turnover for 2017 was 159.1 days at similar level as compared to 160.3 days for 2016.

Liquidity and Capital Resources

The gearing structure is set out below:

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

The Group has been adhering to the principle of prudent financial management in order to minimise financial and operational risks. The Group generally finances its operations with internally generated cash flows. Bank borrowings were primarily for financing the construction of the Huizhou plant.

Pledged bank deposits and bank balances and cash

As at 31 December 2017, the pledged bank deposits of the Group was approximately HK$6.3 million (2016: HK$8.0 million), which was denominated in Hong Kong dollars and Renminbi, and the bank balances and cash of the Group were approximately HK$158.4 million (2016: HK$172.4 million), which were denominated in HKD and RMB except for about 1.2% in United States dollars and Euro. Details of the Group's pledged bank deposits and bank balances and cash are set out in note 20 to the consolidated financial statements.

Bank borrowings

As at 31 December 2017, the bank borrowings of the Group was approximately HK$3.6 million (2016: HK$50.2 million), which were denominated as to 100.0% in RMB, with all bank borrowings balances repayable not more than two years and being variable-rated borrowings with effective interest rates ranging from 2.02% to 5.46% per annum. During the Year, the financial position of the Group was healthy and the Group utilised surplus cash to reduce the total bank borrowings by 92.9% to HK$3.6 million (2016: HK$50.2 million). Details of the Group's bank borrowings are set out in note 22 to the consolidated financial statements.

Current ratio

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

Gearing ratio

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

Pledge of assets

As at 31 December 2017, the Group had pledged its leasehold land and buildings, prepaid lease payments and fixed deposits with an aggregate carrying value of HK$127.0 million (2016: HK$128.8 million) to certain banks in Hong Kong and the PRC to secure banking facilities granted to the Group.

Capital expenditures

During the Year, the Group invested HK$20.5 million (2016: HK$6.4 million) for acquisition of properties, leasehold improvements, motor vehicles and equipment.

Capital commitments

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

Use of Proceeds From the Listing and Placement of Shares

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

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

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

Share Capital

The total number of shares of the Company as at 31 December 2017 was 258,432,000 shares (2016: 258,432,000 shares) of HK$0.10 each. As at 31 December 2017, the total issued share capital of Company was HK$25,843,000 (2016: HK$25,843,000). The movements of share capital during the Year are set out in note 25 to the consolidated financial statements.

In order to provide incentive or reward to eligible persons for their contribution to the Group and to enable the Group to recruit and retain human resources that are valuable to the Group, the Company adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme") before the listing. Details of the Pre-IPO Share Option Scheme and 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.

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 RMB which may affect the Group's performance. RMB appreciated by about 7.0% against HKD in 2017 and depreciated by about 6.6% in 2016. The management is aware of the possible exchange rate exposure due to the continuing fluctuation of RMB and will closely monitor its impact on the performance of the Group to see if any hedging arrangement is necessary. The Group currently does not use derivative financial instruments to hedge against the volatility associated with foreign currency transactions and other financial assets and liabilities arising in the ordinary course of business.

Contingent Liabilities

As at 31 December 2017, the Group did not have material contingent liabilities.

Dividend

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

Employee and Remuneration Policy

As at 31 December 2017, the employee headcount of the Group was 642 (2016: 684) and the total staff costs, including directors' emoluments, for the Year amounted to HK$87.4 million (2016: HK$91.5 million). The decrease in employee headcount as at 31 December 2017 was primarily due to decreases in staff of sales departments after restructure of sales network and the production plant with more out-sourced products and processing.

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

Material Acquisitions and Disposals of Subsidiaries and Associates

The Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures in the course of the Year.

Significant Investments

As at 31 December 2017, the Group did not hold any significant investments. Apart from those disclosed in this annual report, there was no plan authorised by the Board for other material investments or additions of capital assets at the date of this annual report.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Cheng Sze Kin (鄭斯堅), aged 57, 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 (except Hangzhou Sky Walnut Hi-Tech Limited). 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 45, 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. Mr. Cheng was appointed as the Chief Executive Director of the Company on 1 September 2016 and is responsible for strategic planning of the Group, in particular product development and sales management. 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 and has been appointed as standing committee member of Chinese People's Political Consultative Conference Guangzhou Committee (Huangpu District) since August 2015.

Ms. Wong Pik Hung (王碧紅), aged 51, 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.

Non-executive Director

Mr. Mok Tsan San (莫贊生), aged 47, was appointed as a Non-executive Director on 9 April 2015. Mr. Mok is the managing director of Capital Union Investments Limited, a direct investment firm with a portfolio in Great China and overseas. He is currently the executive director of Chinese Strategic Holdings Limited (stock code: 8089), the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Mok was the executive director of Chinese Food and Beverage Group Limited (stock code: 8272) from April 2014 to January 2017 and Hin Sang Group (International) Holding Co. LTD. (stock code: 6893), from May 2015 to September 2015, the shares of which are listed on the Stock Exchange respectively. He was the non-executive director of Newtree Group Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 1323), from August 2014 to February 2016. Mr. Mok has over 15 years of solid experiences in fund raising and investment syndication in a number of ventures. He has helped, funded, and/or personally invested in and advised in a number of other Silicon Valley companies, including but not limited to Facebook Inc. and Proteus Digital Health.

Independent Non-executive Directors

Mr. Zhang Senquan (張森泉), aged 41, was appointed as an Independent Non-executive Director on 1 April 2015. Mr. Zhang currently acts as the managing director of Southwest Securities International Securities Limited, the shares of which are listed on the Stock Exchange (stock code: 812). Mr. Zhang is also the independent non-executive director of Jiande International Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 865). He is a member of Hong Kong Institute of Certified Public Accountants, China Institute of Certified Public Accountants and American Institute of Certified Public Accountants. Mr. Zhang used to be the independent non-executive director of Topchoice Medical Investment Co. Inc., the shares of which are listed on the Shanghai Stock Exchange (stock code: 600763SH), from December 2014 to March 2017. He was the chief financial officer and joint company secretary of Huazhong In-Vehicle Holdings Company Limited, the shares of which are listed on the Stock Exchange (stock code: 6830) from May 2014 to July 2015. He served as head of the Strategic Development Department of Goodbaby International Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 1086), from March 2013 to April 2014. He has more than 10 years of professional experience in accounting and auditing, and worked at Ernst & Young, KPMG and Deloitte Touche Tohmatsu serving several positions from audit staff to audit partner from 1999 to 2012. Mr. Zhang received his bachelor's degree from Fudan University in the PRC in 1999.

Dr. Cheung Wah Keung (張華強), aged 57, was appointed as an Independent Non-executive Director on 26 May 2017. He is currently the chairman of each of Shinhint Group and Tai Sing Industrial Company Limited. He has more than 30 years of experience in trading and manufacturing of consumer electronic products. Dr. Cheung is currently an independent non-executive director of Sky Light Holdings Limited (stock code: 3882) and PanAsialum Holdings Company Limited (stock code: 2078), the shares of which are listed on the Stock Exchange respectively. He was also an independent non-executive director of China Kingstone Mining Holdings Limited (stock code: 1380) from July 2015 to December 2015 and an independent non-executive director and non-executive Chairman of Harmonic Strait Financial Holdings Limited (currently named as Asia Investment Finance Group Limited and stock code: 33) from June 2007 to September 2016 and September 2013 to September 2016 respectively, all shares of which are listed on the Stock Exchange.

Dr. Cheung holds a bachelor degree in business administration, a master degree in global political economy from The Chinese University of Hong Kong and a master degree in corporate governance, a doctor degree in business administration from The Hong Kong Polytechnic University. He was awarded by Federation of Hong Kong Industries as "Young Industrialist of Hong Kong" in 2005 and "Certificates of Merit in Directorship" by the Hong Kong Institutes of Directors in 2006 and was the president of the Hong Kong Young Industrialists Council from 2015 to 2016.

Mr. Chow On Wa (周安華), aged 56, was appointed as an Independent Non-executive Director on 26 May 2017. He is currently the director of JTF Development Limited which provides professional management and investment consulting services to various clients. Mr. Chow has over 20 years of experience in management of retail business of home accessories in the PRC. During 1986 to 2001, he worked for IKEA Group for 15 years. He was a general manager for India and Pakistan regional office of IKEA and subsequently stationed in the PRC. During 1995 to 2001, Mr. Chow was responsible for IKEA's retail and operational management in the PRC and opened the first retail shopping mall in the PRC for IKEA Group in 1997. He established Amfield Consultants Limited, which engaged in consultancy on management and strategic planning in business and retailing in the PRC, in 2001. Mr. Chow established New Concept International Enterprise Limited, in 2004, which was engaged in retailing of home accessories across the PRC focusing on shopping malls and department stores, and mainly distributed internationally renowned brands, including Frette, Trussardi-home and Esprit-home etc., until its business was sold to Li & Fung Limited, the shares of which are listed on the Stock Exchange (stock code: 494), in 2013. From 2013 to June 2016, Mr. Chow was a senior vice president of Global Brands Group Holding Limited, the shares of which are listed on the Stock Exchange (stock code: 787) after its spin-off from Li & Fung Limited in 2014, and was responsible for management of its multi-branded home accessory business covering all over Asia. Mr. Chow holds a bachelor degree in engineering from University of Manchester in the United Kingdom.

DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Mr. Ho Yiu Leung (何耀樑), aged 51, 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, the Association of Chartered Certified Accountants, The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. He holds a master degree in business administration from the University of Strathclyde.

Mr. Gao Yan (高岩), aged 59, 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, Mr. Gao has over 20 years of experience in production management. He 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 48, 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 over 20 years of experience in audit, tax and accounting. He was awarded qualification of certified internal control specialist from Internal Control Institute, senior international finance manager from International Financial Management Association and certified financial planner from The Chinese Institute of Certified Financial Planners, and is a member of Internal Control Institute, a member of International Financial Management Association and The Chinese Institute of Certified Financial Planners. He was conferred qualification of assistant accountant in accounting (corporate) speciality and intermediate level in accounting speciality from Ministry of Finance of the PRC. Mr. Lin holds a bachelor's degree in accounting from Guangdong Polytechnic Normal University.

Company Secretary

Mr. Ho Yiu Leung (何耀樑), aged 51, 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 2017.

Principal Activities

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 35 to the consolidated financial statements.

Business Review

A review of the Group's business for the year ended 31 December 2017 and a discussion on the Group's future business development are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 6 to 21 of this annual report. Discussion and information therein forms part of this Director's Report.

