CASABLANCA

GROUP LIMITED

(INCORPORATED UNDER THE LAWS
OF THE CAYMAN ISLANDS WITH LIMITED LIABILITY)
STOCK CODE: 2223

ANNUAL REPORT 2018

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

224 **POS**[1]

in 64 cities in well developed areas in the Greater China Region[2]

90

concession counters
in well known department stores

120

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

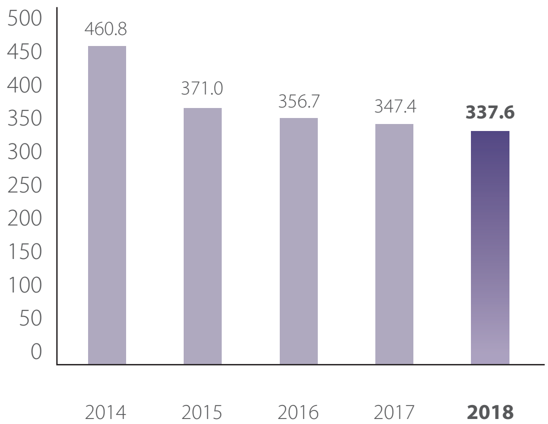
(1) POS stands for points of sales
(2) The region comprises the People's Republic of China (the "PRC"), Hong Kong and Macau
(3) "Mainland China" for purpose of this annual report, means the PRC, other than the regions of Hong Kong and Macau


Self-operated POS
Distributor-operated POS
Heilongjiang 4
Jilin 1
Liaoning 7
Beijing 4 3
Tianjin 1
Hebei 3
Shanxi 1
Shandong 6
Henan 1
Jiangsu 1 2
Anhui 2 1
Sichuan 9
Chongqing 6
Hubei 2
Zhejiang 1 2
Hunan 6
Guizhou 1
Fujian 4
Yunnan 1
Guangxi 2
Hainan 2
Rest of Guangdong 9 23
Shenzhen 27 5
Guangzhou 26 6
Hong Kong 49
Macau 5

FINANCIAL HIGHLIGHTS AND SUMMARY

REVENUE

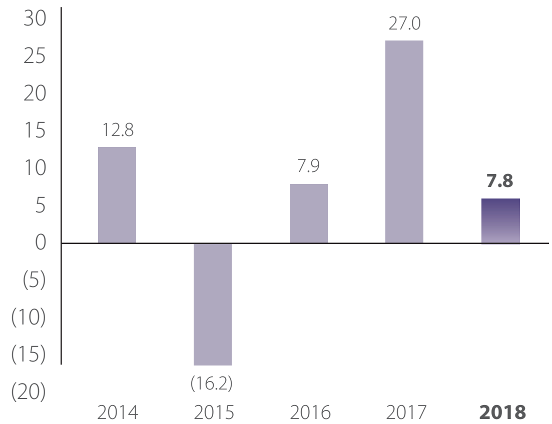
HK$ million



For the year ended 31 December

PROFIT/(LOSS)

HK$ million



For the year ended 31 December

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Revenue	**337,624**	347,449	356,717	370,969	460,824
Gross profit	**213,328**	224,345	223,941	229,205	278,294
EBITDA[1]	**28,085**	44,584	35,776	11,193	42,321
Profit/(Loss) attributable to owners of the Company	**7,837**	27,037	7,930	(16,230)	12,753

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

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**514,733**	475,787	490,105	526,491	515,780
Total liabilities	**116,070**	78,207	133,782	156,938	204,070
Total equity	**398,663**	397,580	356,323	369,553	311,710
Total bank borrowings	**9,961**	3,575	50,171	74,495	96,437
Pledged bank deposit and bank balances and cash	**181,914**	164,710	180,482	184,185	141,433
Net cash/(bank borrowings)	**171,953**	161,135	130,311	109,690	44,996

KEY FINANCIAL RATIOS

	For the year ended 31 December				
	2018	2017	2016	2015	2014
Gross profit margin	**63.2%**	64.6%	62.8%	61.8%	60.4%
EBITDA margin	**8.3%**	12.8%	10.0%	3.0%	9.2%
Net profit/(loss) margin	**2.3%**	7.8%	2.2%	-4.4%	2.8%
Return on assets	**1.5%**	5.7%	1.6%	-3.1%	2.5%
Return on equity	**2.0%**	6.8%	2.2%	-4.4%	4.1%
Interest coverage[1]	**76.9**	35.5	17.3	3.9	9.9
Current ratio	**3.4**	4.1	2.7	2.6	2.0
Quick ratio	**2.5**	3.2	2.1	2.0	1.5
Gearing ratio[2]	**2.5%**	0.9%	14.1%	20.2%	30.9%
Net gearing ratio[2]	**N/A**	N/A	N/A	N/A	N/A
Inventory turnover (days)	**235.5**	207.5	218.0	222.1	199.5
Trade and bills receivables turnover (days)	**70.6**	69.9	68.4	74.8	74.9
Trade and bills payables turnover (days)	**186.2**	159.1	160.3	166.1	162.8

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 2018 (the "Year" or the "Review Period").

2018 was an extremely difficult year for retailers. The outbreak of the Sino-US trade war did not only directly impact enterprises exporting mainly to the US, but also dampened consumption sentiment, hence affected retailers of consumer goods in the Greater China Region. For the bedding product industry in Mainland China, in addition to having to cope with increasing operating costs and raw material prices, small and medium bedding product enterprises in Mainland China are facing challenge from domestic consumers becoming ever more discerning when it comes to product quality and specifications. According to www.hometexnet.com (中國家紡網) data, in early 2018, the number of domestic bedding product companies decreased to approximately 4,600 from approximately 8,900 in early 2017. This indicated that the highly fragmented bedding product market in Mainland China is consolidating, which is in favour of the more established enterprises with strong brand presence.

The year 2018 marked our 25th anniversary. We have come a long way evolving from a small startup into an industry leader in Hong Kong today and we owe that to the support of our loyal customers in Hong Kong. We have a "Hong Kong Brand" that we can be proud of and with it giving us leverage, we have strived to enhance brand awareness in the southern districts of Mainland China, pushing continuously to gain bigger market share. During the Year, apart from ongoing effort to improve product mix, we also kicked off business diversification, commencing sale of products, such as furniture and other home accessories, that could create synergy with our principal bedding product business.

In 2019, we will continue to diversify our business and optimise product offerings so as to expand our income source. In order to strengthen the "Healthy Sleeping Expert" brand image for which we have worked hard to build in recent years, we will step up research on big data technology that can be applied in product design and also exploring the latest hi-tech materials from around the world to help us developing more innovative bedding products with health enhancing functions. Furthermore, on top of our existing online and offline sales channels and access to commercial customers, we have formed new teams responsible for hotel supplies business and export business, in other words, we have created new income sources for the Group.

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. My appreciation also goes to the management team and our employees for their contribution to the development of the Group.

Cheng Sze Kin
Chairman
Hong Kong, 25 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

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

Business Review

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

	Self-operated POS			Distributor-operated POS			
	Concession counters	Stand-alone retail stores	Subtotal	Concession counters	Stand-alone retail stores	Subtotal	Total
Hong Kong and Macau Total	32	17	49	2	3	5	54
PRC							
Southern (1)	60	2	62	10	28	38	102
Northern (2)	5	0	5	6	1	7	13
Eastern (3)	3	1	4	11	4	15	17
Northeast (4)	0	0	0	12	0	12	12
Southwest (5)	0	0	0	11	6	17	17
Central (6)	0	0	0	3	6	9	8
Northwest (7)	0	0	0	0	1	1	1
PRC subtotal	68	3	71	53	46	99	170
Total	**100**	**20**	**120**	**55**	**49**	**104**	**224**

Note:

(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.

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

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

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

The Group adhered to the core principle of "Contemporary, Innovative and Functional" for its product design with a view to providing the market with well-designed quality bedding products with health functions and further strengthening its image as a "Healthy Sleeping Expert". At the beginning of 2018, the Group launched mosquito repellent products for adults in the Hong Kong market. These products were especially suitable for the warm and humid climate in Southern China such that they were highly popular in the market. Furthermore, it has also launched the "Magnetic Stress-Relief Pillow (零壓磁療枕)" in a move to tap the high-tech pillow market. The product has adopted magnetic healthcare material extracted from minerals under Comfytex, a Turkish brand. It can facilitate the blood circulation by means of the ferrous compound materials extracted from minerals and allow users to attain muscle relaxation for better quality sleep. In respect of the products under licensed and authorised brands, the Group has always been supportive to the design of cartoon characters originated in Hong Kong. During the Year, it has added original local cartoon characters such as "SHIBAinc" and "Squly & Friends" to authorised cartoon character portfolio. In addition, the Group has also targeted young customers and explored the business of "Fast Fashion" bedding products and home accessories in an effort to enhance the shopping experience of consumers and increase the revenue from retail sales.

