Casablanca Group Limited
卡撒天嬌集團有限公司

(Incorporated under the laws of the Cayman Islands with limited liability)

(Stock Code: 2223)

2016 ANNUAL RESULTS ANNOUNCEMENT

HIGHLIGHTS

	Notes	**2016**	2015	Change
Revenue *(HK$'000)*		**356,717**	370,969	-3.8%
Gross profit *(HK$'000)*		**223,941**	229,205	-2.3%
EBITDA *(HK$'000)*	*1*	**35,776**	11,193	219.6%
Profit/(Loss) for the year attributable to owners of the Company *(HK$'000)*	*2*	**7,930**	(16,230)	-148.9%
Gross profit margin		**62.8%**	61.8%	
EBITDA margin		**10.0%**	3.0%	
Net profit/(loss) margin	*2*	**2.2%**	-4.4%	

		As at 31/12/2016	As at 31/12/2015	Change
Total assets *(HK$'000)*		**490,105**	526,491	-6.9%
Total equity *(HK$'000)*		**356,323**	369,553	-3.6%
Total bank borrowings *(HK$'000)*		**50,171**	74,495	-32.7%
Pledged bank deposits and bank balances and cash *(HK$'000)*		**180,482**	184,185	-2.0%
Net cash *(HK$'000)*	*3*	**130,311**	109,690	18.8%
Gearing ratio	*4*	**14.1%**	20.2%	

Notes:

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

2. If the share-based payments amounted to HK$0.6 million for 2016 and HK$7.1 million for 2015 are excluded, the adjusted profit for the year attributable to owners of the Company and net profit margin for 2016 become HK$8.5 million and 2.4% respectively and adjusted loss for the year attributable to owners of the Company and net loss margin for 2015 become HK$9.1 million and 2.5% respectively.

3. Net cash represents pledged bank deposits and bank balances and cash less total bank borrowings.

4. 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 2016 (the "Year" or the "Review Period") as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Revenue	3	**356,717**	370,969
Cost of goods sold		**(132,776)**	(141,764)
Gross profit		**223,941**	229,205
Other income		**1,599**	2,247
Other gains and losses		**(6,304)**	(3,527)
Selling and distribution costs		**(152,431)**	(178,085)
Administrative expenses		**(50,148)**	(61,336)
Finance costs		**(2,066)**	(2,890)
Profit (loss) before taxation	4	**14,591**	(14,386)
Taxation	5	**(6,661)**	(1,844)
Profit (loss) for the year		**7,930**	(16,230)
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		**(12,959)**	(11,121)
Reclassification adjustments for cumulative exchange differences upon deregistration of a foreign operation		**(8,775)**	–
Other comprehensive expense		**(21,734)**	(11,121)
Total comprehensive expense for the year		**(13,804)**	(27,351)
Earnings (loss) per share			
– Basic (HK cents)	7	**3.07**	(6.67)
– Diluted (HK cents)	7	**3.07**	(6.67)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment		**122,923**	137,701
Prepaid lease payments		**23,540**	25,734
Intangible assets		**–**	2
Deposits paid for acquisition of property, plant and equipment		**594**	1,037
Rental and other deposits		**1,689**	1,723
Available-for-sale investment	*8*	**–**	7,749
Convertible bond	*9*	**–**	2,980
Derivative component in convertible bond	*9*	**–**	673
		148,746	177,599
Current assets			
Inventories		**77,101**	81,502
Trade and other receivables	*10*	**82,465**	77,234
Prepaid lease payments		**541**	578
Taxation recoverable		**770**	5,393
Pledged bank deposits		**8,038**	6,812
Bank balances and cash		**172,444**	177,373
		341,359	348,892
Current liabilities			
Trade and other payables	*11*	**81,413**	79,891
Taxation payable		**1,307**	840
Bank borrowings		**43,846**	53,756
Obligation under a finance lease		**63**	745
		126,629	135,232
Net current assets		**214,730**	213,660
Total assets less current liabilities		**363,476**	391,259
Non-current liabilities			
Bank borrowings		**6,325**	20,739
Obligation under a finance lease		**–**	63
Deferred tax liabilities		**828**	904
		7,153	21,706
Net assets		**356,323**	369,553
Capital and reserves			
Share capital		**25,843**	25,843
Reserves		**330,480**	343,710
Total equity		**356,323**	369,553

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent company is World Empire Investment Inc., a company incorporated in the British Virgin Islands ("BVI"), and its ultimate controlling parties are Mr. Cheng Sze Kin, who is the Chairman of the Company, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung (the "Ultimate Beneficial Owners"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" in the annual report.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are manufacture and trading of home textile products and accessories.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRS 11	Accounting for acquisitions of interest in joint operations
Amendments to Hong Kong Accounting Standards ("HKAS") 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transaction[1]

Amendments to HKFRS 4	Applying HKFRS 9 "Financial instruments" with HKFRS 4 "Insurance contracts"[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKFRS 15	Classification to HKFRS 15 "Revenue from contracts with customers" operations[1]
Amendments to HKAS 7	Disclosure initiative[4]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[4]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to determine.
4 Effective for annual periods beginning on or after 1 January 2017.

In general, the directors of the Company anticipate that the application of the expected credit loss model under HKFRS 9 will result in earlier recognition of credit losses for the respective items and are currently assessing the potential impact.

The directors of the Company anticipate the application of HKFRS 15 in the future may result in more disclosures but will not have an impact on the timing and amounts of revenue recognised in the respective reporting period.

A preliminary assessment indicates that the non-cancellable operating lease commitments will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

The directors of the Company anticipate that the application of the other new and amendments to HKFRSs will have no material impact on the financial performance and position and/or the disclosures when they become effective.

