CASABLANCA
GROUP LIMITED

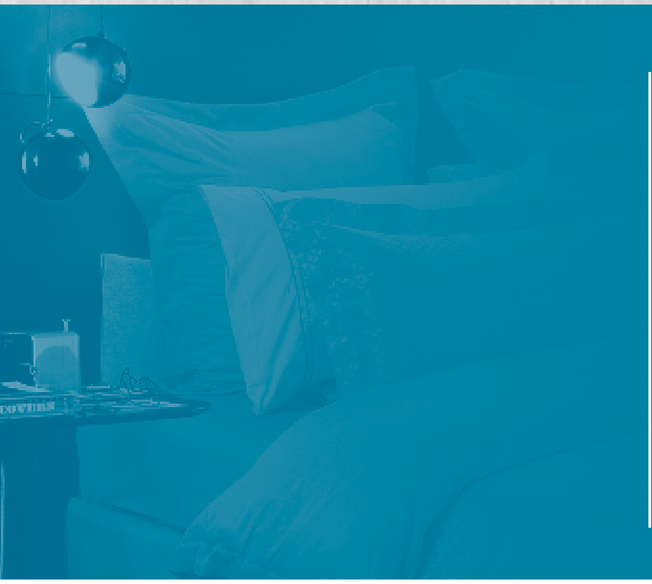
(INCORPORATED UNDER THE LAWS OF THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

STOCK CODE: 2223

ANNUAL REPORT 2016

CASABLANCA HOME | Casa Calvin | CASA-V | Dolce Sogno | FORCETECH | C2 | VOSSEN A Touch of Energy

CONTENTS



About Casablanca

Casablanca Group Limited, since its establishment in 1993 in Hong Kong, primarily engages in designing, manufacturing, distribution and retailing of bedding products with a focus on the high-end and premium markets under its proprietary "Casa Calvin", "Casablanca" and "CASA-V" brands. The Group's products include three main categories: bed linens, duvets and pillows, and home accessories. The Group is one of the leading branded bedding products companies in the PRC and Hong Kong.

OUR DISTRIBUTION NETWORK

255 **POS**[(1)]

in 81 cities in well developed areas in the Greater China Region[(2)]