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

Future Prospects

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

Develop Export Business and Expand Sales Channels

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

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

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

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

Introduce Innovative Products and Improve Product Mix

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Enhance Corporate Image and Strengthen Brand Leadership

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

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

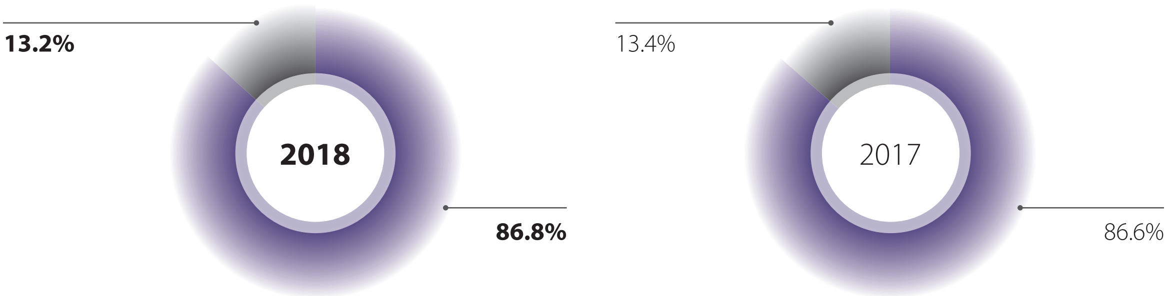
Striving to incorporate "Contemporary, Innovative and Functional" features in its product design, the Group will endeavor to provide consumers with quality bedding products which are fashionably designed but reasonably priced, and suitable trendy home accessories. The Group will also continue to broaden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

FINANCIAL REVIEW

Revenue

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

Breakdown of revenue by brands:



Total: HK$337.6 million

Total: HK$347.4 million

Proprietary brands

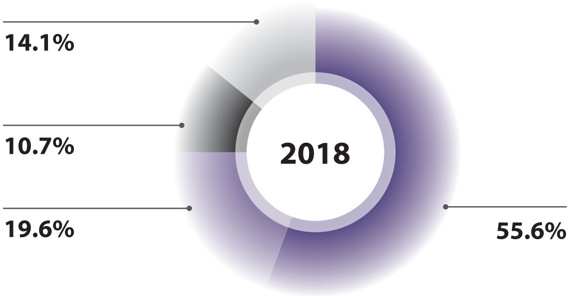
Licensed and authorised brands

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

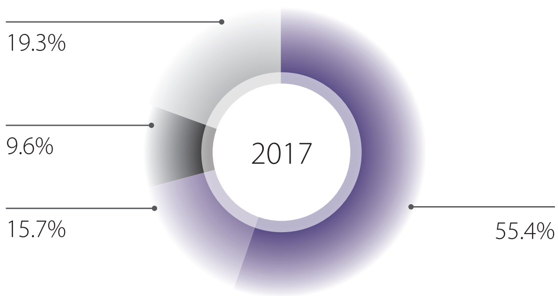
Casablanca, Casa Calvin and CASA-V are our major proprietary brands. The decrease in sales of proprietary brands by 2.5% was attributable to the decline in sales to wholesale customers during the Year. Sales of our licensed and authorised brands for 2018 decreased by 4.7% primarily due to the decline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

MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of revenue by channels:



Total: HK$337.6 million



Total: HK$347.4 million

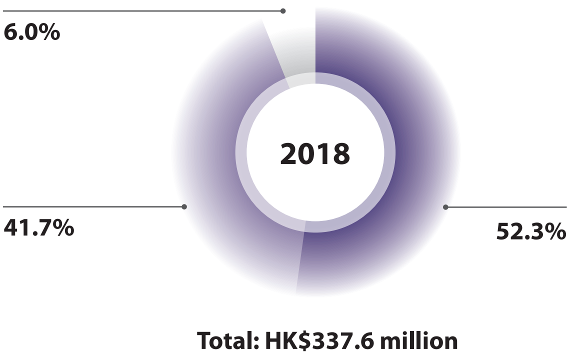
Self-operated concession counters · Self-operated retail stores · Sales to distributors · Other

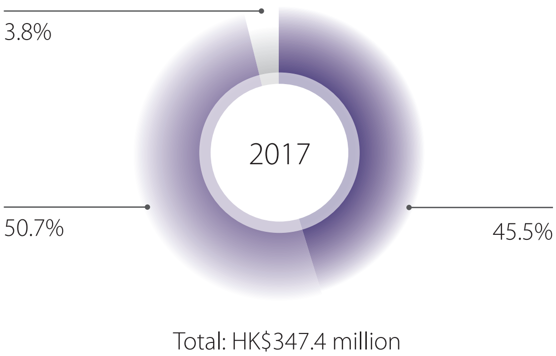
	2018		2017		Change	
	HK$'000	**% of Total**	HK$'000	% of Total	HK$'000	%
Self-operated sales						
Self-operated concession counters	**187,684**	**55.6%**	192,481	55.4%	(4,797)	-2.5%
Self-operated retail stores	**66,291**	**19.6%**	54,669	15.7%	11,622	21.3%
Sub-total for self-operated retail sales	**253,975**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

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

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

Breakdown of revenue by products:





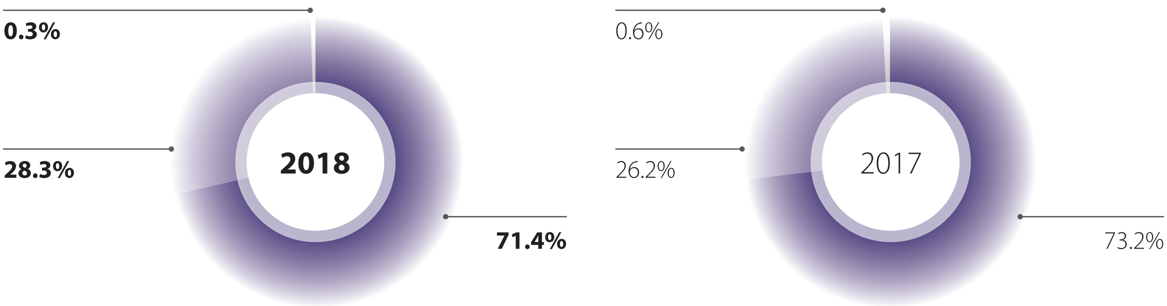
	2018		2017		Change	
	HK$'000	**% of Total**	HK$'000	% of Total	HK$'000	%
Bed linens	**176,628**	**52.3%**	158,135	45.5%	18,493	11.7%
Duvets and pillows	**140,880**	**41.7%**	176,079	50.7%	(35,199)	-20.0%
Others *(Note)*	**20,116**	**6.0%**	13,235	3.8%	6,881	52.0%
Total	**337,624**	**100.0%**	347,449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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of revenue by geographic regions:



Total: HK$337.6 million

Total: HK$347.4 million

Hong Kong & Macau   Mainland China   Other

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

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

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

Gross Profit and Gross Profit Margin

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

Other Losses and Gains

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

Operating Expenses

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

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

Finance Expenses

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

Taxation

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

Profit for the Year

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

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

Major Operating Efficiency Ratios

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

Inventory turnover

The inventory turnover is equal to the average of opening and closing inventory divided by total cost of sales for the year and multiplied by 365 days. The inventory turnover for 2018 increased to 235.5 days from 207.5 days for 2017. The inventory at 31 December 2018 increased by 55.2% to HK$97.5 million from HK$62.8 million at 31 December 2017 was due to more raw materials kept as at 31 December 2018 for production of goods to be sold under orders from a wholesale customer in first two months of 2019 and to be launched for new season after the first quarter of 2019.

Trade receivables turnover

The trade receivables turnover is equal to the average of opening and closing trade receivables divided by total sales for the year and multiplied by 365 days. The trade receivables turnover for 2018 slightly increased to 70.6 days from 69.9 days for 2017.

Trade and bills payables turnover

The trade and bills payables turnover is equal to the average of opening and closing trade and bills payables divided by total cost of sales for the year and multiplied by 365 days. The trade and bills payables turnover for 2018 increased to 186.2 days from 159.1 days for 2017. The trade and bill payables at 31 December 2018 increased by 65.7 % to HK$79.1 million from HK$47.7 million at 31 December 2017 was due to more purchases of raw materials in the late 2018 for production of goods to be sold under orders from a wholesale customer in first two months of 2019 and to be launched for new season after the first quarter of 2019.

Liquidity and Capital Resources

The gearing structure is set out below:

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

The Group has been adhering to the principle of prudent financial management in order to minimise financial and operational risks. The Group generally finances its operations with internally generated cash flows. Bank borrowings were primarily for repayment of the cross-border intergroup loan subject to exchange exposure.

Pledged bank deposits and bank balances and cash

As at 31 December 2018, the pledged bank deposits of the Group was approximately HK$10.5 million (2017: HK$6.3 million), which was denominated in HKD and RMB, and the bank balances and cash of the Group were approximately HK$171.4 million (2017: HK$158.4 million), which were denominated in HKD and RMB except for about 0.34% 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 2018, the bank borrowings of the Group was approximately HK$10.0 million (2017: HK$3.6 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 4.29% to 6.57% per annum. During the Year, the financial position of the Group was healthy. Details of the Group's bank borrowings are set out in note 22 to the consolidated financial statements.

Current ratio

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

Gearing ratio

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

Pledge of assets

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

Capital expenditures

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

Capital commitments

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

Use of Proceeds From the Listing and Placement of Shares

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

The use of net proceeds until 31 December 2018 was as below:

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

Share Capital

The total number of shares of the Company as at 31 December 2018 was 258,432,000 shares (2017: 258,432,000 shares) of HK$0.10 each. As at 31 December 2018, the total issued share capital of Company was HK$25,843,000 (2017: HK$25,843,000). The movements of share capital during the Year are set out in note 24 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 25 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 Mainland China. The Group is exposed to foreign exchange risk principally in RMB which may affect the Group's performance. RMB depreciated by about 5.2% against HKD during the Year , especially depreciated by about 3.1% for the month of June 2018, and appreciated by about 7.5% for the year of 2017. To mitigate foreign exchange risk, the Group has stopped fixed deposit in RMB in Hong Kong and will further reduce the amount of intercompany loan in RMB from a subsidiary in Hong Kong to a subsidiary in Mainland China. 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 2018, 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 2018 (2017: nil).