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) 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 People's Republic of China (for the purpose of this announcement, excluding Hong Kong, Macau and Taiwan) (the "PRC") and Hong Kong and Macau (collectively the "Greater China Region"), and sales made to overseas customers.

The information of segment revenue is as follows:

	2016	2015
	HK$'000	*HK$'000*
Self-operated retail sales	**261,563**	291,655
Sales to distributors	**34,514**	50,867
Others	**60,640**	28,447
	356,717	370,969

Entity-wide information

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

	2016	2015
	HK$'000	*HK$'000*
Bed linens	**201,130**	195,373
Duvets and pillows	**141,172**	159,227
Other home accessories	**14,415**	16,369
	356,717	370,969

Geographical information

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

	2016	2015
	HK$'000	*HK$'000*
Hong Kong and Macau	**264,631**	233,012
PRC	**91,699**	136,682
Others	**387**	1,275
	356,717	370,969

Information about the Group's non-current assets (excluding rental and other deposits, available-for-sale investment, convertible bond, derivative component in convertible bond and deferred tax assets) is presented based on the location of the assets:

	2016	2015
	HK$'000	*HK$'000*
PRC	**134,333**	148,952
Hong Kong	**12,724**	15,522
	147,057	164,474

Information about major customer

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

	2016	2015
	HK$'000	*HK$'000*
Customer A[1]	**38,405**	N/A[2]

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

[2] The customer contributed less than 10% total revenue of the Group in 2015.

4. PROFIT (LOSS) BEFORE TAXATION

	2016	2015
	HK$'000	*HK$'000*
Profit (loss) before taxation has been arrived at after charging (crediting):		
Directors' and chief executive's remuneration *(note a)*	**10,707**	14,950
Other staff costs	**75,355**	77,010
Retirement benefit schemes contributions for other staff	**5,245**	5,924
Share-based payments for other staff	**209**	1,933
Total staff costs	**91,516**	99,817
Auditor's remuneration	**1,406**	1,440
Amortisation of intangible assets	**2**	2
Amortisation of prepaid lease payments	**566**	598
Allowance for inventories (included in costs of goods sold)	**1,777**	1,655
Bad debts written off	**139**	2,359
Cost of inventories recognised as expenses	**130,999**	140,109
Depreciation of property, plant and equipment	**13,272**	13,749
Interest on:		
– Bank Borrowings	**2,049**	2,845
– Finance lease	**17**	45
	2,066	2,890
Operating lease rentals in respect of		
– rented premises	**1,144**	3,173
– retail stores *(note b)*	**9,725**	10,115
– department store counters *(note b)* (including concessionaire commission) (included in selling and distribution costs)	**47,365**	61,352
Total operating lease rentals	**58,234**	74,640
Design costs (included in administrative expenses) *(note c)*	**987**	1,195
Bank interest income	**(567)**	(636)
Investment income	**(630)**	(635)

Notes:

(a) Included rental expenses paid to related companies of HK$2,748,000 (2015: HK$2,748,000) for the year ended 31 December 2016 for directors' quarters provided to Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung.

(b) Included contingent rent of HK$27,529,000 (2015: HK$35,363,000) for the year ended 31 December 2016. The contingent rent refers to the operating lease rentals based on pre-determined percentages to realised sales less basic rentals of the respective leases.

(c) The design costs comprised of staff salaries of HK$716,000 (2015: HK$844,000) for the year ended 31 December 2016, which were included in the staff costs disclosed above.

5. TAXATION

	2016	2015
	HK$'000	*HK$'000*
Current tax		
Hong Kong	**5,833**	825
PRC Enterprise Income Tax (the "EIT")	**1,001**	758
	6,834	1,583
Overprovision in prior years		
Hong Kong	**(97)**	(68)
Withholding tax on distributed profits of a subsidiary in the PRC	**–**	1,113
Deferred taxation	**(76)**	(784)
	6,661	1,844

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

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

6. DIVIDENDS

No dividend was paid or proposed by the Company during the year ended 31 December 2016 (2015: nil), nor has any dividend been proposed since the end of the reporting period.

7. EARNINGS (LOSS) PER SHARE

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

	2016	2015
	HK$'000	*HK$'000*
Earnings (loss)		
Profit (loss) for the year attributable to owners of the Company for the purposes of basic and diluted earnings (loss) per share	**7,930**	(16,230)

	2016	2015
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share	**258,432,000**	243,316,575

For the year ended 31 December 2016, 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 that year.

The diluted loss per share for the year ended 31 December 2015 had not taken into account the effect of outstanding share options as exercise of such options would result in a decrease in loss per share.

8. AVAILABLE-FOR-SALE INVESTMENT

The balance represented an unlisted investment in 13.6% equity interest in a private entity (the "Investee Company"), an investment holding company incorporated in Hong Kong whose subsidiaries are principally engaged in virtual retailing business through a television shopping channel in the PRC.

During the year ended 31 December 2016, the Investee Company's virtual retailing business is suspended. The Investee Company will be wound up voluntarily pursuant to its special resolution passed on 22 February 2017. Accordingly, the directors of the Company considered the available-for-sale investment is not recoverable and the amount is fully impaired.

9. CONVERTIBLE BOND/DERIVATIVE COMPONENT IN CONVERTIBLE BOND

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

During the year ended 31 December 2016, the Investee Company's virtual retailing business is suspended. The Investee Company will be wound up voluntarily pursuant to its special resolution passed on 22 February 2017. Accordingly, the directors of the Company considered the recoverability on the convertible bond is remote and the amount of HK$2,980,000 is fully impaired. The directors of the Company also considered the fair value of the derivative component in convertible bond is minimal and a fair value loss of HK$673,000 is charged to profit or loss during the year.

