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## Casablanca Group Limited

## 卡撒天嬌集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2223)

### 2022 ANNUAL RESULTS ANNOUNCEMENT

| <b>HIGHLIGHTS</b>  |  |                   |            |        |
|--|--|-------------------|------------|--------|
|  | <i>Notes</i>   | <b>2022</b>       | 2021       | Change |
| Revenue ( <i>HK\$ '000</i> )   |  | <b>300,163</b>    | 320,403    | -6.3%  |
| EBITDA ( <i>HK\$ '000</i> )  | <i>1</i>   | <b>30,775</b>     | 41,110     | -25.1% |
| Profit attributable to owners<br>of the Company ( <i>HK\$ '000</i> ) |  | <b>5,378</b>      | 11,936     | -54.9% |
| Gross profit margin  |  | <b>62.2%</b>      | 61.3%      |        |
| EBITDA margin  |  | <b>10.3%</b>      | 12.8%      |        |
| Net profit margin  |  | <b>1.8%</b>       | 3.7%       |        |
| Earnings per share ( <i>HK cents</i> )                               |  | <b>2.09</b>       | 4.63       | -54.9% |
|  |  | <b>As at</b>      | As at      |        |
|  |  | <b>31/12/2022</b> | 31/12/2021 | Change |
| Total assets ( <i>HK\$ '000</i> )                                    |  | <b>484,836</b>    | 522,259    | -7.2%  |
| Total equity ( <i>HK\$ '000</i> )                                    |  | <b>395,762</b>    | 404,718    | -2.2%  |
| Total bank borrowings ( <i>HK\$ '000</i> )                           |  | <b>5,298</b>      | 3,980      | 33.1%  |
| Total bank balances and cash ( <i>HK\$ '000</i> )                    |  | <b>145,595</b>    | 142,335    | 2.3%   |
| Net cash ( <i>HK\$ '000</i> )  | <i>2</i>   | <b>140,297</b>    | 138,355    | 1.4%   |
| Gearing ratio  | <i>3</i>   | <b>1.3%</b>       | 1.0%       |        |
| <i>Notes:</i>  |  |                   |            |        |
| 1.   | EBITDA represents gross profit less selling and distribution costs and administrative expenses adding back depreciation. |                   |            |        |
| 2.   | Net cash represents pledged bank deposits and bank balances and cash less total bank borrowings.                         |                   |            |        |
| 3.   | Gearing ratio is calculated as total bank borrowings divided by total equity.  |                   |            |        |

The board (the “Board”) of directors (the “Directors”) of Casablanca Group Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2022 (the “Year” or the “Review Period”) as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

|   | Notes | 2022<br>HK\$'000       | 2021<br>HK\$'000     |
|---|-------|------------------------|----------------------|
| Revenue   | 3     | 300,163                | 320,403              |
| Cost of goods sold  |       | <u>(113,385)</u>       | <u>(124,029)</u>     |
| Gross profit  |       | 186,778                | 196,374              |
| Other income  | 4     | 6,495                  | 1,457                |
| Other (losses) gains  | 5     | (2,281)                | 843                  |
| Selling and distribution costs  |       | (135,304)              | (138,333)            |
| Administrative expenses   |       | (46,699)               | (43,738)             |
| Finance costs   |       | <u>(1,178)</u>         | <u>(902)</u>         |
| Profit before taxation  | 6     | 7,811                  | 15,701               |
| Taxation  | 7     | <u>(3,194)</u>         | <u>(3,765)</u>       |
| Profit for the year   |       | <u>4,617</u>           | <u>11,936</u>        |
| Other comprehensive (expense) income for the year   |       |                        |                      |
| <i>Items that may be reclassified subsequently to profit or loss:</i>                     |       |                        |                      |
| Exchange differences arising on translation of financial statements of foreign operations |       | <u>(15,837)</u>        | <u>6,667</u>         |
| Other comprehensive (expense) income  |       | <u>(15,837)</u>        | <u>6,667</u>         |
| Total comprehensive (expense) income for the year   |       | <u><u>(11,220)</u></u> | <u><u>18,603</u></u> |
| Profit (loss) for the year attributable to:   |       |                        |                      |
| Owners of the Company   |       | 5,378                  | 11,936               |
| Non-controlling interests   |       | <u>(761)</u>           | <u>–</u>             |
|   |       | <u><u>4,617</u></u>    | <u><u>11,936</u></u> |
| Total comprehensive (expense) income for the year attributable to:                        |       |                        |                      |
| Owners of the Company   |       | (10,711)               | 18,603               |
| Non-controlling interests   |       | <u>(509)</u>           | <u>–</u>             |
|   |       | <u><u>(11,220)</u></u> | <u><u>18,603</u></u> |
| Earnings per share  | 9     |                        |                      |
| – Basic (HK cents)  |       | <u><u>2.09</u></u>     | <u><u>4.63</u></u>   |
| – Diluted (HK cents)  |       | <u><u>2.09</u></u>     | <u><u>4.60</u></u>   |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

|   | <i>Notes</i> | <b>2022</b><br><i>HK\$'000</i> | 2021<br><i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| <b>Non-current assets</b>   |              |                                |                         |
| Property, plant and equipment                                     |              | 157,247                        | 180,317                 |
| Right-of-use assets   |              | 33,694                         | 37,874                  |
| Investment properties   |              | 10,213                         | –                       |
| Intangible assets   |              | –                              | –                       |
| Deposits paid for acquisition of property,<br>plant and equipment |              | 13,381                         | 296                     |
| Rental and other deposits   |              | 1,399                          | 2,290                   |
| Deferred tax assets   |              | 266                            | 96                      |
|   |              | <u>216,200</u>                 | <u>220,873</u>          |
| <b>Current assets</b>   |              |                                |                         |
| Inventories   |              | 58,457                         | 85,804                  |
| Trade and other receivables                                       | <i>10</i>    | 56,730                         | 65,442                  |
| Financial assets at fair value through profit or loss             |              | 7,659                          | 7,349                   |
| Taxation recoverable  |              | 195                            | 456                     |
| Pledged bank deposits   |              | 6,362                          | 7,213                   |
| Bank balances and cash  |              | 139,233                        | 135,122                 |
|   |              | <u>268,636</u>                 | <u>301,386</u>          |
| <b>Current liabilities</b>  |              |                                |                         |
| Trade and other payables  | <i>11</i>    | 60,960                         | 91,585                  |
| Lease liabilities   |              | 12,758                         | 11,536                  |
| Taxation payable  |              | 1,225                          | 736                     |
| Bank borrowings   |              | 5,298                          | 3,980                   |
|   |              | <u>80,241</u>                  | <u>107,837</u>          |
| Net current assets  |              | <u>188,395</u>                 | <u>193,549</u>          |
| Total assets less current liabilities                             |              | <u>404,595</u>                 | <u>414,422</u>          |
| <b>Non-current liabilities</b>                                    |              |                                |                         |
| Payable for acquisition of property,<br>plant and equipment       |              | 2,861                          | –                       |
| Lease liabilities   |              | 5,471                          | 9,165                   |
| Deferred tax liabilities  |              | 501                            | 539                     |
|   |              | <u>8,833</u>                   | <u>9,704</u>            |
| Net assets  |              | <u><u>395,762</u></u>          | <u><u>404,718</u></u>   |
| <b>Capital and reserves</b>                                       |              |                                |                         |
| Share capital   |              | 25,785                         | 25,785                  |
| Reserves  |              | 368,222                        | 378,933                 |
| Equity attributable to owners of the Company                      |              | 394,007                        | 404,718                 |
| Non-controlling interests   |              | 1,755                          | –                       |
| Total equity  |              | <u><u>395,762</u></u>          | <u><u>404,718</u></u>   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2022*

