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CONNECTED TRANSACTIONS RENEWAL OF LEASE AGREEMENTS

RENEWAL OF LEASE AGREEMENTS

Reference is made to the 2017, 2018 and 2019 Annual Reports in relation to, among other things, the Lease Agreements with Gain Harvest and Wealth Pine, being connected persons of the Company, to be expired on 31 December 2020.

On 18 December 2020, the Board considered and passed a resolution in relation to the renewal of Lease Agreements for 3 years from 1 January 2021 to 31 December 2023 as the connected transactions. Accordingly, the Group entered into the Renewed Lease Agreements with Gain Harvest and Wealth Pine on 18 December 2020 respectively.

LISTING RULES IMPLICATIONS

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

In accordance with HKFRS 16 “Leases”, the Group will recognize rental payments under the Renewed Lease Agreements as right-of-use assets with an estimated value of approximately HK\$6,151,000 as at 1 January 2021. The transactions contemplated under the Renewed Lease Agreements will be recognized as the acquisitions of right-of-use assets which will be constitute one-off connected transactions of the Company under Chapter 14A of the Listing Rules.

Shareholders should note that the above estimated value of right-of-use assets is unaudited and may be subject to adjustment in the future.

As one or more of the applicable percentage ratios in respect of the estimated value of the right-of-use assets to be recognized by the Group in connection with the Renewed Lease Agreements exceeds 0.1% but all are less than 5%, the transactions contemplated under the Renewed Lease Agreements are subject to reporting and announcement requirements but are exempt from the independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

INTRODUCTION

Reference is made to the 2017, 2018 and 2019 Annual Reports in relation to, among other things, the Lease Agreements with Gain Harvest and Wealth Pine, being connected persons of the Company, to be expired on 31 December 2020.

On 18 December 2020, the Board considered and passed a resolution in relation to the renewal of Lease Agreements for 3 years from 1 January 2021 to 31 December 2023 as the connected transactions. Accordingly, the Group entered into the Renewed Lease Agreements with Gain Harvest and Wealth Pine on 18 December 2020 respectively.

DETAILS OF THE RENEWED LEASE AGREEMENTS

The principal terms of the Renewed Lease Agreements are as follows:

	Renewed Lease Agreement with Gain Harvest	Renewed Lease Agreement with Wealth Pine
Date:	18 December 2020	18 December 2020
Lessor:	Gain Harvest	Wealth Pine
Tenant:	Casablanca Hong Kong	Casablanca Hong Kong
Premises:	House No. 29, Kensington Path, The Royal Oaks, 8 Kam Tsin Nam Road, Kwu Tung, Sheung Shui, New Territories, Hong Kong.	House No. A25, Constellation Cove, 1 Hung Lam Drive, Tai Po, New Territories, Hong Kong.
Approximate saleable area:	376.10 square metres	252.40 square metres
Lease term:	1 January 2021 to 31 December 2023	1 January 2021 to 31 December 2023
Monthly rental:	HK\$110,000 (inclusive of Government rent, rates and management fee)	HK\$69,000 (inclusive of Government rent, rates and management fee)

PRICING BASIS OF THE CONNECTED TRANSACTIONS

The rents under the Renewed Lease Agreements were determined on an arm's length basis in accordance with the analysis, advice and valuation report provided by an independent property valuer with reference to the prevailing market rents of comparable properties with the valuation date of 30 November 2020. In addition, the other terms of the Renewed Lease Agreements were determined with reference to prevailing standardized market terms in comparable lease agreements. Therefore, the Company considers that the connected transactions were conducted on normal commercial terms and the rents and terms of the connected transactions are fair and reasonable and no less favourable to the Group than those available from independent third parties.