Principal Risks and Uncertainties

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

(i) Business Risk

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

Owing to the increasing trend for online sales and the intense competition in bedding products market in the PRC, the Group has sustained loss in operating retail business through physical POS network in the PRC for the year ended 31 December 2017. Furthermore, the Group operates in markets subject to pricing and other competitive pressures such as advertising, designs, product innovations and technological advances. Changes in economic conditions, consumer habits and competition are uncertain such that the Group cannot accurately predict any material adverse effect of these changes on the current or future business and results of operations of the Group. However, the Group has closed down a number of inefficient self-operated POS in the PRC, increased its investment in the development of its online sales business, strengthened its advertising and marketing, and enhanced its research and development of new products in order to mitigate the impact.

(ii) Operational Risk

In view of over-reliance on retail businesses in Hong Kong and the PRC, the Group has endeavoured to develop more wholesale businesses during the recent years. The Group's revenue as well as results greatly depend on the sales to a wholesale customer under a bulk-purchase agreement for its membership redemption in Hong Kong and Macau. The loss of this customer or the decline in sales to it can adversely affect the Group's results of operations. The Group closely keeps in touch with this customer all around the year and puts the utmost efforts to deliver high quality products and services to it. At the same time, the Group also strives in building strong and long term relationships with different wholesale customers in order to mitigate the risk.

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

(iii) Financial Risk

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

Financial Key Performance Indicators

An analysis of the Group's performance for the year ended 31 December 2017 using financial key performance indicators (the "KPIs") is set out in the section headed "Financial Highlights and Summary" on pages 4 and 5 of this annual report. Such KPIs are selected on basis of their effectiveness in measuring the performance of Group's business with nature in manufacturing and trading.

Environmental Policies and Performance

The Group is committed to build an environmentally-friendly corporation that pays close attention to conserving natural resources and protecting environment. The Group strives to minimise the impact on environment by saving electricity and water and has implemented internal recycling program on a continuous basis for office consumables such as carbon toners, cartridges and papers. We also arrange tablet computers at our self-operated POS to show product catalogues to customers in order to reduce printed versions of the product catalogues. In 2014, Casablanca Hong Kong Limited, the principal subsidiary of the Company in Hong Kong, was awarded the certificate under the CarbonSmart Programme organised by the Hong Kong Productivity Council in collaboration with the Federation of Hong Kong Industries, Hong Kong General Chamber of Commerce and Business Environment Council. In 2016, the Company participated in the On-site Improvement Assessment Projects of Cleaner Production Partnership Programme organised by Environmental Protection Department of Hong Kong SAR in collaboration with the Economic and Information Commission of Guangdong Province. In 2017, Casablanca Hong Kong Limited was awarded U Green Awards – Excellence of Environmental Contribution Award by U Magazine for the third time in three consecutive years.

In contribution to the environment, the Group uses environmentally-friendly raw materials for its products such as milk protein fibres and soybean protein fibres for the fill materials in our duvets and pillows. In addition, the Group also introduced new products with healthy functions such as products under "CASA-V" brand with "5A Features". In 2017, the Company has launched a series of "CASA-V" products with mosquitos and insects repellent functions. In addition to "5A Features", users of these products can avoid being disturbed by insects and enjoy good sleep. The Group intends to make "CASA-V" a brand for healthy and environmentally-friendly home living.

The Company will publish an Environmental, Social and Governance Report separately on the websites of the Company and the Stock Exchange not later than three months after publication of this annual report.

Compliance with Laws and Regulations

The Group's operations are mainly carried out by the Company's subsidiaries in Hong Kong and the PRC. The Group's operations accordingly shall comply with relevant laws and regulations in Hong Kong and the PRC. During the Year, the Group has complied, to the best knowledge of the Directors, in material aspects with the relevant laws and regulations that have a significant impact on the operations of the Group.

Key Relationships with Employees, Customers, Distributors and Suppliers

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

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

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

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

Results and Appropriations

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 59 of this annual report.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2017.

Five-Year Financial Summary

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

Property, Plant and Equipment

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

DIRECTORS' REPORT

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 and Placement of Shares

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

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

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

Distributable Reserves

The Company's reserves available for distribution to shareholders as at 31 December 2017 calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$173,382,000, comprising share premium of approximately HK$166,688,000 and retained earnings of HK$6,694,000.

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 and Chief Executive Officer)*
Ms. Wong Pik Hung

Non-executive Director

Mr. Mok Tsan San (Note)

Independent Non-executive Directors

Mr. Zhang Senquan (Note)
Dr. Cheung Wah Keung (appointed on 26 May 2017)
Mr. Chow On Wa (appointed on 26 May 2017)
Mr. Kam Leung Ming (retired on 26 May 2017)
Mr. Leung Yiu Man (retired on 26 May 2017)

Note: On 9 April 2018, Mr Mok Tsan San and Mr. Zhang Senquan have tendered their resignations as Non-executive Director and Independent Non-executive Director respectively with immediate effect.

In accordance with Article 16.18 of the Company's Articles of Association (the "Articles of Association"), 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.

In accordance with Article 16.3 of the Articles of Association, Dr. Cheung Wah Keung and Mr. Chow On Wa will hold office only until the forthcoming annual general meeting and shall then be eligible for re-election.

Directors' Service Contracts

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

Share Option Scheme

The Group adopted the Share Option Scheme, which was approved by the sole shareholder's resolution passed on 22 October 2012, and granted share options to Directors and employees on 9 April 2015 to subscribe for a total of 5,594,000 ordinary shares of HK$0.10 per share with the exercise price of HK$4.95 per share. Details of the grant of share options on 9 April 2015 are set out in announcement of the Company dated 9 April 2015. The share options shall be exercisable during the period from 9 October 2015 to 8 April 2018. As at 31 December 2017, 2,934,000 share options were still outstanding under the Share Option Scheme.

Particulars of the Company's 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:

	Date of grant	Exercisable period (Note)	Exercised price (HK$)	Number of options as at 1.1.2017	Movements during the Year Granted	Cancelled	Exercised	Lapsed	Number of options as at 31.12.2017
Directors and Chief Executive									
Mr. Cheng Sze Kin	9.4.2015	9.10.2015 – 8.4.2018	4.95	330,000	–	–	–	–	330,000
Mr. Cheng Sze Tsan	9.4.2015	9.10.2015 – 8.4.2018	4.95	330,000	–	–	–	–	330,000
Ms. Wong Pik Hung	9.4.2015	9.10.2015 – 8.4.2018	4.95	330,000	–	–	–	–	330,000
Mr. Mok Tsan San	9.4.2015	9.10.2015 – 8.4.2018	4.95	1,000,000	–	–	–	–	1,000,000
Total Directors and Chief Executive				1,990,000	–	–	–	–	1,990,000
Employees	9.4.2015	9.10.2015 – 8.4.2018	4.95	1,144,000	–	–	–	(200,000)	944,000
Total				3,134,000	–	–	–	(200,000)	2,934,000

Note: The options, granted on 9 April 2015, are exercisable from 9 October 2015 to 8 April 2018 (both days inclusive) in the following manner:

(i) 50% of the total number of options granted under the Share Option Scheme commencing 9 October 2015; and

(ii) 50% of the total number of options granted under the Share Option Scheme commencing 9 April 2016.

Directors' and Chief Executive's Interests in Shares

As at 31 December 2017, 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 as contained in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") (the "Model Code"), were as follows:

Long positions

(a) Ordinary shares of HK$0.10 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	Beneficial interest	4,500,000	1.8%
	Spouse interest	3,375,000	1.3%
	Interest in a controlled corporation (Note 1)	150,000,000	58.0%
		157,875,000	61.1%
Mr. Cheng Sze Tsan	Beneficial interest	4,125,000	1.6%
	Interest in a controlled corporation (Note 2)	150,000,000	58.0%
		154,125,000	59.6%
Ms. Wong Pik Hung	Beneficial interest	3,375,000	1.3%
	Spouse interest (Note 3)	154,500,000	59.8%
		157,875,000	61.1%

(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)	330,000	330,000
	Spouse interest (Note 1)	330,000	330,000
		660,000	660,000
Mr. Cheng Sze Tsan	Beneficial interest (Note 2)	330,000	330,000
Ms. Wong Pik Hung	Beneficial interest (Note 3)	330,000	330,000
	Spouse interest (Note 3)	330,000	330,000
		660,000	660,000
Mr. Mok Tsan San	Beneficial interest	1,000,000	1,000,000

Notes:

(1) Mr. Cheng Sze Kin is interested in 40% of World Empire Investment Inc. ("World Empire"), which is in turn interested in 58.0% of the Company's issued share capital. Therefore, Mr. Cheng Sze Kin is deemed to be interested in such 58.0% 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 1.8% of the Company's issued share capital and the options granted under the Share Option Scheme to subscribe 330,000 shares. Mr. Cheng Sze Kin is deemed to be interested in 1.3% of the Company's issued share capital held by and the options granted to his spouse, Ms. Wong Pik Hung, under the Share Option Scheme to subscribe 330,000 shares. However, each of Mr. Cheng Sze Kin and Ms. Wong Pik Hung has confirmed that he/she will not exercise any option if as a result of which the Company will not be able to comply with the public float requirements of the Listing Rules.

(2) Mr. Cheng Sze Tsan is interested in 35% of World Empire, which is in turn interested in 58.0% of the Company's issued share capital. Therefore, Mr. Cheng Sze Tsan is deemed to be interested in such 58.0% 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 1.6% of the Company's issued share capital and the options granted under the Share Option Scheme to subscribe 330,000 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 is deemed to be interested in 58.0% of the Company's issued share capital. Ms. Wong Pik Hung is interested in 1.3% of the Company's issued share capital and the options granted under the Share Option Scheme to subscribe 330,000 shares. Ms. Wong Pik Hung is deemed to be interested in 1.8% of the Company's issued share capital held by and the options granted to her spouse, Mr. Cheng Sze Kin, under the Share Option Scheme to subscribe 330,000 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 the Directors, chief executive and their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2017.

Arrangements to Purchase Shares and Debentures

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

Equity-linked Agreements

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

Permitted Indemnity Provision

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

Directors' Interests in Transactions, Arrangements or Contracts of Significance

Other than those transactions disclosed under the section "Continuing Connected Transactions" below, no transactions, arrangements or contracts of significance, to which a Director or an entity connected with a Director was a party and in which a Director of the Company is or was materially interested, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

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 Group during the Year.