Employee and Remuneration Policy

As at 31 December 2018, the employee headcount of the Group was 622 (2017: 642) and the total staff costs, including directors' emoluments, for the Year amounted to HK$95.4 million (2017: HK$87.4 million). The decrease in employee headcount as at 31 December 2018 was primarily due to the relocation of the e-commerce team in Mainland China from Hangzhou to the Huizhou plant at the end of 2018. The increase in total staff costs for the Year was due to increases in salaries of staff and wages of workers in Mainland China and the share-based payments.

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 2018, 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 58, 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"). 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 46, 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 Officer 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 by the Federation of Hong Kong Industries as "Young Industrialists of Hong Kong" in 2013 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 52, 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.

Independent Non-executive Directors

Mr. Lo Siu Leung (盧紹良), aged 40, was appointed as an Independent Non-executive Director on 9 April 2018. He is currently the director of Cheerful Arts Group Limited, which is a wholly owned subsidiary of Asia Investment Finance Group Limited (the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), stock code: 33). He joined Harmonic Strait Financial Holdings Limited (currently known as Asia Investment Finance Group Limited, stock code: 33) in 2009 and was the executive director during December 2013 to June 2015. Before joining Harmonic Strait Financial Holdings Limited, he was the partner of Lui & Mak Certified Public Accountants. He has over 15 years of experience in auditing, accounting, tax and finance. Mr. Lo is a Chartered Financial Analyst. He is also a fellow member of each of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and The Institute of Chartered Accountants in England and Wales. He holds a master degree in Business Administration from The Hong Kong Polytechnic University.

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). He was also 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. The shares of above companies with stock code indicated 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 the Federation of Hong Kong Industries as "Young Industrialist of Hong Kong" in 2005 and "Certificates of Merit in Directorship" by the Hong Kong Institutes of Directors in 2006. He has taken up a variety of roles, including the president of the Hong Kong Young Industrialists Council from 2015 to 2016, the chairman of each of the Departmental Advisory Committee of Marketing Department of City University of Hong Kong and the Advisory Board for Master of Corporate Governance of The Hong Kong Polytechnic University. Furthermore, he is a committee member of the Council of The Hang Seng University of Hong Kong.

Mr. Chow On Wa (周安華), aged 57, 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.

Senior Management

Mr. Ho Yiu Leung (何耀樑), aged 52, 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 60, 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 professoriate senior engineer from Guangdong Province Personnel Office (廣東省人事廳).

Mr. Lin Yi Kai (林奕凱), aged 49, joined the Group in May 2007. He is currently the Deputy General Manager of Casablanca Home (Shenzhen) Limited. He is responsible for the financial management of the Group's operations in the PRC. 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, and an associate member of The Association of International Accountants. He was conferred qualification of assistant accountant in accounting (corporate) speciality and intermediate level in accounting speciality from Ministry of Finance of the PRC and qualification of senior accountant from Human Resources and Social Security Department of Guangdong Province. Mr. Lin holds a bachelor's degree in accounting from Guangdong Polytechnic Normal University.

Company Secretary

Mr. Ho Yiu Leung (何耀樑), aged 52, 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 2018.

Principal Activities

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

Business Review

A review of the Group's business for the year ended 31 December 2018 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 Mainland China.

Owing to the increasing trend for sales through new media and the intense competition in bedding products market in Mainland China, the Group has sustained loss in operating retail business through physical POS network in Mainland China for the year ended 31 December 2018. 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 Mainland China, increased its investment in the development of new channels of sales, 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 Mainland China, 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 bulk-purchase agreements. 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 32 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 2018 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 2018, Casablanca Hong Kong Limited was awarded U Green Awards – Excellence of Environmental Contribution Award by U Magazine for the fourth time in four 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 Mainland China. The Group's operations accordingly shall comply with relevant laws and regulations in Hong Kong and Mainland China. 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 2018 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 2018.

Five-Year Financial Summary

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

Property, Plant and Equipment

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

Share Capital

Details of the movements in the share capital of the Company during the Year are set out in note 24 to the consolidated financial statements.

Subsidiary

Particulars of the Company's principal subsidiaries as at 31 December 2018 are set out in note 34 to the consolidated financial statements.

Borrowings

Particulars of the Group's bank borrowings are set out in note 22 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 2018 was as below:

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

Distributable Reserves

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

The Company's reserves available for distribution to shareholders as at 31 December 2018 calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$175,466,000, comprising share premium of approximately HK$166,268,000 and retained earnings of HK$9,198,000.

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 (resigned on 9 April 2018)

Independent Non-executive Directors

Mr. Lo Siu Leung (appointed on 9 April 2018)
Dr. Cheung Wah Keung
Mr. Chow On Wa
Mr. Zhang Senquan (resigned on 9 April 2018)

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

In accordance with Article 16.3 of the 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 of which 2,934,000 share options were outstanding at 1 January 2018 and expired on 8 April 2018.

The Group further granted share options to Directors and employees on 17 April 2018 to subscribe for a total of 5,250,000 ordinary shares of HK$0.10 per share with the exercise price of HK$1.18 per share. Details of the grant of share options on 17 April 2018 are set out in announcement of the Company dated 17 April 2018. The share options shall be exercisable during the period from 17 April 2018 to 16 April 2021. Based on the valuation report of an independent valuer, the aggregate estimated fair value of the options granted on 17 April 2018 under the Share Option Scheme was approximately HK$1,904,000.

Particulars of the Company's Share Option Scheme are set out in note 25 to the consolidated financial statements.

The following table discloses movements in the Company's share options during the Year:

	Date of grant	Exercisable period (Notes 1 & 2)	Exercised price (HK$)	Number of options as at 1.1.2018	Movements during the Year Granted	Cancelled	Exercised	Lapsed	Number of options as at 31.12.2018
Directors and Chief Executives									
Mr. Cheng Sze Kin	9.4.2015	9.10.2015 – 8.4.2018	4.95	330,000	–	–	–	(330,000)	–
	17.4.2018	17.4.2018 – 16.4.2021	1.18	–	1,400,000	–	–	–	1,400,000
				330,000	1,400,000	–	–	(330,000)	1,400,000
Mr. Cheng Sze Tsan	9.4.2015	9.10.2015 – 8.4.2018	4.95	330,000	–	–	–	(330,000)	–
	17.4.2018	17.4.2018 – 16.4.2021	1.18	–	1,400,000	–	–	–	1,400,000
				330,000	1,400,000	–	–	(330,000)	1,400,000
Ms. Wong Pik Hung	9.4.2015	9.10.2015 – 8.4.2018	4.95	330,000	–	–	–	(330,000)	–
	17.4.2018	17.4.2018 – 16.4.2021	1.18	–	1,400,000	–	–	–	1,400,000
				330,000	1,400,000	–	–	(330,000)	1,400,000
Mr. Mok Tsan San	9.4.2015	9.10.2015 – 8.4.2018	4.95	1,000,000	–	–	–	(1,000,000)	–
Mr. Lo Siu Leung	17.4.2018	17.4.2018 – 16.4.2021	1.18	–	250,000	–	–	–	250,000
Dr. Cheung Wah Keung	17.4.2018	17.4.2018 – 16.4.2021	1.18	–	250,000	–	–	–	250,000
Mr. Chow On Wa	17.4.2018	17.4.2018 – 16.4.2021	1.18	–	250,000	–	–	–	250,000
Total Directors and Chief Executive				1,990,000	4,950,000	–	–	(1,990,000)	4,950,000
Employees	9.4.2015	9.10.2015 – 8.4.2018	4.95	944,000	–	–	–	(944,000)	–
	17.4.2018	17.4.2018 – 16.4.2021	1.18	–	300,000	–	–	–	300,000
Total Employees				944,000	300,000	–	–	(944,000)	300,000
Total				2,934,000	5,250,000	–	–	(2,934,000)	5,250,000

Notes:

(1) The options, granted on 9 April 2015, were 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.

(2) The options, granted on 17 April 2018, are exercisable from 17 April 2018 to 16 April 2021 (both days inclusive).

Directors' and Chief Executive's Interests in Shares

As at 31 December 2018, 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 (Note 4)
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)	1,400,000	1,400,000
	Spouse interest (Note 1)	1,400,000	1,400,000
		2,800,000	2,800,000
Mr. Cheng Sze Tsan	Beneficial interest (Note 2)	1,400,000	1,400,000
Ms. Wong Pik Hung	Beneficial interest (Note 3)	1,400,000	1,400,000
	Spouse interest (Note 3)	1,400,000	1,400,000
		2,800,000	2,800,000
Mr. Lo Siu Leung	Beneficial interest	250,000	250,000
Dr. Cheung Wah Keung	Beneficial interest	250,000	250,000
Mr. Chow On Wa	Beneficial interest	250,000	250,000

Notes:

(1) Mr. Cheng Sze Kin is interested in 40% of World Empire 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 1,400,000 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 1,400,000 shares. However, each of Mr. Cheng Sze Kin and Ms. Wong Pik Hung has confirmed that he/she will not exercise any option if as a result of which the Company will not be able to comply with the public float requirements of the Listing Rules.

(2) Mr. Cheng Sze Tsan is interested in 35% of World Empire, 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 1,400,000 shares. However, Mr. Cheng Sze Tsan has confirmed that he will not exercise any option if as a result of which the Company will not be able to comply with the public float requirements of the Listing Rules.