### 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, 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 principal activity of the Company is investment holding. The principal activities of its subsidiaries are manufacture and trading of bedding 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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Institute of Certified Public Accountants (“HKICPA”) has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

|                       |  |
|-----------------------|--|
| Amendments to HKAS 16 | Property, plant and equipment:<br>Proceeds before intended use   |
| Amendments to HKAS 37 | Provisions, contingent liabilities and contingent assets:<br>Onerous contracts – cost of fulfilling a contract |

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

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

### 3. 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) e-sales; (iii) sales to distributors and (iv) 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 retail sales to end-user consumers at the self-operated concession counters in department stores and self-operated retail stores.
- E-sales: E-sales refer to retail sales to end-user consumers through online platforms on internet or mobile devices operated by the Group or third parties, but not by distributors or wholesale customers.
- 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 People’s Republic of China (“PRC” or “Mainland China” for purpose of this announcement, excluding Hong Kong, Macau and Taiwan) and Hong Kong and Macau (collectively the “Greater China Region”), and sales made to overseas customers.

The information of segment revenue is as follows:

|                            | 2022<br><i>HK\$’000</i> | 2021<br><i>HK\$’000</i> |
|----------------------------|-------------------------|-------------------------|
| Self-operated retail sales | 215,910                 | 226,936                 |
| E-sales                    | 29,035                  | 30,900                  |
| Sales to distributors      | 20,504                  | 29,573                  |
| Others                     | 34,714                  | 32,994                  |
|                            | <u>300,163</u>          | <u>320,403</u>          |

### Entity-wide information

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

|                        | 2022<br><i>HK\$’000</i> | 2021<br><i>HK\$’000</i> |
|------------------------|-------------------------|-------------------------|
| Bed linens             | 163,350                 | 167,311                 |
| Duvets and pillows     | 121,751                 | 134,844                 |
| Other home accessories | 15,062                  | 18,248                  |
|                        | <u>300,163</u>          | <u>320,403</u>          |

## Geographical information

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

|                     | 2022<br><i>HK\$'000</i> | 2021<br><i>HK\$'000</i> |
|---------------------|-------------------------|-------------------------|
| Hong Kong and Macau | 235,366                 | 236,672                 |
| PRC                 | 56,937                  | 82,482                  |
| Others              | 7,860                   | 1,249                   |
|                     | <u>300,163</u>          | <u>320,403</u>          |

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:

|           | 2022<br><i>HK\$'000</i> | 2021<br><i>HK\$'000</i> |
|-----------|-------------------------|-------------------------|
| PRC       | 183,136                 | 182,056                 |
| Hong Kong | 31,399                  | 36,431                  |
|           | <u>214,535</u>          | <u>218,487</u>          |

## Information about major customer

For the year ended 31 December 2022, revenue from transactions with each external customer is less than 10% (2021: less than 10%) of the total revenue of the Group.

## 4. OTHER INCOME

|                                      | 2022<br><i>HK\$'000</i> | 2021<br><i>HK\$'000</i> |
|--------------------------------------|-------------------------|-------------------------|
| Bank interest income                 | 694                     | 360                     |
| Dividend income                      | 512                     | 439                     |
| Government subsidies ( <i>Note</i> ) | 4,537                   | 47                      |
| Rental income                        | 267                     | –                       |
| Others                               | 485                     | 611                     |
|                                      | <u>6,495</u>            | <u>1,457</u>            |

*Note:* For the year ended 31 December 2022, government grants of HK\$4,537,000 mainly included the COVID-19-related subsidies of HK\$4,247,000, which relates to Employment Support Scheme provided by the Hong Kong government.

## 5. OTHER (LOSSES) GAINS

|   | 2022<br><i>HK\$'000</i> | 2021<br><i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Net exchange (loss) gain  | (5,804)                 | 1,250                   |
| Net (loss allowance) reversal of loss allowance<br>on trade receivables                 | (378)                   | 1                       |
| Net realised gain on financial assets at fair value<br>through profit or loss (“FVTPL”) | 211                     | –                       |
| Net unrealised loss on financial assets at FVTPL  | (272)                   | (1,318)                 |
| Impairment loss on property, plant and equipment  | –                       | (507)                   |
| Gain (loss) on disposals and written off of property,<br>plant and equipment            | 3,962                   | (32)                    |
| Gain on lease modification  | –                       | 1,449                   |
|   | <u>(2,281)</u>          | <u>843</u>              |

## 6. PROFIT BEFORE TAXATION

|  | 2022<br><i>HK\$'000</i> | 2021<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Profit before taxation has been arrived at after charging:         |                         |                         |
| Staff costs (including directors’ remuneration):                   |                         |                         |
| Salaries, wages and other benefits                                 | 83,508                  | 85,810                  |
| Retirement benefit schemes contributions                           | 6,067                   | 5,981                   |
| Total staff costs  | <u>89,575</u>           | <u>91,791</u>           |
| Auditor’s remuneration   | 1,020                   | 971                     |
| Allowance for inventories (included in cost of goods sold)         | 4,182                   | 4,167                   |
| Bad debts written off  | –                       | 39                      |
| Cost of inventories recognised as expenses                         | 109,203                 | 119,862                 |
| Depreciation of property, plant and equipment                      | 10,002                  | 11,317                  |
| Depreciation of investment properties                              | 236                     | –                       |
| Depreciation of right-of-use assets                                | 15,762                  | 15,490                  |
| Design costs (included in administrative expenses) ( <i>Note</i> ) | <u>532</u>              | <u>565</u>              |

*Note:* The design costs comprise of staff salaries of HK\$303,000 (2021: HK\$300,000) for the year ended 31 December 2022, which are included in the staff costs disclosed above.

## 7. TAXATION

|                                   | 2022<br><i>HK\$'000</i> | 2021<br><i>HK\$'000</i> |
|-----------------------------------|-------------------------|-------------------------|
| Current tax                       |                         |                         |
| Hong Kong                         | 2,601                   | 3,367                   |
| PRC Enterprise Income Tax (“EIT”) | 861                     | 625                     |
|                                   | <u>3,462</u>            | <u>3,992</u>            |
| Overprovision in prior years      |                         |                         |
| Hong Kong                         | (60)                    | (60)                    |
|                                   | <u>(60)</u>             | <u>(60)</u>             |
|                                   | 3,402                   | 3,932                   |
| Deferred taxation                 | (208)                   | (167)                   |
|                                   | <u>3,194</u>            | <u>3,765</u>            |

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% for the years ended 31 December 2021 and 2022, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis for the years ended 31 December 2021 and 2022.

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%.