Substantial Shareholders

As at 31 December 2017, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance showed that other than the interests disclosed above in respect of certain Directors and chief executive, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions in ordinary shares of HK$0.10 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 (Note)	Beneficial owner	150,000,000	58.0%
Yeung Chun Wai Anthony	Beneficial owner	20,050,000	7.8%

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

Confirmation of Independence

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

Directors' Remunerations and the Five Highest Paid Individuals

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

Continuing Connected Transactions

During the Year, the Company's subsidiary has the following continuing connected transactions, which are regarded as related party transactions in note 31 to the consolidated financial statements, with certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules:

		2017 HK$'000
Rental expenses paid to related companies in Hong Kong	(Note)	**2,748**

Note:

The subsidiary of the Group in Hong Kong has 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 2017. The rental expenses paid to Gain Harvest and Wealth Pine were for use of the leased properties by our 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.

With a resolution in relation to the renewal of leases considered and passed by the Board on 18 December 2017, in which Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung as connected Directors abstained from voting, the subsidiary of the Group in Hong Kong has entered into new lease agreements with Gain Harvest and Wealth Pine respectively to renew the leases of staff quarters for our Directors both for a term of three years from 1 January 2018 to 31 December 2020 at an aggregate monthly rental of HK$185,000. The annual cap of the continuing connected transaction is HK$2,220,000 of which the requirements of Chapter 14A of the Listing Rules are fully exempted in accordance with Rule 14A.76 of Listing Rules when all percentage ratios (other than the profits ratio) are less than 5% and the total consideration is less than HK$3,000,000.

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.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), 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 his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed as above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

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.

Each of the Controlling Shareholders (as defined in the section headed "Corporate Governance Report") has confirmed to the Company of his/her/its compliance with the non-competition undertakings provided to the Company under the Deed of Non-Competition (as defined in the section headed "Corporate Governance Report"). The Independent Non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by the Controlling Shareholders.

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 the PRC. The staff remuneration will be reviewed regularly.

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

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

Audit Committee

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

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

Major Customers and Suppliers

For the year ended 31 December 2017, sales to the Group's five largest customers and the largest customer accounted for approximately 17.0% and 13.0%, respectively of the Group's total turnover for the Year.

The largest customer carries a leading health and beauty chain with a wide-spread network of stores in Hong Kong and Macau and offers a program of reward redemption for its huge number of VIP members. The Group has worked with this customer for more than 5 years to launch some bedding products exclusively for its membership redemption in Hong Kong and Macau. The Group's bedding products are sold on wholesale basis under a bulk-purchase agreement for each redemption event with credit period not more than 60 days on issuing invoices.

For the year ended 31 December 2017, the Group's purchases attributable to the five largest suppliers and the largest supplier accounted for approximately 34.7% and 8.0%, 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 best knowledge of the Directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest suppliers or customers.

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.

No Changes on 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 2017 is scheduled to be held on Friday, 25 May 2018 (the "AGM"). A notice convening the AGM will be issued and disseminated to shareholders of the Company in due course.

Closures of Register of Members

The register of members of the Company will be closed from Monday, 21 May 2018 to Friday, 25 May 2018 (both days inclusive) during which no transfer of shares will be effected. In order to be eligible to attend and vote at the forthcoming AGM of the Company, all completed transfer documents accompanying with the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:30 p.m. (Hong Kong time) on Friday, 18 May 2018.

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 2017, save for the following:

Under Code Provision A.6.7 of the CG Code, the independent non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders. At the annual general meeting of the Company held on 26 May 2017 (the "2017 AGM"), an independent non-executive Director, who was also a member of the Audit Committee, was unable to attend the 2017 AGM due to other pre-arranged business engagements. The Board considered that sufficient measures of the Company had been taken for this absent Director to understand the views of shareholders. Despite his absence, other members of Board committees attended the 2017 AGM being able to answer relevant questions raised by shareholders and understand the views of the shareholders of the Company thereat.

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$798,000.

Auditor

Messrs. Deloitte Touche Tohmatsu will retire as auditor of the Company at the forthcoming annual general meeting of the Company and a resolution for the appointment of Messrs. Cheng & Cheng Limited, Certified Public Accountants, as the auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board

Cheng Sze Kin
Chairman
Hong Kong, 26 March 2018

CORPORATE GOVERNANCE REPORT

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

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

The following is a summary of the work performed by the Board or Board Committees in corporate governance function during the period from the listing date to 31 December 2017 :

(a) review the Company's policies and practices on corporate governance;

(b) review and monitor the training and continuous professional development of the Directors and senior management of the Group;

(c) review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) review and monitor the code of conduct applicable to employees and the Directors; and

(e) review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

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 2017, save 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 reviews of the shareholders. At the 2017 AGM, an independent non-executive Director was unable to attend the 2017 AGM due to other pre-arranged business engagements. Despite his absence, other members of Board committees attended the 2017 AGM being able to answer relevant questions raised by shareholders and understand the views of the shareholders of the Company thereat. The Board considered that sufficient measures of the Company had been taken for this absent Director to understand the views of shareholders.

Directors' Securities Transactions

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

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.

Division of Responsibilities between the Board and Management

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

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

Board Composition

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

Executive Directors

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

Non-executive Director

Mr. Mok Tsan San (Note (a))

Independent Non-executive Directors

Mr. Zhang Senquan (Note (a))
Dr. Cheung Wah Keung (appointed on 26 May 2017)
Mr. Chow On Wa (appointed on 26 May 2017)
Mr. Kam Leung Ming (retired on 26 May 2017)
Mr. Leung Yiu Man (retired on 26 May 2017)

Notes:

(a) On 9 April 2018, Mr. Mok Tsan San and Mr. Zhang Senquan have tendered their resignations as Non-executive Director and Independent Non-executive Director respectively with immediate effect.

(b) On 9 April 2018, Ms. Lo Siu Leung has been appointed as an Independent Non-executive Director, the Chairman of Audit Committee and a member of each of the Remuneration Committee and Nomination Committee.

CORPORATE GOVERNANCE REPORT

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 to the benefits of diversity on the Board.

As at the date of this annual 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 Non-executive Director and Independent Non-executive Directors possess professional knowledge and broad experience in corporate finance, accounting, management and retail business respectively. The Directors believe that the composition of the Board reflects the necessary diversity, whether considered in terms of gender, professional knowledge, skills and experience, appropriate to the requirements of the business development of the Group and effective leadership. The Directors are of the opinion that the present structure of the Board can ensure the independence and objectivity of the Board and provide a system of checks and balances to safeguard the interests of the shareholders and the Company.

Directors' Training and Continuing Professional Development

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

The Directors are continually updated on the latest development regarding the Listing Rules and relevant statutory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices. All Directors are encouraged to participate in continuous professional development courses and seminars to develop and refresh their knowledge and skills.

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

	Types of continuous professional development programmes
Executive Directors	
Mr. Cheng Sze Kin	A, B
Mr. Cheng Sze Tsan	A, B
Ms. Wong Pik Hung	A, B
Non-executive Director	
Mr. Mok Tsan San	A, B
Independent Non-executive Directors	
Mr. Zhang Senquan	A, B
Dr. Cheung Wah Keung (appointed on 26 May 2017)	A, B
Mr. Chow On Wa (appointed on 26 May 2017)	A, B
Mr. Kam Leung Ming (retired on 26 May 2017)	A, B
Mr. Leung Yiu Man (retired on 26 May 2017)	A, B

Notes:

A: Attending briefing sessions and/or seminars

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

Functions and Duties of the Board

The main functions and duties conferred on the Board include:

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

(ii) deciding business plans and investment plans;

(iii) convening general meetings and reporting to the shareholders 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 held six meetings. Apart from the adhoc meetings and consents obtained by means of written resolutions of all Directors, the Board met regularly to monitor the operation as well as the financial performance of the Group and review and approve, among other things, the 2016 annual results, the 2017 interim results, the overall strategy and connected transactions of the Group. The Board considers that all meetings have legally and properly been convened during the Review Period.

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

Prior notice of at least 14 days convening the regular 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 are kept by the Company Secretary and are available for inspection by any Directors, auditors or any relevant eligible parties who can have access to such minutes.

Attendance Record

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

	Number of Meetings Attended/Held				
	Board	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Annual General Meeting**
Executive Directors					
Mr. Cheng Sze Kin	6/6	N/A	N/A	2/2	1/1
Mr. Cheng Sze Tsan	6/6	N/A	N/A	N/A	1/1
Ms. Wong Pik Hung	6/6	N/A	N/A	N/A	1/1
Non-executive Director					
Mr. Mok Tsan San	6/6	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Mr. Zhang Senquan	6/6	4/4	2/2	2/2	1/1
Dr. Cheung Wah Keung (Note (a))	3/3	2/2	0/0	1/1	0/0
Mr. Chow On Wa (Note (a))	3/3	2/2	0/0	1/1	0/0
Mr. Kam Leung Ming (Note (b))	3/3	2/2	2/2	1/1	1/1
Mr. Leung Yiu Man (Note (c))	2/3	2/2	2/2	1/1	0/1

Note:

(a) At annual general meeting held on 26 May 2017, Dr. Cheung Wah Keung and Mr. Chow On Wa were elected as Independent Non-executive Directors and attended all Board and Board committee meetings subsequent to the election.

(b) At annual general meeting held on 26 May 2017, Mr. Kam Leung Ming retired from office and did not seek for re-election. He attended all Board and Board committee meetings prior to his retirement and the annual general meeting which was held on 26 May 2017.

(c) At annual general meeting held on 26 May 2017, Mr. Leung Yiu Man retired from office and did not seek for re-election. He attended all Board and Board committee meetings, except a Board meeting, prior to his retirement but did not attend the annual general meeting which was held on 26 May 2017.

Apart from six Board meetings held during the Review Period, an approval from the Board had also been obtained by written resolution signed by all the Board members on a number of matters. During the Review Period, the Chairman held a meeting with the Non-executive Director and the Independent Non-executive Directors without the presence of Executive Directors.

Confirmation of Independence

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

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

Directors' 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.

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 of the Company for the Review Period and Mr. Cheng Sze Tsan as the Chief Executive Officer of the Company. Mr. Cheng Sze Kin and Mr. Cheng Sze Tsan 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.

Appointment and Re-election of Directors

Each of Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung has renewed his/her service contract with the Company as an Executive Director for a term of three years commencing from 23 November 2015. All of such service contracts may only be terminated by either party giving to the other not less than three months' prior notice in writing.

Each of the Non-executive Director and Independent Non-executive Directors has been reappointed for a term of one year subject to compliance with the Listing Rules and the CG Code. Upon the expiry of the term, the reappointment shall be subject to the approval by the Board and compliance with the Listing Rules and the CG Code. The term of reappointment shall be terminable by either the Non-executive Director/Independent Non-executive Director or the Company by giving the other party not less than one month's 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 Company has established the Audit Committee with specific written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the Group's financial reporting process, risk management and internal control systems.