(3) Ms. Wong Pik Hung is the spouse of Mr. Cheng Sze Kin and is interested in 25% of 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 1,400,000 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 1,400,000 shares. However, each of Mr. Cheng Sze Kin and Ms. Wong Pik Hung has confirmed that he/she will not exercise any option if as a result of which the Company will not be able to comply with the public float requirements of the Listing Rules.

(4) The percentage is calculated on the basis of 258,432,000 shares in issue at the date of this annual report.

Save as disclosed above, none of the Directors, chief executive and their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2018.

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 2018, 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 (Note 2)
World Empire (Note 1)	Beneficial owner	150,000,000	58.0%

Notes:

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

(2) The percentage is calculated on the basis of 258,432,000 shares in issue at the date of this annual report.

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 with Directors of the Company:

		2018 HK$'000
Rental expenses paid to related companies in Hong Kong	(Note)	**2,220**

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 2020. 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.

The Directors are of the opinion that the above transactions are conducted in the ordinary course of business of the Group and the annual cap was 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.

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 Mainland China. The staff remuneration will be reviewed regularly.

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the 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 25 to the consolidated financial statements.

Audit Committee

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

The Audit Committee is primarily responsible for the review and supervision of the Group's financial reporting process and risk management and internal control systems. It has reviewed the accounting principles and practices adopted by the Group and the audited annual results of the Group for the year ended 31 December 2018.

Major Customers and Suppliers

For the year ended 31 December 2018, sales to the Group's five largest customers and the largest customer accounted for approximately 10.5% and 5.0%, respectively of the Group's total turnover for the Year.

For the year ended 31 December 2018, the Group's purchases attributable to the five largest suppliers and the largest supplier accounted for approximately 37.8% and 10.1%, respectively of the Group's total purchases for the Year.

At no time during the Year, did a Director, a close associate of a Director, or a shareholder 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.

Changes on Memorandum and Articles of Association

The Company's current memorandum and articles of association (the "Memorandum and Articles") were adopted on 22 October 2012. There have been no changes in the Company's Memorandum and Articles up to the date of this report.

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

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

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

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 2018 is scheduled to be held on Monday, 27 May 2019 (the "AGM"). A notice convening the AGM will be issued and disseminated to shareholders of the Company in due course.

Closures of Register of Members

The register of members of the Company will be closed from Wednesday, 22 May 2019 to Monday, 27 May 2019 (both days inclusive) during which no transfer of shares will be effected. In order to be eligible to attend and vote at the forthcoming AGM of the Company, all completed transfer documents accompanying with the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. (Hong Kong time) on Tuesday, 21 May 2019.

Corporate Governance Practices Code

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules (the "CG Code") as its own code of corporate governance. The Company has complied with the code provisions as set out in the CG Code during the year ended 31 December 2018.

None of the Directors is aware of any information which would reasonably indicate that the Company has not, for any part of the year ended 31 December 2018, complied with the code provisions as set out in the CG Code.

Sufficiency of Public Float

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

Donations

During the Year, the Group made charitable donations amounting to HK$531,000.

Auditor

A resolution will be submitted to the AGM to re-appoint Messrs. CHENG & CHENG LIMITED, Certified Public Accountants, as the auditor of the Company.

On behalf of the Board

Cheng Sze Kin
Chairman
Hong Kong, 25 March 2019

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").

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 2018. Save as disclosed herein, the Company considers that there has been no deviation from the code provisions of the CG Code during the year ended 31 December 2018.

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. Save as disclosed herein, the Company considers that there has been no deviation from the Company's code of conduct and the Model Code during the Review Period.

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 of which the Board considers suitable for delegation to its committees are contained in the specific terms of reference of its committees. The terms of reference clearly define the powers and responsibilities of the Board committees. In addition, the Board will receive reports and/or recommendations from time to time from the Board committees on any matter significant to the Group.

Board Composition

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

Executive Directors

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

Non-executive Director

Mr. Mok Tsan San (resigned on 9 April 2018)

Independent Non-executive Directors

Mr. Lo Siu Leung (appointed on 9 April 2018)
Dr. Cheung Wah Keung
Mr. Chow On Wa
Mr. Zhang Senquan (resigned on 9 April 2018)

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

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 (resigned on 9 April 2018)	B
Independent Non-executive Directors	
Mr. Lo Siu Leung (appointed on 9 April 2018)	A, B
Dr. Cheung Wah Keung	A, B
Mr. Chow On Wa	A, B
Mr. Zhang Senquan (resigned on 9 April 2018)	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 nine 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 2017 annual results, the 2018 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 convening the Board meeting was despatched to the Directors setting out the matters to be discussed. At the meeting, the Directors were provided with the relevant documents to be discussed and approved. The Company Secretary was responsible for keeping minutes for the Board meetings.

The minutes of Board meetings record in sufficient details the matters considered by the Board, including all concerns raised by the Directors and dissenting views expressed. The minutes of all Board meetings and Board committee meetings and written resolutions signed by all Directors 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	9/9	N/A	N/A	3/3	1/1
Mr. Cheng Sze Tsan	9/9	N/A	N/A	N/A	1/1
Ms. Wong Pik Hung	9/9	N/A	N/A	N/A	1/1
Non-executive Director					
Mr. Mok Tsan San (Note(a))	2/2	N/A	N/A	N/A	0/0
Independent Non-executive Directors					
Mr. Zhang Senquan (Note(b))	2/2	2/2	2/2	1/1	0/0
Mr. Lo Siu Leung (Note(c))	6/6	3/3	3/3	1/1	1/1
Dr. Cheung Wah Keung	9/9	5/5	6/6	3/3	1/1
Mr. Chow On Wa	9/9	5/5	6/6	3/3	1/1

Note:

(a) Mr. Mok Tsan San resigned as Non-executive Director on 9 April 2018. He attended all Board meetings prior to his resignation, but did not attend the annual general meeting which was held on 25 May 2018 after his resignation.

(b) Mr. Zhang Senquan resigned as Independent Non-executive Director on 9 April 2018. He attended all Board and Board committee meetings prior to his resignation, but did not attend the annual general meeting which was held on 25 May 2018 after his resignation.

(c) Mr. Lo Siu Leung was appointed as Independent Non-executive Director on 9 April 2018. He attended all Board and Board committee meetings subsequent to his appointment.

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

Confirmation of Independence

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

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

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

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 agreement with the Company as an Executive Director for a term of three years commencing from 1 September 2018. All of such service agreements may only be terminated by either party giving to the other not less than three months' prior notice in writing.

Each of the Non-executive Director and Independent Non-executive Directors has been appointed or 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.

CORPORATE GOVERNANCE REPORT

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. Lo Siu Leung (appointed on 9 April 2018)
Dr. Cheung Wah Keung
Mr. Chow On Wa
Mr. Zhang Senquan (resigned on 9 April 2018)

Mr. Zhang Senquan was the Chairman of the Audit Committee up to 9 April 2018 and Mr. Lo Siu Leung has been the Chairman of the Audit Committee since 9 April 2018.

During the Review Period, the Audit Committee held five 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 2017 and made a recommendation to the Board for approval;

(ii) reviewed continuing connected transactions;

(iii) reviewed the interim report and results announcement of the Company for the six months ended 30 June 2018 and made a recommendation to the Board for approval;

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

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

(vi) proposed the change of external auditor and reviewed the audit fee quoted for the Review Period and made a recommendation to the Board for approval; and

(vii) discussed audit planning with external auditor for the year ended 31 December 2018.

Auditor’s Remuneration

Deloitte Touche Tohmatsu, Certified Public Accountants, (“Deloitte”) retired as the auditor of the Company with effect from the conclusion of the annual general meeting which was held on 25 May 2018 and did not offer themselves for re-appointment as the Company and Deloitte could not reach a consensus on the audit fee for the financial year ended 31 December 2018. The Board resolved, with the recommendation from the Audit Committee, proposed the appointment of CHENG & CHENG LIMITED, Certified Public Accountants, (“CHENG & CHENG”) as the new auditor of the Company following the retirement of Deloitte and such proposed appointment was approved by the shareholders at the annual general meeting which was held on 25 May 2018.

The annual audit services for the year ended 31 December 2018 was provided by CHENG & CHENG, the external auditor.

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

Services Rendered	**Remuneration Paid/Payable**
	HK$’000
Annual audit services	850
Non-audit services	255
Total	1,105

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 Independent Non-executive Directors.

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

Dr. Cheung Wah Keung
Mr. Chow On Wa
Mr. Lo Siu Leung (appointed on 9 April 2018)
Mr. Zhang Senquan (resigned on 9 April 2018)

Dr. Cheung Wah Keung is the Chairman of the Remuneration Committee.

During the Review Period, the Remuneration Committee held six 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 2017 year-end bonus and 2018 salary to Executive Directors and senior management;

(ii) reviewed and approved share options granted to Directors and employees;

(iii) considered and approved terms and remuneration packages of Executive Directors under their renewed service agreements;

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

(v) 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$1,000,000 to HK$2,000,000	1

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

Nomination Committee

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

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

Dr. Cheung Wah Keung
Mr. Chow On Wa
Mr. Lo Siu Leung (appointed on 9 April 2018)
Mr. Zhang Senquan (resigned on 9 April 2018)

According to the nomination policy of the Company, the Nomination Committee invites nominations of candidates from members of the Board and may also put forward other candidates when vacancies on the Board exist. The Nomination Committee reviews and assesses candidates for directorship, before making recommendations to the Board, by making reference to the board diversity policy, including but not limited to the gender, age, race, skills, experience, professional knowledge and educational background, 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. A shareholder can serve a notice, at least 7 days prior to the date of the general meeting with candidates standing for election as Directors, to the Company of intention to propose a person as a Director without nomination by the Nomination Committee or recommendation by the Board.