## 8. DIVIDENDS

Dividends for ordinary shareholders of the Company recognised as distribution during the year:

|  | 2022<br><i>HK\$'000</i> | 2021<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| 2022 Interim – Nil (2021: HK\$0.05 per share)            | –                       | 12,893                  |
| 2021 Final – Nil (2021: 2020 Final – HK\$0.10 per share) | –                       | 25,785                  |
|  | <u>–</u>                | <u>38,678</u>           |

No final dividend in respect of the year ended 31 December 2022 has been proposed by the directors of the Company (2021: Nil).

## 9. 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:

|  | 2022<br><i>HK\$'000</i> | 2021<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| <b>Earnings</b>  |                         |                         |
| Profit for the year attributable to owners of the Company<br>for the purpose of basic and diluted earnings per share | <u>5,378</u>            | <u>11,936</u>           |
|  | 2022                    | 2021                    |
| <b>Number of shares</b>  |                         |                         |
| Weighted average number of ordinary shares for<br>the purpose of basic earnings per share                            | 257,854,000             | 257,854,000             |
| Effect of dilutive potential ordinary shares: Options  | <u>–</u>                | <u>1,599,754</u>        |
| Weighted average number of ordinary shares for the<br>purpose of diluted earnings per share                          | <u>257,854,000</u>      | <u>259,453,754</u>      |

For the year ended 31 December 2022, there is no dilutive effect 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 the year.

## 10. TRADE AND OTHER RECEIVABLES

|                                   | 2022<br><i>HK\$'000</i> | 2021<br><i>HK\$'000</i> |
|-----------------------------------|-------------------------|-------------------------|
| Trade receivables                 | 42,894                  | 53,105                  |
| Less: Loss allowance              | <u>(6,143)</u>          | <u>(6,300)</u>          |
| Trade receivables, net            | <u>36,751</u>           | <u>46,805</u>           |
| Deposits                          | 3,412                   | 2,493                   |
| Prepayments                       | 6,549                   | 4,698                   |
| Value added tax recoverable       | 7,041                   | 8,556                   |
| Advances to employees             | 761                     | 1,016                   |
| Other receivables ( <i>Note</i> ) | <u>2,216</u>            | <u>1,874</u>            |
|                                   | <u>19,979</u>           | <u>18,637</u>           |
| Total trade and other receivables | <u>56,730</u>           | <u>65,442</u>           |

*Note:* Included in the amount is interest receivable of HK\$43,000 (2021: HK\$20,000).

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 receivables net of loss allowance presented based on the invoice dates at the end of the reporting period.

|                 | 2022<br><i>HK\$'000</i> | 2021<br><i>HK\$'000</i> |
|-----------------|-------------------------|-------------------------|
| Within 30 days  | 22,796                  | 27,534                  |
| 31 to 60 days   | 8,025                   | 8,919                   |
| 61 to 90 days   | 4,998                   | 8,047                   |
| 91 to 180 days  | 846                     | 2,000                   |
| 181 to 365 days | 52                      | 277                     |
| Over 365 days   | 34                      | 28                      |
|                 | <u>36,751</u>           | <u>46,805</u>           |

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

## 11. TRADE AND OTHER PAYABLES

|  | 2022<br><i>HK\$'000</i> | 2021<br><i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Trade payables   | 20,753                  | 35,178                  |
| Bills payables   | 17,873                  | 20,697                  |
|  | <u>38,626</u>           | <u>55,875</u>           |
| Deposits received  | 1,762                   | 1,772                   |
| Accrued expenses   | 10,596                  | 10,147                  |
| Salaries payables  | 8,075                   | 7,940                   |
| Payable for acquisition of property, plant and equipment | 263                     | 13,875                  |
| Other payables   | 999                     | 572                     |
| Contract liabilities                                     | 639                     | 1,404                   |
|  | <u>22,334</u>           | <u>35,710</u>           |
| Total trade and other payables                           | <u>60,960</u>           | <u>91,585</u>           |

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.

|                | <b>2022</b><br><i>HK\$'000</i> | 2021<br><i>HK\$'000</i> |
|----------------|--------------------------------|-------------------------|
| Within 30 days | <b>5,198</b>                   | 10,053                  |
| 31 to 60 days  | <b>11,718</b>                  | 18,710                  |
| 61 to 90 days  | <b>16,307</b>                  | 17,944                  |
| 91 to 180 days | <b>5,274</b>                   | 8,814                   |
| Over 180 days  | <b>129</b>                     | 354                     |
|                | <b>38,626</b>                  | <b>55,875</b>           |

When the Group receives deposits from customer in advance of sales of goods, the deposits are recognised as contract liabilities until the control of the goods has been transferred to the customers.

## **12. CONTINGENT LIABILITIES**

As at 31 December 2021 and 31 December 2022, the Company and two of its subsidiaries in Hong Kong were named as defendants in a litigation commenced by a plaintiff in 2017 involving an alleged copyright infringement. In March 2023, the plaintiff and the defendants have reached a full and final settlement on the copyright dispute, thereby resolving the dispute. The directors of the Company consider that the settlement (including the terms thereof) has no material adverse effect to the business operation and financial position of the Group.

As at 31 December 2022, the Group did not have any significant contingent liabilities.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **OVERVIEW/RETAIL MARKET DURING THE PANDEMIC**

The conflict between Russia and Ukraine, which broke out in the beginning of 2022, has taken a toll on the operation of the global supply chain. Consumer confidence in the Greater China Region has been heavily affected by inflation, steeper prices for energy and food and other uncertain factors faced by all countries, not to mention tensions in international relations and a gloomy economic outlook. Moreover, the spread of variants of the novel coronavirus disease (“COVID-19”) during the first quarter of 2022 drove global infections to a record high, and local authorities in Mainland China had to implement a range of measures to slow down the spread of the pandemic, such as the two-month lockdown in Shanghai, which further dampened the confidence of consumers in the Greater China Region. In Hong Kong, the government adopted stringent anti-pandemic measures against the fifth wave of COVID-19. Consequently, the once rather healthy footfall at large shopping malls in various districts plunged, posing dire operational challenges to retail enterprises. To protect the health of its employees, the Group followed the government’s recommendation and coordinated with the arrangements of department stores to shorten the opening hours of its points-of-sale (“POS”) in Hong Kong during the period. Footfall at shopping malls did not recover until late April when COVID-19 eased slightly and the Hong Kong government started lifting various anti-pandemic restrictions in stages, including gradually allowing dinnertime dine-ins at restaurants and resuming operations of specified businesses. As part of the efforts to boost consumer sentiment, the Hong Kong government disbursed electronic consumption vouchers during the second quarter and the third quarter of 2022 respectively, which brightened the market outlook for retail businesses. Afterwards, the Hong Kong government also relaxed the strict compulsory quarantine requirements for inbound travellers. Although these moves encouraged more outbound travels rather than attracting inbound tourists, the local market witnessed a gradual recovery of consumer sentiment on the back of a strong sentiment of society returning to normalcy and more promotional offers introduced by department stores and shopping malls around the end of the Year.