The Audit Committee comprises the following Independent Non-executive Directors:

Mr. Zhang Senquan
Dr. Cheung Wah Keung (appointed on 26 May 2017)
Mr. Chow On Wa (appointed on 26 May 2017)
Mr. Kam Leung Ming (retired on 26 May 2017)
Mr. Leung Yiu Man (retired on 26 May 2017)

Mr. Zhang Senquan is the Chairman of the Audit Committee.

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 42 of this annual report.

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

(i) reviewed the annual report and results announcement of the Company for the year ended 31 December 2016 and made a recommendation to the Board for approval;

(ii) reviewed the external auditor's independence and their report and made a recommendation to the Board for reappointment of the external auditor by the shareholders of the Company at its annual general meeting which was held on 26 May 2017;

(iii) reviewed continuing connected transactions;

(iv) reviewed the interim report and results announcement of the Company for the six months ended 30 June 2017 and made a recommendation to the Board for approval;

(v) reviewed the effectiveness of risk management and internal control systems of the Company and its subsidiaries;

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

(vii) reviewed audit fee quoted by the external auditor for the Review Period and made a recommendation to the Board for approval; and

(viii) discussed audit planning with external auditor for the year ended 31 December 2017.

Auditor's Remuneration

The annual audit services for the year ended 31 December 2017 was provided by Deloitte Touche Tohmatsu, the external auditor.

For the Review Period, 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	1,450
Non-audit services	567
Total	2,017

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

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

Remuneration Committee

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

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

The Remuneration Committee comprises the following Independent Non-executive Directors:

Mr. Zhang Senquan
Dr. Cheung Wah Keung (appointed on 26 May 2017)
Mr. Chow On Wa (appointed on 26 May 2017)
Mr. Kam Leung Ming (retired on 26 May 2017)
Mr. Leung Yiu Man (retired on 26 May 2017)

Mr. Kam Leung Ming was the Chairman of the Remuneration Committee up to 26 May 2017 and Dr. Cheung Wah Keung has been the Chairman of the Remuneration Committee since 26 May 2017.

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 42 of this annual report.

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

(i) reviewed and approved 2016 year-end bonus and 2017 salary to Executive Directors and senior management;

(ii) reviewed and made recommendation to the Board for approval of revised director fees to the Independent Non-executive Directors; and

(iii) made recommendations to the Board for approvals of remuneration packages of newly appointed Independent Non-executive Directors.

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

	Number of employees
Nil to HK$1,000,000	2
HK$1,000,001 to HK$2,000,000	1

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

Nomination Committee

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

The Chairman of the Nomination Committee is Mr. Cheng Sze Kin. The Nomination Committee has four members, comprising Mr. Cheng Sze Kin and the following Independent Non-executive Directors:

Mr. Zhang Senquan
Dr. Cheung Wah Keung (appointed on 26 May 2017)
Mr. Chow On Wa (appointed on 26 May 2017)
Mr. Kam Leung Ming (retired on 26 May 2017)
Mr. Leung Yiu Man (retired on 26 May 2017)

When vacancies on the Board exists, the Nomination Committee reviews and assesses candidates for directorship, before making recommendations to the Board, by making reference to the board diversity policy as well as the skills, experience, professional knowledge and time commitments of each candidate, the Company's needs and the current composition of the Board. The Board may consider engaging an external recruitment agency to carry out the recruitment and selection process when necessary.

During the Review Period, the Nomination Committee held two meetings. The record of attendance of individual Directors at the committee meetings is set out on page 42 of this annual report.

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

(i) considered candidates of new Independent Non-executive Directors;

(ii) reviewed and made recommendations to the Board for approval of appointments of new Independent Non-executive Directors;

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

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

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

Accountability and Audit

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

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

The external auditor's statement about reporting responsibility is set out on pages 53 to 58.

Risk Management and Internal Control

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

Risk Management System

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

- *Identification:* Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- *Evaluation:* Analyse the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- *Management:* Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

Internal Control System

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

- *Control Environment:* A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.
- *Risk Assessment:* A dynamic and iterative process for identifying and analysing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.

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

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

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

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

Disclosure of Inside Information

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

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

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

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

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

Effectiveness of the Risk Management and Internal Control Systems

The Board is responsible for maintaining and reviewing the effectiveness of the Group's risk management and internal control systems and ensuring review of the effectiveness of these systems has been conducted annually. SHINEWING Risk Services Limited ("SHINEWING") has been appointed to carry out the internal audit function such as the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems covering financial, operational and legal compliance controls.

During the Review Period, the Audit Committee had meetings with SHINEWING to review findings on the Group's risk management and internal control systems and respective corrective actions done on an on-going basis. The Board, through its review and the reviews by Audit Committee, concluded that the Group's risk management and internal control systems were adequate and effective and the Company had complied with the code provisions on risk management and internal control of the CG Code during the Review Period. The Board also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

Non-Competition Undertakings

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

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

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

Company Secretary

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

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

Communications with Shareholders and Investors

During the Review Period, the Company has not engaged any professional public relation firm. However, the Company will consider engaging some investor relations consultancy companies, whenever necessary, to organise various investor relations programs (including 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 extensive information and updates on the Company's financial information, corporate governance practices and other useful information are posted and available for access by public investors.

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 rights of all of them may do so in the same manner as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after three months from the date of deposit of the requisition. All reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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

Procedures by which enquiries may be put to the Board

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

Investor Relations

The Board is not aware of any significant changes in the Company's constitutional documents during the Review Period.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

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

Opinion

We have audited the consolidated financial statements of Casablanca Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 59 to 116, which comprise the consolidated statement of financial position as at 31 December 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Estimated allowance for finished goods	
We identified the estimated allowance for finished goods as a key audit matter due to the use of judgment and estimates by the management in identifying aged or obsolete, or out-of-season finished goods and estimating the allowance for finished goods. Aged or obsolete, or out-of-season finished goods were identified by the management based on aging, conditions and marketability of finished goods. Allowance is applied to finished goods based on assessment of net realisable value by the management, by considering the current market conditions, product life cycle, marketing and promotion plans, historical sales records, aging analysis and subsequent selling prices of the finished goods. (Refer to notes 4 and 18 to the consolidated financial statements.) At 31 December 2017, the carrying amount of finished goods is HK$46,593,000 (net of allowance for finished goods of HK$4,815,000).	Our procedures in relation to assessing the appropriateness of the estimated allowance for finished goods included: • Obtaining an understanding of how allowance for finished goods is estimated by the management. • Testing the aging analysis of finished goods, on a sample basis, to the goods received notes or the warehouse receipts. • Discussing with the management and evaluating the basis of identification of aged or obsolete, or out-of-season finished goods by the management, based on the current market conditions, product life cycle and marketing and promotion plans. • Assessing the reasonableness of allowance for finished goods with reference to historical sales records, current market conditions, product life cycle, marketing and promotion plans, aging analysis and subsequent selling prices of the finished goods. • Tracing of finished goods with subsequent selling prices to the sales invoices, on a sample basis. • Evaluating the historical accuracy of the allowance estimation by the management by comparing historical allowance made to the actual selling prices and actual loss incurred, and tracing the selling prices, on a sample basis, to the sales invoices.

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Estimated allowance for trade receivables from distributors	
We identified the estimated allowance for trade receivables from distributors as a key audit matter due to the use of judgment and estimates by the management on the recoverability of trade receivables from distributors. In determining the allowance for trade receivables from distributors, the management considers the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables from distributors. (Refer to notes 4 and 19 to the consolidated financial statements) At 31 December 2017, the carrying amount of trade receivables from distributors is HK$14,720,000 (net of allowance for doubtful debts of HK$3,692,000).	Our procedures in relation to assessing the appropriateness of the estimated allowance for trade receivables from distributors included: • Obtaining an understanding of how allowance for trade receivables from distributors is estimated by the management. • Testing the aging analysis of the trade receivables from distributors, on a sample basis, to the sales invoices. • Discussing with the management and evaluating the basis of identification of distributors with distribution agreements early terminated or not renewed or distributors who delayed settlements and their assessment on the recoverability of trade receivables from these distributors. • Assessing the reasonableness of allowance for trade receivables from distributors with reference to the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables from distributors. • Tracing of the subsequent settlements to the bank receipts, on a sample basis. • Evaluating the historical accuracy of the allowance estimation by the management by comparing historical allowance made to the actual settlements and actual loss incurred and tracing the actual settlements on a sample basis, to the bank receipts.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Au Mei Yin.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
26 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	NOTES	**2017 HK$'000**	2016 HK$'000
Revenue	5	**347,449**	356,717
Cost of goods sold		**(123,104)**	(132,776)
Gross profit		**224,345**	223,941
Other income	6	**1,874**	1,599
Other gains and losses	7	**467**	(6,304)
Selling and distribution costs		**(145,627)**	(152,431)
Administrative expenses		**(46,658)**	(50,148)
Finance costs	8	**(1,257)**	(2,066)
Profit before taxation	9	**33,144**	14,591
Taxation	11	**(6,212)**	(6,661)
Profit for the year		**26,932**	7,930
Other comprehensive income (expense) for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		**13,855**	(12,959)
Reclassification adjustments for cumulative exchange differences upon deregistration of a foreign operation		**–**	(8,775)
Other comprehensive income (expense)		**13,855**	(21,734)
Total comprehensive income (expense) for the year		**40,787**	(13,804)
Profit (loss) for the year attributable to:			
Owners of the Company		**27,037**	7,930
Non-controlling interests		**(105)**	–
		26,932	7,930
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**40,886**	(13,804)
Non-controlling interests		**(99)**	–
		40,787	(13,804)
Earnings per share			
– Basic (HK cents)	13	**10.46**	3.07
– Diluted (HK cents)	13	**10.46**	3.07

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	14	**139,264**	122,923
Prepaid lease payments	15	**24,731**	23,540
Intangible assets	16	**–**	–
Deposits paid for acquisition of property, plant and equipment		**1,229**	594
Rental and other deposits		**2,364**	1,689
Derivative financial assets	17	**492**	–
		168,080	148,746
Current assets			
Inventories	18	**62,843**	77,101
Trade and other receivables	19	**77,853**	82,465
Prepaid lease payments	15	**582**	541
Taxation recoverable		**1,719**	770
Pledged bank deposits	20	**6,293**	8,038
Bank balances and cash	20	**158,417**	172,444
		307,707	341,359
Current liabilities			
Trade and other payables	21	**71,597**	81,413
Taxation payable		**1,897**	1,307
Bank borrowings	22	**2,200**	43,846
Obligation under a finance lease	23	**–**	63
		75,694	126,629
Net current assets		**232,013**	214,730
Total assets less current liabilities		**400,093**	363,476
Non-current liabilities			
Bank borrowings	22	**1,375**	6,325
Deferred taxation	24	**1,138**	828
		2,513	7,153
Net assets		**397,580**	356,323