During the Review Period, the Nomination Committee held three 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 Director;

(ii) reviewed and made a recommendation to the Board for approval of appointment of new Independent Non-executive Director;

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

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

(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; and

(vi) reviewed and made a recommendation to the Board for approval of the nomination policy.

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. While the Company does not have an internal audit function, it has appointed SHINEWING Risk Services Limited ("SHINEWING") to carry out the internal audit function such as the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems covering financial, operational and legal compliance controls.

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 Mainland China (the "Restricted Territory") save for the holding of not more than 5% shareholding interests in any listed company and (ii) directly or indirectly take any action which constitutes an interference with or a disruption of any of the Group's business activities in the Restricted Territory.

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

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

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

The Company maintains a website at http://www.casablanca.com.hk where 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.

In order to update the Memorandum and Articles so as to, among other things, reflect the current requirements of the Listing Rules and make other housekeeping improvements to the Memorandum and Articles, the Directors propose to (1) make certain amendments to the Memorandum and Articles and (2) restate the Memorandum and Articles incorporating and consolidating the proposed amendments and all previous amendments to the Memorandum and Articles approved and adopted by the Company to replace the existing Memorandum and Articles.

The proposed amendments to and proposed restatement of Memorandum and Articles are subject to the approval of shareholders of the Company by way of special resolutions at the forthcoming annual general meeting of the Company.

CHENG & CHENG LIMITED
CERTIFIED PUBLIC ACCOUNTANTS
鄭鄭會計師事務所有限公司

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

Opinion

We have audited the consolidated financial statements of Casablanca Group Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 59 to 124, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 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.

Other Matters

The consolidated financial statements of the Group for the year ended 31 December 2017, were audited by another auditor who expressed an unmodified opinion on those statements on 26 March 2018.

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

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 2018, the carrying amount of finished goods is HK$59,770,000 (net of allowance for finished goods of HK$5,117,000).

How our audit addressed the key audit matter

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 general, the credit terms granted by the Group to the distributors ranged between 30 to 90 days. Management performed periodic assessment on the recoverability of the trade receivables and the sufficiency of provision for impairment based on information including credit profile of different distributors, aging of the trade receivables, historical settlement records, subsequent settlement status, expected timing and amount of realization of outstanding balances, and on-going trading relationships with the relevant distributors. Management also considered forward looking information that may impact the distributors' ability to repay the outstanding balances in order to estimate the expected credit losses ("ECL") for the impairment assessment. As at 31 December 2018, the trade receivables of HK$66,972,000 (net of loss allowance of HK$6,412,000) included trade receivables from distributors of HK$14,233,000. (Refer to notes 4, 19 and 32 to the consolidated financial statements)	Our procedures in relation to assessing the appropriateness of the estimated allowance for trade receivables from distributors included: • Reviewing and assessing the application of the Group's policy for calculating the ECL. • Evaluating techniques and methodology in the ECL model against the requirements of HKFRS 9. • Evaluating the design, implementation and operating effectiveness of key internal controls which govern credit control, debt collection and estimation of ECL. • Assessing the reasonableness of management's loss allowance estimates by examining the information used by management to form such judgements, including testing the accuracy of the historical default data, evaluating whether the historical loss rates are appropriately adjusted based on current economic conditions and forward-looking information and examining the actual losses recorded during the current financial year and assessing whether there was an indication of management bias when recognising loss allowances. • 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. • Tracing of the subsequent settlements to the bank receipts, on a sample basis.

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

The directors of the Company are responsible for the other information. The other information comprises 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.

CHENG & CHENG LIMITED
Certified Public Accountants
Hong Kong, 25 March 2019

Chan Shek Chi
Practising Certificate number P05540

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Revenue	5	**337,624**	347,449
Cost of goods sold		**(124,296)**	(123,104)
Gross profit		**213,328**	224,345
Other income	6	**1,570**	1,874
Other losses and gains	7	**(2,696)**	467
Selling and distribution costs		**(151,435)**	(145,627)
Administrative expenses		**(49,685)**	(46,658)
Finance costs	8	**(365)**	(1,257)
Profit before taxation	9	**10,717**	33,144
Taxation	11	**(4,672)**	(6,212)
Profit for the year		**6,045**	26,932
Other comprehensive (expense) income for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		**(10,071)**	13,855
Other comprehensive (expense) income		**(10,071)**	13,855
Total comprehensive (expense) income for the year		**(4,026)**	40,787
Profit (loss) for the year attributable to:			
Owners of the Company		**7,837**	27,037
Non-controlling interests		**(1,792)**	(105)
		6,045	26,932
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(2,216)**	40,886
Non-controlling interests		**(1,810)**	(99)
		(4,026)	40,787
Earnings per share			
– Basic (HK cents)	13	**3.03**	10.46
– Diluted (HK cents)	13	**3.03**	10.46

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	14	**128,003**	139,264
Prepaid lease payments	15	**17,330**	24,731
Intangible assets	16	**–**	–
Deposits paid for acquisition of property, plant and equipment		**422**	1,229
Rental and other deposits		**1,211**	2,364
Derivative financial assets	17	**–**	492
		146,966	168,080
Current assets			
Inventories	18	**97,530**	62,843
Trade and other receivables	19	**87,142**	77,853
Prepaid lease payments	15	**418**	582
Taxation recoverable		**763**	1,719
Pledged bank deposits	20	**10,506**	6,293
Bank balances and cash	20	**171,408**	158,417
		367,767	307,707
Current liabilities			
Trade and other payables	21	**103,755**	71,597
Taxation payable		**1,190**	1,897
Bank borrowings	22	**3,415**	2,200
		108,360	75,694
Net current assets		**259,407**	232,013
Total assets less current liabilities		**406,373**	400,093
Non-current liabilities			
Bank borrowings	22	**6,546**	1,375
Deferred taxation	23	**1,164**	1,138
		7,710	2,513
Net assets		**398,663**	397,580

	NOTES	**2018** **HK$'000**	2017 HK$'000
Capital and reserves			
Share capital	24	**25,843**	25,843
Reserves		**371,054**	371,366
Equity attributable to owners of the Company		**396,897**	397,209
Non-controlling interests		**1,766**	371
Total equity		**398,663**	397,580

The consolidated financial statements on pages 59 to 124 were approved and authorised for issue by the Board of Directors on 25 March 2019 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 2018

	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 2017	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
Profit (loss) for the year	–	–	–	–	–	–	–	7,837	7,837	(1,792)	6,045
Exchange differences arising on translation of financial statements of foreign operations and other comprehensive income for the year	–	–	–	–	–	(10,053)	–	–	(10,053)	(18)	(10,071)
Total comprehensive (expense) income for the year	–	–	–	–	–	(10,053)	–	7,837	(2,216)	(1,810)	(4,026)
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	3,205	3,205
Recognition of equity-settled share-based payments	–	–	–	–	–	–	1,904	–	1,904	–	1,904
Lapse of share options	–	–	–	–	–	–	(4,300)	4,300	–	–	–
Transfer of reserve	–	–	–	–	327	–	–	(327)	–	–	–
At 31 December 2018	**25,843**	**166,268**	**2,000**	**1,319**	**3,488**	**(14,565)**	**1,904**	**210,640**	**396,897**	**1,766**	**398,663**

Notes:

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Operating activities		
Profit before taxation	**10,717**	33,144
Adjustments for:		
Interest income	**(919)**	(673)
Investment income	**(84)**	(599)
Interest expenses	**365**	1,257
Loss allowance on trade receivables	**2,955**	2,216
Allowance for inventories	**759**	460
Amortisation of prepaid lease payments	**563**	559
Bad debts written off	**–**	2
Gain on disposal of prepaid leasehold land (on Note 7)	**(3,745)**	–
Depreciation of property, plant and equipment	**13,410**	11,965
Fair value change on derivative financial assets	**492**	(492)
Loss on disposals of property, plant and equipment	**154**	480
Share-based payment expense	**1,904**	–
Operating cash flows before movements in working capital	**26,571**	48,319
(Increase) decrease in inventories	**(35,105)**	18,499
(Increase) decrease in trade and other receivables	**(11,911)**	4,639
Decrease (increase) in rental and other deposits	**1,153**	(385)
Increase (decrease) in trade and other payables	**31,826**	(15,566)
Cash generated from operations	**12,534**	55,506
Hong Kong Profits Tax paid	**(2,838)**	(5,350)
PRC Enterprise Income Tax (the "EIT") paid	**(1,492)**	(987)
Net cash from operating activities	**8,204**	49,169
Investing activities		
Withdrawal of pledged bank deposits	**33,143**	20,312
Interest received	**919**	673
Proceed received from disposal of prepaid leasehold land (on Note 7)	**9,690**	–
Investment income received	**84**	599
Proceeds from disposal of property, plant and equipment	**50**	101
Purchase of property, plant and equipment	**(6,667)**	(19,937)
Placement of pledged bank deposits	**(37,815)**	(18,128)
Deposit paid for acquisition of property, plant and equipment	**(711)**	(896)
Net cash used in investing activities	**(1,307)**	(17,276)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Financing activities		
Repayments of bank loans	**(5,010)**	(61,912)
Interest paid	**(365)**	(1,257)
Repayments of obligation under a finance lease	**–**	(63)
New bank loans raised	**11,851**	15,000
Capital contribution from non-controlling interests	**3,205**	470
Net cash generated from (used in) financing activities	**9,681**	(47,762)
Net increase (decrease) in cash and cash equivalents	**16,578**	(15,869)
Cash and cash equivalents at beginning of the year	**158,417**	172,444
Effect of foreign exchange rate changes	**(3,587)**	1,842
Cash and cash equivalents at end of the year represented by bank balances and cash	**171,408**	158,417

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 trading of home accessories and furniture.

