CASABLANCA

GROUP LIMITED

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

STOCK CODE: 2223

ANNUAL REPORT 2019

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

229 **POS**[1]

in 65 cities in well developed areas in the Greater China Region[2]

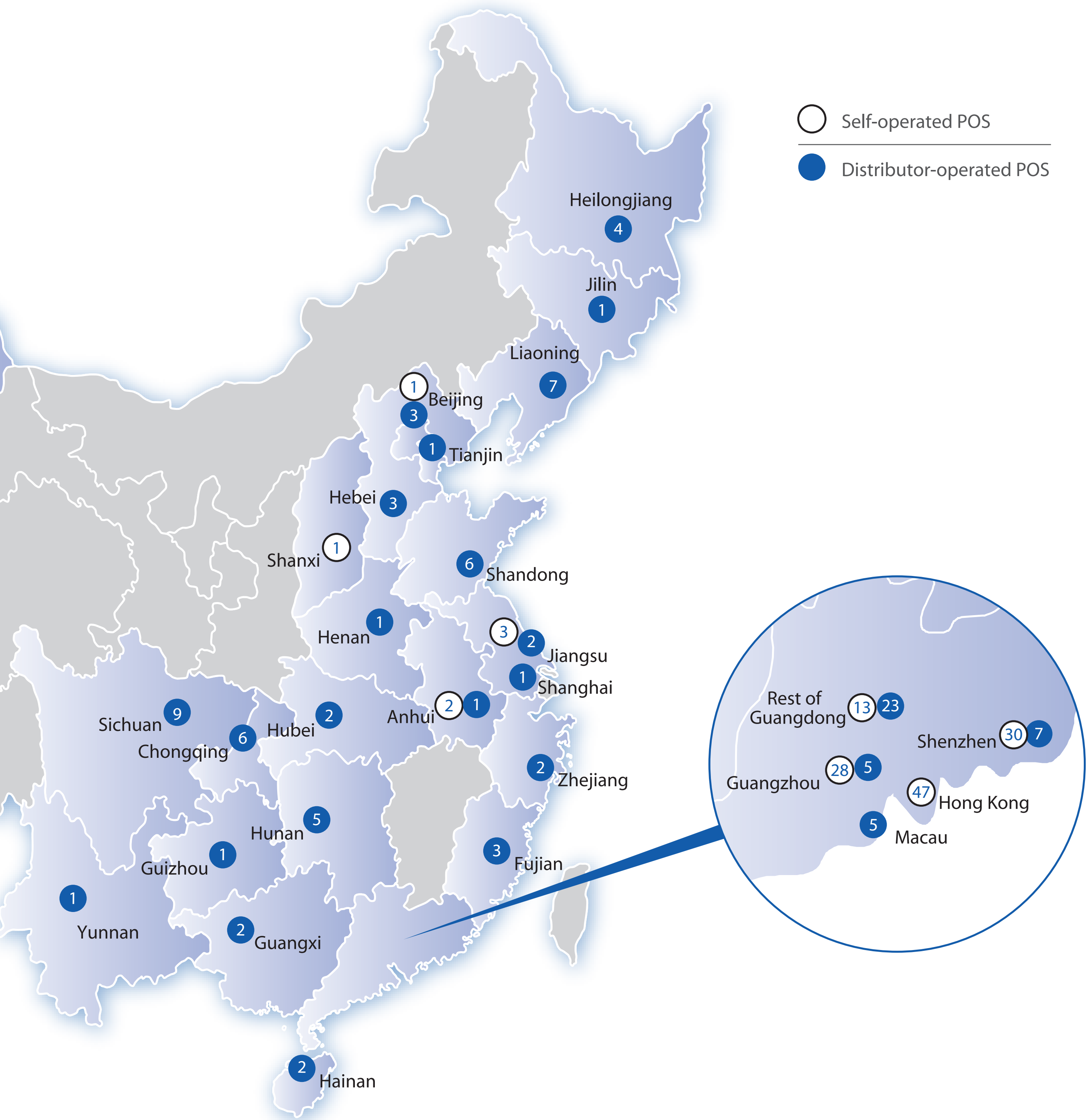
164

concession counters
in well known department stores

125

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

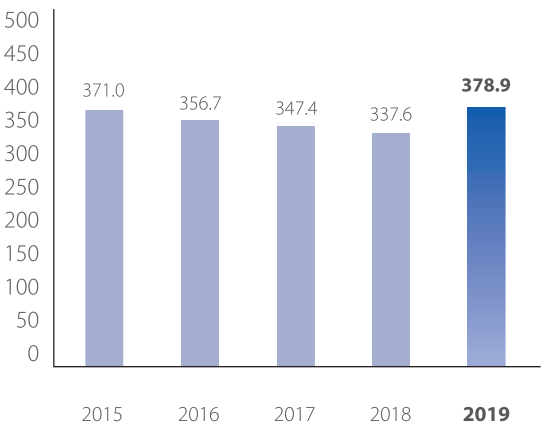
(1) POS stands for points of sales
(2) The region comprises the People's Republic of China (the "PRC"), Hong Kong and Macau
(3) "Mainland China" for purpose of this annual report, means the PRC, other than the regions of Hong Kong and Macau


Self-operated POS
Distributor-operated POS
Heilongjiang 4
Jilin 1
Liaoning 7
Beijing 1 3
Tianjin 1
Hebei 3
Shanxi 1
Shandong 6
Henan 1
Jiangsu 3 2
Shanghai 1
Anhui 2 1
Sichuan 9
Chongqing 6
Hubei 2
Zhejiang 2
Hunan 5
Guizhou 1
Fujian 3
Yunnan 1
Guangxi 2
Hainan 2
Rest of Guangdong 13 23
Shenzhen 30 7
Guangzhou 28 5
Hong Kong 47
Macau 5

FINANCIAL HIGHLIGHTS AND SUMMARY

REVENUE

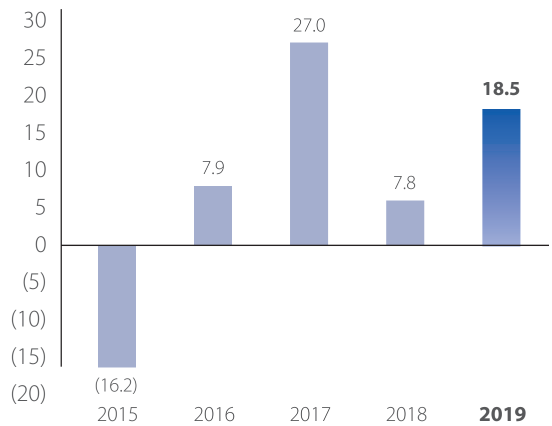
HK$ million



For the year ended 31 December

PROFIT/(LOSS)

HK$ million



For the year ended 31 December

CONSOLIDATED RESULTS

	For the year ended 31 December				
	2019 HK$'000	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Revenue	**378,854**	337,624	347,449	356,717	370,969
Gross profit	**228,776**	213,328	224,345	223,941	229,205
EBITDA[1]	**56,309**	28,085	44,584	35,776	11,193
Profit/(Loss) attributable to owners of the Company	**18,498**	7,837	27,037	7,930	(16,230)

Note:

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

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				
	2019 **HK$'000**	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000
Total assets	**511,252**	514,733	475,787	490,105	526,491
Total liabilities	**104,984**	116,070	78,207	133,782	156,938
Total equity	**406,268**	398,663	397,580	356,323	369,553
Total bank borrowings	**6,432**	9,961	3,575	50,171	74,495
Pledged bank deposit and bank balances and cash	**175,889**	181,914	164,710	180,482	184,185
Net cash[1]	**169,457**	171,953	161,135	130,311	109,690

KEY FINANCIAL RATIOS

	For the year ended 31 December				
	2019	2018	2017	2016	2015
Gross profit margin	**60.4%**	63.2%	64.6%	62.8%	61.8%
EBITDA margin	**14.9%**	8.3%	12.8%	10.0%	3.0%
Net profit/(loss) margin	**4.9%**	2.3%	7.8%	2.2%	–4.4%
Return on assets	**3.6%**	1.5%	5.7%	1.6%	–3.1%
Return on equity	**4.6%**	2.0%	6.8%	2.2%	–4.4%
Interest coverage[2]	**36.1**	76.9	35.5	17.3	3.9
Current ratio	**3.6**	3.4	4.1	2.7	2.6
Quick ratio	**2.7**	2.5	3.2	2.1	2.0
Gearing ratio[3]	**1.6%**	2.5%	0.9%	14.1%	20.2%
Net gearing ratio[3]	**N/A**	N/A	N/A	N/A	N/A
Inventory turnover (days)	**228.0**	235.5	207.5	218.0	222.1
Trade and bills receivables turnover (days)	**61.4**	70.6	69.9	68.4	74.8
Trade and bills payables turnover (days)	**155.6**	186.2	159.1	160.3	166.1

Notes:

1. Net cash represents pledged bank deposit and bank balances and cash less total bank borrowings.
2. Interest coverage is calculated as EBITDA divided by finance costs.
3. Gearing ratio is calculated as total bank borrowings divided by total equity, whereas net gearing ratio is calculated as net bank borrowings divided by total equity.

CHAIRMAN'S STATEMENT

I am pleased to present to the shareholders of Casablanca Group Limited (the "Company") the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019 (the "Year" or the "Review Period").

For the year ended 31 December 2019, the Group registered a satisfactory performance. Total revenue was HK$378.9 million, representing an increase of 12.2% as compared with 2018; and the profit attributable to owners of the Company was HK$18.5 million, representing a significant increase of 136.0% as compared with 2018. The Board has resolved to recommend the payment of a final dividend of HK$0.03 per ordinary share for the year ended 31 December 2019 to the shareholders. Together with an interim dividend of HK$0.02 per ordinary share, the total dividend for the Year amounts to HK$0.05 per ordinary share, representing approximately 69.8 % of the Year's basic earnings per share of HK$0.0716.