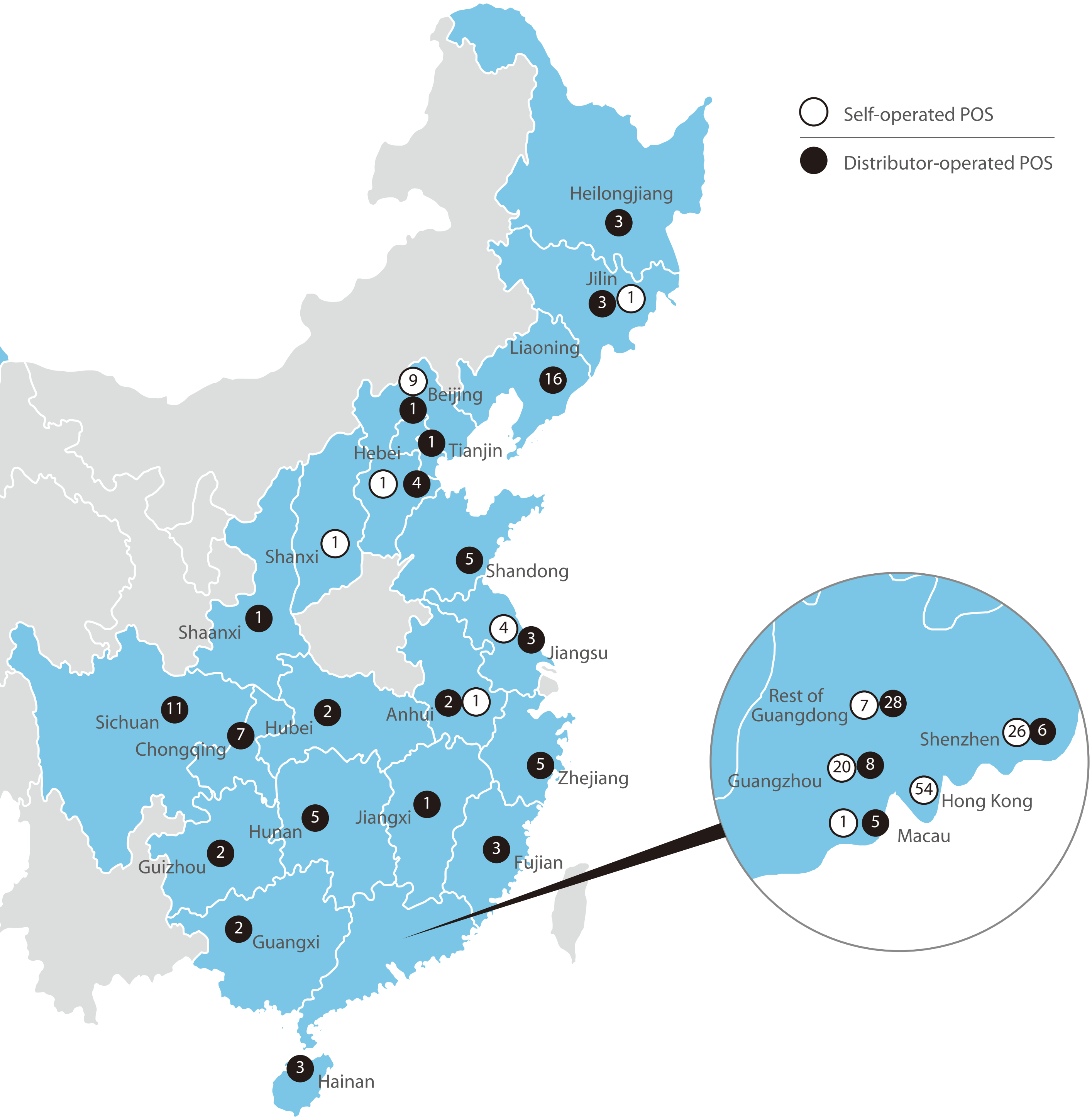
179

concession counters
in well known department stores

125

self-operated POS in Hong Kong, Macau and first-tier cities of the PRC[(3)]

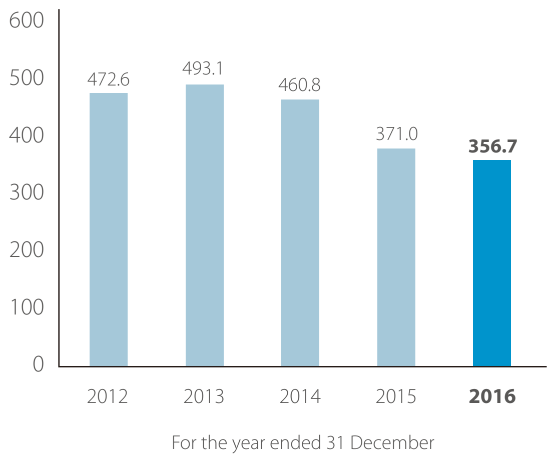
(1) POS stands for points of sales
(2) The region comprises the People's Republic of China (the "PRC"), Hong Kong and Macau
(3) "PRC" for purpose of this annual report, means the People's Republic of China, other than the regions of Hong Kong, Macau and Taiwan


Self-operated POS
Distributor-operated POS
Heilongjiang 3
Jilin 3 1
Liaoning 16
Beijing 9 1
Tianjin 1
Hebei 1 4
Shanxi 1
Shandong 5
Shaanxi 1
Jiangsu 4 3
Anhui 2 1
Sichuan 11
Chongqing 7
Hubei 2
Zhejiang 5
Hunan 5
Jiangxi 1
Fujian 3
Guizhou 2
Guangxi 2
Hainan 3
Rest of Guangdong 7 28
Shenzhen 26 6
Guangzhou 20 8
Hong Kong 54
Macau 1 5