The Group's convertible bond is recognised as follows:

	Debt component *HK$'000*	**Derivative component** *HK$'000*
At the date on initial recognition	2,884	716
Accretion of interest	96	–
Fair value loss recognised in profit or loss (included in other gains and losses)	–	(43)
At 31 December 2015	2,980	673
Fair value loss recognised in profit or loss (included in other gains and losses)	–	(673)
Impairment loss on convertible bond	(2,980)	–
At 31 December 2016	**–**	**–**

10. TRADE AND OTHER RECEIVABLES

	2016 *HK$'000*	2015 *HK$'000*
Trade receivables	**70,783**	65,256
Less: Allowance for doubtful debts	**(1,358)**	(1,141)
	69,425	64,115
Bills receivables	**–**	208
Trade and bills receivables	**69,425**	64,323
Deposits	**3,948**	3,735
Prepayments	**2,516**	4,925
Value added tax recoverable	**4,813**	3,154
Advances to employees	**416**	766
Other receivables	**1,347**	331
	13,040	12,911
Total trade and other receivables	**82,465**	77,234

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

	2016	2015
	HK$'000	*HK$'000*
Within 30 days	**33,047**	35,543
31 to 60 days	**26,772**	15,601
61 to 90 days	**5,690**	4,439
91 to 180 days	**2,605**	4,849
181 to 365 days	**275**	2,147
Over 365 days	**1,036**	1,744
	69,425	64,323

11. TRADE AND OTHER PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**24,392**	27,961
Bills payables	**35,189**	29,059
Trade and bills payables	**59,581**	57,020
Deposits received from customers	**3,554**	3,783
Accrued expenses	**6,331**	7,678
Salaries payables	**8,015**	6,312
Payable for acquisition of property, plant and equipment	**1,316**	1,180
Other payables	**2,616**	3,918
	21,832	22,871
Total trade and other payables	**81,413**	79,891

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

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

	2016	2015
	HK$'000	*HK$'000*
Within 30 days	**21,259**	34,875
31 to 60 days	**14,751**	10,686
61 to 90 days	**9,654**	8,438
91 to 180 days	**11,852**	3,021
Over 180 days	**2,065**	–
	59,581	57,020

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

2016 was a year with extremely difficult operating environment. With much uncertainty in the global economy as well as political environment around the world, consumer confidence in the Greater China Region was affected. In addition, the rising operating costs such as rentals, commissions of department stores and staff costs made operation of retail companies more difficult. Consumers have become more prudent due to the slowdown of economic growth in the PRC. Moreover, due to the impact brought by the rise of e-commerce in recent years, the traditional retail industry must explore new ways for business development through business upgrade and transformation. During the Review Period, consumer confidence in Hong Kong was greatly affected by factors such as political tension and the continuous decline in the number of tourists visiting Hong Kong. In addition to the difficult operating environment in retail market, the bedding products industry also experienced very intensive internal competition. As compared to the bedding products market in Hong Kong where brands are relatively concentrated, the brands in the bedding products market in the PRC are highly fragmented; therefore, the bedding products retailers actively launched different promotional activities through online and offline channels to drive sales performance. As such, enterprises that can provide unique product design with additional functions and invest more resources in marketing promotion will be able to enjoy greater advantages in long run.

For the year ended 31 December 2016, the Group was affected by the sluggish retail market in the Greater China Region and the closure of some underperformed self-operated points of sale ("POS") in the PRC, whereas, the wholesale sales in Hong Kong still registered satisfactory growth. The Group's total revenue slightly decreased by 3.8% from HK$371.0 million for the same period in 2015 to HK$356.7 million. For the year ended 31 December 2016, the Group recorded a profit of HK$7.9 million, as compared to a loss of HK$16.2 million for the same period in 2015. Even though the Group incurred impairment losses of the available-for-sale investment and the convertible bond due to the suspension of its virtual retail business for a private entity (an unlisted investment by the Group in 13.6% equity interest) in 2016, it still managed to record a turnaround to profit, which is mainly attributable to: (1) the increase in the sales to a wholesale customer in Hong Kong pursuant to a bulk-purchase agreement; (2) the decrease in selling and distribution costs and share-based payments; and (3) the reclassification of cumulated exchange reserve as other gains arising from deregistration of a subsidiary in the PRC.

Business Review

During the Review Period, the Group adhered to the principle of maintaining profitability while striving for better results and a conservative attitude for business development. Apart from taking active measures to explore sales channels to broaden its income streams, the Group also stepped up its efforts in product development and procurement in a view to providing more fashionable and quality bedding products with health functions for consumers to choose. Meanwhile, the Group invested more resources in marketing promotion with an aim to enhance its brand image.

Broadened income streams and adjusted sales network

In order to broaden income streams and reduce the dependence on retail income, the Group proactively explored various sales channels by providing service providers and organisations, such as hospitals, hotels, beauty centres, community health organisations and university dormitories, etc., with quality bedding products which can satisfy their unique needs during the Review Period. Moreover, we provided commercial-customers, such as retail chains, supermarkets, telecommunications service providers, banks, beverage retail brands and lingerie brands etc., with gifts or products for gift redemption, which helped to stimulate consumption with these customers and enhanced the brand awareness of the Group. These collaborations also helped to establish the mutually beneficial and cooperative relationship between the Group and commercial-customers. During the first half of 2016, the Group recorded a significant sales in relation to the supply of "CASA-V" bed linens to a wholesale customer for redemption in Hong Kong, which had not only increased the income of the Group, but also effectively aroused Hong Kong consumers' interests and attention to the Group's products under the new brand. As the market response of the event was better than expected, the Group has cooperated with this Hong Kong wholesale customer again from the end of 2016 to early 2017 and provided it with more "CASA-V" duvet products for redemption.