In 2019, the markets of Mainland China and Hong Kong were filled with challenges. The Sino-US trade disputes remained unresolved during most of 2019, which had a certain impact on consumer confidence in the Greater China Region. During the Review Period, the home textile product industry in Mainland China was affected by sophisticated and rigorous internal and external factors, leading to a difficult operating environment. The increase in costs of labour and production in Mainland China was the key factor having an impact on the profitability of the domestic bedding product enterprises. It was necessary for them to actively control costs to ensure a steady profit. Since the latter part of the second quarter of 2019 when social incidents began to emerge, the general retail market of Hong Kong has been affected to a relatively substantial extent. Many shopping malls and department stores in Hong Kong were unable to open for business or had to cut operating hours frequently (including Saturdays and Sundays) during the second half of the Year. Very few shopping mall owners or department stores were willing to grant reduction or waiver of rents or commissions to tenants. During the period, consumers avoided outdoor activities and changed consumption habits to online shopping platforms. Furthermore, the number of visitors to Hong Kong from overseas and Mainland China significantly decreased. As such, the operations of Hong Kong retailers have been very difficult facing the sharp decline of sales revenue and sustained high operating costs during the second half of 2019.

Even though the Sino-US trade war has abated with the signing of the phase one trade agreement, it is expected that the market will continue to be exposed to pressure from the impact of the COVID-19 epidemic in 2020. Early in 2015, pursuing the vision of offering a clean-air, healthy and comfortable sleeping environment to consumers, we introduced the CASA-V brand with 5A features, which has gained wide recognition from the market in only a few years. In the future, the Group will strengthen the research and development of products with 5A features incorporating green concepts and healthy functions, while stepping up our efforts in expanding the sales channels and access to online and commercial customers as well as the export business to create new income sources. We will further endeavour to provide consumers with quality bedding products which are fashionably designed but reasonably priced, and suitable trendy home accessories, as we enhance the brand value of Casablanca to bring satisfactory returns to the shareholders in the long term.

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 contributions to the development of the Group.

Cheng Sze Kin
Chairman
Hong Kong, 27 March 2020

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

In 2019, the Sino-US trade disputes remained unresolved and consumer confidence in the Greater China Region was affected. As previously announced by the National Bureau of Statistics of the PRC, the preliminary estimate of the national GDP growth was 6.1% in 2019 while the total retail sales growth of consumer goods in the PRC slightly slowed down to 8.0% in 2019 as compared with that of 9.0% in 2018. Operating costs in Mainland China, such as rentals and salaries, had been increasing. Together with consumers' preference in switching to online shopping, the operation of traditional offline sales channels by retailers was increasingly difficult. With regard to the Hong Kong market, retailers faced the drastic reduction in sales revenue which was brought by social incidents in the latter part of the second quarter of 2019 while the operating costs sustained high. Apart from the above challenges, bedding product enterprises in Hong Kong also had to launch promotional activities in response to the unseasonably warm winter to stimulate customer spending.

Business Review

During the Review Period, the Group consistently adhered to the principle of maintaining profitability while striving for better results, and prudently formulated plans for broadening revenue streams and developing new products for its business. In recent years, the Group actively explored the commercial customers market, improved online sales channels and proactively developed our export business. Thanks to the increasing effectiveness of these strategies, revenue from these businesses grew at a rate as expected in 2019, which allowed the Group to rely less on the offline retail sales revenue gradually and weather the storm of the extraordinarily low retail season with much resilience. Since the publication of the interim results for the six months ended 30 June 2019, there had been no material changes in the Group's operational and segmental information.

Comprehensive Enhancement of Sales Channels

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

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

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	31	16	47	2	3	5	52
PRC							
Southern[1]	68	3	71	13	26	39	110
Northern[2]	2	0	2	6	1	7	9
Eastern[3]	5	0	5	11	4	15	20
Northeast[4]	0	0	0	12	0	12	12
Southwest[5]	0	0	0	11	6	17	17
Central[6]	0	0	0	3	5	8	8
Northwest[7]	0	0	0	0	1	1	1
PRC subtotal	75	3	78	56	43	99	177
Total	106	19	125	58	46	104	229

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.

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

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

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

Enhanced Product Mix

The Group adhered to the core principle of "Contemporary, Innovative and Functional" for its product design with a view to providing the market with well-designed quality bedding products with health functions and further strengthening its image as a "Healthy Sleeping Expert". In the first quarter of 2019, it launched the revolutionary Sleeptech Pillow Series (科技枕頭系列). The series includes a total of three products featuring various technological fabrics and quality latex rubber imported from Thailand, namely, the Universe Thermocules™ Pillow (恆溫宇宙枕), the Auto-Sanitised Protect Pillow (納米淨化枕) and the Magnetic Stress-Relief Pillow (零壓磁療枕). All of these new products have received a highly encouraging response from the market.

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Optimised Marketing Strategies

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

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

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

Future Prospects

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

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

Expand Sales Channels

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

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

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

Enhance Product Mix

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

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

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

Strengthen Brand Leadership

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

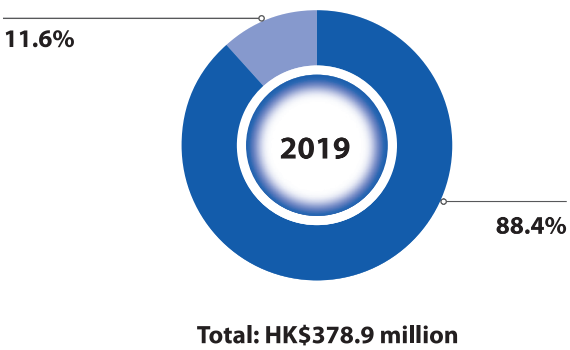
Striving to incorporate "Contemporary, Innovative and Functional" features in all of its products, the Group will endeavour to provide consumers with quality bedding products that are fashionably designed and reasonably priced, and home accessories that are trendy yet practical. The Group will also continue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

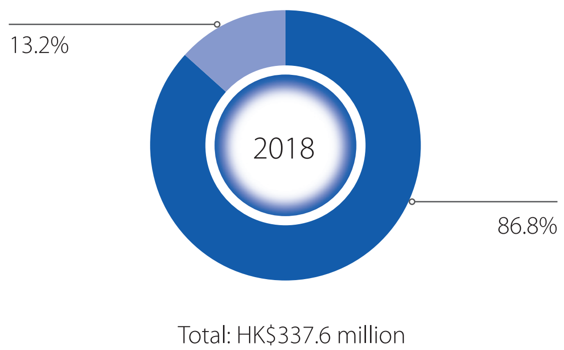
Financial Review

Revenue

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

Breakdown of revenue by brands:



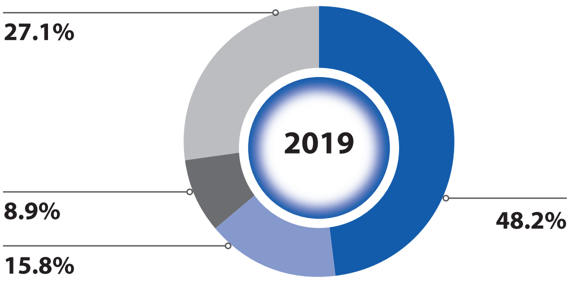


● Proprietary brands ● Licensed and authorised brands

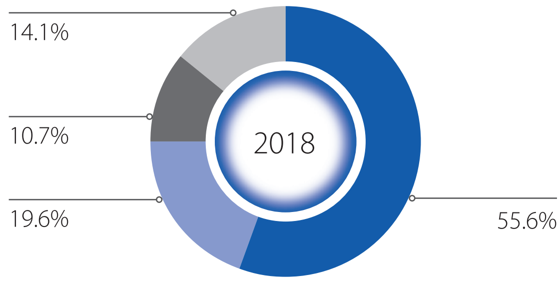
	2019		2018		Change	
	HK$'000	% of Total	HK$'000	% of Total	HK$'000	%
Proprietary brands	**334,888**	**88.4%**	293,111	86.8%	41,777	14.3%
Licensed and authorized brands	**43,966**	**11.6%**	44,513	13.2%	(547)	–1.2%
Total	**378,854**	**100.0%**	337,624	100.0%	41,230	12.2%

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

Breakdown of revenue by channels:



Total: HK$378.9 million



Total: HK$337.6 million

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

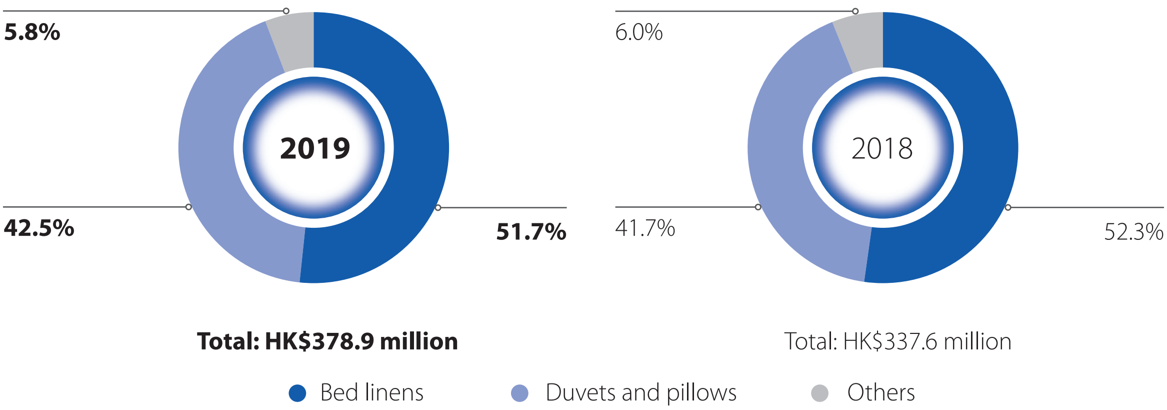
	2019		2018		Change	
	HK$'000	**% of Total**	HK$'000	% of Total	HK$'000	%
Self-operated sales						
Self-operated concession counters	**182,782**	**48.2%**	187,684	55.6%	(4,902)	–2.6%
Self-operated retail stores	**59,754**	**15.8%**	66,291	19.6%	(6,537)	–9.9%
Sub-total for self-operated retail sales	**242,536**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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of revenue by products:

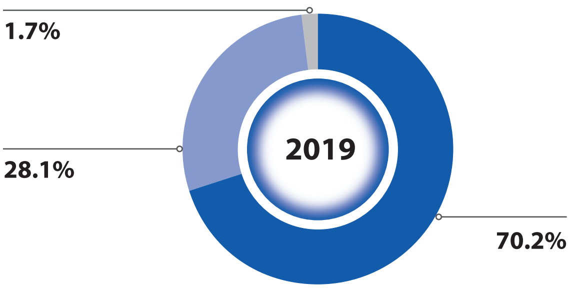


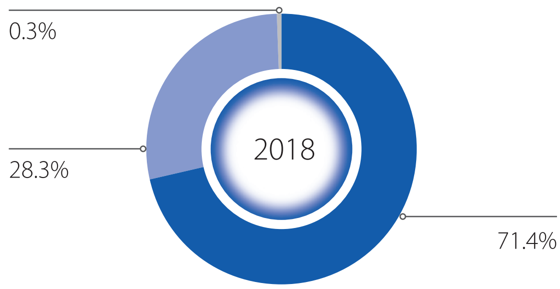
	2019		2018		Change	
	HK$'000	**% of Total**	HK$'000	% of Total	HK$'000	%
Bed linens	**195,992**	**51.7%**	176,628	52.3%	19,364	11.0%
Duvets and pillows	**160,857**	**42.5%**	140,880	41.7%	19,977	14.2%
Others (Note)	**22,005**	**5.8%**	20,116	6.0%	1,889	9.4%
Total	**378,854**	**100.0%**	337,624	100.0%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

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

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

Breakdown of revenue by geographic regions:





Total: HK$378.9 million

Total: HK$337.6 million

● Hong Kong & Macau ● Mainland China ● Other

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

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

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

Gross Profit and Gross Profit Margin

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

Other Losses

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

Operating Expenses

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

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

Finance Expenses

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

Taxation

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

Profit for the Year

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

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

Major Operating Efficiency Ratios

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

Inventory turnover

The inventory turnover is equal to the average of opening and closing inventory divided by total cost of sales for the year and multiplied by 365 days. The inventory turnover for 2019 decreased to 228.0 days from 235.5 days for 2018. The inventory at 31 December 2019 decreased by 7.8% to HK$89.9 million from HK$97.5 million at 31 December 2018 because part of raw materials and finished goods at 31 December 2018 were specifically kept for sales to a wholesale customer in the first two months of 2019.

Trade and bills receivables turnover

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

Trade and bills payables turnover

The trade and bills payables turnover is equal to the average of opening and closing trade and bills payables divided by total cost of sales for the year and multiplied by 365 days. The trade and bills payables turnover for 2019 decreased to 155.6 days from 186.2 days for 2018. The trade and bill payables at 31 December 2019 decreased by 38.3 % to HK$48.8 million from HK$79.1 million at 31 December 2018 was due to more purchases of raw materials in the late 2018 for production of goods for sales to a wholesale customer in the first two months of 2019.

Liquidity and Capital Resources

The gearing structure is set out below:

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

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

Pledged bank deposits and bank balances and cash

As at 31 December 2019, the pledged bank deposits of the Group was approximately HK$7.1 million (2018: HK$10.5 million), which was denominated in HKD and RMB, and the bank balances and cash of the Group were approximately HK$168.7 million (2018: HK$171.4 million), which were denominated in HKD and RMB except for about 1.3% in United States dollars and Euro. Details of the Group's pledged bank deposits and bank balances and cash are set out in note 20 to the consolidated financial statements.

Bank borrowings

As at 31 December 2019, the bank borrowings of the Group was approximately HK$6.4 million (2018: HK$10.0 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 rate at 5.7% per annum. During the Year, the financial position of the Group was healthy. Details of the Group's bank borrowings are set out in note 22 to the consolidated financial statements.

Current ratio

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

Gearing ratio

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

Pledge of assets

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

Capital expenditures

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

Capital commitments

As at 31 December 2019, the Group had capital commitments of approximately HK$1.5 million (2018: HK$0.3 million).

Use of Proceeds From the Listing and Placement of Shares

The Company received net proceeds raised from the listing of approximately HK$44.2 million, which had fully been utilised as at 31 December 2018, and the placement of shares completed in March 2015 (the "Placing") of approximately HK$57.0 million.

The remaining amount of net proceeds from the Placing in the amount of HK$9.1 million at 31 December 2018 was fully utilized for general working capital and possible investments during the Year.

Share Capital

The total number of shares of the Company as at 31 December 2019 was 258,432,000 shares (2018: 258,432,000 shares) of HK$0.10 each. As at 31 December 2019, the total issued share capital of Company was HK$25,843,000 (2018: HK$25,843,000). The movements of share capital during the Year are set out in note 25 to the consolidated financial statements.

In order to provide incentive or reward to eligible persons for their contribution to the Group and to enable the Group to recruit and retain human resources that are valuable to the Group, the Company adopted a share option scheme (the "Share Option Scheme") before the listing. Details of the Share Option Scheme and movements of share options during the Year are set out in note 26 to the consolidated financial statements.

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

Foreign Exchange Exposure

The Group carries on its business mainly in Hong Kong and Mainland China. The Group is exposed to foreign exchange risk principally in RMB which may affect the Group's performance. RMB depreciated by about 1.7% against HKD during the Year. To mitigate foreign exchange risk, the Group has reduced 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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Dividend

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

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

Employee and Remuneration Policy

As at 31 December 2019, the employee headcount of the Group was 640 (2018: 622) and the total staff costs, including directors' emoluments, for the Year amounted to HK$98.1 million (2018: HK$95.4 million). The increase of number of staff was mainly due to the expansion of furniture distribution business in Mainland China. The increase in total staff costs for the Year was due to increases in salaries and related expenses of sales and marketing staff in Hong Kong as well as Mainland China.

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

During the Year, the Group acquired an additional interest of 29% in Colorway Furniture Company Limited, which was a subsidiary of Group in Mainland China with effective interest of 71% before the acquisition, for a purchase consideration of HK$1.6 million and deregistered Hangzhou Sky Walnut Hi-Tech Limited, which was a subsidiary of Group in Mainland China with effective interest of 60% before the deregistration. Details of transactions with non-controlling interests are set out in note 27 to the consolidated financial statements.

Other than those disclosed above, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures in the course of the Year.

Future Plans for Material Investments or Capital Assets

The Group is actively identifying and exploring suitable investments with potential and synergy effect to its existing businesses. Only potential investments, which are in the interests of the Company and the Shareholders as a whole, will be considered. To cope with the business development and expansion, the Group will also consider to acquire properties for own use whenever necessary. For medium to long-term investment purposes, the Company may consider to invest in shares of companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and investment properties to strive for better return in the medium to long-term from surplus cash on hand.

For providing additional warehouse space for own use in Hong Kong, the Group had acquired a property in Hong Kong from an independent third party for a total consideration of HK$12.2 million during the Year. For more information in relation to the above acquisition of property, please refer to the announcement of the Company dated 3 June 2019.

Apart from the above-mentioned acquisition of the property as warehouse for own use by the Group and 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 59, 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 25 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 47, 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 25 years of experience in the bedding products industry. He is the brother of Mr. Cheng Sze Kin (鄭斯堅) and the brother-in-law of Ms. Wong Pik Hung (王碧紅), both of whom are also Executive Directors. 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 53, 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 25 years of experience in the bedding products industry. She obtained a diploma in international economic cooperation at the University of International Business and Economics (對外經濟貿易大學) in Beijing. Ms. Wong is the spouse of Mr. Cheng Sze Kin (鄭斯堅) and the sister-in-law of Mr. Cheng Sze Tsan (鄭斯燦), both of whom are also Executive Directors.

Independent Non-executive Directors

Mr. Lo Siu Leung (**盧紹良**), aged 41, 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 China Cloud Copper Company Limited (the shares of which are listed on the Main Board of the Stock Exchange, stock code: 33). 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 58, 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 and the independent non-executive chairman of PanAsialum Holdings Company Limited (stock code: 2078) and an independent non-executive director of Sky Light Holdings Limited (stock code: 3882) and Activation Group Holdings Limited (stock Code: 9919). He was also an independent non-executive director and the non-executive chairman of Harmonic Strait Financial Holdings Limited (currently named as China Cloud Copper Company 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 the Advisory Board for Master of Corporate Governance of The Hong Kong Polytechnic University and a committee member of the Council of The Hang Seng University of Hong Kong.

Mr. Chow On Wa (**周安華**), aged 58, 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 53, 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 25 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 61, 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 50, 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, International Financial Management Association, The Chinese Institute of Certified Financial Planners and Institute of Public Accountants, and an associate member of The Association of International Accountants and Institute of Financial 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 53, 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 2019.

Principal Activities

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 36 to the consolidated financial statements.

Business Review

A review of the Group's business for the year ended 31 December 2019 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 2019. 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 (including new media), strengthened its advertising and marketing, and enhanced its research and development of new products in order to mitigate the impact.

(ii) Operational Risk

In view of over-reliance on 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 and exploring export business opportunities 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 34 to the consolidated financial statements. These discussions form part of this Directors' Report.

Financial Key Performance Indicators

An analysis of the Group's performance for the year ended 31 December 2019 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. Casablanca Hong Kong Limited, the principal subsidiary of the Company in Hong Kong, was awarded the certificate under the CarbonSmart Programme organised by the Hong Kong Productivity Council in collaboration with the Federation of Hong Kong Industries, Hong Kong General Chamber of Commerce and Business Environment Council. The Company participated in the 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 2019, Casablanca Hong Kong Limited was awarded U Green Awards – Excellence of Environmental Contribution Award by U Magazine for the fifth time in five 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 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. In 2019, Casablanca partnered a charitable organisation to launch a bedding products recycling campaign in a view to saving resources and helping families in need.

The Company will publish an Environmental, Social and Governance Report separately on the websites of the Company and the Stock Exchange not later than five months after the year ended 31 December 2019.

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 despite the contingent liabilities described as below.

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

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

Key Relationships with Employees, Customers, Distributors and Suppliers

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

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

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

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

DIRECTORS' REPORT

Results and Appropriations

The results of the Group for the year ended 31 December 2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 58 of this annual report.

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

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

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 2019 calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$175,323,000, comprising share premium of approximately HK$166,688,000 and retained earnings of HK$8,635,000.

Five-Year Financial Summary

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

Property, Plant and Equipment

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

Share Capital

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

Subsidiaries

Particulars of the Company's principal subsidiaries as at 31 December 2019 are set out in note 36 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, which had fully been utilised as at 31 December 2018, and the placement of ordinary shares completed in March 2015 (the "Placing") of approximately HK$57.0 million.

Reference is made to the annual report of the Company for the year ended 31 December 2018, the unutilised amount of net proceeds from the Placing was HK$9.1 million at 31 December 2018. Such unutilized amount was expected to be fully utilized by 31 December 2019 and the intended use remained as for general working capital and possible investments.

The remaining amount of net proceeds from the Placing in the amount of HK$9.1 million at 31 December 2018 was fully utilized for general working capital and possible investments during the Year.