## **BUSINESS REVIEW**

Apart from the formation in October 2022 of a new subsidiary (held as to 51% by the Group) engaging in e-commerce and online retail business and applying new technologies such as short video clips, livestreaming and big data, there was no material change in the Group's operational and segmental information since the interim results for the six months ended 30 June 2022 were published. During the Review Period, total revenue of the Group amounted to HK\$300.2 million, representing a decrease of 6.3% compared to HK\$320.4 million for the corresponding period of 2021. During the Review Period, profit attributable to owners of the Company was HK\$5.4 million, down by approximately 54.9% compared to HK\$11.9 million for the corresponding period of 2021. The decrease in profit attributable to owners of the Company for the Year was primarily attributable to (a) the decline in sales revenue in Mainland China due to the rebound in the number of COVID-19 infection cases in major regions of Mainland China in 2022, and (b) the net exchange losses arising from the depreciation of RMB against HKD for the Year, despite COVID-19 related grants were received from the Hong Kong and Mainland China governments and the gain on disposal of property, plant and equipment were recorded for the Year.

### **Optimised Sales Channels**

With COVID-19 prevailing for three years, the pattern of Mainland China and Hong Kong consumers purchasing bedding products online has continued, and the trend of livestreaming consumption in Mainland China is increasingly booming. During the Review Period, we launched promotional offers under various themes at our Hong Kong official online store from time to time and upgraded the back-end radio frequency identification (RFID) system to improve the efficiency of delivery logistics. In terms of the online retail business in Mainland China, while the Group put most of the resources on managing self-operated online stores on well-known platforms such as TMall and JD.com, it also jointly established a new subsidiary with an experienced team during the fourth quarter of 2022 to grasp the business opportunities brought by new technologies such as short video clips, livestreaming and big data. During the Review Period, the revenue contribution from the online sales business in Mainland China and Hong Kong remained stable.

As of 31 December 2022, the Group had a total of 205 physical POS (31 December 2021: 200), among which 102 were self-operated POS and 103 were distributor-operated POS, covering a total of 46 cities in the Greater China Region. The retail markets in Mainland China and Hong Kong picked up slightly in the second half of 2022 due to the gradual containment of COVID-19. The Group also invested more resources in exploring new distributors. In the second half of 2022, there was a net increase of 8 distributor-operated POS.

In 2022, apart from providing bedding products for Hong Kong government authorities, the Group supplied items for giveaway campaigns and point redemption schemes of various commercial customers in Hong Kong, including supermarkets, convenience stores, electrical appliance chain stores, public utility companies, telecommunication network providers, infant and health food brands and electrical appliance brands. In addition, the Group provided original equipment manufacturing (OEM) products to various customers. In terms of the export business, since COVID-19 was relatively contained in the second half of 2022, export customers too resumed their orders.

### **Enhanced Product Mix**

Adhering to the core concept of “Contemporary, Innovative and Functional” in product design, the Group is committed to providing quality products and attentive customer services. It endeavours to become the “Healthy Sleeping Expert” of every customer through untiring efforts in developing products that embody green concepts and health enhancing functions. In February 2022, the Group launched its first mattress series named “Casa Sleep-Lab Earth Mantle Series” comprising six mattress products with “5A features” of the CASA-V brand in Hong Kong. The products come each with a different efficient support system and material combinations with reference to ergonomics. Together with the two new mattress toppers launched in the second half of the Year, different sleeping support needs and preferences of consumers are well accommodated. In addition to setting up dedicated mattress experience area in six large specialised stores in Hong Kong, the Group actively participated in mattress exhibitions in department stores to introduce its brand-new mattress products to the wider consumers.

COVID-19 has triggered the attention of customers on bedding products with health enhancing functions. As such, the Group stepped up the promotion of its CASA-V brand products with “5A features”, namely air purification, anti-bacterial, anti-mould, anti-mites and anti-odour. To capitalise on the growing interest in bacteria-resistant products among consumers in the wake of the pandemic, during the second half of the Year, the Group launched the “Casablanca Cosmo Anti-bacterial Temperature Control Quilt”, a brand-new product made with CLEANCOOL® material which features silver ion technology that effectively inhibits various harmful bacteria and three drug-resistant “Superbugs”, enabling anti-bacterial and anti-odour performance in addition to long-lasting temperature control and antistatic functions. The “Casablanca Cosmo Anti-bacterial Temperature Control Quilt” has also obtained OEKO-TEX® Standard 100 certification, proving it is free from substances known to be harmful to human health.

Cartoon products, meticulously designed to match consumer preferences, are one of the key businesses the Group is developing. During the Review Period, sales of licensed and authorised brand products were in line with expectations, while the Group continued to expand the “Beloved Series” featuring in-house designs, which remained well-received by the market with the various products with adorable animal cartoons. In 2022, the Group also donated a portion of the revenue from specified products of the “Beloved Series” during a designated period to the Hong Kong Rabbit Society and gained the support from consumers concerning animal rights. Moreover, the Group owns bedding product licences for a number, popular cartoons. During the Review Period, it launched new licensed cartoon bedding products, including “Kakao Friends”, “BT21”, “Chibi Maruko Chan”, “Pokemon”, “Mr. Men Little Miss”, “B.Duck”, “PEANUTS”, “LuLu the Piggy” and “Crayon Shin-chan”. During the Review Period, “The Smurfs”, “Bananya” (an original anime from Japan) and “Lan Lan Cat” from Taiwan were added to our authorised cartoon portfolio, and those products enjoyed strong support from consumers.

### **Strengthened Brand Leadership Position**

During the Review Period, we actively interacted with consumers on Facebook. Apart from sharing opinions on choosing mattresses, knowledge of bedding product care and notes on fabric thread counts, we launched various games with prizes to promote the Group’s brand philosophy and its products, while attracting consumers’ attention to the latest updates of the Group. During the Review Period, we set up pop-up stores under different themes of authorised cartoons for promotion in various large shopping malls and department stores in Hong Kong, with photo-taking areas featuring large cartoon characters and limited-edition souvenirs to attract consumer patronage.

In 2022, the Group launched a series of television commercials and related advertisements under the theme of “Love CASA Love ECO”, with a view to promoting the concepts of environmental protection and sustainable lifestyle advocated by the brand, and encouraging the use of products made of natural materials which are harmless to the environment by consumers in daily life. The key products of “Love CASA Love ECO” for promotion included pure cotton products with the “Seal of Cotton” trademark and the “Cotton LEADS<sup>SM</sup>” label, products made with environmental-friendly and sustainably produced TENCEL<sup>TM</sup> materials, natural and eco-friendly soya bean fibre products and VOSSEN pure cotton towels made in Austria. Along with the new television commercials in Hong Kong and product sponsorship for television game programme series, the Group also through product sponsorship and advertising placement tied in with two popular television dramas, namely “Rope A Dope” and “Million Dollar Family”, in the fourth quarter of the Year. This succeeded in attracting a lot of consumer inquiries and purchases of the bedding products used by the leading characters in the dramas, reaping great publicity value.