We understand that we must increase the online exposure and online sales channels of the Group's products in order to extend our reach to young consumers. The Group offered more group-buying online deals in Hong Kong during the Review Period to provide consumers with contemporary and high quality products at reasonable prices, which in turn contributed to the increase in the Group's income from online channels. Besides, we began to provide products to a fashion retail website and a television shopping centre website in Hong Kong in 2016, hoping that more young family with purchasing power can enjoy the Group's fashionable and quality products.

E-commerce has become a segment that no retail company in the PRC wants to miss out. However, since the Group lacked experienced labour and did not invest sufficient resources in previous years, the development of online business was unsatisfactory. During the Review Period, we reconstructed the e-commerce team in the PRC and rebuilt the online shop on the Group's website, Tmall flagship store and JD flagship store.

In order to reduce administrative costs, the Group completed the relocation of its PRC sales headquarters to Huizhou plant during the Review Period, which has further promoted the sharing of internal resources. In addition, in response to the development of O2O business, we also continued to refine the structure of our offline physical sales network mainly by closing down the self-operated POS with unsatisfactory profitability while retaining the POS that maintained high profitability and situated at strategic locations. During the Review Period, the Group closed down 24 self-operated POS in the PRC that recorded losses or the contracts of which were terminated by department stores; and opened 8 new self-operated POS in different regions where targetted customers are located. As at 31 December 2016, the sales network of the Group consisted of a total of 255 POS (31 December 2015: 287), among which 125 were self-operated POS and 130 were distributor-operated POS, covering a total of 81 cities in the Greater China Region.

Consolidated product styles and expanded product portfolio

As a brand operator, we understand that unique product design styles are of utmost importance to building brand image. During the Review Period, the product development department of the Group enhanced the design styles inspired by the architectures during the Italian Renaissance period with an aim to strengthen brand differentiation and identification.

Riding on the positive response of the "CASA-V" brand in the market, the Group launched the "CASA-V Baby" series in the Hong Kong market in July 2016, further extending the application of the pioneer "5A Features" in Hong Kong to baby bedding products, thereby providing better choices for parents who are conscious of baby's healthcare. The "CASA-V Baby" series uses "Colored Eco-cotton" as its key material, which is characterised by its dye-free, smooth and soft, breathable, sweat-absorbing, and fire-retardant features. Together with the "5A Features", including Air purification, Anti-bacteria, Anti-fungal, Anti-mite and Anti-odor, the products cause no irritation to babies' delicate skin and provide a healthy sleeping environment for them. In addition to the general baby bedding product set, "CASA-V Baby Miracle Blanket" and "CASA-V Baby Sleeping Bag" under the "CASA-V Baby" series were launched for the first time, both of which come with "5A Features" and special design that can wrap babies' bodies securely, as if they are warmly cuddled and protected by their parents.

In order to cater for the needs of different consumers, the Group has been adopting multi-brands strategy. The Group officially commenced the sales of products under the brand "VOSSEN" as an exclusive distributor in the Greater China Region in 2016. The brand, originated from Austria, offers premium terry toweling products which have obtained the OEKO-TEX® Standard 100 pollutant-free certification and passed the FKT "Medical test-toxin test" in Germany. Besides, the products are given with a soft touch and permanent beautiful colours with the help of AIRpillow Technology and KKV dyeing technology, therefore drawing the attention of consumers. With a view to enhancing the recognition of the Group and "VOSSEN" in the PRC market, we participated in a major home accessories exhibition with "VOSSEN" in Shenzhen in March 2016.

Products featuring cartoon characters are not only the favourites of children but also a gratitude that can continue the childhood hobby of adult consumers. Considering the changes of market trends, the Group reorganised the authorised cartoon characters portfolio by increasing the choices of products with popular authorised cartoon characters such as Barbie, Dustykid, Felix the Cat, Madagascar, Thomas & Friends and Pokemon.

Optimised marketing promotion and enhanced brand image

The Group has stepped up its efforts in marketing promotion in recent years. In 2016, we continued to enhance the brand image of the Group by launching television advertisement starring our celebrity spokesman. Meanwhile, we have enhanced the online and offline marketing and cultivated a closer relationship with the consumers in Hong Kong while gaining more exposure of the Group's brand among consumers in the PRC. During the Review Period, we continued to advertise on television, radio, newspapers, magazines and public transports and took part in a readers' seminar held by a maternity magazine in Hong Kong for the first time to allow more mothers-to-be to learn about the Group's latest "CASA-V Baby" bedding products series. With respect to online marketing, we reached out to consumers in Hong Kong and the PRC through Facebook and WeChat according to their respective habits regarding the use of social platforms and invited consumers to participate in online games to enhance our interaction. Through these online interactions with the customers, we have obtained many valuable advices, which will be helpful for improving our products and services in the future.

In the third quarter of 2016, through the limited-edition products launched under "Fantasy Dreams" designed by the celebrity spokesman for charitable purpose, the Group organised a spokesman promotion event for the first time in a big shopping mall in Hong Kong, along with a large-scale product exhibition named "Bedroom Garden Exhibition (寢室花園展覽)" demonstrating "CASA-V" products and promoting its concept of green and healthy living. The event has greatly aroused the attention to "CASA-V" among consumers in Hong Kong. Moreover, part of the proceeds from the sale of "Fantasy Dreams" products was donated to Little Life Warriors Society for supporting the care work of children suffering from cancers and severe blood diseases and waiting for bone marrow transplant. The products have gained wide support from the kind-hearted public.