FINANCIAL HIGHLIGHTS AND SUMMARY

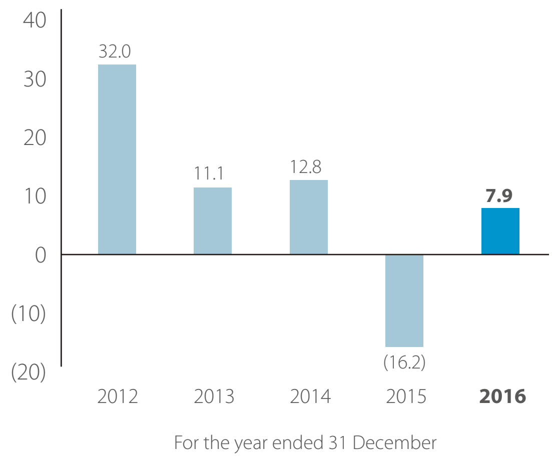
REVENUE

HK$ million



PROFIT/(LOSS) FOR THE YEAR

HK$ million



CONSOLIDATED RESULTS

	For the year ended 31 December				
	2016 **HK$'000**	2015 HK$'000	2014 HK$'000	2013 HK$'000	2012 HK$'000
Revenue	**356,717**	370,969	460,824	493,104	472,593
Gross profit	**223,941**	229,205	278,294	303,778	292,082
EBITDA[1]	**35,776**	11,193	42,321	42,430	71,154
Profit/(Loss) attributable to owners of the Company	**7,930**	(16,230)	12,753	11,061	32,019

Note:

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

CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 December				
	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000	2012 HK$'000
Total assets	**490,105**	526,491	515,780	559,485	500,951
Total liabilities	**133,782**	156,938	204,070	255,713	229,102
Total equity	**356,323**	369,553	311,710	303,772	271,849
Total bank borrowings	**50,171**	74,495	96,437	136,223	95,858
Pledged bank deposits and bank balances and cash	**180,482**	184,185	141,433	135,641	137,774
Net cash/(bank borrowings)	**130,311**	109,690	44,996	(582)	41,916

KEY FINANCIAL RATIOS

	For the year ended 31 December				
	2016	2015	2014	2013	2012
Gross profit margin	**62.8%**	61.8%	60.4%	61.6%	61.8%
EBITDA margin	**10.0%**	3.0%	9.2%	8.6%	15.1%
Net profit/(loss) margin	**2.2%**	-4.4%	2.8%	2.2%	6.8%
Return on assets	**1.6%**	-3.1%	2.5%	2.0%	6.4%
Return on equity	**2.2%**	-4.4%	4.1%	3.6%	11.8%
Interest coverage[1]	**17.3**	3.9	9.9	14.6	103.0
Current ratio	**2.7**	2.6	2.0	2.0	1.7
Quick ratio	**2.1**	2.0	1.5	1.4	1.3
Gearing ratio[2]	**14.1%**	20.2%	30.9%	44.8%	35.3%
Net gearing ratio[2]	**N/A**	N/A	N/A	0.2%	N/A
Inventory turnover (days)	**218.0**	222.1	199.5	184.5	165.5
Trade and bills receivables turnover (days)	**68.4**	74.8	74.9	73.4	65.2
Trade and bills payables turnover (days)	**160.3**	166.1	162.8	141.6	103.9

Note:

1. Interest coverage is calculated as EBITDA divided by finance costs.

2. Gearing ratio is calculated as total bank borrowings divided by total equity, whereas net gearing ratio is calculated as net bank borrowings divided by total equity.

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to present to the shareholders of Casablanca Group Limited (the "Company") the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016 (the "Year" or the "Review Period").

2016 was a year with extremely difficult operating environment. Despite the weak retail market in the Greater China Region, the Group's proactive efforts in expanding the commercial-customers market has started to bear fruits. For the year ended 31 December 2016, the Group's total revenue was HK$356.7 million, representing a decrease of 3.8% as compared to HK$371.0 million in the corresponding period of 2015. During the Review Period, the Group's measures to reduce costs commenced to take effect, resuming to a profit of HK$7.9 million from a loss of HK$16.2 million in the corresponding period of 2015.

The Group has always adopted Italian Renaissance style as the key design concept of its products. It is also Hong Kong consumers' impression towards the brand of the Group for over 20 years. However, with the change of trends and consumer preference, our product design team has adopted diversified design in recent years, which has lowered the level of product differentiation of the Group's pattern design in the market and consumers would easily get confused. In 2016, the Group conducted a comprehensive review on its product design, seeking to provide consumers with unforgettable bedding products by re-mastering the Italian Renaissance style and incorporating the design concept of "Contemporary, Innovative and Functional". Apart from design style, the Group's products also cater to the needs of health-conscious consumers. After months of research and development, we are pleased to launch the "CASA-V Baby" series in the third quarter in 2016, extending our pioneer "5A Features" to baby bedding products with a view to helping parents create a safe and healthy sleeping environment for their babies.