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

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

(a) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The measurement of ECL reflects:

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

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

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

(c) HKFRS 15, Revenue from contracts with customers

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

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

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

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

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

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

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

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

The adoption of HK(IFRIC)-Int 22 does not have any material impact on the financial position and the financial result of the Group.

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

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance contracts[3]
HK(IFRIC)- Int 23	Uncertainty over income tax treatments[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015 – 2017 cycle[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[2]
Amendments to HKAS 28	Long-term interests in associates and joint ventures[1]
Amendments to HKAS 19	Plan amendment, curtailment or settlement[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKAS 1 and HKAS 8	Definition of a Material[5]

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after a date to be determined.
3 Effective for annual periods beginning on or after 1 January 2021.
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual periods beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 January 2020.

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.

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.

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.

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

HKFRS 16 "Leases" (continued)

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 2018, the Group has non-cancellable operating lease commitments of HK$28,099,000 as disclosed in note 27. 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$1,592,000 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. Adjustments to refundable rental deposits received would be considered as advance lease payments.

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.

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

3. Significant Accounting Policies (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are 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 Group. Control is achieved when the Company:

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

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

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

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 from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2(c))

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

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

3. Significant Accounting Policies (continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2(c)) (continued)

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

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

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

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

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

Revenue recognition (Prior to 1 January 2018)

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

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

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

Leasehold land and building

When 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.

3. Significant Accounting Policies (continued)

Leasehold land and building (continued)

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 except for trade receivables arising from contracts with customers which are initially measured in accordances with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction cost directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2(b))

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

A financial asset is classified as held for trading if:

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

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

(i) Amortised cost and interest income

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2(b)) (continued)

(ii) Financial assets at FVTPL

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss.

Classification and subsequent measurement of financial assets (before application of HKFRS9 on 1 January 2018)

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.

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 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 financial instruments

Derivative financial instruments are initially recognised at fair value. The 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 (upon application HKFRS 9 with transitions in accordance with note 2(b))

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables and other receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade receivables. The ECL on trade receivables are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2(b)) (continued)

(i) Significant increase in credit risk

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

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

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

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

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2(b)) (continued)

(ii) *Definition of default*

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

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

(iii) *Credit-impaired financial assets*

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

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

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

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

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

(iv) *Write-off policy*

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2(b)) (continued)

(v) Measurement and recognition of ECL

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

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

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the collective basis:

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

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

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Prior to 1 January 2018, 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.

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.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

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.

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.

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. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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 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.

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.

3. Significant Accounting Policies (continued)

Impairment losses on tangible and intangible assets (continued)

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.

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.

3. Significant Accounting Policies (continued)

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 (the "MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term benefits

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

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

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.

3. Significant Accounting Policies (continued)

Taxation (continued)

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

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

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

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

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

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

4. Key Sources of Estimation Uncertainty

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

Provision of ECL for trade receivables from distributors

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

As at 31 December 2018, the carrying amount of trade receivables from distributors is HK$14,233,000 (2017: HK$14,720,000) (net of loss allowance of HK$6,407,000 (2017: HK$3,692,000)).

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 19 and 32 respectively.

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 2018, the carrying amount of finished goods is HK$59,770,000 (2017: HK$46,593,000) (net of allowance for finished goods of HK$5,117,000 (2017: HK$4,815,000)).

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.

5. Revenue and Segment Information (continued)

- Self-operated retail sales: Sales through the self-operated retail sales channel refer to sales at the self-operated concession counters in department stores and self-operated retail stores.
- Sales to distributors: Sales to distributors refer to the sales to distributors who resell the products to end-user consumers, typically at concession counters in department stores and retail stores operated by distributors.
- Others: Other sales include sales to wholesale customers located in the PRC and Hong Kong and Macau, and sales made to overseas customers.

The information of segment revenue is as follows:

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

Entity-wide information

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

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

Geographical information

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

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

5. Revenue and Segment Information (continued)

Geographical information (continued)

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

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

Information about major customer

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

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

1 Revenue from sales of bed linens, duvets and pillows.
2 The corresponding revenue did not contribute over 10% of the total revenue of the Group for the year ended 31 December 2018.

6. Other Income

	2018 HK$'000	2017 HK$'000
Bank interest income	**919**	673
Government subsidies	**78**	108
Investment income (note)	**84**	599
Others	**489**	494
	1,570	1,874

Note: These investments were entered into and matured during the years ended 31 December 2018 and 2017 with rate of returns ranged from 1.6% – 3.0% (2017: 2.1% – 2.8%) per annum.

7. Other Losses and Gains

	2018 HK$'000	2017 HK$'000
Net exchange (loss) gain	(2,791)	2,700
Gain on disposal of prepaid leasehold land (note)	3,745	–
(Decrease) increase in fair value of derivative financial assets (note 17)	(492)	492
Loss allowance on trade receivables	(2,955)	(2,216)
Loss on disposals of property, plant and equipment	(154)	(480)
Others	(49)	(29)
	(2,696)	467

Note: Proceed received from the government of disposal of prepaid leasehold land is HK$9,690,000.

8. Finance Costs

	2018 HK$'000	2017 HK$'000
Interest on:		
Bank borrowings	365	1,257
Total borrowing costs	365	1,257

9. Profit Before Taxation

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

Notes:

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

(b) Included contingent rent of HK$22,580,000 (2017: HK$25,351,000) for the year ended 31 December 2018. The contingent rent refers to the operating lease rentals based on pre-determined percentages to realised sales less basic rentals of the respective leases.

(c) The design costs comprise of staff salaries of HK$515,000 (2017: HK$429,000) for the year ended 31 December 2018, which are included in the staff costs disclosed above.

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 2018						
Executive directors						
Mr. Cheng Sze Kin	–	2,670	199	206	497	3,572
Ms. Wong Pik Hung	–	2,670	397	184	497	3,748
Executive director and chief executive officer						
Mr. Cheng Sze Tsan	–	2,910	187	184	497	3,778
Non-executive director						
Mr. Mok Tsan San (resigned on 9 April 2018)	137	–	–	–	–	137
Independent non-executive directors						
Mr. Zhang Senquan (resigned on 9 April 2018)	48	–	–	–	–	48
Dr. Cheung Wah Keung	200	–	–	–	89	289
Mr. Chow On Wa	200	–	–	–	89	289
Mr. Lo Siu Leung (appointed on 9 April 2018)	153	–	–	–	89	242
	738	8,250	783	574	1,758	12,103

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 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. Cheung 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

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 (2017: three) were directors and the chief executive of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining two (2017: two) individuals were as follows:

	2018 HK$'000	2017 HK$'000
Salaries and allowances	**1,490**	1,439
Performance related incentive payments	**209**	213
Retirement benefit schemes contributions	**36**	36
Share-based payments	**146**	–
	1,881	1,688

The emoluments were within the following bands:

	2018 No. of employees	2017 No. of employees
HK$500,001 to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1

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

During the two years ended 31 December 2018 and 2017, no emoluments were paid by the Group to the directors of the Company and chief executive of the Group or the five highest paid individuals (including directors, chief executive and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company nor the chief executive of the Group waived any emoluments during both years.

11. Taxation

	2018 HK$'000	2017 HK$'000
Current tax		
Hong Kong	**3,642**	4,553
PRC EIT	**1,186**	1,445
	4,828	5,998
(Over) underprovision in prior years		
Hong Kong	**(182)**	(117)
PRC EIT	**–**	21
	(182)	(96)
	4,646	5,902
Deferred taxation charge (note 23)	**26**	310
	4,672	6,212

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

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

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

11. Taxation (continued)

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

	2018 HK$'000	2017 HK$'000
Profit before taxation	**10,717**	33,144
Tax charge at Hong Kong Profits Tax rate (note)	**1,603**	5,469
Tax effect of expenses not deductible for tax purposes	**1,772**	1,095
Tax effect of income not taxable for tax purposes	**(140)**	(646)
Tax effect of tax losses not recognised	**1,896**	68
Utilisation of tax losses previously not recognised	**(40)**	(151)
Effect of different tax rate of subsidiaries operating in other jurisdictions	**(214)**	495
Overprovision in prior years	**(183)**	(96)
Others	**(22)**	(22)
Taxation charge	**4,672**	6,212

Note: During the year ended 31 December 2018, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million. While during the year ended 31 December 2017, the Hong Kong Profits Tax is calculated at 16.5% on the total estimated assessable profits.

12. Dividends

No dividend was paid or proposed by the Company during the year ended 31 December 2018 (2017: nil), nor has any dividend been proposed since the end of the reporting period.

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:

	2018 HK$'000	2017 HK$'000
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**7,837**	27,037

	2018	2017
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**258,432,000**	258,432,000

For the years ended 31 December 2018 and 2017, there are no dilutive effects from the Company's outstanding share options as the exercise price of these share options is higher than the average market price of the Company's shares during both years.