We attach great importance to our contribution to the society and hope to share the Group's passion of "Love Life Love Future (愛生活 愛未來)"with more people. In the second quarter of 2016, the Group once again participated in "Yan Chai Fortune Bag in Care of Elderly (仁濟安老送關懷愛心福袋賀回歸)" event organised by Yan Chai Hospital and donated pillow cases to the elderly who live alone. In addition, in the third quarter of 2016, we continued to support the "Pink Revolution" event hosted by Hong Kong Cancer Fund, encouraging women to pay attention to breast cancer and have regular medical examination while using the elegant and fashionable bedding products. In November 2016, the Group once again acted as the title sponsor for the walkathon named "Yan Chai Charity Walk 2016 (仁濟慈善行2016)" held by Yan Chai Hospital with a view to supporting the community services work of Yan Chai Hospital.

The Group's efforts during the Review Period have been widely recognised by the community. The awards obtained by the Group in 2016 included "2016 Hong Kong Awards for Industries: Upgrading and Transformation Award" presented by Hong Kong Young Industrialists Council, "The Listed Enterprise Excellence Awards 2016" presented by Capital Weekly, "U Green Awards – Excellence of Environmental Contribution Award (U Green Awards – 傑出綠色貢獻大獎)" presented by U Magazine, "My Favourite Babies Bedding Products (我最喜愛嬰幼兒床上用品)" awarded by Sky Post, "Most Popular Bedding Products Brand (最強人氣床上用品品牌)" awarded by TVB Weekly and "Consumer Caring Company" awarded by GS1 Hong Kong.

FUTURE PROSPECTS

In 2017, the PRC government will continue to provide strong support for urbanisation while increasing domestic demand and promoting consumption upgrade. Together with the favourable measures for baby birth launched by various local governments, there is still huge demand for quality bedding products with health functions in the market. In addition, the PRC government will continue to promote "Internet+" with a view to support e-commerce development. In 2016, despite the slowdown of economic growth, the online retail sales nationwide still recorded a strong year-on-year increase. Hence, online channel is still a segment that no enterprise seeking growth wants to miss out. In 2017, there are uncertainties in the Hong Kong market due to the Chief Executive Election and change of government leadership in Hong Kong, and consumer confidence is expected to remain low. Although there are quite a number of negative speculations on the market in 2017, the Group will uphold a cautiously optimistic attitude to continuously enhance its products, services and promotions and strive for steady development.

Reinforce the development of e-commerce and commercial-customers market

We believe that optimisation of online sales business is one of the key measures to capture bigger market shares. Over the past two years, the Group has restructured its online sales business through works such as reorganisation of teams and increasing its promotion efforts. We also optimised the online shopping experience of consumers by upgrading our software and expanding our online customer service team. In 2017, the Group will focus on its unique product portfolio and high-profile sales activities and continue to step up its efforts in developing the e-commerce operations in the PRC. The Group will explore ways to enhance the differentiation of its online and offline product portfolio, for example, launching online exclusive products, limited edition products or cross-over products online, with a view to attract potential customers' attention to the Group's brand. This will also help to attract existing offline customers to purchase our products online. As for online sales activities, we will continue to promote the "Everyone is a distributor (人人可分銷)" activity on WeChat so as to encourage members to refer their family members and friends to purchase the Group's products with extra membership points on the interconnected online and offline systems. In March 2017, we will join hands with VOSSEN to participate in the Tmall International Textile Fair (天貓國際家紡展) in an effort to enhance our brand image offline, at the same time boosting the sales of the Group's products via online channels. Besides, we will also launch online "flash sales" activities on various online sales channels from time to time to attract consumers to closely follow the Group's news.

Facing the depressed traditional sales market and struggling with the consistently high operating costs of POS, expanding into commercial-customers market is one of the Group's key measures in broadening its sales channels and increasing its revenue. We will continue to make strenuous efforts in approaching large companies in the PRC and Hong Kong, hoping to increase cooperation opportunities to provide commercial customers with internal shopping discounts, gift redemption via customer points or entrusted production of gifts. In addition, we will also actively participate in the project tendering of various organisations, such as government authorities, hospitals, airlines, university dormitories, hotels, etc., and provide them with products that can satisfy their specific needs.

Adjust offline sales network and enhance customers' shopping experience

During the past two years, we actively adjusted our offline sales network by closing down POS with unsatisfactory profitability and setting up new POS in strategic locations. In 2017, we will keep working on this and open more POS for sales of premium products in cities with high consumption power in the PRC, which will increase the gross profit of the Group. Moreover, we will classify the POS according to the consumption power of the surrounding area, and thus offer products of different price range based on the classification, targeting to meet the needs of different consumer groups. In light of the popularity of large-scale home furnishing stores in the PRC in recent years, we will continue to explore the feasibility to set up "Healthy Lifestyle Store" given the high operating costs, such as rentals and staff costs, as well as relatively complicated product portfolio.

Apart from providing the market with bedding products with health functions and environmental-friendly features, the Group also concerns about consumers' shopping experience. In 2017, we will continue to strengthen trainings for our sales staff. We will make sure that they receive extensive information and knowledge of maintenance in relation to the products, at the same time engaging professional instructors to teach the sales staff the skills and right attitude to greet customers, with a view to enhance the quality of our customer services.

Develop innovative products and strengthen efforts in brand promotion

In 2017, the Group will continue to devote resources in the research and development of innovative bedding products with health functions, seeking to further improve the sleeping quality of consumers. We have launched the new product named "70% Soft Down Travel Quillow (70%輕巧羽絨抱枕被)" in the first quarter in 2017. This product can be folded into a quillow that is easily portable and consumers can conveniently use it on planes, in cars or during travel. In addition, the Group will launch more mattress and soft bed options in the PRC market. Meanwhile, we will continue to enrich our product offerings with authorised cartoon characters. The authorised cartoon characters confirmed to be added to our portfolio in the first quarter in 2017 include PAC MAN, DIN DONG, TRANSFORMERS and Fumeancats, etc.. We also planned to join hands with charitable organisations to launch more limited edition products for charitable purpose to support the charitable activities in the community.