In 2016, amid the difficult operating environment of the retail industry, the Group continued to make strenuous efforts in adjusting the structure of its sales network and its sales strategies with a view to reducing costs, decreasing inventories and increasing revenue. In order to lower our reliance on the revenue from retail business, we continued to actively explore the commercial-customers market and expand online sales business in 2016. In 2016, the sales to others, including those to commercial-customers market, amounted to HK$60.6 million, representing a significant increase of 113.2% as compared to HK$28.5 million in 2015 and contributing 17.0% (2015: 7.7%) of the annual revenue.

To take part in community work that benefits the regions where it principally operates is a responsibility that we expect from a capable and responsible corporation. Adhering to the principle of "Love Life Love Future (愛生活　愛未來)", in the promotion of its brand image in 2016, the Group encouraged consumers to participate in charitable events and contribute to the society with us. During the Year, we joined hands with our spokesman to launch limited edition products under "Fantasy Dream" series for charitable purpose for the first time. Part of the proceeds was donated to Little Life Warrior Society to provide assistance to children patients.

In 2017, it is expected that there will still be much uncertainty in the economic environment in the Greater China Region and hence the low consumer confidence will remain. We estimate that retail enterprises will still be under much pressure. However, the Group will continue to adhere to the principle of "Love Life Love Future" and focus on the core design concept of "Contemporary, Innovative and Functional" to launch more fashionable bedding products with health functions, thereby establishing and consolidating the brand image of "Healthy Sleeping Expert (健康睡眠專家)" and promoting a healthy green lifestyle. Over the past two years, the Group engaged an entertainment celebrity renowned in both the PRC and Hong Kong to be its spokesman for the first time, which has greatly enhanced its brand publicity. We are glad to announce that we have recently renewed the contract with this celebrity and he will continue to be the spokesman of the Group. With the spokesman's popularity and exposure in the Greater China Region, it is believed that the endorsement will effectively enhance the brand recognition and awareness of the Group among consumers in the future.

The Group's brand has a long development history and high brand recognition in the Hong Kong market. We are well aware that we have smaller presence in the bedding product market in the PRC as compared to Hong Kong, and in light of the difference of brand distribution and consumer habits between the two markets, we have implemented different marketing measures in the PRC and Hong Kong based on the actual circumstances. As there is a wide range of brands for bedding products in the PRC, coupled with consumers' preference for online shopping, the Group will focus on consolidating and promoting the Company's image as a "Hong Kong brand" in Guangdong region, and at the same time enhance brand recognition in other regions across the PRC through exhibition and advertisement. More resources will be devoted and more promotion activities will be launched to facilitate the development of the Group's e-commerce business so as to enhance both online and offline consumers' awareness of the Group's brand. Moreover, in addition to preserving our classic and popular products, we will also focus on expanding into young consumer market with our simple yet fashionable products with health functions, which will bring momentum for our sales revenue growth. In order to mitigate the impact of the depressed traditional retail market on the Company's development, we will step up our efforts in developing e-commerce and make every effort to cooperate with different commercial customers in a bid to broaden our source of revenue.

On behalf of the Board, I would like to extend my sincere gratitude to our valued customers, business partners and shareholders for their constant support and trust, and express my appreciation to the management team and employees for their contributions to the development of the Group.

Cheng Sze Kin
Chairman
Hong Kong, 24 March 2017

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 product 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 products design with additional functions and invest more resources in marketing promotion will be able to enjoy competitive 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 POS in the PRC, whereas, the wholesale sales in Hong Kong had 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 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 families 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 staff 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.