## PROSPECTS

In 2023, lingering uncertainties such as the conflict between Russia and Ukraine, inflation across countries and volatile energy prices, together with a turbulent geopolitical scene and gloomy economic outlook, will continue to dampen consumer confidence in the Greater China Region. However, as the National Health Commission of the PRC announced at the end of December 2022 its decision to rename the term “novel coronavirus pneumonia” to “novel coronavirus infection” and to lift the stringent quarantine and infectious diseases management measures against COVID-19, the domestic retail market is expected to see positive sentiment. At the end of December 2022, the Hong Kong government also announced the lifting of compulsory quarantine arrangement for inbound travellers and canceled the issuance of quarantine orders and “Vaccine Pass” requirements in all premises, as well as the mask mandate arrangement and all social distancing measures, officially bringing Hong Kong back on the track to normalcy. It is expected that the impact of COVID-19 on the retail markets in Mainland China and Hong Kong will be less profound in 2023. The Group will remain cautiously optimistic and will actively develop new income sources, reduce expenditure, allocate resources to businesses with higher growth potential, and focus on developing bedding products with health enhancing functions, so as to strengthen its leadership in the bedding products industry in the Greater China Region.

### **Mainland China**

Regarding sales channels, apart from continuing the development of businesses such as self-operated retail sales, distributor-sales, online sales and wholesaling, livestreaming marketing business will become the new development focus of the Group in Mainland China in 2023. In terms of self-operated physical retail business, the Group will implement graded management for self-operated POS based on respective positioning. For example, resources for product structure, promotional events and operational initiatives will be allocated to stores according to different grades to focus on enhancing the profitability of self-operated POS. In March 2023, the Group opened a “CASA Life Flagship Store” in Shenzhen and one in Huizhou respectively. Livestreaming studios were set up in the stores, in which influencers will be invited regularly for e-commerce livestreaming, with a view to capitalising on the opportunities arising from the post-COVID border reopening between Mainland China and Hong Kong and the retail market recovery with a business model of integrating online and offline channels, as well as serving as demonstration stores for recruiting new distributors. In terms of distributor-sales business, the Group will continue to recruit new distributors and target to add a net of 8 distributor-operated POS in 2023. In terms of wholesale business, the Group will enhance the cooperation with the point redemption platforms of various corporate customers as the economy recovers. In terms of online sales business, the Group will improve product structure and planning, such as increasing the stock of high-value products and key products appropriately based on sales volume on platforms, to increase revenue contribution and avoid the risk of stock depletion during promotional and group purchase events.

The new building B of the Group in phase II of the Casablanca Industrial Park in Huizhou officially commenced operation during the first quarter of 2023. Not only does it accommodate production facilities for new products (especially for research and development) and provide more office, showroom, training and conference room spaces, it also serves as the operation base of livestreaming marketing business of the Group. The newly established “Sleeping Culture Experience Hall” in building B, which introduces the materials and technology development of sleeping products as well as the development journey and key products of the Group, is expected to open for public visits in the second quarter of 2023. In terms of livestreaming marketing business, we are actively working on product and promotion planning, and will invite star hosts for annual cooperation and core hosts for livestreaming marketing of key products, in an effort to generate higher income within a short period of time. The Group also plans to utilise the extra space in building B to promote the development of technologically innovative industries of the younger generation. Earlier, the Group was awarded the “Huizhou, Hong Kong, Macao, Taiwan and Overseas Chinese Digital Entrepreneurship Livestreaming Base” (惠州港澳台僑數字創業直播基地) by the United Front Work Department of the Huizhou Municipal Committee of the Communist Party of China (中共惠州市委統一戰線工作部).

With healthy household products catching the eyes of more consumers during COVID-19 in recent years, the Group has continued to focus on the research and development of products with “5A features” and employ high-quality materials to ensure its products are safe for use by consumers. In addition, the Group insists on integrating technology into sleeping products to improve consumers’ sleep quality. Following its research and development efforts in 2022, the Group launched the new “AI Ecological Pillow” in early 2023. The “AI Ecological Pillow” is the Group’s first smart pillow compatible with Huawei’s HarmonyOS operating system, having obtained the “HarmonyOS Connect Ecological Product Technology Certification”. Equipped with an intelligent monitoring module to provide 24-hour sleep status monitoring, the “AI Ecological Pillow” allows users to transmit data to mobile applications through the NFC function and to adjust the height of the support according to their needs with the built-in adjustable airbag. Looking ahead, the Group will keep developing AI-powered functional quilt and pillow products.

## **Hong Kong**

2023 marks the 30th anniversary of the establishment of the Casablanca brand in Hong Kong. In addition to promoting the integration of environmental protection and technology into household life, the Group has been paying great attention to the creative development of the younger generation. As a theme event for the 30th anniversary, the Group, the School of Fashion and Textiles of the Hong Kong Polytechnic University and Cotton Incorporated have jointly organised a bedding product design competition. The winning designs will be made into bedding products with environmentally-friendly and functional materials, which are expected to be available in the market in 2023. The Group will also launch a large-scale promotional campaign under the “Sleep Green Go With Casa Tech” theme to promote the Group’s high-quality bedding products made with environmentally-friendly and technology-embedded materials.

In addition to strengthening staff training to enhance consumers' shopping experience at the Group's physical POS, the Group will launch time-limited promotions and members-only offers at the Hong Kong official online store, and will timely adjust its product portfolio and improve delivery processes to optimise consumers' experience of purchasing the Group's products online. In terms of wholesale channels, the Group will remain committed to expanding diverse business opportunities with commercial customers, such as seeking the opportunities to supply products to commercial customers for different types of giveaway campaigns, point redemption schemes or online shopping rebates. The Group will also look for more cooperation opportunities in different forms.

As for promotion, the Group has strengthened online promotion over the past few years to more effectively convey its brand positioning and messages to its target consumers and succeeded in bolstering awareness of the brand among young people in Hong Kong. In 2023, it will continue to enhance its online promotional content, create more short videos and increase interaction with consumers. The Group will actively seek opportunities to promote its brands in shopping malls or department stores, including introducing pop-up stores and staging themed exhibitions, to capture the interest of consumers with different shopping habits. In terms of the mattress business, the Group will take more initiatives in negotiating sales and promotional opportunities with major department stores and shopping malls, in order to enhance the brand awareness of the mattress products. It will also try to build up its own big data through public surveys. As more time is required to study the market response, the Group has postponed the plan of opening a specialty store for the mattress business until 2024.

Adhering to its "Contemporary, Innovative and Functional" design concept, the Group strives to integrate sustainable growth, environmental protection and social responsibility in its business strategies to provide consumers with quality bedding products of fashionable designs and at reasonable prices, as well as home accessories that are trendy yet practical and bring benefits to society. The Group will also continue to broaden revenue streams and enhance its brand value so as to bring satisfactory returns to shareholders of the Company (the "Shareholders") in the long run.

## FINANCIAL REVIEW

### Revenue

During the Year, the Group recorded revenue of HK\$300.2 million (2021: HK\$320.4 million), representing a decrease of 6.3%. The decrease in revenue was primarily attributable to the decline of sales in Mainland China, which, in turn, was attributable to the resurgence of COVID-19 infected cases in various major regions of Mainland China during 2022, and the decline of sales in Hong Kong during the fifth wave of COVID-19 broke out during the first quarter of 2022.