As there is a wide range of brands for bedding products in the PRC, in 2017, the Group will focus on enhancing the brand's recognition in the PRC market. As for offline promotion, apart from placing advertisement via traditional channels such as newspaper, magazines as well as bodies and stations of public transport, we will also organise more branded product exhibition in department stores to raise customer flow in POS directly. From 2017 until the second quarter in 2018, the TV commercial of the Group's brand will be broadcasted in a number of ports of entry in Shenzhen, including the international hall in Shenzhen Airport, Fuyong Ferry Terminal at Shenzhen Airport, Luohu Port, Huanggang Port, Sha Tau Kok Port, Man Kam To Port and Futian Port, which will help to promote the Group's image as a "Hong Kong Brand" to cross-border tourists. As for online promotion, we will devote more resources to strengthen our online promotion and better utilise social media for information dissemination and the appeal of celebrity.

As the Group has already established its brands in Hong Kong for as long as 24 years, instead of enhancing brand recognition, we will focus on the promotion of "Green, Healthy and Germ-free Sleeping (綠色健康無菌睡眠)" in the Hong Kong market, in a bid to establish the Group's image as the "Healthy Sleeping Expert (健康睡眠專家)" among consumers. For Hong Kong market, apart from devoting more resources in online promotion and continue to use celebrity spokesman for advertisement and promotion, we also plan to sponsor products for annual featured dramas of local TV broadcasters in 2017 so as to widely promote our products to users.

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

FINANCIAL REVIEW

Revenue

For the Year, the Group recorded revenue of HK$356.7 million (2015: HK$371.0 million), representing a decrease of 3.8%. The overall decrease in revenue was primarily attributable to declines in retail sales and sales to distributors despite the increase in wholesales during the Year.

Breakdown of revenue by brands:

	2016		2015		Change	
	HK$'000	***% of Total***	*HK$'000*	*% of Total*	*HK$'000*	*%*
Proprietary brands	**307,106**	**86.1%**	299,607	80.8%	7,499	2.5%
Licensed and authorised brands	**49,611**	**13.9%**	71,362	19.2%	(21,751)	-30.5%
Total	**356,717**	**100.0%**	370,969	100.0%	(14,252)	-3.8%

Casa Calvin, Casablanca and CASA-V are our major proprietary brands. Sales of proprietary brands recorded an increase for 2016 by 2.5% to HK$307.1 million (2015: HK$299.6 million). The significant increase in sales of CASA-V in Hong Kong led to the overall increase in proprietary brands despite the decrease in self-operated retail sales, especially in the PRC. Sales of our licensed and authorised brands for 2016 decreased by 30.5% to HK$49.6 million (2015: HK$71.4 million) primarily due to the decline in retail sales of licensed and authorised brands and termination of contract with some of the licensed and authorised brands.

Breakdown of revenue by channels:

	2016		2015		Change	
	HK$'000	***% of Total***	*HK$'000*	*% of Total*	*HK$'000*	*%*
Self-operated retail sales						
Self-operated concession counters	**201,421**	**56.5%**	235,749	63.5%	(34,328)	-14.6%
Self-operated retail stores	**60,142**	**16.8%**	55,906	15.1%	4,236	7.6%
Sub-total for self-operated retail sales	**261,563**	**73.3%**	291,655	78.6%	(30,092)	-10.3%
Sales to distributors	**34,514**	**9.7%**	50,867	13.7%	(16,353)	-32.1%
Others *(Note)*	**60,640**	**17.0%**	28,447	7.7%	32,193	113.2%
Total	**356,717**	**100.0%**	370,969	100.0%	(14,252)	-3.8%

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

Self-operated retail sales for 2016 amounted to HK$261.6 million (2015: HK$291.7 million), accounting for 73.3% of the total revenue and representing a decrease of 10.3% as compared to that of 2015. Self-operated retail sales in Hong Kong and the PRC decreased by 1.4% and 29.9% respectively. The slight decrease in self-operated retail sales in Hong Kong was due to the weak retail market sentiment in Hong Kong. The significant decrease in self-operated sales in the PRC was attributable to the closure of many inefficient self-operated concession counters, the slowdown in the growth of macro-economy of the PRC and the stiff competition from online sales. Sales to distributors for 2016 decreased by 32.1% to HK$34.5 million (2015: HK$50.9 million) when distributors in the PRC faced the same problems as our self-operated retail sales. Sales to others for 2016 was HK$60.6 million (2015: HK$28.4 million) representing a significant increase of 113.2% primarily due to the increase in sales under a bulk-purchase agreement to a wholesale customer in Hong Kong.

Breakdown of revenue by products:

	2016		2015		Change	
		% of		*% of*		
	HK$'000	***Total***	*HK$'000*	*Total*	*HK$'000*	*%*
Bed linens	**201,130**	**56.4%**	195,373	52.7%	5,757	2.9%
Duvet and pillows	**141,172**	**39.6%**	159,227	42.9%	(18,055)	-11.3%
Other home accessories	**14,415**	**4.0%**	16,369	4.4%	(1,954)	-11.9%
Total	**356,717**	**100.0%**	370,969	100.0%	(14,252)	-3.8%

Bed linens and duvets and pillows are major products of the Group. Sales of bed linens and duvets and pillows for 2016 were HK$201.1 million (2015: HK$195.4 million) and HK$141.2 million (2015: HK$159.2 million) respectively. The increase in sales of bed linens was due to the significant sales of bed linens under a bulk-purchase agreement to a wholesale customer in Hong Kong offsetting the decline in sales in the PRC. The sales of duvets and pillows decreased as a result of the decline in sales in the PRC.