Directors

The Directors of the Company during the Year and up to the date of this Directors' Report were:

Executive Directors

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

Independent Non-executive Directors

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

In accordance with Article 16.18 of the Company's Articles of Association (the "Articles of Association"), Ms. Wong Pik Hung and Mr. Lo Siu Leung 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 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 and the exercisable 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 26 to the consolidated financial statements.

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

	Date of grant	Exercisable period (Note)	Exercise price (HK$)	Number of options as at 1.1.2019	Movement during the Year Granted	Cancelled	Exercised	Lapsed	Number of options as at 31.12.2019
Directors and Chief Executives									
Mr. Cheng Sze Kin	17.4.2018	17.4.2018 – 16.4.2021	1.18	1,400,000	–	–	–	–	1,400,000
Mr. Cheng Sze Tsan	17.4.2018	17.4.2018 – 16.4.2021	1.18	1,400,000	–	–	–	–	1,400,000
Ms. Wong Pik Hung	17.4.2018	17.4.2018 – 16.4.2021	1.18	1,400,000	–	–	–	–	1,400,000
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 Executives				4,950,000	–	–	–	–	4,950,000
Employees	17.4.2018	17.4.2018 – 16.4.2021	1.18	300,000	–	–	–	–	300,000
Total				5,250,000	–	–	–	–	5,250,000

Note: The options, granted and vested 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 2019, the interests and short positions of the Directors and the chief executive and their associates in the shares, underlying shares and debentures and share options of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance), 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 2019.

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

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

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 2019, 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 and underlying shares 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:

		2019 **HK$'000**
Rental payments to related companies in Hong Kong	(Note)	**2,200**

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.

Despite the Company's adoption of Hong Kong Financial Reporting Standard 16 ("HKFRS 16") with effect from the Year, the Company continues to treat existing lease agreements, which have been entered into before HKFRS 16 becoming effective, with Directors of the Company as continuing connected transactions and comply with the Listing Rules. Details of above transactions disclosed for the Year under the adoption of HKFRS 16 are set out in note 32 to the consolidated financial statements.

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 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 26 to the consolidated financial statements.

Audit Committee

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

The Audit Committee is primarily responsible for the review of the Group's financial reporting process and risk management and internal control systems. It has reviewed the accounting principles and practices adopted by the Group and the audited annual results of the Group for the year ended 31 December 2019.

Events After the Reporting Period

Details of the event after the reporting period of the Group are set out in note 40 to the consolidated financial statements.

Major Customers and Suppliers

For the year ended 31 December 2019, sales to the Group's five largest customers and the largest customer accounted for approximately 21.7% and 15.4%, respectively of the Group's total turnover for the Year.

For the year ended 31 December 2019, the Group's purchases attributable to the five largest suppliers and the largest supplier accounted for approximately 32.8% and 9.5%, 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

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, certain amendments to the Memorandum and Articles and the amended and restated Memorandum and Articles (the "Amended and Restated Memorandum and Articles") were approved by the Shareholders by way of a special resolution at the annual general meeting on 27 May 2019.

The Amended and Restated Memorandum and Articles was also adopted by the Company on 27 May 2019. Details of the amendments to the Memorandum and Articles were set out in the circular to the Shareholders sent on 24 April 2019.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Memorandum and Articles 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 AGM of the Company for the year ended 31 December 2019 is scheduled to be held on Monday, 25 May 2020. A notice convening the AGM will be issued and disseminated to shareholders of the Company in due course.

Closures of Register of Members

The register of members of the Company will be closed from Wednesday, 20 May 2020 to Monday, 25 May 2020 (both days inclusive) during which period no transfer of shares will be effected. In order to be eligible to attend and vote at the forthcoming AGM of the Company, all completed transfer documents accompanying with the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. (Hong Kong time) on Tuesday, 19 May 2020.

For determining the entitlement of the proposed final dividend, the register of members of the Company will also be closed from Monday, 1 June 2020 to Wednesday, 3 June 2020 (both days inclusive) during which period no transfer of shares will be effected. In order to be eligible to qualify for the proposed final dividend, all completed transfer documents accompanying with the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Union Registrars Limited, at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. (Hong Kong time) on Friday, 29 May 2020.

Corporate Governance Practices Code

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules (the "CG Code") as its own code of corporate governance. The Company has complied with the code provisions as set out in the CG Code during the year ended 31 December 2019.

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 2019, 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$492,000.

Auditor

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 Messrs. CHENG & CHENG LIMITED, Certified Public Accountants, as the new auditor of the Company following the retirement of Deloitte and such appointment was approved by the Shareholders at the annual general meeting which was held on 25 May 2018.

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, 27 March 2020

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 ("Shareholders") are encouraged to make their views known to the Group if they have issues with the Company's corporate governance and to directly raise any matters of concern to the chairman of the Board ("Chairman").

Corporate Governance Practices

The Company has adopted the code provisions 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 2019. 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 2019.

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.

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. The Chairman is responsible for the leadership and effective running of the Board and ensuring that all material issues are discussed by the Board in a timely and constructive manner. The Chief Executive Officer is responsible for the management of the day-to-day operations and the implementation of the approved strategies of the Group.

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

Board Composition

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

Executive Directors

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

Independent Non-executive Directors

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

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

Appointment and Re-election of Directors

Each of Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung renewed his/her service agreement with the Company as an Executive Director for a term of three years commencing from 1 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 Independent Non-executive Directors has been reappointed by a letter of reappointment for a term less than 1 year from their respective reappointment date in 2019 to 31 March 2020 in 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 letter of reappointment shall be terminable by either the Independent Non-executive Director or the Company by giving the other party not less than one month's prior notice in writing.

Under Code Provision A.4.2 of the CG Code, Directors appointed to fill casual vacancies should be subject to election by Shareholders at the first general meeting after appointment and every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Board 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, 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.

Nomination Policy

The Company has adopted a nomination policy. The Nomination Committee invites nominations of candidates from members of the Board and may also put forward other candidates when vacancies on the Board exist. 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 gender, age, cultural and educational background, race, professional experience, skill, knowledge, and time commitments of each candidate, the Company's needs and the current composition of the Board. The Board may consider engaging an external recruitment agency to carry out the recruitment and selection process when necessary. 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.

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

Notes:

A. Attending briefing sessions and/or seminars

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

Functions and Duties of the Board

The main functions and duties conferred on the Board include:

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

(ii) deciding business plans and investment plans;

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

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

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

Board Meetings

During the Review Period, the Board held six meetings. Apart from the adhoc meetings and consents obtained by means of written resolutions of all Directors, the Board met regularly to monitor the operation as well as the financial performance of the Group and review and approve, among other things, the annual results, the 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. Before the meeting, the Directors were provided with the relevant documents to be discussed and approved for review in advance. The Company Secretary was responsible for keeping minutes of the Board meetings.

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

Attendance Record

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

	Number of Meetings Attended/Held				
	Board	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Annual General Meeting**
Executive Directors					
Mr. Cheng Sze Kin	6/6	N/A	N/A	1/1	1/1
Mr. Cheng Sze Tsan	6/6	N/A	N/A	N/A	1/1
Ms. Wong Pik Hung	6/6	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Mr. Lo Siu Leung	5/5	3/3	2/2	1/1	1/1
Dr. Cheung Wah Keung	5/5	3/3	2/2	1/1	1/1
Mr. Chow On Wa	5/5	3/3	2/2	1/1	1/1

During the Review Period, there was a Board meeting of which only Executive Directors attended, with earlier delegation by the Board, for authorizing the Hong Kong Branch Registrar as one of signatories of the Company's bank accounts for purpose of distributing dividends to the Shareholders. Apart from six Board meetings held during the Review Period, an approval from the Board had also been obtained by written resolution signed by all the Board members on a number of matters. The Chairman held an annual meeting with all Independent Non-executive Directors without the presence of other Directors.

Confirmation of Independence

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

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

Directors' and Officers' Liability Insurance

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

Procedure for Seeking Independent Professional Advice by Directors

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

Board Committees

The Company has established 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 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
Dr. Cheung Wah Keung
Mr. Chow On Wa

Mr. Lo Siu Leung is the Chairman of the Audit Committee.

During the Review Period, the Audit Committee held three meetings without the presence of Executive Directors. The record of attendance of individual Directors at the committee meetings is set out on page 43 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 2018 and made a recommendation to the Board for approval;

(ii) reviewed the external auditor's independence and their report and made a recommendation to the Board for reappointment of the external auditor by the Shareholders at the annual general meeting which was held on 27 May 2019;

(iii) reviewed continuing connected transactions;

(iv) reviewed the revised terms of reference of the Audit Committee;

(v) reviewed the interim report and results announcement of the Company for the six months ended 30 June 2019 and made a recommendation to the Board for approval;

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

(vii) 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;

(viii) reviewed the audit fee quoted for the year ended 31 December 2019 and made a recommendation to the Board for approval; and

(ix) discussed audit planning with external auditor for the year ended 31 December 2019.

Auditor's Remuneration

The annual audit services for the year ended 31 December 2019 was provided by CHENG & CHENG LIMITED, Certified Public Accountants, ("CHENG & CHENG"), the external auditor.

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

Services Rendered	**Remuneration Paid/Payable**
	HK$'000
Annual audit services	890
Non-audit services	361

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 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. Lo Siu Leung
Mr. Chow On Wa

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

During the Review Period, the Remuneration Committee held two meetings. The record of attendance of individual Directors at the committee meetings is set out on page 43 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 2018 year-end bonus and 2019 salary to Executive Directors and senior management;

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

(iii) reviewed and made a recommendation to the Board for approval of revised director fees to the 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:

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

The Nomination Committee held a meeting during the Review Period. The record of attendance of individual Directors at the committee meetings is set out on page 43 of this annual report.

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

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

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

(iii) 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;

(iv) reviewed the revised terms of reference of the Nomination Committee; and

(v) reviewed the board diversity policy and 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 57.

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.

For the Review Period, the Audit Committee had a meeting with SHINEWING to review findings on the Group's risk management and internal control systems and respective corrective actions done on an on-going basis. The Board, through its review and the reviews by Audit Committee, concluded that the Group's risk management 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 being followed, advises the Board on corporate governance matters, facilitates induction to each new Director and monitors the training and continuous professional development of Directors. He attained not less than 15 hours of relevant professional training during the Review Period.

Constitutional Documents

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, certain amendments to the Memorandum and Articles and the amended and restated Memorandum and Articles were approved by the Shareholders by way of a special resolution at the annual general meeting on 27 May 2019.