#### *Breakdown of revenue by channels:*

|   | 2022            |                   | 2021            |                   | Change          |          |
|---|-----------------|-------------------|-----------------|-------------------|-----------------|----------|
|   | <i>HK\$'000</i> | <i>% of Total</i> | <i>HK\$'000</i> | <i>% of Total</i> | <i>HK\$'000</i> | <i>%</i> |
| <b>Self-operated retail sales</b>               |                 |                   |                 |                   |                 |          |
| Self-operated concession counters               | <b>160,367</b>  | <b>53.4%</b>      | 168,613         | 52.6%             | (8,246)         | -4.9%    |
| Self-operated retail stores                     | <b>55,543</b>   | <b>18.5%</b>      | 58,323          | 18.2%             | (2,780)         | -4.8%    |
| <b>Sub-total for self-operated retail sales</b> | <b>215,910</b>  | <b>71.9%</b>      | 226,936         | 70.8%             | (11,026)        | -4.9%    |
| <b>E-sales</b>                                  | <b>29,035</b>   | <b>9.7%</b>       | 30,900          | 9.7%              | (1,865)         | -6.0%    |
| <b>Sales to distributors</b>                    | <b>20,504</b>   | <b>6.8%</b>       | 29,573          | 9.2%              | (9,069)         | -30.7%   |
| <b>Others (Note)</b>                            | <b>34,714</b>   | <b>11.6%</b>      | 32,994          | 10.3%             | 1,720           | 5.2%     |
| <b>Total</b>                                    | <b>300,163</b>  | <b>100.0%</b>     | 320,403         | 100.0%            | (20,240)        | -6.3%    |

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

Self-operated retail sales for the Year accounted for 71.9% of the total revenue and represented a slight decrease of 4.9% as compared to 2021. The decrease in self-operated retail sales was attributable to the weak consumer sentiment under strict anti-pandemic measures imposed by the government of Mainland China for the resurgence of COVID-19 infected cases during 2022. With a similar level of revenue from e-sales in Hong Kong for the Year, the decrease in e-sales was mainly attributable to the decrease in e-sales in Mainland China as compared to 2021. The significant decrease in sales to distributors for 2022 was mainly attributable to distributors in Mainland China suffered the same as our self-operated retail sales as a result of the resurgence of COVID-19 infected cases in various major regions of Mainland China during 2022. Owing to the increase in export sales offsetting against the decrease in wholesales in Mainland China, sales to others was at similar level as compared to 2021.

**Breakdown of revenue by brands:**

|                                | 2022            |                   | 2021            |                   | Change          |              |
|--------------------------------|-----------------|-------------------|-----------------|-------------------|-----------------|--------------|
|                                | <i>HK\$'000</i> | <i>% of Total</i> | <i>HK\$'000</i> | <i>% of Total</i> | <i>HK\$'000</i> | <i>%</i>     |
| Proprietary brands             | 246,054         | 82.0%             | 265,949         | 83.0%             | (19,895)        | -7.5%        |
| Licensed and authorized brands | 54,109          | 18.0%             | 54,454          | 17.0%             | (345)           | -0.6%        |
| <b>Total</b>                   | <b>300,163</b>  | <b>100.0%</b>     | <b>320,403</b>  | <b>100.0%</b>     | <b>(20,240)</b> | <b>-6.3%</b> |

Casablanca, Casa Calvin and CASA-V are our major proprietary brands. The decrease of 7.5% in sales of proprietary brands was attributable to the decrease in sales during the Year. Sales of our licensed and authorized brands for 2022 were at similar level as compared to 2021.

**Breakdown of revenue by products:**

|                        | 2022            |                   | 2021            |                   | Change          |              |
|------------------------|-----------------|-------------------|-----------------|-------------------|-----------------|--------------|
|                        | <i>HK\$'000</i> | <i>% of Total</i> | <i>HK\$'000</i> | <i>% of Total</i> | <i>HK\$'000</i> | <i>%</i>     |
| Bed linens             | 163,350         | 54.4%             | 167,311         | 52.2%             | (3,961)         | -2.4%        |
| Duvets and pillows     | 121,751         | 40.6%             | 134,844         | 42.1%             | (13,093)        | -9.7%        |
| Others ( <i>Note</i> ) | 15,062          | 5.0%              | 18,248          | 5.7%              | (3,186)         | -17.5%       |
| <b>Total</b>           | <b>300,163</b>  | <b>100.0%</b>     | <b>320,403</b>  | <b>100.0%</b>     | <b>(20,240)</b> | <b>-6.3%</b> |

*Note:* “Others” includes sales of home accessories, furniture and other products.

Bed linens and duvets and pillows are major products of the Group. The decrease in sales of bed linens and duvets and pillows for 2022 was primarily due to the decrease in overall sales during the Year.

**Breakdown of revenue by geographic regions:**

|                        | 2022            |                   | 2021            |                   | Change          |              |
|------------------------|-----------------|-------------------|-----------------|-------------------|-----------------|--------------|
|                        | <i>HK\$'000</i> | <i>% of Total</i> | <i>HK\$'000</i> | <i>% of Total</i> | <i>HK\$'000</i> | <i>%</i>     |
| Hong Kong and Macau    | 235,366         | 78.4%             | 236,672         | 73.9%             | (1,306)         | -0.6%        |
| Mainland China         | 56,937          | 19.0%             | 82,482          | 25.7%             | (25,545)        | -31.0%       |
| Others ( <i>Note</i> ) | 7,860           | 2.6%              | 1,249           | 0.4%              | 6,611           | 529.3%       |
| <b>Total</b>           | <b>300,163</b>  | <b>100.0%</b>     | <b>320,403</b>  | <b>100.0%</b>     | <b>(20,240)</b> | <b>-6.3%</b> |

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

Revenue from Hong Kong and Macau for 2022 was at similar level as compared to 2021, which was primarily due to the increases in sales at self-operated retail counters in department stores and wholesales. The significant decrease in revenue from Mainland China by 31.0% for 2022, when compared to 2021, was attributable to decreases in sales through all channels as a result of the resurgence of COVID-19 infected cases in various major regions of Mainland China during 2022. Revenue from others for 2022 significantly increased since some of our export customers re-activated their purchase orders which were on hold under the impact of COVID-19 during 2021.

### **Gross Profit and Gross Profit Margin**

Gross profit decreased by 4.9% to HK\$186.8 million for 2022 as compared to HK\$196.4 million for 2021. The gross profit margin for 2022 was 62.2% which was slightly higher than 61.3% for 2021 and mainly due to the increase in proportion of retail sales for 2022 at a higher margin.

### **Other Income**

Other income for the Year increased by 345.8% to HK\$6.5 million (2021: HK\$1.5 million). The increase during the Year was mainly due to the presence of subsidies of about HK\$4.5 million received from governments of Hong Kong and Mainland China primarily in relation to COVID-19 in 2022.

### **Other Losses/Gains**

Other losses for the Year amounted to HK\$2.3 million (2021 gains: HK\$0.8 million), mainly representing net exchange loss of HK\$5.8 million (2021 gain: HK\$1.3 million), loss allowance on trade receivables of HK\$0.4 million (2021 reversal of loss allowance: HK\$0.1 million) and net loss on financial assets at fair value through profit or loss (the “FVTPL”) of HK\$0.1 million (2021: HK\$1.3 million) offsetting gain on disposal of property, plant and equipment of HK\$4.0 million in total (2021 loss on disposal and impairment loss: HK\$0.5 million) and gain on lease modification of nil (2021: HK\$1.4 million).