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 2017	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
Exchange adjustments	(7,028)	(594)	(622)	(409)	(29)	(10)	(8,692)
Additions	–	5,011	552	472	769	1,750	8,554
Disposals/write off	–	(1,664)	–	(194)	(139)	–	(1,997)
At 31 December 2018	**136,159**	**17,365**	**11,487**	**8,925**	**21,994**	**3,030**	**198,960**
DEPRECIATION							
At 1 January 2017	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
Exchange adjustments	(1,302)	(398)	(396)	(372)	(20)	(3)	(2,491)
Provided for the year	5,193	3,210	869	585	3,169	384	13,410
Eliminated on disposals/ write off	–	(1,460)	–	(194)	(139)	–	(1,793)
At 31 December 2018	**28,822**	**11,908**	**7,439**	**7,823**	**14,094**	**871**	**70,957**
CARRYING VALUES							
At 31 December 2018	**107,337**	**5,457**	**4,048**	**1,102**	**7,900**	**2,159**	**128,003**
At 31 December 2017	118,256	4,056	4,591	1,252	10,309	800	139,264

14. Property, Plant and Equipment (continued)

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

	2018 **HK$'000**	2017 HK$'000
In Hong Kong	**2,715**	2,963
In the PRC	**104,622**	115,293
	107,337	118,256

The leasehold land and buildings with carrying values of HK$95,346,000 were pledged to banks as securities for banking facilities granted to the Group as at 31 December 2017. No leasehold land and buildings were pledged to banks as securities for banking facilities granted to the Group as at 31 December 2018.

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	20% – 33 1/3%

15. Prepaid Lease Payments

	HK$'000
COST	
At 1 January 2017	27,058
Exchange adjustments	2,037
At 31 December 2017	29,095
Exchange adjustments	(1,235)
Disposals	(6,980)
At 31 December 2018	**20,880**
AMORTISATION	
At 1 January 2017	2,976
Exchange adjustments	247
Provided for the year	559
At 31 December 2017	3,782
Exchange adjustments	(178)
Provided for the year	563
Eliminated on disposals	(1,035)
At 31 December 2018	**3,132**
CARRYING VALUE	
At 31 December 2018	**17,748**
At 31 December 2017	25,313

	2018 HK$'000	2017 HK$'000
Analysed for reporting purposes as:		
Current assets	**418**	582
Non-current assets	**17,330**	24,731
	17,748	25,313

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 were pledged to a bank as securities for a banking facility granted to the Group as at 31 December 2017. No prepaid lease payments were pledged as securities as at 31 December 2018.

16. Intangible Assets

	Patents HK$'000
COST	
At 1 January 2017, 31 December 2017 and 31 December 2018	**15**
AMORTISATION	
At 1 January 2017, 31 December 2017 and 31 December 2018	**15**
CARRYING VALUES	
At 31 December 2018	**–**
At 31 December 2017	–

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

17. Derivative Financial Assets

During the year ended 31 December 2017, 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.

This option lapsed during the year ended 31 December 2018.

The Group's option is recognised and lapsed as follows:

	HK$'000
At the date on initial recognition	–
Unrealised fair value gain recognised in profit or loss (included in other losses and gains)	492
At 31 December 2017	492
Unrealised fair value loss recognised in profit or loss due to lapsed of option (included in other losses and gains)	(492)
At 31 December 2018	**–**

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

	2018 HK$'000	2017 HK$'000
Raw materials	**37,760**	16,250
Finished goods	**59,770**	46,593
	97,530	62,843

19. Trade and Other Receivables

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

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 90 days. For distributors and wholesale sales, the Group allows a credit period up to 90 days to its trade customers, which may be extended to 180 days for selected customers. The following is an aged analysis of trade receivables net of loss allowance presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates.

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

For sales to distributors, the Group requests new distributors for upfront payment, while the Group allows other distributors a longer credit period. For wholesale sales, before accepting any new customers, 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$14,212,000 (2017: HK$19,644,000) which are past due as at the reporting date for which the Group has not provided for loss allowance. The Group does not hold any collaterals over these balances.

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.

19. Trade and Other Receivables (continued)

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

	2018 HK$'000	2017 HK$'000
United States dollars ("USD")	**57**	36

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% (2017: 0% – 0.58%) per annum as at 31 December 2018. 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 null of fixed interest rate at 31 December 2017 (2018: nil). Other bank balances carry interest at market rates of 0.01% to 0.35% (2017: 0.01% to 0.3%) per annum as at 31 December 2018.

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:

	2018 HK$'000	2017 HK$'000
HK$	**79**	78
Renminbi ("RMB")	**1,161**	5,620
Euro ("EUR")	**58**	112
USD	**517**	1,836

21. Trade and Other Payables

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

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

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

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

22. Bank Borrowings

	2018 HK$'000	2017 HK$'000
Secured	**9,961**	3,575
Carrying amount repayable*		
Within one year	**3,415**	2,200
More than one year, but not more than two years	**4,269**	1,375
More than two years, but not more than five years	**2,277**	–
	9,961	3,575
Less: Amounts due within one year shown under current liabilities	**(3,415)**	(2,200)
Amounts shown under non-current liabilities	**6,546**	1,375

* The amounts due are based on scheduled repayment dates set out in the loan agreements. Certain variable-rate bank borrowings were early repaid in full during the year ended 31 December 2018.

The variable-rate bank borrowings at 31 December 2018 carried interest at 20% margin over the interest rate offered by the People's Bank of China Standard Loan Rate.

The variable-rate bank borrowings at 31 December 2017 carried interest at 10% margin over the interest rate offered by the People's Bank of China Standard Loan 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:

	2018	2017
Effective interest rates:		
Fixed-rate borrowings	**–**	2.66%
Variable-rate borrowings	**4.29% – 6.57%**	2.02% – 5.46%

23. Deferred Taxation

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

	Accelerated tax depreciation	Tax losses	Total
	HK$'000	HK$'000	HK$'000
As at 1 January 2017	(828)	–	(828)
Charged to profit or loss (note 11)	(346)	36	(310)
As at 31 December 2017	(1,174)	36	(1,138)
Charged to profit or loss (note 11)	10	(36)	(26)
As at 31 December 2018	**(1,164)**	**–**	**(1,164)**

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$55,601,000 (2017: HK$51,343,000) available for offset against future profits. No deferred tax asset has been recognised in respect of tax losses for the year (2017: HK$218,000). No deferred tax assets have been recognised for the tax losses of HK$55,601,000 (2017: HK$51,125,000) due to the unpredictability of future profit streams and those will expire up to 2023 (2017: up to 2022).

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 RMB23,435,000 (equivalent to HK$26,680,000) (2017: RMB20,882,000 (equivalent to HK$25,075,000)) 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.

24. 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 2017, 31 December 2017 and 31 December 2018	**500,000,000**	**50,000**
Issued and fully paid:		
At 1 January 2017, 31 December 2017 and 31 December 2018	**258,432,000**	**25,843**

25. 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 2018 and 2017. All Pre-IPO Share Option were granted and exercised/lapsed in prior years.

25. Share Option Schemes (continued)

(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.

In the current year, share options were granted on 17 April 2018 with an aggregate estimated fair value of HK$1,904,000.

The closing price of the Company's shares immediately before 17 April 2018, the date of grant, was HK$1.12.

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

Date of grant	**17.4.2018**
Share price at grant date	HK$1.18
Exercise price	HK$1.18
Expected volatility	70.495%
Expected life	3 years
Risk-free rate	1.752%
Expected dividend yield	0%
Sub-optimal exercise factor	1.60 for directors of the Company and 2.39 for employees of the Group

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

The Group recognised the share-based payments of HK$1,904,000 for the year ended 31 December 2018 (2017: nil) in relation to share options granted by the Company during the year.

25. Share Option Schemes (continued)

(b) Share Option Scheme (continued)

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

At 31 December 2018, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 5,250,000 (2017: 2,934,000), which totally representing 2.0% (2017: 1.1%) 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 2018

				Number of share options			
Categories of participants	Date of grant	Exercisable period	Exercise price HK$	Outstanding at 1.1.2018	Granted during the year	Lapsed during the year	Outstanding at 31.12.2018
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	944,000	–	(944,000)	–
				2,934,000	–	(2,934,000)	–
Executive directors	17.4.2018	17.4.2018-16.4.2021	1.18	–	4,200,000	–	4,200,000
Independent non-executive directors	17.4.2018	17.4.2018-16.4.2021	1.18	–	750,000	–	750,000
Employee	17.4.2018	17.4.2018-16.4.2021	1.18	–	300,000	–	300,000
				–	5,250,000	–	5,250,000
				2,934,000	5,250,000	(2,934,000)	5,250,000

25. Share Option Schemes (continued)

(b) Share Option Scheme (continued)

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

(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 in year of 2022.

As HZSW was still at loss for the year ended 31 December 2018, the directors of the Company considered the fair value of the share award as at grant date or 31 December 2018 is insignificant.

26. Retirement Benefit Schemes

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

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

The total contribution to the retirement benefit schemes charged to the consolidated statement of profit or loss and other comprehensive income is HK$6,098,000 (2017: HK$5,606,000).

27. 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:

	2018 HK$'000	2017 HK$'000
Within one year	**19,967**	17,745
In the second to fifth year inclusive	**8,132**	7,360
	28,099	25,105

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:

	2018 HK$'000	2017 HK$'000
Within one year	**2,220**	–
In the second to fifth year inclusive	**2,220**	–
	4,440	–

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 (2017: 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.