The Amended and Restated Memorandum and Articles was also adopted by the Company on 27 May 2019. Details of the amendments to the Memorandum and Articles were set out in the circular to the Shareholders sent on 24 April 2019.

Dividend Policy

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

Communications with Shareholders and Investors

The Company has 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.

INDEPENDENT AUDITOR'S REPORT

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

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

Opinion

We have audited the consolidated financial statements of Casablanca Group Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 58 to 124, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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.

Key Audit Matters

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Estimated allowance for finished goods	
We identified the estimated allowance for finished goods as a key audit matter due to the use of judgment and estimates by the management in identifying aged or obsolete, or out-of-season finished goods and estimating the allowance for finished goods. Aged or obsolete, or out-of-season finished goods were identified by the management based on aging, conditions and marketability of finished goods. Allowance is applied to finished goods based on assessment of net realisable value by the management, by considering the current market conditions, product life cycle, marketing and promotion plans, historical sales records, aging analysis and subsequent selling prices of the finished goods. (Refer to notes 4 and 18 to the consolidated financial statements.) At 31 December 2019, the carrying amount of finished goods is HK$67,070,000 (net of allowance for finished goods of HK$5,837,000).	Our procedures in relation to assessing the appropriateness of the estimated allowance for finished goods included: • Obtaining an understanding of how allowance for finished goods is estimated by the management. • Testing the aging analysis of finished goods, on a sample basis, to the goods received notes or the warehouse receipts. • Discussing with the management and evaluating the basis of identification of aged or obsolete, or out-of-season finished goods by the management, based on the current market conditions, product life cycle and marketing and promotion plans. • Assessing the reasonableness of allowance for finished goods with reference to historical sales records, current market conditions, product life cycle, marketing and promotion plans, aging analysis and subsequent selling prices of the finished goods. • Tracing of finished goods with subsequent selling prices to the sales invoices, on a sample basis. • Evaluating the historical accuracy of the allowance estimation by the management by comparing historical allowance made to the actual selling prices and actual loss incurred, and tracing the selling prices, on a sample basis, to the sales invoices.

Key Audit Matters (continued)

Key audit matter

How our audit addressed the key audit matter

Estimated allowance for trade receivables from distributors

We identified the estimated allowance for trade receivables from distributors as a key audit matter due to the use of judgment and estimates by the management on the recoverability of trade receivables from distributors.

In 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 2019, the trade receivables of HK$60,487,000 (net of loss allowance of HK$6,803,000) included trade receivables from distributors of HK$10,096,000 (net of allowance of HK$6,613,000). (Refer to notes 4, 19 and 34 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.

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.

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

- 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.

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, 27 March 2020

Chan Shek Chi
Practising Certificate number P05540

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Revenue	5	**378,854**	337,624
Cost of goods sold		**(150,078)**	(124,296)
Gross profit		**228,776**	213,328
Other income	6	**2,381**	1,570
Other losses	7	**(1,714)**	(2,696)
Selling and distribution costs		**(154,598)**	(151,435)
Administrative expenses		**(48,780)**	(49,685)
Finance costs	8	**(1,561)**	(365)
Profit before taxation	9	**24,504**	10,717
Taxation	11	**(6,886)**	(4,672)
Profit for the year		**17,618**	6,045
Other comprehensive expense for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		**(3,112)**	(10,071)
Release of translation reserve upon deregistration of a subsidiary		**23**	–
Other comprehensive expense		**(3,089)**	(10,071)
Total comprehensive income (expense) for the year		**14,529**	(4,026)
Profit (loss) for the year attributable to:			
Owners of the Company		**18,498**	7,837
Non-controlling interests		**(880)**	(1,792)
		17,618	6,045
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**15,432**	(2,216)
Non-controlling interests		**(903)**	(1,810)
		14,529	(4,026)
Earnings per share			
– Basic (HK cents)	13	**7.16**	3.03
– Diluted (HK cents)	13	**7.16**	3.03

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment	14	**131,417**	128,003
Prepaid lease payments	16	**–**	17,330
Right-of-use assets	15	**34,098**	–
Intangible assets	17	**–**	–
Deposits paid for acquisition of property, plant and equipment		**738**	422
Rental and other deposits		**1,704**	1,211
Deferred tax assets	24	**4**	–
		167,961	146,966
Current assets			
Inventories	18	**89,935**	97,530
Trade and other receivables	19	**77,467**	87,142
Prepaid lease payments	16	**–**	418
Taxation recoverable		**–**	763
Pledged bank deposits	20	**7,146**	10,506
Bank balances and cash	20	**168,743**	171,408
		343,291	367,767
Current liabilities			
Trade and other payables	21	**73,570**	103,755
Lease liabilities	23	**11,109**	–
Taxation payable		**6,376**	1,190
Bank borrowings	22	**4,195**	3,415
		95,250	108,360
Net current assets		**248,041**	259,407
Total assets less current liabilities		**416,002**	406,373
Non-current liabilities			
Bank borrowings	22	**2,237**	6,546
Lease liabilities	23	**6,724**	–
Deferred taxation	24	**773**	1,164
		9,734	7,710
Net assets		**406,268**	398,663

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	NOTES	2019 HK$'000	2018 HK$'000
Capital and reserves			
Share capital	25	**25,843**	25,843
Reserves		**380,488**	371,054
Equity attributable to owners of the Company		**406,331**	396,897
Non-controlling interests		**(63)**	1,766
Total equity		**406,268**	398,663

The consolidated financial statements on pages 58 to 124 were approved and authorised for issue by the Board of Directors on 27 March 2020 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 2019

	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 2018	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
Profit (loss) for the year	–	–	–	–	–	–	–	18,498	18,498	(880)	17,618
Exchange differences arising on translation of financial statements of foreign operations	–	–	–	–	–	(3,089)	–	–	(3,089)	(23)	(3,112)
Release of translation reserve upon deregistration of a subsidiary	–	–	–	–	–	23	–	–	23	–	23
Total comprehensive (expense) income for the year	–	–	–	–	–	(3,066)	–	18,498	15,432	(903)	14,529
Transfer of reserve	–	–	–	–	470	–	–	(470)	–	–	–
Deregistration of a subsidiary (Note 27(b))	–	–	–	–	–	–	–	–	–	(148)	(148)
Acquisition of additional interests in a subsidiary (Note 27(a))	–	–	–	–	–	13	–	(842)	(829)	(778)	(1,607)
Dividend paid	–	–	–	–	–	–	–	(5,169)	(5,169)	–	(5,169)
At 31 December 2019	**25,843**	**166,268**	**2,000**	**1,319**	**3,958**	**(17,618)**	**1,904**	**222,657**	**406,331**	**(63)**	**406,268**

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 2019

	2019 HK$'000	2018 HK$'000
Operating activities		
Profit before taxation	**24,504**	10,717
Adjustments for:		
Interest income	**(1,169)**	(919)
Investment income	**(19)**	(84)
Interest expenses	**1,561**	365
Loss allowance on trade receivables	**511**	2,955
Allowance for inventories	**839**	759
Amortisation of prepaid lease payments	**–**	563
Bad debts written off	**318**	–
Gain on disposal of prepaid leasehold land (Note 7)	**–**	(3,745)
Depreciation of property, plant and equipment	**13,830**	13,410
Depreciation of right-of-use assets	**17,081**	–
Fair value change on derivative financial assets	**–**	492
Loss on disposals of property, plant and equipment	**468**	154
Share-based payment expense	**–**	1,904
Operating cash flows before movements in working capital	**57,924**	26,571
Decrease (increase) in inventories	**6,876**	(35,105)
Decrease (increase) in trade and other receivables	**9,151**	(11,911)
(Increase) decrease in rental and other deposits	**(493)**	1,153
(Decrease) increase in trade and other payables	**(30,375)**	31,826
Cash generated from operations	**43,083**	12,534
Hong Kong Profits Tax paid	**–**	(2,838)
PRC Enterprise Income Tax (the "EIT") paid	**(1,305)**	(1,492)
Net cash from operating activities	**41,778**	8,204
Investing activities		
Withdrawal of pledged bank deposits	**28,983**	33,143
Interest received	**1,001**	919
Proceed received from disposal of prepaid leasehold land (Note 7)	**–**	9,690
Investment income received	**19**	84
Proceeds from disposal of property, plant and equipment	**106**	50
Purchase of property, plant and equipment	**(18,947)**	(6,667)
Placement of pledged bank deposits	**(25,799)**	(37,815)
Deposit paid for acquisition of property, plant and equipment	**(937)**	(711)
Net cash used in investing activities	**(15,574)**	(1,307)

	2019 HK$'000	2018 HK$'000
Financing activities		
Dividend paid	**(5,169)**	–
Repayments of bank loans	**(3,403)**	(5,010)
Interest paid	**(1,561)**	(365)
Repayments of lease liabilities	**(15,900)**	–
New bank loans raised	**–**	11,851
Net cash outflow arising on deregistration of a subsidiary (Note 27(b))	**(148)**	–
Payments for acquisition of additional interest in a subsidiary (Note 27(a))	**(1,607)**	–
Capital contribution from non-controlling interests	**–**	3,205
Net cash (used in) generated from financing activities	**(27,788)**	9,681
Net (decrease) increase in cash and cash equivalents	**(1,584)**	16,578
Cash and cash equivalents at beginning of the year	**171,408**	158,417
Effect of foreign exchange rate changes	**(1,081)**	(3,587)
Cash and cash equivalents at end of the year represented by bank balances and cash	**168,743**	171,408

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

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

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

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

(b) HKFRS 16, Leases

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

Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

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

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

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

(b) HKFRS 16, Leases (continued)

Key changes in accounting policies resulting from application of HKFRS 16 (continued)

As a lessee (continued)

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of retail stores and department store counters in the PRC and Hong Kong was determined on a portfolio basis.

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

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

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

(b) HKFRS 16, Leases (continued)

Key changes in accounting policies resulting from application of HKFRS 16 (continued)

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

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

Note:

Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to approximately HK$418,000 and approximately HK$17,330,000 respectively were reclassified to right of-use assets.

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

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

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

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

(c) New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	Insurance Contracts[3]
HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]

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

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

The directors of the Company anticipate that the application of all these new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

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 at the end of each reporting period, as explained in the accounting policies set out below.

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

3. Significant Accounting Policies (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

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

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

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

3. Significant Accounting Policies (continued)

Basis of consolidation (continued)

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

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

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

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

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

3. Significant Accounting Policies (continued)

Changes in the Group's interests in existing subsidiaries

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

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

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

Revenue from contracts with customers

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

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

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.