	NOTE	2017 HK$'000	2016 HK$'000
Capital and reserves			
Share capital	25	**25,843**	25,843
Reserves		**371,366**	330,480
Equity attributable to owners of the Company		**397,209**	356,323
Non-controlling interests		**371**	–
Total equity		**397,580**	356,323

The consolidated financial statements on pages 59 to 116 were approved and authorised for issue by the Board of Directors on 26 March 2018 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 2017

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 (Note i)	Merger reserve HK$'000 (Note ii)	PRC statutory reserve HK$'000 (Note iii)	Translation reserve HK$'000	Share options reserve HK$'000	Accumulated profits HK$'000	Sub-Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2016	25,843	166,268	2,000	1,319	8,988	3,373	7,060	154,702	369,553	–	369,553
Profit for the year	–	–	–	–	–	–	–	7,930	7,930	–	7,930
Exchange differences arising on translation of financial statements of foreign operations	–	–	–	–	–	(12,959)	–	–	(12,959)	–	(12,959)
Reclassification adjustments for the cumulative exchange differences upon deregistration of a foreign operation	–	–	–	–	–	(8,775)	–	–	(8,775)	–	(8,775)
Total comprehensive (expense) income for the year	–	–	–	–	–	(21,734)	–	7,930	(13,804)	–	(13,804)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	574	–	574	–	574
Lapse of share options	–	–	–	–	–	–	(3,042)	3,042	–	–	–
Transfer of reserve	–	–	–	–	229	–	–	(229)	–	–	–
Release of reserve due to deregistration of a subsidiary	–	–	–	–	(6,470)	–	–	6,470	–	–	–
At 31 December 2016	25,843	166,268	2,000	1,319	2,747	(18,361)	4,592	171,915	356,323	–	356,323
Profit (loss) for the year	–	–	–	–	–	–	–	27,037	27,037	(105)	26,932
Exchange differences arising on translation of financial statements of foreign operations and other comprehensive income for the year	–	–	–	–	–	13,849	–	–	13,849	6	13,855
Total comprehensive income (expense) for the year	–	–	–	–	–	13,849	–	27,037	40,886	(99)	40,787
Capital contribution from a non-controlling interest	–	–	–	–	–	–	–	–	–	470	470
Lapse of share options	–	–	–	–	–	–	(292)	292	–	–	–
Transfer of reserve	–	–	–	–	414	–	–	(414)	–	–	–
At 31 December 2017	**25,843**	**166,268**	**2,000**	**1,319**	**3,161**	**(4,512)**	**4,300**	**198,830**	**397,209**	**371**	**397,580**

Notes:

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

(ii) The merger reserve of the Group represented the difference between the par value of the shares of Company issued in exchange for the entire share capital of Jollirich Investment Limited, Casablanca International Limited and Rich Creation Asia Investment Limited and transfer of 11.76% of equity interest in Forcetech (Shenzhen) Company Limited ("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 PRC statutory reserve can be used to make up the prior year losses, if any. The PRC statutory reserve is non-distributable other than upon liquidation.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Operating activities		
Profit before taxation	**33,144**	14,591
Adjustments for:		
Interest income	**(673)**	(567)
Investment income	**(599)**	(630)
Interest expenses	**1,257**	2,066
Allowance for doubtful debts on trade receivables	**2,216**	325
Allowance for doubtful debts on other receivables	**–**	15
Allowance of inventories	**460**	1,777
Amortisation of intangible assets	**–**	2
Amortisation of prepaid lease payments	**559**	566
Bad debts written off	**2**	139
Depreciation of property, plant and equipment	**11,965**	13,272
Fair value change on derivative financial assets	**(492)**	–
Gain on deregistration of a subsidiary	**–**	(8,775)
Loss on disposal/write off of property, plant and equipment	**480**	227
Decrease in fair value of derivative component in convertible bond	**–**	673
Impairment loss of available-for-sale investment	**–**	7,749
Impairment loss of convertible bond	**–**	2,980
Share-based payment expense	**–**	574
Operating cash flows before movements in working capital	**48,319**	34,984
Decrease (increase) in inventories	**18,499**	(1,444)
Decrease (increase) in trade and other receivables	**4,639**	(8,414)
Increase in rental and other deposits	**(385)**	(179)
(Decrease) increase in trade and other payables	**(15,566)**	5,928
Cash generated from operations	**55,506**	30,875
Hong Kong Profits Tax paid	**(5,350)**	(870)
PRC Enterprise Income Tax paid	**(987)**	(717)
Net cash from operating activities	**49,169**	29,288
Investing activities		
Withdrawal of pledged bank deposits	**20,312**	13,931
Interest received	**673**	567
Investment income received	**599**	630
Proceeds from disposal of property, plant and equipment	**101**	93
Purchase of property, plant and equipment	**(19,937)**	(5,277)
Placement of pledged bank deposits	**(18,128)**	(15,604)
Deposit paid for acquisition of property, plant and equipment	**(896)**	(568)
Net cash used in investing activities	**(17,276)**	(6,228)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	2017 HK$'000	2016 HK$'000
Financing activities		
Repayments of bank loans	**(61,912)**	(33,885)
Interest paid	**(1,257)**	(2,049)
Repayments of obligation under a finance lease	**(63)**	(745)
New bank loans raised	**15,000**	10,000
Capital contribution from a non-controlling interest	**470**	–
Finance lease charges paid	**–**	(17)
Net cash used in financing activities	**(47,762)**	(26,696)
Net decrease in cash and cash equivalents	**(15,869)**	(3,636)
Cash and cash equivalents at beginning of the year	**172,444**	177,373
Effect of foreign exchange rate changes	**1,842**	(1,293)
Cash and cash equivalents at end of the year represented by bank balances and cash	**158,417**	172,444

1. General

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on the Stock Exchange. Its parent company is World Empire Investment Inc., a company incorporated in the British Virgin Islands (the "BVI"), and its ultimate controlling parties are Mr. Cheng Sze Kin, who is the Chairman of the Company, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung (the "Ultimate Beneficial Owners"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" 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 amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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

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

Amendments to HKAS 7 "Disclosure initiative"

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

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

A reconciliation between the opening and closing balances of these items is provided in note 36. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 36, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance contracts[4]
HK(IFRIC) – Int 22	Foreign currency transactions and advance consideration[1]
HK(IFRIC) – Int 23	Uncertainty over income tax treatments[2]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015 – 2017 cycle[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 "Financial instruments" with HKFRS 4 "Insurance contracts"[1]
Amendments to HKFRS 9	Prepayment features with negative compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 28	Long-term interests in associates and joint ventures[2]
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014-2016 cycle[1]
Amendments to HKAS 40	Transfers of investment property[1]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2021.

Except for the new and amendments to HKFRSs and Interpretations mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

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

HKFRS 9 "Financial instruments"

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

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

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

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

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

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on trade receivables. Such further impairment recognised under expected credit loss model would reduce the opening accumulated profits as at 1 January 2018.

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

HKFRS 15 "Revenue from contracts with customers"

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

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

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

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

In 2016, the HKICPA issued Clarification to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

HKFRS 16 "Leases" (continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$25,105,000 as disclosed in note 28. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$3,399,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with 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.

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

3. Significant Accounting Policies (continued)

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 "Share-based payment", 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".

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.

3. Significant Accounting Policies (continued)

Basis of consolidation (continued)

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

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

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

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, estimated customer returns and sales related taxes.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

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 are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets 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.

Assets held under finance lease are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

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.

3. Significant Accounting Policies (continued)

Leasehold land and building

When the Group makes payments for a property interest includes both leasehold 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 property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold 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 initial recognition.

To the extent the allocation of the relevant 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 leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

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.

Provisions

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

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

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction cost directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets

The Group's financial assets are mainly classified into financial assets at FVTPL, loans and receivables and available-for-sale financial assets. 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.

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.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss is included in the other gains and losses.

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 debt component in convertible bond, trade and other receivables, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Derivative component in convertible bond/Derivative financial instruments

Derivative component in convertible bond/derivative financial instruments are initially recognised at fair value. The derivative component/derivative financial instruments are subsequently remeasured at fair value at the end of the reporting period with resulting gain or loss recognised in profit or loss immediately.

Impairment of financial assets

Financial assets, other than those at FVTPL, 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.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, 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.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For certain categories of financial assets, 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 and other 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 or other 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.

When an available-for-sale financial asset is considered to be impaired, accumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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.

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

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 is recognised in profit or loss.

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

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 accumulated 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.

Share award granted to employees of subsidiary

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

3. Significant Accounting Policies (continued)

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 of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The amount of the impairment loss that would have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Foreign currencies

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

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

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

3. Significant Accounting Policies (continued)

Borrowing costs

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

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

Government grants

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

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

Government grants 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.

Short-term benefits

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

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

3. Significant Accounting Policies (continued)

Taxation

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

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

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

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

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

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

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

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

4. Key Sources of Estimation Uncertainty

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

Estimated allowance for finished goods

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

As at 31 December 2017, the carrying amount of finished goods is HK$46,593,000 (2016: HK$56,408,000) (net of allowance for finished goods of HK$4,815,000 (2016: HK$4,702,000)).

Estimated allowance for trade receivables from distributors

In determining the allowance for trade receivables from distributors, the management considers the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables from distributors.

As at 31 December 2017, the carrying amount of trade receivables from distributors is HK$14,720,000 (2016: HK$17,119,000) (net of allowance for doubtful debts of HK$3,692,000 (2016: HK$1,267,000)).

5. Revenue and Segment Information

The Group's operating activities are attributable to a single operating segment focusing on manufacture and sales of bedding products. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies conform to HKFRSs, that are regularly reviewed by the executive directors of the Company, the chief operating decision maker of the Group. The executive directors of the Company regularly review revenue analysis by (i) self-operated retail sales; (ii) 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.

5. Revenue and Segment Information (continued)

The information of segment revenue is as follows:

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

Entity-wide information

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

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

Geographical information

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

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

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

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

5. Revenue and Segment Information (continued)

Information about major customer

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

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

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

6. Other Income

	2017 HK$'000	2016 HK$'000
Bank interest income	**673**	567
Government subsidies	**108**	126
Investment income (note)	**599**	630
Others	**494**	276
	1,874	1,599

Note: These investments are entered into and matured during the year with rate of returns ranged from 2.1% – 2.8% (2016: 1.9% – 2.7%) per annum.