Breakdown of revenue by geographic regions:

	2016		2015		Change	
		% of		*% of*		
	HK$'000	***Total***	*HK$'000*	*Total*	*HK$'000*	*%*
Hong Kong and Macau	**264,631**	**74.2%**	233,012	62.8%	31,619	13.6%
PRC	**91,699**	**25.7%**	136,682	36.9%	(44,983)	-32.9%
Others *(Note)*	**387**	**0.1%**	1,275	0.3%	(888)	-69.6%
Total	**356,717**	**100.0%**	370,969	100.0%	(14,252)	-3.8%

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

Revenue from Hong Kong and Macau, the PRC and others for 2016 were HK$264.6 million (2015: HK$233.0 million), HK$91.7 million (2015: HK$136.7 million) and HK$0.4 million (2015: HK$1.3 million) respectively. Revenue from Hong Kong and Macau increased by 13.6% primarily due to the increase in sales under a bulk-purchase agreement to a wholesale customer in Hong Kong despite the decline in self-operated retail sales. Revenue from the PRC decreased by 32.9% primarily due to the significant decreases in self-operated retail sales and sales to distributors in the PRC.

Gross Profit and Gross Profit Margin

Gross profit decreased by 2.3% to HK$223.9 million for 2016 as compared to HK$229.2 million for 2015. The decrease in gross profit was attributable to the decrease in sales. The gross profit margin for 2016 was 62.8% which was higher than 61.8% for 2015. Despite the significant increase in sales to others which were at gross profit margin lower than self-operated retail sales, the increase in gross profit margin for 2016 was primarily due to the reduction in product cost when Renminbi depreciated during the Year.

Other Gains and Losses

Other losses for the Year amounted to HK$6.3 millions (2015: HK$3.5 million), mainly representing the impairment loss of available-for-sale investment of HK$7.7 million (2015: nil), the impairment loss on convertible bond of HK$3.0 million (2015: nil), the decrease in fair value of derivative component in convertible bond of HK$0.7 million (2015: HK$0.04 million) and the net exchange loss of HK$3.1 million (2015: HK$2.5 million) offsetting the gain on deregistration of a subsidiary in the PRC of HK$8.8 million (2015: nil).

Operating Expenses

Selling and distribution costs for 2016 decreased by 14.4% to HK$152.4 million from HK$178.1 million for 2015. During the Year, less advertising and marketing expenses were incurred in Hong Kong as well as the PRC. With reduction in number of self-operated POS in the PRC, less concessionaire commissions and related expenses were paid to department stores and less staff costs were incurred in the PRC during the Year.

Administrative expenses for 2016 decreased by 18.2% to HK$50.1 million from HK$61.3 million for 2015. The decrease was mainly due to decreases in rental expenses paid by the PRC subsidiary, bad debts written off and share-based payments for the Year.

Finance Expenses

Finance costs decreased by 28.5% to HK$2.1 million for 2016 as compared to HK$2.9 million for 2015. The decrease in finance costs was primarily due to the reduction in bank borrowings during the Year.

Taxation

The Group's effective tax rate for 2016 was 45.7% as compared to -12.8% for 2015. The high effective tax rate for 2016 was mainly due to operation losses of subsidiaries in the PRC and impairment losses on available-for-sale investment and convertible bond. Had these losses, the gain on deregistration of a subsidiary, the withholding tax on distributed profit, the non-deductible share-based payments and the exchange loss on loans to a subsidiary in the PRC for 2016 and 2015 been excluded, the effective tax rate for 2016 and 2015 would be approximately 17.8% and 18.6% respectively.

Profit/Loss for the Year

The Group recorded profit for the year of HK$7.9 million for 2016 and loss for the year of HK$16.2 million for 2015. Reasons for resuming profit for the year for 2016 were mainly attributable to (1) the increase in sales under a bulk-purchase agreement to a wholesale customer in Hong Kong; (2) decreases in selling and distribution costs and share-based payments; and (3) the gain on deregistration of a subsidiary in the PRC despite the presence of impairment losses on the available-for-sale investment and convertible bond. Overall operation of the Group in the PRC was at loss for 2016 and 2015.

EBITDA represents gross profit less selling and distribution costs and administrative expenses adding back depreciation, amortisation and share-based payments. The EBITDA for 2016 increased by 219.6% to HK$35.8 million from HK$11.2 million for 2015.

Major Operating Efficiency Ratios

	2016	2015
Inventory turnover *(days)*	**218.0**	222.1
Trade and bills receivables turnover *(days)*	**68.4**	74.8
Trade and bills payables turnover *(days)*	**160.3**	166.1

Inventory turnover

The inventory turnover is equal to the average of opening and closing inventory divided by total cost of sales for the year and multiplied by 365 days. The inventory turnover decreased to 218.0 days for 2016 from 222.1 days for 2015. The inventory at 31 December 2016 decreased by 5.4% to HK$77.1 million from HK$81.5 million at 31 December 2015 owing to more promotional activities for clearing aged inventory during the Year.

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 2016 decreased to 68.4 days from 74.8 days for 2015 primarily attributable to less trade receivables with longer credit periods due by distributors in the PRC.

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 was 160.3 days for 2016 as compared to 166.1 days for 2015.

Liquidity and Capital Resources

The gearing structure is set out below:

	As at 31 December	
	2016	2015
	HK$'000	*HK$'000*
Total bank borrowings	**50,171**	74,495
Pledged bank deposit and bank balances and cash	**180,482**	184,185
Net cash	**130,311**	109,690
Total assets	**490,105**	526,491
Total liabilities	**133,782**	156,938
Total equity	**356,323**	369,553

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 are primarily for financing the construction of the Huizhou plant.