3. Significant Accounting Policies (continued)

Revenue from contracts with customers (continued)

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.

Property, plant and equipment

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

Ownership interests in leasehold land and building

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

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of HKFRS 16) or "prepaid lease payments" (before application of HKFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

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

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

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

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

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

3. Significant Accounting Policies (continued)

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

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

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

Short-term leases and leases of low-value assets

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

Right-of-use assets

The cost of right-of-use asset includes:

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

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

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

3. Significant Accounting Policies (continued)

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (continued)

Refundable rental deposits

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

Lease liabilities

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

The lease payments include:

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

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

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

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

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

3. Significant Accounting Policies (continued)

Lease liabilities (continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

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

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

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

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

Leases (Prior to 1 January 2019)

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 a 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.

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.

3. Significant Accounting Policies (continued)

Provisions and contingent liabilities

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

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

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

Financial instruments

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

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

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

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 of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

A financial asset is classified as held for trading if:

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

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

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

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

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)

Impairment of financial assets

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 (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 (continued)

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

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

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL (continued)

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

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 following 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.

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

Financial liabilities and equity instruments

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

Equity instruments

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities

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

Derecognition

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

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

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

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees

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

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

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

Share options granted to employees of subsidiary

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

3. Significant Accounting Policies (continued)

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

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

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

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

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

Foreign currencies

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

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

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

3. Significant Accounting Policies (continued)

Borrowing costs

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

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

Government grants

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

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

Government grants 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.

3. Significant Accounting Policies (continued)

Taxation

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

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

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

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

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

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

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

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

4. Key Sources of Estimation Uncertainty

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

Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on debtors' aging as groupings of various debtors that have same credit periods and similar payment patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is 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 2019, the carrying amount of trade receivables from distributors is HK$10,096,000 (2018: HK$14,233,000) (net of allowance of HK$6,613,000 (2018: HK$6,407,000)).

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 34 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 2019, the carrying amount of finished goods is HK$67,070,000 (2018: HK$59,770,000) (net of allowance for finished goods of HK$5,837,000 (2018: HK$5,117,000)).

5. Revenue and Segment Information

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

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

The information of segment revenue is as follows:

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

Entity-wide information

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

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

5. Revenue and Segment Information (continued)

Geographical information

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

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

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

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

Information about major customer

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

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

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

2 The corresponding revenue did not contribute over 10% of the total revenue of the Group for the year ended 31 December 2018.

6. Other Income

	2019 HK$'000	2018 HK$'000
Bank interest income	**1,169**	919
Government subsidies	**46**	78
Investment income (note)	**19**	84
Others	**1,147**	489
	2,381	1,570

Note: These investments were entered into and matured during the years ended 31 December 2019 and 2018 with rate of returns ranged from 1.96% – 2.16% (2018: 1.6% – 3.0%) per annum.

7. Other Losses

	2019 HK$'000	2018 HK$'000
Net exchange loss	**(735)**	(2,791)
Gain on disposal of prepaid leasehold land (note)	**–**	3,745
Decrease in fair value of derivative financial assets	**–**	(492)
Loss allowance on trade receivables	**(511)**	(2,955)
Loss on disposals of property, plant and equipment	**(468)**	(154)
Others	**–**	(49)
	(1,714)	(2,696)

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

8. Finance Costs

	2019 HK$'000	2018 HK$'000
Interest on:		
Bank borrowings	**490**	365
Lease liabilities	**1,071**	–
Total finance costs	**1,561**	365

9. Profit Before Taxation

	2019 **HK$'000**	2018 HK$'000
Profit before taxation has been arrived at after charging:		
Directors' and chief executive's remuneration (Note a & Note 10)	**12,268**	12,103
Other staff costs	**80,452**	77,650
Retirement benefit schemes contributions for other staff	**5,390**	5,524
Share-based payments for other staff	**–**	146
Total staff costs	**98,110**	95,423
Auditor's remuneration	**941**	842
Amortisation of prepaid lease payments	**–**	563
Allowance for inventories (included in cost of goods sold)	**839**	759
Bad debts written off	**318**	–
Cost of inventories recognised as expenses	**149,239**	123,537
Depreciation of property, plant and equipment	**13,830**	13,410
Depreciation of right-of-use assets (Note a)	**17,081**	–
Operating lease rentals in respect of		
– rented premises	**–**	1,270
– retail stores (including in selling and distribution costs)	**–**	11,101
	–	12,371
Department store counters concessionaire commission (included in selling and distribution costs) (Note b)	**–**	43,931
Expenses relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16	**17,787**	–
Variable lease payments not included in the measurement of lease liabilities (Note b)	**20,713**	–
Design costs (included in administrative expenses) (Note c)	**657**	654

Notes:

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

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

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

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

(a) Directors' and chief executive's emoluments

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

	Fees HK$'000	Salaries and allowances HK$'000 (Note)	Performance related incentive payments HK$'000	Retirement benefit schemes contributions HK$'000	Share-based payments HK$'000	Total HK$'000
For the year ended 31 December 2019						
Executive directors						
Mr. Cheng Sze Kin	–	2,984	552	233	–	3,769
Ms. Wong Pik Hung	–	2,984	740	214	–	3,938
Executive director and chief executive officer						
Mr. Cheng Sze Tsan	–	3,224	557	214	–	3,995
Independent non-executive directors						
Dr. Cheung Wah Keung	224	–	–	–	–	224
Mr. Chow On Wa	224	–	–	–	–	224
Mr. Lo Siu Leung	224	–	–	–	–	224
	672	9,192	1,849	661	–	12,374

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 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

Note: During the year ended 31 December 2019, the Group has been providing accommodations, which are leased from related parties, as disclosed in note 32 to the consolidated financial statements, to Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung at no charge. The estimated monetary value of the benefit in kind is approximately HK$2,220,000 (2018: HK$2,220,000). The depreciation of right-of-use assets in relation to these non-monetary benefits amounted to HK$2,114,000 as included in the directors' and chief executive's remuneration as disclosed in note 9 to the consolidated financial statements (2018: Nil).

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 (2018: three) were directors and the chief executive of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining two (2018: two) individuals were as follows:

	2019 HK$'000	2018 HK$'000
Salaries and allowances	**1,541**	1,490
Performance related incentive payments	**208**	209
Retirement benefit schemes contributions	**36**	36
Share-based payments	**–**	146
	1,785	1,881

The emoluments were within the following bands:

	2019 No. of employees	2018 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 2019 and 2018, 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

	2019 HK$'000	2018 HK$'000
Current tax		
Hong Kong	**5,639**	3,642
PRC EIT	**1,754**	1,186
	7,393	4,828
Overprovision in prior years		
Hong Kong	**(112)**	(182)
	7,281	4,646
Deferred taxation charge (Note 24)	**(395)**	26
	6,886	4,672

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

Accordingly, during the years ended 31 December 2018 and 2019, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

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

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:

	2019 HK$'000	2018 HK$'000
Profit before taxation	**24,504**	10,717
Tax charge at Hong Kong Profits Tax rate (note)	**3,878**	1,603
Tax effect of expenses not deductible for tax purposes	**910**	1,772
Tax effect of income not taxable for tax purposes	**(396)**	(140)
Tax effect of tax losses not recognised	**3,092**	1,896
Utilisation of tax losses previously not recognised	**(72)**	(40)
Effect of different tax rate of subsidiaries operating in other jurisdictions	**(440)**	(214)
Overprovision in prior years	**(112)**	(183)
Others	**26**	(22)
Taxation charge	**6,886**	4,672

Note: During the years ended 31 December 2019 and 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.

12. Dividends

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

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

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:

	2019 HK$'000	2018 HK$'000
Earnings		
Profit for the year attributable to owners of the Company for the purpose of basic and diluted earnings per share	**18,498**	7,837

	2019	2018
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**258,432,000**	258,432,000

For the years ended 31 December 2019 and 2018, there are no dilutive effects from the Company's outstanding share options as the exercise price of these share options is higher than the average market price of the Company's shares during both years.

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 2018	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
Exchange adjustments	(2,240)	(238)	(206)	(133)	(9)	(8)	(2,834)
Additions	13,096	4,073	414	637	–	1,496	19,716
Disposals/write off	–	(1,257)	–	(199)	(2,637)	(55)	(4,148)
At 31 December 2019	**147,015**	**19,943**	**11,695**	**9,230**	**19,348**	**4,463**	**211,694**
DEPRECIATION							
At 1 January 2018	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
Exchange adjustments	(501)	(163)	(142)	(120)	(8)	(2)	(936)
Provided for the year	5,227	3,724	882	294	2,946	757	13,830
Eliminated on disposals/ write off	–	(861)	–	(52)	(2,637)	(24)	(3,574)
At 31 December 2019	**33,548**	**14,608**	**8,179**	**7,945**	**14,395**	**1,602**	**80,277**
CARRYING VALUES							
At 31 December 2019	**113,467**	**5,335**	**3,516**	**1,285**	**4,953**	**2,861**	**131,417**
At 31 December 2018	107,337	5,457	4,048	1,102	7,900	2,159	128,003

14. Property, Plant and Equipment (continued)

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

	2019 HK$'000	2018 HK$'000
In Hong Kong	**15,343**	2,715
In the PRC	**98,124**	104,622
	113,467	107,337

During the year ended 31 December 2019, the Group acquired a property located in Hong Kong at total transaction cost of HK$13,096,000 incurred.

No leasehold land and buildings were pledged to banks as securities for banking facilities granted to the Group as at 31 December 2018 and 2019.

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 lease term of or $33^1/_3$%
Plant and machinery	10%
Furniture and fixtures	20%
Motor vehicles	20%
Computer equipment	20% – $33^1/_3$%

15. Right-of-use Assets

	Leasehold land HK$'000	Leased properties HK$'000	Total HK$'000
As at 1 January 2019			
Carrying amount	17,748	19,994	37,742
As at 31 December 2019			
Carrying amount	**17,027**	**17,071**	**34,098**
For the year ended 31 December 2019			
Depreciation charge	**416**	**16,665**	**17,081**

Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16	17,787
Variable lease payments not included in the measurement of lease liabilities	20,713
Total cash outflow for leases	55,471
Additions to right-of-use assets	14,207

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

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

15. Right-of-use Assets (continued)

The Group regularly entered into short-term leases for rented premises and department store counters. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed above.