7. Other Gains and Losses

	2017 HK$'000	2016 HK$'000
Net exchange gain (loss)	**2,700**	(3,110)
Increase in fair value of derivative financial assets (note 17)	**492**	–
Allowance for doubtful debts on trade receivables	**(2,216)**	(325)
Loss on disposal/write off of property, plant and equipment	**(480)**	(227)
Others	**(29)**	–
Gain on deregistration of a subsidiary (note a)	**–**	8,775
Impairment loss of available-for-sale investment (note b)	**–**	(7,749)
Impairment loss of convertible bond (note b)	**–**	(2,980)
Decrease in fair value of derivative component in convertible bond (note b)	**–**	(673)
Allowance for doubtful debts on other receivables	**–**	(15)
	467	(6,304)

7. Other Gains and Losses (continued)

Notes:

(a) In the prior year, Forcetech (Shenzhen) which was established in the PRC was deregistered. The net asset at the date of deregistration was nil and the gain on deregistration represented the cumulated translation reserve reclassified to profit or loss.

(b) In prior years, the Group invested approximately HK$7,749,000 for an unlisted investment in 13.6% equity interest in a private entity (the "Investee Company"), an investment holding company incorporated in Hong Kong whose subsidiaries were principally engaged in virtual retailing business through a television shopping channel in the PRC.

In addition, the Group also subscribed for a convertible bond issued by the Investee Company, with principal amount of HK$3,600,000 which carried interest at 8% per annum payable on 31 October 2017 with maturity on the same date. The convertible bond could be converted into equity shares of the Investee Company or the subsidiary of the Investee Company at any time from the date of issue to the maturity date. The fair values of the receivable component at initial recognition and as at 31 December 2015 amounted to HK$2,884,000 and HK$2,980,000 respectively. The fair values of derivative component at initial recognition and as at 31 December 2015 amounted to HK$716,000 and HK$673,000 respectively.

Subsequent to the initial recognition, the receivable component was carried at amortised cost using the effective interest method and the derivative component was carried at fair value.

In 2016, the Investee Company's virtual retailing business was suspended. Accordingly, the directors of the Company considered the available-for-sale investment was not recoverable and the amount of HK$7,749,000 was fully impaired. In addition, the directors of the Company considered the recoverability on the convertible bond was remote and the amount of HK$2,980,000 was fully impaired. The directors of the Company also considered the fair value of the derivative component in convertible bond was minimal and a fair value loss of HK$673,000 was charged to profit or loss during the year ended 31 December 2016.

8. Finance Costs

	2017 **HK$'000**	2016 HK$'000
Interest on:		
Bank borrowings	**1,257**	2,049
Finance lease	**–**	17
Total borrowing costs	**1,257**	2,066

9. Profit Before Taxation

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

Notes:

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

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

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

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

(a) Directors' and chief executive's emoluments

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

	Fees HK$'000	Salaries and allowances HK$'000	Performance related incentive payments HK$'000	Retirement benefit schemes contributions HK$'000	Share-based payments HK$'000	Total HK$'000
For the year ended 31 December 2017						
Executive directors						
Mr. Cheng Sze Kin	–	2,231	860	151	–	3,242
Ms. Wong Pik Hung	–	2,231	1,000	131	–	3,362
Executive director and chief executive officer						
Mr. Cheng Sze Tsan	–	2,531	827	131	–	3,489
Non-executive director						
Mr. Mok Tsan San	500	–	–	–	–	500
Independent non-executive directors						
Mr. Zhang Senquan	170	–	–	–	–	170
Dr. Cheng Wah Keung (appointed on 26 May 2017)	103	–	–	–	–	103
Mr. Chow On Wa (appointed on 26 May 2017)	103	–	–	–	–	103
Mr. Kam Leung Ming (retired on 26 May 2017)	67	–	–	–	–	67
Mr. Leung Yiu Man (retired on 26 May 2017)	67	–	–	–	–	67
	1,010	6,993	2,687	413	–	11,103

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

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

	Fees HK$'000	Salaries and allowances HK$'000	Performance related incentive payments HK$'000	Retirement benefit schemes contributions HK$'000	Share-based payments HK$'000	Total HK$'000
For the year ended 31 December 2016						
Executive directors						
Mr. Cheng Sze Kin	–	2,181	36	147	61	2,425
Ms. Wong Pik Hung	–	2,181	720	126	60	3,087
Executive director and chief executive officer						
Mr. Cheng Sze Tsan (appointed as chief executive on 1 September 2016)	–	2,481	–	126	60	2,667
Mr. Kwok Yuen Keung Tommy (resigned on 1 September 2016)	–	840	–	12	–	852
Non-executive director						
Mr. Mok Tsan San	1,000	–	–	–	184	1,184
Independent non-executive directors						
Mr. Zhang Senquan	164	–	–	–	–	164
Mr. Kam Leung Ming	164	–	–	–	–	164
Mr. Leung Yiu Man	164	–	–	–	–	164
	1,492	7,683	756	411	365	10,707

Mr. Kwok Yuen Keung Tommy was also the chief executive of the Company before his resignation on 1 September 2016 and Mr. Cheng Sze Tsan was appointed as the chief executive of the Company on 1 September 2016 and their emoluments disclosed above included those for services rendered by them as the chief executive.

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

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

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2016: four) were directors and the chief executive of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining two (2016: one) individuals were as follows:

	2017 HK$'000	2016 HK$'000
Salaries and allowances	**1,439**	852
Performance related incentive payments	**213**	110
Retirement benefit schemes contributions	**36**	18
Share-based payments	**–**	91
	1,688	1,071

The emoluments were within the following bands:

	2017 No. of employees	2016 No. of employees
HK$500,001 to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**1**	1

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

During the year, 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 (2016: nil). None of the directors of the Company nor the chief executive of the Group waived any emoluments during both years.

11. Taxation

	2017 HK$'000	2016 HK$'000
Current tax		
Hong Kong	**4,553**	5,833
PRC Enterprise Income Tax (the "EIT")	**1,445**	1,001
	5,998	6,834
(Over)underprovision in prior years		
Hong Kong	**(117)**	(97)
PRC EIT	**21**	–
	(96)	(97)
	5,902	6,737
Deferred taxation charge (credit) (note 24)	**310**	(76)
	6,212	6,661

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

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

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:

	2017 HK$'000	2016 HK$'000
Profit before taxation	**33,144**	14,591
Tax charge at Hong Kong Profits Tax rate of 16.5%	**5,469**	2,408
Tax effect of expenses not deductible for tax purposes	**1,095**	3,737
Tax effect of income not taxable for tax purposes	**(646)**	(1,625)
Tax effect of tax losses not recognised	**68**	3,640
Utilisation of tax losses previously not recognised	**(151)**	(681)
Effect of different tax rate of subsidiaries operating in other jurisdictions	**495**	(517)
Overprovision in prior years	**(96)**	(97)
Others	**(22)**	(204)
Taxation charge	**6,212**	6,661

12. Dividends

No dividend was paid or proposed by the Company during the year ended 31 December 2017 (2016: nil), nor has any dividend been proposed since the end of the reporting period.

13. Earnings Per Share

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

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

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

There are no dilutive effects from the Company's outstanding share options as the exercise price of these share options is higher than the average market price of the Company's shares during both years.

14. 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$'000	Computer equipment HK$'000	Total HK$'000
COST							
At 1 January 2016	130,318	11,756	11,074	9,407	15,619	–	178,174
Exchange adjustments	(7,866)	(499)	(721)	(503)	(36)	(4)	(9,629)
Additions	–	4,425	214	173	328	1,269	6,409
Disposals	–	(1,680)	–	(718)	(331)	–	(2,729)
At 31 December 2016	122,452	14,002	10,567	8,359	15,580	1,265	172,225
Exchange adjustments	9,116	617	803	549	39	7	11,131
Additions	11,619	2,211	187	268	6,174	18	20,477
Disposals/write off	–	(2,218)	–	(120)	(400)	–	(2,738)
At 31 December 2017	**143,187**	**14,612**	**11,557**	**9,056**	**21,393**	**1,290**	**201,095**
DEPRECIATION							
At 1 January 2016	14,979	7,685	5,121	6,023	6,665	–	40,473
Exchange adjustments	(976)	(304)	(368)	(368)	(18)	–	(2,034)
Provided for the year	4,881	3,301	874	1,448	2,533	235	13,272
Eliminated on disposals	–	(1,361)	–	(717)	(331)	–	(2,409)
At 31 December 2016	18,884	9,321	5,627	6,386	8,849	235	49,302
Exchange adjustments	1,360	417	461	464	18	1	2,721
Provided for the year	4,687	2,642	878	1,074	2,430	254	11,965
Eliminated on disposals/ write off	–	(1,824)	–	(120)	(213)	–	(2,157)
At 31 December 2017	**24,931**	**10,556**	**6,966**	**7,804**	**11,084**	**490**	**61,831**
CARRYING VALUES							
At 31 December 2017	**118,256**	**4,056**	**4,591**	**1,252**	**10,309**	**800**	**139,264**
At 31 December 2016	103,568	4,681	4,940	1,973	6,731	1,030	122,923

14. Property, Plant and Equipment (continued)

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

	2017 HK$'000	2016 HK$'000
In Hong Kong	**2,963**	3,212
In the PRC	**115,293**	100,356
	118,256	103,568

The leasehold land and buildings with carrying values of HK$95,346,000 (2016: HK$96,688,000) are pledged to banks as securities for banking facilities granted to the Group as at 31 December 2017.

Depreciation is provided to write off the cost of items of property, plant and equipment 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 – 40 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%
Computer equipment	33 1/3%

The carrying value of motor vehicles as at 31 December 2016 included an amount of HK$1,006,000 (2017: nil) in respect of an asset held under a finance lease.

15. Prepaid Lease Payments

	2017 HK$'000	2016 HK$'000
Analysed for reporting purposes as:		
Current assets	**582**	541
Non-current assets	**24,731**	23,540
	25,313	24,081

The Group's prepaid lease payments comprise of leasehold land located in the PRC.

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$25,313,000 (2016: HK$24,081,000) are pledged to a bank as securities for a banking facility granted to the Group as at 31 December 2017.

16. Intangible Assets

	Patents HK$'000
COST	
At 1 January 2016, 31 December 2016 and 31 December 2017	**15**
AMORTISATION	
At 1 January 2016	13
Charge for the year	2
At 31 December 2016 and 31 December 2017	**15**
CARRYING VALUES	
At 31 December 2017	**–**
At 31 December 2016	–

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

17. Derivative Financial Assets

During the year, the Group has engaged a start-up company to provide consulting services in exploring and developing the technology and products as required by the Group. The consultancy fee was charged to the profit or loss during the year ended 31 December 2017. Pursuant to an option agreement entered by the Group and the shareholders of the project consulting company, an option is granted to the Group to acquire 40% equity interests in the project consultancy company within 18 months from the date of signing of the agreement at the pre-determined exercise price.