Current ratio

The Group's total current assets decreased to HK$341.4 million as at 31 December 2016 (2015: HK$348.9 million), while the total current liabilities also decreased to HK$126.6 million as at 31 December 2016 (2015: HK$135.2 million). As a result, the current ratio slightly improved to 2.7 as at 31 December 2016 from 2.6 as at 31 December 2015.

Gearing ratio

Gearing ratio is calculated as total borrowings divided by total equity at the end of the year. As at 31 December 2016, the gearing ratio was 14.1% (2015: 20.2%) with the decrease in the bank borrowings by HK$24.3 million when the total equity also decreased by HK$13.2 million. The Group was at net cash position at 31 December 2016 as well as 31 December 2015.

Pledge of assets

As at 31 December 2016, the Group had pledged its leasehold land and buildings, prepaid lease payments and fixed deposits with an aggregate carrying value of HK$128.8 million (2015: HK$140.8 million) to certain banks in Hong Kong and the PRC to secure banking facilities granted to the Group.

Capital expenditures

The Group invested HK$6.4 million for acquisition of property, plant and equipment for 2016 and HK$20.8 million for acquisition of property, plant and equipment, available-for-sale investment and convertible bond for 2015.

Capital commitments

As at 31 December 2016, the Group had capital commitments of approximately HK$2.2 million (2015: HK$1.4 million).

Available-for-sale Investment and convertible bond

Available-for-sale investment represented an unlisted investment by the Group in 13.6% equity interest in Million Zone Capital Investment Limited ("MZCI"), an investment holding company incorporated in Hong Kong whose subsidiaries were principally engaged in virtual retailing business in the PRC operating a television shopping channel and developing internet and mobile platforms. The Group together with other MZCI shareholders also subscribed for convertible bonds issued by MZCI. The Group acted as an investor of MZCI and did not control the operations of MZCI and its subsidiaries.

Unfortunately, the television shopping channel operated by MZCI's main subsidiary in the PRC was terminated with effect from 1 June 2016 when agreements with the broadcaster as to issues of broadcasting fees and the renewal of broadcasting rights could not be reached. The business of MZCI's main subsidiary in the PRC was forced to stop from 1 June 2016.

The Group issued a notice at the end of June 2016 to MZCI to demand for an immediate repayment of the loan to MZCI under the convertible bond issued and joined other MZCI shareholders to request in early July 2016 for inspection of all accounting records of MZCI and its subsidiaries. The Group has been taking all reasonable steps to obtain repayment of convertible bond and recover any damages for the investment.

At the time announcing the interim results of the Group for the period of six months ended 30 June 2016, the Board, based on the status of MZCI and its subsidiaries, considered the available-for-sale investment and the convertible bond as non-recoverable and a full provision for impairment loss of HK$11.4 million for that period, comprising the impairment loss of available-for-sale investment of HK$7.7 million, the impairment loss on convertible bond of HK$3.0 million and the fair value change on derivative component in convertible bond of HK$0.7 million. The provision for impairment loss was treated as one-off loss without any material adverse impact on the working capital of the Group.

MZCI passed a special resolution at its general meeting on 22 February 2017 for creditors' voluntary liquidation with a liquidator being appointed. To the best knowledge of the Board, the recovery of damages for the investment would be remote.

Use of Proceeds From the Listing and Placement of Shares

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

The use of net proceeds until 31 December 2016 was as below:

	Planned amount *HK$ million*	**Utilised amount** *HK$ million*	**Unutilised amount** *HK$ million*
From the listing:			
Expansion of sales network	37.0	28.4	8.6
Upgrade of management information system	4.0	2.4	1.6
Brand building and product promotion	2.2	2.2	–
General working capital	1.0	1.0	–
Total	44.2	34.0	10.2
From placement of shares:			
General working capital and possible investments	57.0	21.3	35.7

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.

DIVIDEND

The Directors do not recommend the payment of final dividend for the year ended 31 December 2016.

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 2016, save for the following:

Under Code Provision A.6.7 of the CG Code, the independent non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders. Under Code Provision E.1.2, the chairmen of the Board as well as Board committees should be available to answer questions at the annual general meeting. At the annual general meeting of the Company held on 23 May 2016 (the "2016 AGM"), an independent non-executive Director, who is also the chairman of the Audit Committee, was unable to attend the 2016 AGM due to other pre-arranged business engagements. Despite his absence, other members of the Audit Committee together with the external auditor attended the 2016 AGM being able to answer relevant questions raised by shareholders and understand the views of the shareholders of the Company thereat.

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year ended 31 December 2016 is scheduled to be held on Friday, 26 May 2017 (the "AGM"). A notice convening the AGM will be issued and disseminated to shareholders of the Company in due course.

CLOSURE OF REGISTER OF MEMBERS

The share register of the Company will be closed from Monday, 22 May 2017 to Friday, 26 May 2017 (both days inclusive), during which no transfer of shares will be effected. In order to be eligible to attend and vote at the forthcoming AGM of the Company, all completed transfer documents accompanying with the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Union Registrars Limited, Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:30 p.m. (Hong Kong time) on Friday, 19 May 2017 (the last share registration date to determine shareholders' voting right).

REVIEW OF ANNUAL RESULTS

The annual results have been reviewed by the audit committee of the Company.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu 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 Messrs. Deloitte Touche Tohmatsu on the 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 2017

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, Mr. Mok Tsan San as Non-executive Director, and Mr. Zhang Senquan, Mr. Kam Leung Ming and Mr. Leung Yiu Man as Independent Non-executive Directors.