Leases of retail stores and department store counters are either with only fixed lease payments or contain variable lease payment that are based on 10% to 32% of the sales amount and minimum annual lease payment that are fixed over the lease term. The payment terms are common in retail stores and department store counters in Hong Kong and the PRC where the Group operates. The amount of fixed and variable lease payments paid/payable to relevant lessors for the year ended 31 December 2019:

	Fixed payments HK$'000	Variable payments HK$'000	Total payments HK$'000
Retail stores and rented premises without variable lease payments	6,060	–	6,060
Retail stores with variable lease payments	7,887	476	8,363
Department store counters with variable lease payments	20,811	20,237	41,048
	34,758	20,713	55,471

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

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

	2019 HK$'000
In Hong Kong	14,269
In the PRC	19,829
	34,098

No leasehold land and leased properties were pledged to banks as securities for banking facilities granted to the Group as at 31 December 2018 and 2019.

16. Prepaid Lease Payments for Leasehold Land Located in the PRC

	2018 HK$'000
Analysed for reporting purposes as:	
Current asset	418
Non-current asset	17,330
	17,748

17. Intangible Assets

	Patents HK$'000
COST	
At 1 January 2018, 31 December 2018 and 31 December 2019	**15**
AMORTISATION	
At 1 January 2018, 31 December 2018 and 31 December 2019	**15**
CARRYING VALUES	
At 31 December 2019	**–**
At 31 December 2018	–

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

18. Inventories

	2019 **HK$'000**	2018 HK$'000
Raw materials	**22,865**	37,760
Finished goods	**67,070**	59,770
	89,935	97,530

19. Trade and Other Receivables

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

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

Retailing sales are mainly made at concession counters in department stores. The department stores collect cash from the ultimate customers and then repay the balance after deducting the concessionaire commission to the Group. The credit period granted to department stores ranging from 30 to 90 days. For distributors and wholesale sales, the Group allows a credit period up to 90 days to its trade customers, which may be extended to 180 days for selected customers. The following is an aged analysis of trade and bills receivables net of loss allowance presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates.

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

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

19. Trade and Other Receivables (continued)

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

	2019 HK$'000	2018 HK$'000
Renminbi ("RMB")	**8**	2
Euro ("EUR")	**54**	27
United States dollars ("USD")	**5,487**	57

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% (2018: 0% – 0.58%) per annum as at 31 December 2019. The pledged bank deposits will be released upon the expiry of banking facility granted and bills payables.

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

	2019 HK$'000	2018 HK$'000
HK$	**79**	79
RMB	**799**	1,161
EUR	**178**	58
USD	**2,088**	517

21. Trade and Other Payables

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

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

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

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

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

	2019 HK$'000	2018 HK$'000
USD	**1,319**	105

22. Bank Borrowings

	2019 HK$'000	2018 HK$'000
Secured	**6,432**	9,961
Carrying amount repayable*		
Within one year	**4,195**	3,415
More than one year, but not more than two years	**2,237**	4,269
More than two years, but not more than five years	**–**	2,277
	6,432	9,961
Less: Amounts due within one year shown under current liabilities	**(4,195)**	(3,415)
Amounts shown under non-current liabilities	**2,237**	6,546

* 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 and 2019 carried interest at 20% 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:

	2019	2018
Effective interest rates:		
Variable-rate borrowings	**5.70%**	4.29% – 6.57%

The bank facilities in relation to the bank borrowings are secured by the pledged bank deposits as disclosed in note 20 to the consolidated financial statements.

23. Lease Liabilities

	2019 HK$'000
Lease liabilities payable:	
Within one year	**11,109**
Within a period of more than one year but not more than two years	**5,257**
Within a period of more than two years but not more than five years	**1,467**
	17,833
Less: Amount due for settlement within 12 months shown under current liabilities	**(11,109)**
Amount due for settlement after 12 months shown under non-current liabilities	**6,724**

24. Deferred Taxation

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

	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Total HK$'000
As at 1 January 2018	(1,174)	36	(1,138)
Charged to profit or loss (Note 11)	10	(36)	(26)
As at 31 December 2018	(1,164)	–	(1,164)
Charged to profit or loss (Note 11)	395	–	395
As at 31 December 2019	**(769)**	**–**	**(769)**

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

	2019 HK$'000	2018 HK$'000
Deferred tax assets	**4**	–
Deferred tax liabilities	**(773)**	(1,164)
	(769)	(1,164)

At the end of the reporting period, the Group has unused tax losses of HK$38,553,000 (2018: HK$55,601,000) available for offset against future profits. No deferred tax assets have been recognised for the tax losses of HK$38,553,000 (2018: HK$55,601,000) due to the unpredictability of future profit streams and those will expire up to 2024 (2018: up to 2023).

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

Deferred taxation has not been provided for in the consolidated financial statements in respect of the temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB27,600,000 (equivalent to HK$30,868,000) (2018: RMB23,435,000 (equivalent to HK$26,680,000)) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

25. Share Capital

Details of share capital of the Company is as follows:

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2018, 31 December 2018 and 31 December 2019	**500,000,000**	**50,000**
Issued and fully paid:		
At 1 January 2018, 31 December 2018 and 31 December 2019	**258,432,000**	**25,843**

26. Share Option Schemes

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

(i) the Share Option Scheme is valid for 10 years from 22 October 2012;

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

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

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

(v) 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.

During the year ended 31 December 2018, share options were granted and vested on 17 April 2018 with an aggregate estimated fair value of HK$1,904,000.

26. Share Option Schemes (continued)

(a) (continued)

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 has no share-based payments for the year ended 31 December 2019 (2018: HK$1,904,000) in relation to share options granted by the Company during the year.

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 2019, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 5,250,000 (2018: 5,250,000), which totally representing 2.0% (2018: 2.0%) of the shares of the Company in issue at that date.

26. Share Option Schemes (continued)

(a) (continued)

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

For the year ended 31 December 2019

Categories of participants	Date of grant	Exercisable period	Exercise price HK$	Number of share options: Outstanding at 1.1.2019	Granted during the year	Lapsed during the year	Outstanding at 31.12.2019
Under the Share Option Scheme							
Executive directors	17.4.2018	17.4.2018-16.4.2021	1.18	4,200,000	–	–	4,200,000
Independent non-executive directors	17.4.2018	17.4.2018-16.4.2021	1.18	750,000	–	–	750,000
Employee	17.4.2018	17.4.2018-16.4.2021	1.18	300,000	–	–	300,000
				5,250,000	–	–	5,250,000

For the year ended 31 December 2018

Categories of participants	Date of grant	Exercisable period	Exercise price HK$	Number of share options: 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

26. Share Option Schemes (continued)

(b) Hangzhou Sky Walnut Hi-Tech Limited ("HZSW") was a company established in the PRC on 21 October 2017 in which the Group had 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.

Since HZSW was deregistered on 29 July 2019, the directors of the Company considered the share award will no longer be granted in the future.

27. Transactions with Non-Controlling Interests

(a) Acquisition of additional interests in a subsidiary without change in control

For the year ended 31 December 2019, the Group acquired additional issued shares of a subsidiary, Colorway Furniture Company Limited, for a purchase consideration of RMB1,450,000 (equivalent to HK$1,607,000). The carrying amount of the non-controlling interests in the subsidiary on the date of acquisition was HK$778,000. The Group recognised a decrease in non-controlling interests of HK$778,000 and a decrease in equity attributable to owners of the Company of HK$842,000 and a translation reserve arising from the acquisition of HK$13,000.

After the acquisition, the subsidiary became a wholly-owned subsidiary of the Group.

	2019 **HK$'000**
Carrying amount of non-controlling interests acquired	**778**
Translation reserve arising from the acquisition	**(13)**
Consideration paid to non-controlling interests	**(1,607)**
Excess of consideration paid recognised within parent's equity	**(842)**

(b) Deregistration of a subsidiary

For the year ended 31 December 2019, a subsidiary, Hangzhou Sky Walnut Hi-Tech Limited, in which the Group had effective interest of 60%, was deregistered.

Upon the deregistration of the subsidiary, the carrying amount of non-controlling interests was HK$148,000. The amount distributed to the non-controlling interests upon deregistration was HK$148,000.

28. 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.

28. Retirement Benefit Schemes (continued)

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$6,051,000 (2018: HK$6,098,000).

29. Operating Lease Commitments

As at 31 December 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 HK$'000
Within one year	19,967
In the second to fifth year inclusive	8,132
	28,099

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
Within one year	2,220
In the second to fifth year inclusive	2,220
	4,440

For the year ended 31 December 2018, 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.

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.

30. Capital Commitments

	2019 **HK$'000**	2018 HK$'000
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements	**1,510**	331

31. Pledge Of Assets

	2019 HK$'000	2018 HK$'000
Pledged bank deposits	**7,146**	10,506

32. 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	2019 HK$'000	2018 HK$'000
Gain Harvest Investment Limited	Related company (Note a)	Rental expenses	**–**	1,320
Wealth Pine Asia Limited	Related company (Note a)	Rental expenses	**–**	900
Gain Harvest Investment Limited	Related company (Note a)	Interest expenses on lease liabilities	**95**	–
Wealth Pine Asia Limited	Related company (Note a)	Interest expenses on lease liabilities	**65**	–

Name of related companies	Relationship	Nature of balances	2019 HK$'000	2018 HK$'000
Gain Harvest Investment Limited	Related company (Note a)	Lease liabilities (Note b)	**1,289**	–
Wealth Pine Asia Limited	Related company (Note a)	Lease liabilities (Note b)	**879**	–

Notes:

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

b. Upon application of HKFRS 16, the lease contracts related to the directors' quarters provided to Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung were classified as the right-of-use assets. The rental payments paid to related companies for the year ended 31 December 2019 was HK$2,220,000 (2018: HK$2,220,000). The balance of the lease liabilities related to the directors' quarters as at 31 December 2019 was HK$2,168,000 (2018: Nil).

32. Related Party Transactions (continued)

Compensation of key management personnel

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

	2019 HK$'000	2018 HK$'000
Salaries and allowances	**11,543**	10,635
Performance related incentive payments	**2,128**	1,069
Retirement benefit schemes contributions	**724**	669
Share-based payments	**–**	1,904
	14,395	14,277

33. 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.

34. Financial Instruments

Categories of financial instruments

	2019 HK$'000	2018 HK$'000
Financial assets at amortised cost		
Trade and bills receivables	**60,487**	66,972
Other financial assets at amortised cost	**7,315**	6,510
Cash and cash equivalents	**175,889**	181,914
Financial liabilities at amortised cost		
Trade and bills payable	**48,831**	79,107
Other payables	**9,578**	9,210
Bank borrowings	**6,432**	9,961

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2019 and 2018.