The fair value at initial recognition of the option and as at 31 December 2017, which amounted to nil and HK$492,000, respectively, are determined based on the valuation provided by an independent professional qualified valuer not connected with the Group.

The Group's option is recognised as follows:

	HK$000
At the date on initial recognition	–
Unrealised fair value gain recognised in profit or loss (included in other gains and losses)	492
At 31 December 2017	**492**

17. Derivative Financial Assets (continued)

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

	(Date of grant) 10 April 2017	31 December 2017
Enterprise value per share	HK$4,000	HK$531,464
Exercise price	HK$40,000	HK$40,000
Expected volatility	62.27%	34.62%
Expected life	1.5 years	0.8 years
Risk-free rate	1.75%	1.03%
Expected dividend yield	0%	0%

18. Inventories

	2017 HK$'000	2016 HK$'000
Raw materials	**16,250**	20,693
Finished goods	**46,593**	56,408
	62,843	77,101

19. Trade and Other Receivables

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

19. Trade and Other Receivables (continued)

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

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

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

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$19,644,000 (2016: HK$23,331,000) 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 collaterals 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.

	2017 **HK$'000**	2016 HK$'000
0 to 30 days	**207**	–
31 to 60 days	**12,129**	16,866
61 to 90 days	**2,402**	2,714
91 to 180 days	**2,496**	2,440
181 to 365 days	**2,410**	275
Over 365 days	**–**	1,036
	19,644	23,331

19. Trade and Other Receivables (continued)

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

	2017 HK$'000	2016 HK$'000
Balance at beginning of the year	**1,358**	1,141
Allowance for doubtful debts	**2,216**	325
Amounts written off during the year as uncollectible	**–**	(22)
Exchange adjustments	**195**	(86)
Balance at end of the year	**3,769**	1,358

Included in the allowance for doubtful debts are individually impaired trade receivables relating to distributors and wholesalers with an aggregate balance of HK$3,692,000 (2016: HK$1,358,000) and HK$77,000 (2016: nil) respectively. 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.

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:

	2017 HK$'000	2016 HK$'000
United States dollars ("USD")	**36**	16
Macau pataca ("MOP")	**–**	524

20. Pledged Bank Deposits/Bank Balances and Cash

Pledged bank deposits represent deposits pledged to banks for a short-term banking facility to the Group and bills payables. The pledged bank deposits carry fixed interest rate of 0% – 0.58% (2016: 0% – 0.58%) per annum as at 31 December 2017. The pledged bank deposits will be released upon the expiry of banking facility granted and bills payables.

The bank balances included fixed deposits with maturity less than three months which carried fixed interests rate of 0.58% per annum as at 31 December 2016 (2017: nil). Other bank balances carry interest at market rates of 0.01% to 0.3% (2016: 0.01% to 0.3%) per annum as at 31 December 2017.

20. Pledged Bank Deposits/Bank Balances and Cash (continued)

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

	2017 HK$'000	2016 HK$'000
HK$	**78**	80
Renminbi ("RMB")	**5,620**	303
Euro ("EUR")	**112**	41
USD	**1,836**	820

21. Trade and Other Payables

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

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

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

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

22. Bank Borrowings

	2017 HK$'000	2016 HK$'000
Secured	**3,575**	50,171
Carrying amount repayable*		
Within one year	**2,200**	14,046
More than one year, but not more than two years	**1,375**	5,046
More than two years, but not more than five years	**–**	1,279
	3,575	20,371
Carrying amount of bank borrowings that contain a repayable on demand clause (shown under current liabilities)		
Within one year	**–**	8,762
Within a period of more than one year but not exceeding two years	**–**	9,033
Within a period of more than two years but not exceeding five years	**–**	12,005
	–	29,800
	3,575	50,171
Less: Amounts due within one year shown under current liabilities	**(2,200)**	(43,846)
Amounts shown under non-current liabilities	**1,375**	6,325

* The amounts due are based on scheduled repayment dates set out in the loan agreements. Certain variable-rate bank borrowings are early repaid in full during the year ended 31 December 2017.

The bank borrowings at 31 December 2017 carry interest at 10% margin over the interest rate offered by the People's Bank of China Standard Loan Rate.

The bank borrowings at 31 December 2016 carried interests ranging from Hong Kong Interbank Offered Rate plus 1.5% to 2.5% and 10% margin over the interest rate offered by the People's Bank of China Standard Loan Interest Rate.

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

	2017	2016
Effective interest rates:		
Fixed-rate borrowings	**2.66%**	2.66%
Variable-rate borrowings	**2.02% – 5.46%**	1.63% to 5.97%

23. Obligation Under a Finance Lease

The Group leased a motor vehicle under a finance lease with lease term of 3 years. Interest rate underlying obligation under finance lease was fixed at respective contract date at 4.94% per annum. The Group had an option to purchase the motor vehicle for a nominal amount at the end of the lease terms. No arrangements had been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Amount payable under finance lease:				
Within one year	**–**	64	**–**	63
More than one year and not more than two years	**–**	–	**–**	–
	–	64	**–**	63
Less: future finance charges	**–**	(1)	**–**	N/A
Present value of lease obligation	**–**	63	**–**	63
Less: Amount due for settlements within twelve months (shown under current liabilities)			**–**	(63)
Amount due for settlements after twelve months			**–**	–

The Group's obligation under a finance lease was secured by the lessor's title to the leased asset as at 31 December 2016.

24. Deferred Taxation

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

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
At 1 January 2016	(954)	50	(904)
Credited (charged) to profit or loss (note 11)	126	(50)	76
At 31 December 2016	(828)	–	(828)
(Charged) credited to profit or loss (note 11)	(346)	36	(310)
At 31 December 2017	**(1,174)**	**36**	**(1,138)**

24. Deferred Taxation (continued)

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset.

At the end of the reporting period, the Group has unused tax losses of HK$51,343,000 (2016: HK$47,877,000) available for offset against future profits. Deferred tax asset has been recognised in respect of tax losses of HK$218,000 (2016: nil). No deferred tax assets has been recognised for the tax losses of HK$51,125,000 (2016: HK$47,877,000) due to the unpredictability of future profit streams and those will expire up to 2022 (2016: up to 2021).

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

Deferred taxation has not been provided for in the consolidated financial statements in respect of the remaining temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB20,882,000 (equivalent to HK$25,075,000) (2016: RMB17,129,000 (equivalent to HK$19,128,000)) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

25. Share Capital

Details of share capital of the Company is as follows:

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2016, 31 December 2016 and 31 December 2017	**500,000,000**	**50,000**
Issued and fully paid:		
At 1 January 2016, 31 December 2016 and 31 December 2017	**258,432,000**	**25,843**

26. Share Option Schemes

(a) Pre-IPO Share Option Scheme

The pre-IPO share option scheme ("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.

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.

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 granted and expiring on a date to be notified by the Board of Directors to each grantee which shall not be more than 10 years from the date on which the option is accepted and granted.

The exercise price of the options is HK$1.2 which was 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 expired not later than 10 years from the date of grant.

No Pre-IPO Share Option were outstanding as at 31 December 2017 and 2016. All Pre-IPO Share Option were granted and exercised/lapsed in prior years.

(b) Share Option Scheme

The principal terms of the share option scheme which is approved by the sole shareholder's resolution passed on 22 October 2012 (the "Share Option Scheme") 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.

The Group recognised the share-based payments of nil (2016: HK$574,000) for the year ended 31 December 2017 in relation to share options granted by the Company. 50% of the option vested on the date after six months from the date of grant, 9 April 2015, and the remaining 50% of the options vested on the date from twelve months from 9 April 2015.

26. Share Option Schemes (continued)

(b) Share Option Scheme (continued)

At 31 December 2017, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 2,934,000 (2016: 3,134,000), which totally representing 1.1% (2016: 1.2%) of the shares of the Company in issue at that date.

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

For the year ended 31 December 2017

				Number of share options		
Categories of participants	**Date of grant**	**Exercisable period**	**Exercise price HK$**	**Outstanding at 1.1.2017**	**Lapsed during the year**	**Outstanding at 31.12.2017**
Under the Share Option Scheme						
Executive directors	**9.4.2015**	**9.10.2015 – 8.4.2018**	**4.95**	**990,000**	**–**	**990,000**
Non-executive director	**9.4.2015**	**9.10.2015 – 8.4.2018**	**4.95**	**1,000,000**	**–**	**1,000,000**
Employees	**9.4.2015**	**9.10.2015 – 8.4.2018**	**4.95**	**1,144,000**	**(200,000)**	**944,000**
				3,134,000	**(200,000)**	**2,934,000**
				3,134,000	**(200,000)**	**2,934,000**

For the year ended 31 December 2016

				Number of share options		
Categories of participants	Date of grant	Exercisable period	Exercise price HK$	Outstanding at 1.1.2016	Lapsed during the year	Outstanding at 31.12.2016
Under the Share Option Scheme						
Executive directors	9.4.2015	9.10.2015 – 8.4.2018	4.95	2,990,000	(2,000,000)	990,000
Non-executive director	9.4.2015	9.10.2015 – 8.4.2018	4.95	1,000,000	–	1,000,000
Employees	9.4.2015	9.10.2015 – 8.4.2018	4.95	1,514,000	(370,000)	1,144,000
				5,504,000	(2,370,000)	3,134,000
				5,504,000	(2,370,000)	3,134,000

26. Share Option Schemes (continued)

(c) Hangzhou Sky Walnut Hi-Tech Limited ("HZSW") was a company established in the PRC on 21 October 2017 in which the Group has 60% equity interest. Pursuant to a share award agreement entered into on 21 September 2017 by the existing shareholders of HZSW and the management of HZSW, 8% equity interest of HZSW will be transferred from its existing shareholders (in proportion to the respective shareholdings) to the management of HZSW as an incentive if certain performance targets are met.

As HZSW is still at initial stage, the directors of the Company considered the fair value of the share award as at grant date is insignificant.

27. Retirement Benefit Schemes

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

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

The total contribution to the retirement benefit schemes charged to the consolidated statement of profit or loss and other comprehensive income is HK$5,606,000 (2016: HK$5,656,000).

28. 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:

	2017 **HK$'000**	2016 HK$'000
Within one year	**17,745**	20,952
In the second to fifth year inclusive	**7,360**	7,411
	25,105	28,363

28. Operating Lease Commitments (continued)

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:

	2017 HK$'000	2016 HK$'000
Within one year	–	2,748

Operating lease payments represent rentals payable by the Group for the retail stores, department store counters, offices, staff quarters and warehouses. Leases are negotiated for terms ranging from one to six years (2016: one to six 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.