REASONS FOR AND BENEFIT OF THE TRANSACTIONS

The Renewed Lease Agreements were entered into by the Group in order to provide the Group with stable and successive premises for its operations. The Company considers that the renewal of the Lease Agreements would allow the Group to continue to utilize the leased premises for its operations and would be beneficial to the Company. Moreover, the rents and terms under the Renewed Lease Agreements are commensurate with prevailing market rents and terms and are no less favourable to the Group than those available from independent third parties.

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

DIRECTORS' INTEREST IN THE CONNECTED TRANSACTIONS

Pursuant to the relevant laws and regulations, Listing Rules and the requirements of articles of association of the Company, when the Board considered and passed the resolution on 18 December 2020 in relation to the renewal of Lease Agreements as connected transactions, Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung as connected directors had or were deemed to have material interest in the Renewed Lease Agreements and had therefore abstained from voting on such resolution.

INFORMATION OF THE PARTIES

The Company is an investment holding company and the Group 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.

Casablanca Hong Kong's principal business is distribution and retailing of the Group's bedding products in Hong Kong and Macau.

Each of Gain Harvest and Wealth Pine is ultimately beneficially owned by Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung and principally engages in property investment and leasing.

LISTING RULES IMPLICATIONS

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

In accordance with HKFRS 16 “Leases”, the Group will recognize rental payments under the Renewed Lease Agreements as right-of-use assets with an estimated value of approximately HK\$6,151,000 as at 1 January 2021. The transactions contemplated under the Renewed Lease Agreements will be recognized as the acquisitions of right-of-use assets which will be constitute one-off connected transactions of the Company under Chapter 14A of the Listing Rules.

Shareholders should note that the above estimated value of right-of-use assets is unaudited and may be subject to adjustment in the future. The right-of-use assets represent the Group’s right to use the underlying leased assets over the lease terms and the lease liabilities represent the Group’s obligations to make lease payments. The assets and the liabilities arising from the leases are initially measured on present value basis and calculated by discounting the lease payments under the Renewed Lease Agreements, using the incremental borrowing rate as the discount rate. Under HKFRS 16 and in the consolidated financial statements of the Group, the Group shall recognize (i) depreciation charge over the life of the right-of-use assets; and (ii) interest expenses amortized from the lease liabilities over the lease terms.

As one or more of the applicable percentage ratios in respect of the estimated value of the right-of-use assets to be recognized by the Group in connection with the Renewed Lease Agreements exceeds 0.1% but all are less than 5%, the transactions contemplated under the Renewed Lease Agreements are subject to reporting and announcement requirements but are exempt from the independent shareholders’ approval requirements pursuant to Chapter 14A of the Listing Rules.

DEFINITIONS

“Annual Report”	the Annual Report of the Company
“Board”	the board of Directors
“Casablanca Hong Kong”	Casablanca Hong Kong Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“Company”	Casablanca Group Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Main Board of the Stock Exchange
“connected person”	has the same meaning ascribed to it under the Listing Rules

“Directors”	directors of the Company
“Gain Harvest”	Gain Harvest Investment Limited, a company incorporated in Hong Kong, and which is wholly-owned by Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung
“Group”	the Company and its subsidiaries
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Lease Agreements”	the existing lease agreements entered by Casablanca Hong Kong and Gain Harvest and Wealth Pine respectively
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Renewed Lease Agreement(s)”	the renewed lease agreement(s) entered by Casablanca Hong Kong with each of Gain Harvest and Wealth Pine on 18 December 2020, respectively
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Wealth Pine”	Wealth Pine Asia Limited, a company incorporated in Hong Kong, and which is wholly-owned by Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung

On behalf of the Board
Casablanca Group Limited
Cheng Sze Kin
Chairman

Hong Kong, 18 December 2020

As at the date of this announcement, the Board comprises Mr. Cheng Sze Kin (Chairman), Mr. Cheng Sze Tsan (Vice-chairman) and Ms. Wong Pik Hung as Executive Directors, and Mr. Lo Siu Leung, Dr. Cheung Wah Keung and Mr. Chow On Wa as Independent Non-executive Directors.