34. Financial Instruments (continued)

Financial risk management objectives and policies

The Group's major financial instruments include, trade and other receivables, pledged bank deposits, bank balances and cash, 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. 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.

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 2019 and 31 December 2018 is as follows:

	2019 HK$'000	2018 HK$'000
(Decrease) increase in profit for the year		
– as a result of increase in interest rate	**(24)**	(37)
– as a result of decrease in interest rate	**24**	37

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.

34. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

Foreign currency risk

Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. During the year ended 31 December 2019, about 1.7% (2018: 0.1%) of the Group's sales and about 3.2% (2018: 2.8%) 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 and liabilities denominated in currencies other than the respective group entities' functional currencies at the end of the reporting period are as follows:

	Assets		Liabilities	
	2019 HK$'000	2018 HK$'000	**2019 HK$'000**	2018 HK$'000
HK$	**79**	79	**–**	–
RMB	**807**	1,163	**–**	84
EUR	**232**	85	**–**	106
USD	**7,575**	574	**1,319**	105

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

	Amount due from group entities	
	2019 HK$'000	2018 HK$'000
RMB	**36,449**	28,851

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.

34. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

Foreign currency risk (continued)

Sensitivity analysis

The Group is mainly exposed to the foreign exchange risk of RMB and USD. Under the pegged exchange rate system, the financial impact on exchange difference between HK$ and USD will be immaterial as most USD denominated monetary assets and liabilities are held by group entities having HK$ as their functional currency, and therefore no sensitivity analysis has been prepared. For 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% (2018: 5%) increase and decrease in HK$ against RMB. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign currency rate. The sensitivity analysis includes the Group's monetary assets denominated in RMB 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.

	2019 HK$'000	2018 HK$'000
RMB	**(1,555)**	(1,253)
HK$	**3**	3
	(1,552)	(1,250)

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

Other price risk

The Group is exposed to equity price risk arising from derivative financial assets as at 31 December 2018. 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 2019 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.

34. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Credit risk (continued)

The Group also has concentration of credit risk on the fixed deposits placed with bank and bills receivable, however, the credit risk is limited because all bank deposits and bills receivable 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 and other receivables with exposure spread over a number of counterparties.

The Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significant reduced. The Group does not hold any collaterals over these balances.

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its operation. The following table provides information about the exposure to credit risk for trade and bills receivables which are assessed based on provision matrix within lifetime ECL (not credit-impaired). Debtors with credit-impaired with gross carrying amounts of HK$6,614,000 respectively as at 31 December 2019 (2018: HK$5,718,000) were assessed individually.

	2019			2018		
	Expected loss rate %	**Gross carrying amount HK$'000**	**Loss allowance HK$'000**	Expected loss rate %	Gross carrying amount HK$'000	Loss allowance HK$'000
Current	**0.00%**	**42,214**	**–**	0.00%	52,760	–
0 to 30 days	**0.00%**	**14,580**	**–**	0.02%	10,426	3
31 to 60 days	**0.00%**	**1,996**	**–**	0.08%	2,427	2
61 to 90 days	**0.48%**	**414**	**2**	0.39%	323	1
Over 91 days	**12.70%**	**1,472**	**187**	39.75%	1,730	688
		60,676	**189**		67,666	694

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 2019, the Group reversed HK$499,000 (2018: provided HK$694,000) loss allowance for trade receivable based on the provision matrix. Loss allowance of HK$1,010,000 (2018:HK$5,718,000) were made on credit impaired debtors.

34. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Credit risk (continued)

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

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

	2019 Lifetime ECL (Non-credit impaired) HK$'000	**2019 Lifetime ECL (Credit impaired) HK$'000**	**2019 Lifetime ECL Total HK$'000**	2018 Lifetime ECL (Non-credit impaired) HK$'000	2018 Lifetime ECL (Credit impaired) HK$'000	2018 Lifetime ECL Total HK$'000
Balance at 1 January	**694**	**5,718**	**6,412**	–	3,769	3,769
Impairment losses (reversed) recognised during the year	**(499)**	**1,010**	**511**	694	2,261	2,955
Exchange adjustment	**(6)**	**(114)**	**(120)**	–	(312)	(312)
Balance at 31 December	**189**	**6,614**	**6,803**	694	5,718	6,412

The following significant changes in the gross carrying amounts of trade receivables contributed to the net increase in the loss allowance during 2019:

- increase in credit impaired ECL resulted in an increase in loss allowance of HK$1,010,000 in which a loss allowance on a trade debtor of HK$847,000 was fully provided when there is information indicating that the debtor is in severe financial difficulty and has breached the contract. The Group has taken legal action against the debtor to recover the amount due.

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.

34. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

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

Liquidity and interest risk tables

	Weighted average interest rate	On demand or less than 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Total undiscounted cash flows	Carrying amounts
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2019							
Trade and other payables	**–**	**18,017**	**34,265**	**6,127**	**–**	**58,409**	**58,409**
Bank borrowings	**5.70**	**357**	**709**	**3,390**	**2,274**	**6,730**	**6,432**
Lease liabilities	**4.81**	**1,323**	**2,393**	**9,010**	**6,030**	**18,756**	**17,833**
		19,697	**37,367**	**18,527**	**8,304**	**83,895**	**82,674**
At 31 December 2018							
Trade and other payables	–	22,252	57,586	8,479	–	88,317	88,317
Bank borrowings	5.94	284	566	3,052	6,849	10,751	9,961
		22,536	58,152	11,531	6,849	99,068	98,278

35. Statement of Financial Position of the Company

	2019 HK$'000	2018 HK$'000
Non-current assets		
Property, plant and equipment	**905**	1,087
Deposit paid for acquisition of property, plant and equipment	**393**	262
Investment in a subsidiary	**36,553**	36,553
	37,851	37,902
Current assets		
Other receivables	**526**	313
Amounts due from subsidiaries	**143,728**	144,711
Taxation recoverable	**–**	187
Bank balances	**21,329**	21,517
	165,583	166,728
Current liabilities		
Accrued expenses	**123**	818
Taxation payable	**92**	–
	215	818
Net current assets	**165,368**	165,910
Total assets less current liabilities	**203,219**	203,812
Non-current liability		
Deferred taxation	**149**	179
Net assets	**203,070**	203,633
Capital and reserves		
Share capital	**25,843**	25,843
Reserves	**177,227**	177,790
Total equity	**203,070**	203,633

35. 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 2018	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
Profit and total comprehensive income for the year	–	–	4,606	4,606
Dividend paid	–	–	(5,169)	(5,169)
At 31 December 2019	**166,688**	**1,904**	**8,635**	**177,227**

36. Particulars of Principal Subsidiaries of the Company

Particulars of the Company's principal subsidiaries held by the Company as at 31 December 2019 and 2018 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 2019	2018	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(3)(5)	PRC 20 August 2010	PRC	RMB85,683,733	**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)(5)	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)(5)	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(5)(6)	PRC 12 October 2017	PRC	RMB2,000,000	**N/A**	60%	Trading of home textiles products and accessories
Colorway Furniture Company Limited 惠州市卡璐威家居有限公司(4)(5)	PRC 25 January 2018	PRC	RMB5,000,000	**100%**	71%	Trading of furniture
Shenzhen Casablanca Sales and Marketing Limited 深圳市卡撒天嬌家居營銷有限公司(4)(5)	PRC 30 August 2018	PRC	RMB20,000,000	**55%**	55%	Trading of home textiles products and accessories

(1) Directly held by the Company.
(2) These companies are registered as wholly owned foreign enterprises.
(3) This company is registered as a sino-foreign joint venture.
(4) These companies are registered as domestic companies.
(5) The English name is translated for identification purpose only.
(6) The company was registered as a domestic company and deregistered on 29 July 2019.

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.

37. Reconciliation of Liabilities Arising from Financing Activities

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

	Bank Borrowings HK$'000	Lease Liabilities HK$'000	Total HK$'000
At 1 January 2018	3,575	–	3,575
Financing cash flows (Note a)	6,476	–	6,476
Interest expenses	365	–	365
Exchange adjustments	(455)	–	(455)
At 31 December 2018	9,961	–	9,961
Adjustment on HKFRS 16	–	19,994	19,994
At 1 January 2019 (restated)	9,961	19,994	29,955
Financing cash flows (Note a)	(3,893)	(16,971)	(20,864)
New leases entered	–	14,207	14,207
Lease modification (Note b)	–	(426)	(426)
Interest expenses	490	1,071	1,561
Exchange adjustments	(126)	(42)	(168)
At 31 December 2019	**6,432**	**17,833**	**24,265**

Notes:

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

b. During the year ended 31 December 2019, the Group and the lessor have mutually agreed to early terminate a lease contract.

38. Major Non-Cash Transactions

During the year, the Group entered into new lease agreements for the use of the retail stores and an office for one to three years. On the lease commencement, the Group recognised both right-of-use assets and lease liabilities of approximately HK$14,207,000 respectively.

39. Contingent Liabilities

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

40. Event After the Reporting Period

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

41. Comparative Figures

Certain comparative figures have been re-classified to conform with the current year's presentation.

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019 HK$'000**
Revenue	370,969	356,717	347,449	337,624	**378,854**
Profit (loss) before taxation	(14,386)	14,591	33,144	10,717	**24,504**
Taxation	(1,844)	(6,661)	(6,212)	(4,672)	**(6,886)**
Profit (loss) for the year	(16,230)	7,930	26,932	6,045	**17,618**
Profit (loss) for the year attributable to:					
Owners of the Company	(16,230)	7,930	27,037	7,837	**18,498**
Non-controlling interests	–	–	(105)	(1,792)	**(880)**
	(16,230)	7,930	26,932	6,045	**17,618**

ASSETS AND LIABILITIES

	At 31 December				
	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	**2019 HK$'000**
Total assets	526,491	490,105	475,787	514,733	**511,252**
Total liabilities	(156,938)	(133,782)	(78,207)	(116,070)	**(104,984)**
Total equity	369,553	356,323	397,580	398,663	**406,268**
Equity attributable to:					
Owners of the Company	369,553	356,323	397,209	396,897	**406,331**
Non-controlling interests	–	–	371	1,766	**(63)**
	369,553	356,323	397,580	398,663	**406,268**

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

Registered Office

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

Headquarters and Principal Place of Business

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

Auditor

CHENG & CHENG LIMITED, Certified Public Accountants

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Principal Bankers

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

Company Website

www.casablanca.com.hk