28. Capital Commitments

	2018 HK$'000	2017 HK$'000
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements	**331**	2,095

29. Pledge of Assets

	2018 HK$'000	2017 HK$'000
Leasehold land and buildings	**–**	95,346
Prepaid lease payments	**–**	25,313
Pledged bank deposits	**10,506**	6,293
	10,506	126,952

30. 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**	**2018 HK$'000**	2017 HK$'000
Gain Harvest Investment Limited	Related company (Note)	Rental expenses	**1,320**	1,632
Wealth Pine Asia Limited	Related company (Note)	Rental expenses	**900**	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:

	2018 HK$'000	2017 HK$'000
Salaries and allowances	**10,635**	8,571
Performance related incentive payments	**1,069**	2,930
Retirement benefit schemes contributions	**669**	506
Share-based payments	**1,904**	–
	14,277	12,007

31. 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.

32. Financial Instruments

Categories of financial instruments

	2018 **HK$'000**	2017 HK$'000
Financial assets at amortised cost (2017: Loans and receivables)		
Trade receivables	**66,972**	63,598
Other financial assets at amortised cost	**6,510**	2,518
Cash and cash equivalents	**181,914**	164,710
Derivative financial assets	**–**	492
Financial liabilities at amortised cost	**98,278**	62,633

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 People's Bank of China rate 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.

32. 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 profits for the years ended 31 December 2018 and 31 December 2017 is as follows:

	2018 HK$'000	2017 HK$'000
(Decrease) increase in profit for the year		
– as a result of increase in interest rate	**(37)**	(13)
– as a result of decrease in interest rate	**37**	13

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 Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. During the year ended 31 December 2018, about 0.1% (2017: 0.5%) of the Group's sales and about 2.8% (2017: 2.6%) 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	
	2018 HK$'000	2017 HK$'000
HK$	**79**	78
RMB	**1,163**	5,620
EUR	**85**	112
USD	**574**	1,872

32. 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	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
RMB	**28,851**	34,222	**–**	–
HK$	**–**	1,045	**–**	–
	28,851	35,267	**–**	–

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

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, no sensitivity analysis has been prepared as the amount involved is insignificant.

The sensitivity analysis below details the Group's sensitivity to a 5% (2017: 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$. A positive number indicates an increase in post-tax profit for the year when HK$ strengthens 5% against RMB and vice versa. For a 5% weakening of HK$ against RMB, there would be an equal but opposite impact on the post-tax profit or loss for the year.

	2018 HK$'000	2017 HK$'000
RMB	**(1,253)**	(1,663)
HK$	**3**	42
	(1,250)	(1,621)

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.

32. 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 2018, 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 2018 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.

The Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significant reduced.

The following table provides information about the group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000
Current	0.00%	52,760	–
0 to 30 days	0.02%	10,426	3
31 to 60 days	0.08%	2,427	2
61 to 90 days	0.39%	323	1
Over 91 days	39.75%	1,730	688
		67,666	694

32. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Credit risk (continued)

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

During the year ended 31 December 2018, the Group provided HK$694,000 loss allowance for trade receivable based on the provision matrix. Loss allowance of HK$5,718,000 were made on credit impaired debtors.

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment. At 31 December 2017, trade receivables of HK$3,769,000 was determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017 HK$'000
Neither past due nor impaired	43,954
Past due not impaired	
0 to 30 days	207
31 to 60 days	12,129
61 to 90 days	2,402
91 to 180 days	2,496
181 to 365 days	2,410
Over 365 days	–
	19,644
	63,598

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

For sales to distributors, the Group requests new distributors for upfront payment, while the Group allows other distributors a longer credit period. For wholesale sales, before accepting any new customers, 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$14,212,000 (2017: HK$19,644,000) which are past due as at the reporting date for which the Group has not provided for loss allowance. The Group does not hold any collaterals over these balances.

32. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Credit risk (continued)

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

	2018 Lifetime ECL (Non-credit impaired) HK$'000	2018 Lifetime ECL (Credit impaired) HK$'000	2018 Lifetime ECL total HK$'000	2017 Total HK$'000
Balance at 31 December under HKAS 39	–	3,769	3,769	1,358
Impact on initial application of HKFRS 9	–	–	–	–
Adjusted balance at 1 January	–	3,769	3,769	1,358
Amounts written off during the year	–	–	–	–
Impairment losses recognised during the year	694	2,261	2,955	2,216
Exchange adjustment	–	(312)	(312)	195
Balance at 31 December	694	5,718	6,412	3,769

The following significant changes in the gross carrying amounts of trade receivables contributed to the increase in the loss allowance during 2018:

- increase in credit impaired ECL resulted in an increase in loss allowance of HK$2,261,000.

Liquidity risk

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

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity date for other non-derivative financial liabilities are based on the agreed repayment dates.

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

32. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity and interest risk tables

	Weighted average interest rate	On demand or less than 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Total undiscounted cash flows	Carrying amounts
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2018							
Trade and other payables	**–**	**63,112**	**20,971**	**4,234**	**–**	**88,317**	**88,317**
Bank borrowings	**5.94**	**284**	**566**	**3,052**	**6,849**	**10,751**	**9,961**
		63,396	**21,537**	**7,286**	**6,849**	**99,068**	**98,278**
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

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.

32. Financial Instruments (continued)

Fair value measurements of financial instruments (continued)

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 31.12.2018 HK$'000	Fair value as at 31.12.2017 HK$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Sensitivity/ relationship of unobservable input to fair value
Derivative financial assets	–	492	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 (2017: 1.03%) Volatility, referenced to the historical volatility of comparable companies (2017: 34.62%) Dividend yield, provided by the management, 0%	The higher the enterprise value and volatility, the higher the fair value. The lower the risk-free rate and dividend yield, 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.

33. Statement of Financial Position of the Company

	2018 HK$'000	2017 HK$'000
Non-current assets		
Property, plant and equipment	**1,087**	705
Deposit paid for acquisition of property, plant and equipment	**262**	–
Investment in a subsidiary	**36,553**	36,865
	37,902	37,570
Current assets		
Other receivables	**313**	395
Amounts due from subsidiaries	**144,711**	144,648
Taxation recoverable	**187**	–
Bank balances	**21,517**	22,074
	166,728	167,117
Current liabilities		
Accrued expenses	**818**	666
Taxation payable	**–**	380
	818	1,046
Net current assets	**165,910**	166,071
Total assets less current liabilities	**203,812**	203,641
Non-current liability		
Deferred taxation	**179**	116
Net assets	**203,633**	203,525
Capital and reserves		
Share capital	**25,843**	25,843
Reserves	**177,790**	177,682
Total equity	**203,633**	203,525

33. 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 2017	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
Profit and total comprehensive income for the year	–	–	1,035	1,035
Recognition of equity-settled share based payments	–	1,904	–	1,904
Lapse of share options	–	(4,300)	1,469	(2,831)
At 31 December 2018	**166,688**	**1,904**	**9,198**	**177,790**

34. Particulars of Principal Subsidiaries of the Company

Particulars of the Company's principal subsidiaries held by the Company as at 31 December 2018 and 2017 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 2018	2017	Principal activities
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	RMB85,683,733 (2017: 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
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	RMB2,000,000	**60%**	60%	Trading of home textiles products and accessories
Colorway Furniture Company Limited 惠州市卡璐威家居有限公司[2][3]	PRC 25 January 2018	PRC	RMB5,000,000	**71%**	N/A	Trading of furniture
Shenzhen Casablanca Sales and Marketing Limited 深圳市卡撒天嬌家居營銷有限公司[2][3]	PRC 30 August 2018	PRC	RMB20,000,000	**55%**	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.

35. 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	**Obligation under a finance lease**	**Total**
	HK$'000	HK$'000	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
Financing cash flows (note)	6,476	–	6,476
Interest expenses	365	–	365
Exchange adjustments	(455)	–	(455)
At 31 December 2018	**9,961**	**–**	**9,961**

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				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018** **HK$'000**
Revenue	460,824	370,969	356,717	347,449	**337,624**
Profit (loss) before taxation	20,129	(14,386)	14,591	33,144	**10,717**
Taxation	(7,376)	(1,844)	(6,661)	(6,212)	**(4,672)**
Profit (loss) for the year	12,753	(16,230)	7,930	26,932	**6,045**
Profit (loss) for the year attributable to:					
Owners of the Company	12,753	(16,230)	7,930	27,037	**7,837**
Non-controlling interests	–	–	–	(105)	**(1,792)**
	12,753	(16,230)	7,930	26,932	**6,045**

ASSETS AND LIABILITIES

	At 31 December				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018** **HK$'000**
Total assets	515,780	526,491	490,105	475,787	**514,733**
Total liabilities	(204,070)	(156,938)	(133,782)	(78,207)	**(116,070)**
Total equity	311,710	369,553	356,323	397,580	**398,663**
Equity attributable to:					
Owners of the Company	311,710	369,553	356,323	397,209	**396,897**
Non-controlling interests	–	–	–	371	**1,766**
	311,710	369,553	356,323	397,580	**398,663**

CORPORATE INFORMATION

Stock Code

2223

Board of Directors

Executive Directors

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

Independent Non-executive Directors

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

Committees

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Company Secretary

Mr. Ho Yiu Leung

Authorised Representatives

Ms. Wong Pik Hung
Mr. Ho Yiu Leung

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Grand Cayman KY1-1104
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Headquarters and Principal Place of Business

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

Auditor

CHENG & CHENG LIMITED, Certified Public Accountants

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

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

Company Website

www.casablanca.com.hk