### **Operating Expenses**

Selling and distribution costs for 2022 decreased by 2.2% to HK\$135.3 million (2021: HK\$138.3 million). The decrease was mainly due to decreases in salaries and allowances to sales staff, repair maintenance and other expenses.

Administrative expenses for 2022 increased by 6.8% to HK\$46.7 million (2021: HK\$43.7 million). The increase was primarily due to increases in entertainment, bank charges and other expenses for the Year.

## Taxation

The Group's effective tax rate for 2022 was 40.9% as compared to 24.0% for 2021. The effective tax rate for 2022 was calculated with non-taxable subsidies and gains offsetting against operation losses of subsidiaries in Mainland China and other non-tax deductible expenses. Had these subsidies, operation losses, the loss allowances on trade and other receivables and inventory, and the exchange loss for 2022 and 2021 been excluded, the adjusted effective tax rate would be approximately 16.4% for 2022 and 17.5% for 2021.

## Profit for the Year

Profit attributable to owners of the Company for the Year was HK\$5.4 million, representing a decrease of 54.9% when compared to HK\$11.9 million for 2021. The decrease in profit attributable to the owners of the Company for the Year was mainly due to (a) the decline of sales in Mainland China, which, in turn, was attributable to the resurgence of COVID-19 infected cases in various major regions of Mainland China during 2022, and (b) the net exchange loss arising from depreciation of Renminbi against Hong Kong dollar during the Year, despite the presence of subsidies received from governments of Hong Kong and Mainland China in relation to COVID-19 and the gain on disposal of property, plant and equipment recorded for the Year.

EBITDA represents gross profit less selling and distribution costs and administrative expenses adding back depreciation. EBITDA for 2022 decreased by 25.1% to HK\$30.8 million (2021: HK\$41.1 million) which was primarily attributable to the decrease in sales for the Year.

## Major Operating Efficiency Ratios

|   | <b>2022</b>  | 2021  |
|---|--------------|-------|
| Inventory turnover ( <i>days</i> )                | <b>232.2</b> | 238.4 |
| Trade receivables turnover ( <i>days</i> )        | <b>50.8</b>  | 53.5  |
| Trade and bills payables turnover ( <i>days</i> ) | <b>152.1</b> | 142.9 |

### *Inventory turnover*

The inventory turnover is equal to the average of opening and closing inventory divided by total cost of sales for the year and multiplied by 365 days. The reason for inventory turnover for 2022 slightly decreased to 232.2 days from 238.4 days for 2021 was due to the decrease in inventory. The inventory at 31 December 2022 decreased by 31.9% to HK\$58.5 million from HK\$85.8 million at 31 December 2021 with more raw materials and finished goods kept at 31 December 2021 for promotional events in January 2022 in Hong Kong.

### ***Trade receivables turnover***

The trade receivables turnover is equal to the average of opening and closing trade receivables divided by total sales for the year and multiplied by 365 days. With the decrease in sales for 2022 and the lower closing trade receivables at 31 December 2022, the trade receivables turnover for 2022 decreased to 50.8 days from 53.5 days for 2021.

### ***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 2022 increased to 152.1 days from 142.9 days for 2021 was attributable to the higher opening trade and bills payables at 1 January 2022 despite the decrease in cost of sales for 2022. The decrease of 30.9% in trade and bill payables of HK\$38.6 million at 31 December 2022 from HK\$55.9 million at 31 December 2021 was due to less raw materials purchased in the fourth quarter of 2022 as compared to that of 2021.

### **Liquidity and Capital Resources**

The gearing structure is set out below:

|                              | <b>As at 31 December</b> |                 |
|------------------------------|--------------------------|-----------------|
|                              | <b>2022</b>              | <b>2021</b>     |
|                              | <b>HK\$'000</b>          | <b>HK\$'000</b> |
| Total bank borrowings        | <b>5,298</b>             | 3,980           |
| Total bank balances and cash | <b>145,595</b>           | 142,335         |
| Net cash                     | <b>140,297</b>           | 138,355         |
| Total assets                 | <b>484,836</b>           | 522,259         |
| Total liabilities            | <b>89,074</b>            | 117,541         |
| Total equity                 | <b>395,762</b>           | 404,718         |

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 settlement of payables for the construction of the new building B under phase II of Casablanca industrial Park in Huizhou in order to improve the working capital of the PRC subsidiary.

The increase in bank balances and cash at 31 December 2022 was primarily attributable to less payments for the construction of the new building B under phase II of Casablanca Industrial Park in Huizhou and the subsequent decoration during the Year. Even reserving cash for full settlements of capital commitments, outstanding payables for the decoration for the new building B under phase II of Casablanca Industrial Park in Huizhou and bank borrowings at 31 December 2022, the Group would still have available net cash of about HK\$127.6 million and unutilized banking facilities of about HK\$68.6 million as at 31 December 2022 which will be sufficient for its future operations in absence of unforeseen circumstances.

### ***Pledged bank deposits and bank balances and cash***

As at 31 December 2022, the pledged bank deposits of the Group were approximately HK\$6.4 million (2021: HK\$7.2 million), which were denominated in HKD and RMB, and the bank balances and cash of the Group were approximately HK\$139.2 million (2021: HK\$135.1 million), which were denominated in HKD and RMB except for about 1.3% in United States dollars and Euro.

### ***Bank borrowings***

As at 31 December 2022, the bank borrowings of the Group were approximately HK\$5.3 million (2021: HK\$4.0 million), which were denominated as to 100.0% in RMB, with all bank borrowings balances repayable not more than one year and being fixed-rated borrowings with effective interest rates at 5.42% per annum. During the Year, the financial position of the Group was healthy.

### ***Current ratio***

The Group's total current assets and the total current liabilities at 31 December 2022 decreased to HK\$268.6 million (2021: HK\$301.4 million) and HK\$80.2 million (2021: HK\$107.8 million) respectively. As a result, the current ratio increased to 3.4 as at 31 December 2022 from 2.8 as at 31 December 2021. The increase in current ratio was mainly due to the decrease in current assets less than that in current liabilities.

### ***Gearing ratio***

Gearing ratio is calculated as total borrowings divided by total equity at the end of the year. As at 31 December 2022, the gearing ratio was only 1.3% (2021: 1.0%) with the bank borrowings increased by HK\$1.3 million in Mainland China when the total equity also decreased by HK\$9.0 million. The Group was at net cash position at 31 December 2022 as well as 31 December 2021.

### ***Pledge of assets***

As at 31 December 2022, no leasehold land and buildings were pledged to banks as securities for banking facilities granted to the Group (2021: Nil). The Group had pledged only its fixed deposits with an aggregate value of HK\$6.4 million (2021: HK\$7.2 million) to certain banks in Hong Kong and Mainland China to secure banking facilities granted to the Group at 31 December 2022.