29. Capital Commitments

	2017 HK$'000	2016 HK$'000
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements	**2,095**	2,187

30. Pledge Of Assets

	2017 HK$'000	2016 HK$'000
Leasehold land and buildings	**95,346**	96,688
Prepaid lease payments	**25,313**	24,081
Pledged bank deposits	**6,293**	8,038
	126,952	128,807

31. Related Party Transactions

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

Name of related companies	Relationship	Nature of transactions	2017 HK$'000	2016 HK$'000
Gain Harvest Investment Limited	Related company (Note)	Rental expenses	**1,632**	1,632
Shenzhen Fusheng Trading Company Limited	Related company (Note)	Rental expenses	**–**	540
Wealth Pine Asia Limited	Related company (Note)	Rental expenses	**1,116**	1,116

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

Compensation of key management personnel

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

	2017 HK$'000	2016 HK$'000
Salaries and allowances	**8,571**	10,657
Performance related incentive payments	**2,930**	1,100
Retirement benefit schemes contributions	**506**	581
Share-based payments	**–**	291
	12,007	12,629

32. Capital Risk Management

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

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

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

33. Financial Instruments

Categories of financial instruments

	2017 HK$'000	2016 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**230,826**	251,670
Derivative financial assets	**492**	–
Financial liabilities		
Amortised cost	**62,633**	120,104
Obligation under a finance lease	**–**	63

Financial risk management objectives and policies

The Group's major financial instruments include, trade and other receivables, pledged bank deposits, bank balances and cash, derivative financial assets, 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 20 and 22 for details of these balances). Interest charged on the Group's borrowings are mainly at variable rates of 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 are relatively short-term. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

33. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

Sensitivity analysis

The sensitivity analysis below has 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.

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 is as follows:

	2017 HK$'000	2016 HK$'000
(Decrease) increase in profit for the year		
– as a result of increase in interest rate	**(13)**	(207)
– as a result of decrease in interest rate	**13**	207

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

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. During the year ended 31 December 2017, about 0.5% (2016: 0%) of the Group's sales and about 2.6% (2016: 1.5%) of the Group's purchases are denominated in currencies other than the functional currencies of the group entities. The carrying amounts of the Group's monetary assets denominated in currencies other than the respective group entities' functional currencies at the end of the reporting period are as follows:

	Assets	
	2017 HK$'000	2016 HK$'000
HK$	**78**	80
RMB	**5,620**	303
EUR	**112**	41
USD	**1,872**	836
MOP	**–**	524

33. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

Foreign currency risk (continued)

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

	Amount due from group entities		Amount due to group entities	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
RMB	**34,222**	55,055	**–**	(31)
HK$	**1,045**	13,147	**–**	–
	35,267	68,202	**–**	(31)

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

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% (2016: 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 or HK$. A negative number indicates a decrease in post-tax profit for the year when HK$ 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.

	2017 HK$'000	2016 HK$'000
RMB	**(1,663)**	(2,310)
HK$	**42**	496
	(1,621)	(1,814)

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.

33. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

Other price risk

The Group is exposed to equity price risk arising from derivative financial assets. As at 31 December 2017, the management considers that there is no significant equity price risk to the fair value of derivative financial assets.

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 2017 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.

33. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

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.

Liquidity and interest risk tables

	Weighted average interest rate	On demand or less than 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Total undiscounted cash flows	Carrying amounts
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2017							
Trade and other payables	**–**	**31,692**	**22,233**	**5,133**	**–**	**59,058**	**59,058**
Bank borrowings	**5.46**	**17**	**32**	**2,317**	**1,431**	**3,797**	**3,575**
		31,709	**22,265**	**7,450**	**1,431**	**62,855**	**62,633**
At 31 December 2016							
Trade and other payables	–	31,610	24,405	13,918	–	69,933	69,933
Bank borrowings	2.73	29,871	3,135	11,489	6,574	51,069	50,171
Obligation under a finance lease	4.94	64	–	–	–	64	63
		61,545	27,540	25,407	6,574	121,066	120,167

Bank borrowings as at 31 December 2016 with a repayment on demand clause were included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2016, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK$29,800,000 (2017: nil). Taking into account the Group's financial position, the directors of the Company did not believe that it is probable that the banks would exercise their discretionary rights to demand immediate repayment. As at 31 December 2016, the directors of the Company believed that such bank loans would be repaid in five 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 were 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	Total undiscounted cash flows	Carrying amounts
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Bank borrowings							
At 31 December 2016	2.30	795	1,589	7,151	21,797	31,332	29,800

33. Financial Instruments (continued)

Fair value measurements of financial instruments

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

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

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Sensitivity/ relationship of unobservable input to fair value
	31.12.2017 HK$'000	31.12.2016 HK$'000				
Derivative financial assets	**492**	N/A	Level 3	Binomial Pricing Model The key inputs (1) Enterprise value (2) Risk-free rate (3) Dividend yield (4) Volatility	Enterprise value, taking into account of enterprise value of the start-up company Risk-free rate, based on the yield of the Hong Kong Sovereign yield curve, 1.03% Volatility, referenced to the historical volatility of comparable companies, 34.62% Dividend yield, provided by the management, 0%	The higher the enterprise value, volatility and dividend yield, the higher the fair value. The lower the risk-free rate, the higher the fair value.

Reconciliation of Level 3 fair value measurements is disclosed in note 17. There were no transfers between Level 1, 2 and 3 fair value measurements during the year.

34. Statement of Financial Position of the Company

	2017 HK$'000	2016 HK$'000
Non-current assets		
Property, plant and equipment	**705**	940
Investment in a subsidiary	**36,865**	36,909
	37,570	37,849
Current assets		
Other receivables	**395**	483
Amounts due from subsidiaries	**144,648**	124,000
Taxation recoverable	**–**	353
Bank balances	**22,074**	64,172
	167,117	189,008
Current liabilities		
Accrued charges	**666**	629
Amount due to a subsidiary	**–**	24,308
Taxation payable	**380**	–
	1,046	24,937
Net current assets	**166,071**	164,071
Total assets less current liabilities	**203,641**	201,920
Non-current liability		
Deferred taxation	**116**	155
Net assets	**203,525**	201,765
Capital and reserves		
Share capital	**25,843**	25,843
Reserves	**177,682**	175,922
Total equity	**203,525**	201,765

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

Movement in reserves:

	Share premium HK$'000	Share options reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1 January 2016	166,688	7,060	3,721	177,469
Profit and total comprehensive income for the year	–	–	921	921
Recognition of equity-settled share-based payments	–	574	–	574
Lapse of share options	–	(3,042)	–	(3,042)
At 31 December 2016	166,688	4,592	4,642	175,922
Profit and total comprehensive income for the year	–	–	2,052	2,052
Lapse of share options	–	(292)	–	(292)
At 31 December 2017	**166,688**	**4,300**	**6,694**	**177,682**

35. Particulars of Principal Subsidiaries of the Company

Particulars of the Company's principal subsidiaries held by the Company as at 31 December 2017 and 2016 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Place of operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Company as at 31 December		Principal activities
				2017	2016	
Casablanca Home Holdings Limited[(1)]	BVI 5 October 2010	Hong Kong	USD4,230,000	**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$80,000,000	**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$135,000,000	**100%**	100%	Manufacture and sale of home textiles products and accessories
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
Jollirich Investment Limited	Hong Kong 8 April 2002	Hong Kong	HK$10,000	**100%**	100%	Investment holding (2016: Investment holding and trading of home textiles products and accessories)
Hangzhou Sky Walnut Hi-Tech Limited 杭州天核網絡科技有限公司[(2)(3)]	PRC 12 October 2017	PRC	RMB1,000,000	**60%**	N/A	Trading of home textiles products and accessories

(1) Directly held by the Company.

(2) These companies were established in the PRC.

(3) The English name is translated for identification purpose only.

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

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

36. Reconciliation of Liabilities Arising from Financing Activities

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

	Bank borrowings HK$'000	Obligation under a finance lease HK$'000	Total HK$'000
At 1 January 2017	50,171	63	50,234
Financing cash flows (note)	(48,169)	(63)	(48,232)
Interest expenses	1,257	–	1,257
Exchange adjustments	316	–	316
At 31 December 2017	**3,575**	**–**	**3,575**

Note: The cash flows represent the addition and repayment of bank borrowings/obligation under a finance lease and interest paid in the consolidated statement of cash flows.

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	**2017** **HK$'000**
Revenue	493,104	460,824	370,969	356,717	**347,449**
Profit (loss) before taxation	22,415	20,129	(14,386)	14,591	**33,144**
Taxation	(11,354)	(7,376)	(1,844)	(6,661)	**(6,212)**
Profit (loss) for the year	11,061	12,753	(16,230)	7,930	**26,932**
Profit (loss) for the year attributable to:					
Owners of the Company	11,061	12,753	(16,230)	7,930	**27,037**
Non-controlling interests	–	–	–	–	**(105)**
	11,061	12,753	(16,230)	7,930	**26,932**

ASSETS AND LIABILITIES

	At 31 December				
	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	**2017** **HK$'000**
Total assets	559,485	515,780	526,491	490,105	**475,787**
Total liabilities	(255,713)	(204,070)	(156,938)	(133,782)	**(78,207)**
Total equity	303,772	311,710	369,553	356,323	**397,580**
Equity attributable to:					
Owners of the Company	303,772	311,710	369,553	356,323	**397,209**
Non-controlling interests	–	–	–	–	**371**
	303,772	311,710	369,553	356,323	**397,580**

CORPORATE INFORMATION

Stock Code

2223

Board of Directors

Executive Directors

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

Non-executive Director

Mr. Mok Tsan San

Independent Non-executive Directors

Mr. Zhang Senquan
Dr. Cheung Wah Keung
Mr. Chow On Wa

Committees

Audit Committee

Mr. Zhang Senquan *(Chairman)*
Dr. Cheung Wah Keung
Mr. Chow On Wa

Remuneration Committee

Dr. Cheung Wah Keung *(Chairman)*
Mr. Zhang Senquan
Mr. Chow On Wa

Nomination Committee

Mr. Cheng Sze Kin *(Chairman)*
Mr. Zhang Senquan
Dr. Cheung Wah Keung
Mr. Chow On Wa

Company Secretary

Mr. Ho Yiu Leung

Authorised Representatives

Ms. Wong Pik Hung
Mr. Ho Yiu Leung

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Cayman Islands

Headquarters and Principal Place of Business

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9-13 Wong Chuk Yeung Street
Fotan, New Territories
Hong Kong

Auditor

Deloitte Touche Tohmatsu

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Principal Bankers

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

China:
Bank of China Limited
Standard Chartered Bank (China) Limited

Company Website

www.casablanca.com.hk