### ***Capital expenditures***

During the Year, the Group invested HK\$10.1 million (2021: HK\$59.2 million) mainly for acquisition of properties, leasehold improvements and equipment and the construction and decoration for the new building B under phase II of Casablanca Industrial Park in Huizhou, the PRC.

### ***Capital commitments***

As at 31 December 2022, the Group had capital commitments of approximately HK\$9.5 million (2021: HK\$5.1 million) of which mainly a sum of about HK\$9.5 million related to the decoration (2021 Construction: HK\$4.6 million) for the new building B under phase II of Casablanca Industrial Park.

### **Share Capital**

The total number of issued ordinary shares of the Company (“Shares”) as at 31 December 2022 was 257,854,000 Shares (2021: 257,854,000 Shares). As at 31 December 2022, the total issued share capital of the Company was HK\$25,785,400 (2021: HK\$25,785,400).

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 before the listing, which had been terminated upon the approval of a new share option scheme at the annual general meeting held on 6 June 2022.

### **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 7.8% against HKD in 2022 (2021 appreciated: 3.3%). The management is aware of the possible exchange rate exposure due to the continuing fluctuation of RMB and will closely monitor its impact on the performance of the Group to see if any hedging arrangement is necessary. The Group currently does not use derivative financial instruments to hedge against the volatility associated with foreign currency transactions and other financial assets and liabilities arising in the ordinary course of business.

### **Contingent Liabilities**

As at 31 December 2011 and 31 December 2022, the Company and two of its subsidiaries in Hong Kong were defendants in a litigation involving a copyright dispute in Hong Kong.

The parties of the litigation have reached a full and final settlement in March 2023, thereby resolved the dispute in lieu of trial. The Board considers that the settlement (including the terms thereof) has no material adverse effect to the business operation and financial position of the Group.

As at 31 December 2022, the Group did not have any significant contingent liabilities.

## **Employee and Remuneration Policy**

As at 31 December 2022, the employee headcount of the Group was 519 (2021: 516) and the total staff costs, including directors' emoluments, for the Year amounted to HK\$89.6 million (2021: HK\$91.8 million). The Group maintained similar employee headcount at 31 December 2022 and 31 December 2021. The slight decrease in total staff costs for 2022 was mainly due to less wages paid by the factory in Mainland China and the decrease in salaries and allowances to sales staff for the Year.

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**

Save as those disclosed in the announcement of the Company dated 5 October 2022 in relation to joint venture agreement entered for formation of a joint venture company, which became a subsidiary of the Group in Mainland China with effective interest of 51%, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures in the course of the Year.

## **Significant Investments**

The Group did not hold any significant investments save as those disclosed in this announcement.

## **Financial Assets at Fair Value Through Profit or Loss**

The financial assets at FVTPL represent the Group's investments in shares of companies being constituents of Hang Seng Index as listed on the Stock Exchange which were held for medium to long-term investment purposes. As at 31 December 2022, the Company had total investments with fair value of HK\$7.7 million (2021: HK\$7.3 million) which were not more than 5% of the Group's total assets. The increase in financial assets at FVTPL was mainly attributable to the net increase in total investments in shares listed on the Stock Exchange during the Year. Dividend income for the Year from these investments in shares of companies listed on the Stock Exchange was HK\$0.5 million (2021: HK\$0.4 million). As the Group's investments are constituents of Hang Seng Index as listed on the Stock Exchange, they are expected to bring returns to the Group in the long run.

## **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. For medium to long-term investment purposes, the Group may consider to invest in shares of companies listed on the Stock Exchange and investment properties to strive for better return in the medium to long-term from surplus cash on hand. The Group will review its business strategy in respect of its capital assets (including but not limited to properties owed by the Group) from time to time. With a view to optimising the overall benefits of the Group, adjustments may be made or new initiatives may be undertaken as regards the business plans formulated for properties owed by the Group having regard to the operational needs of the Group, actual circumstance and the interest of the Group as a whole.

References are made to the announcements of the Company dated 18 January 2022, 16 April 2021 and 30 October 2020 and the circular of the Company dated 15 December 2020 in relation to the construction of complex with four floors for the new building B under phase II of the Casablanca Industrial Park in Huizhou, the PRC (the “Construction”). The Group entered into a construction agreement on 30 October 2020 and a supplemental agreement on 16 April 2021 (collectively the “Construction Agreements”) with an independent third party contractor for the Construction which was duly completed in April 2022 with a total construction area of 25,255.09 square metres. The total consideration to the independent third party contractor for the Construction and other small constructions not under the Construction Agreements was finalised to be RMB55.2 million (equivalent to approximately HK\$62.4 million).

To cope with the business development, the interior designs of the new building B under phase II of the Casablanca Industrial Park had been modified into a complex comprising research and development centre, office, conference rooms, training rooms, showroom, livestreaming centres, and catering facilities.

References are made to the announcements of the Company dated 1 September 2022 and 5 September 2022 in relation to the Showroom Decoration for the phase II of Casablanca Industrial Park. The Group entered into a construction agreement on 1 September 2022 with an independent third party contractor for a consideration of RMB4.8 million (equivalent approximately to HK\$5.4 million) to carry out the Showroom Decoration. Including the Showroom Decoration, the Group finally incurred a total consideration of RMB21.3 million (equivalent approximately to HK\$24.0 million) in interior works and decorations for the new building B under phase II of the Casablanca Industrial Park. The new building B under phase II of the Casablanca Industrial Park in Huizhou has been in use since March 2023.

Other than those disclosed above, there was no plan authorised by the Board for material investments or additions of capital assets at the date of this announcement.

## **EVENT AFTER THE REPORTING PERIOD**

There is no material subsequent event undertaken by the Group up to the date of this announcement after 31 December 2022.

## **DIVIDEND**

The Directors do not recommend the payment of final dividend for the year ended 31 December 2022.

## **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.

## **ANNUAL GENERAL MEETING**

The forthcoming annual general meeting of the Company for the year ended 31 December 2022 (the "AGM") is scheduled to be held on Monday, 15 May 2023. 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 Tuesday, 9 May 2023 to Monday, 15 May 2023 (both days inclusive) during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the 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 Monday, 8 May 2023.

## **CORPORATE GOVERNANCE PRACTICES**

The Company has adopted the code provisions set out in the Corporate Governance Code set out 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.

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

## 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 2022.

## SCOPE OF WORK OF MESSRS. CHENG & CHENG LIMITED, CERTIFIED PUBLIC ACCOUNTANTS

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this preliminary announcement have been agreed by the Group’s auditors, Messrs. CHENG & CHENG LIMITED, Certified Public Accountants (“CHENG & CHENG”), to the amounts set out in the Group’s audited consolidated financial statements for the Year. The work performed by CHENG & CHENG in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by CHENG & CHENG on this preliminary announcement.

## APPRECIATION

We would like to extend our sincere gratitude to our valued customers, business partners and Shareholders for their constant support, and express our appreciation to the management team and employees for their valuable contributions to the development of the Group for the Year.

By Order of the Board  
**Casablanca Group Limited**  
**Cheng Sze Kin**  
*Chairman*

Hong Kong, 24 March 2023

*As at the date of this announcement, the Board of the Company 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.*