	Self-operated POS			Distributor-operated POS			
	Concession counters	Stand-alone retail stores	Subtotal	Concession counters	Stand-alone retail stores	Subtotal	Total
Hong Kong and Macau total	34	21	55	2	3	5	60
PRC							
Southern(1)	52	1	53	15	32	47	100
Northern(2)	11	0	11	6	0	6	17
Eastern(3)	5	0	5	13	6	19	24
Northeast(4)	1	0	1	22	0	22	23
Southwest(5)	0	0	0	15	5	20	20
Central(6)	0	0	0	1	6	7	7
Northwest(7)	0	0	0	2	2	4	4
PRC subtotal	69	1	70	74	51	125	195
Total	**103**	**22**	**125**	**76**	**54**	**130**	**255**

Notes:

(1) "Southern" includes Guangxi, Guangdong and Hainan.
(2) "Northern" includes Tianjin, Hebei, Shanxi, Beijing and Inner Mongolia.
(3) "Eastern" includes Shanghai, Jiangsu, Zhejiang, Anhui, Shandong, Jiangxi and Fujian.
(4) "Northeast" includes Heilongjiang, Liaoning and Jilin.
(5) "Southwest" includes Sichuan, Guizhou, Tibet, Yunnan and Chongqing.
(6) "Central" includes Henan, Hubei and Hunan.
(7) "Northwest" includes Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.

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)" 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 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 exhibitions 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.

MANAGEMENT DISCUSSION AND ANALYSIS

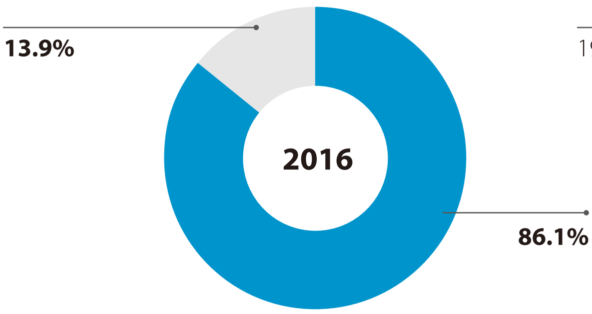
Incorporating "Contemporary, Innovative and Functional" features in our product design, the Group will continuously endeavor to provide consumers with quality bedding products with health functions which are fashionably designed but reasonably priced, as well as trendy and quality home accessories. We 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.

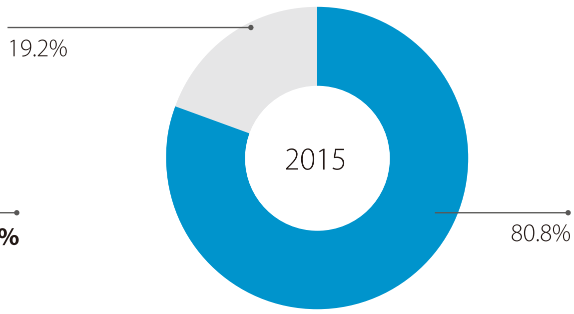
Financial Review

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:





Total: HK$356.7 million

Total: HK$371.0 million

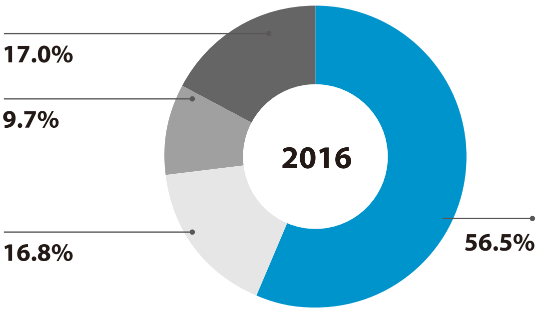
Proprietary brands

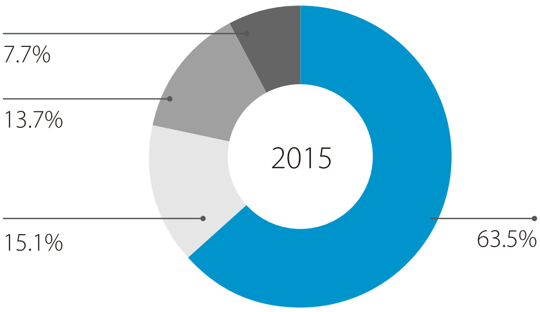
Licensed and authorised brands

	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:





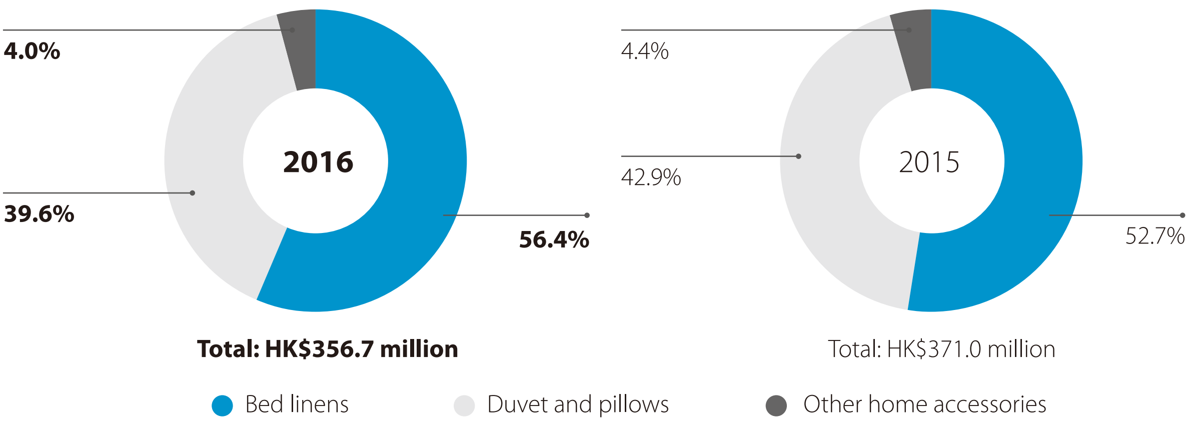
	2016		2015		Change	
	HK$'000	**% of Total**	HK$'000	% of Total	HK$'000	%
Self-operated retail sales						
Self-operated concession counters	**201,421**	**56.5%**	235,749	63.5%	(34,328)	-14.6%
Self-operated retail stores	**60,142**	**16.8%**	55,906	15.1%	4,236	7.6%
Sub-total for self-operated retail sales	**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.

MANAGEMENT DISCUSSION AND ANALYSIS

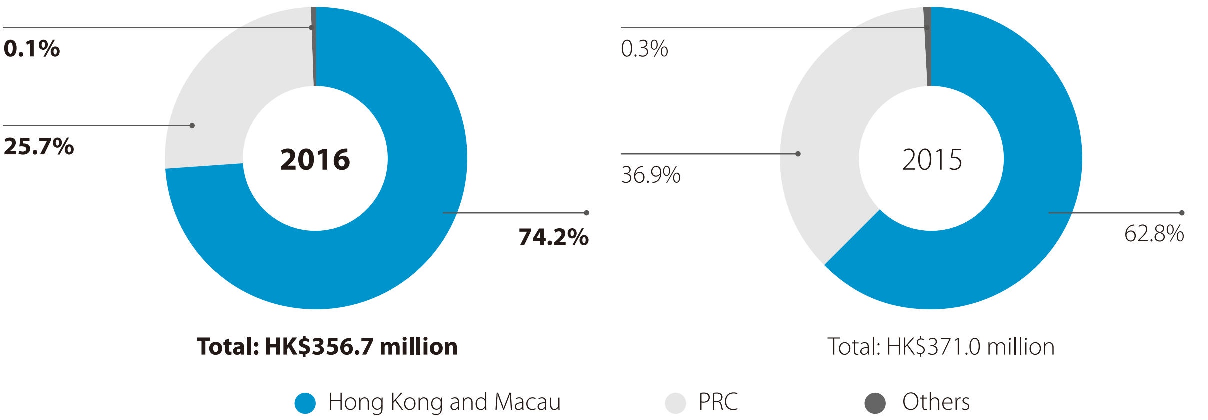
Breakdown of revenue by products:



	2016		2015		Change	
	HK$'000	% of Total	HK$'000	% of 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	
	HK$'000	% of Total	HK$'000	% of 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).

MANAGEMENT DISCUSSION AND ANALYSIS

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 HK$'000	2015 HK$'000
Total bank borrowings	**50,171**	74,495
Pledged bank deposits 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.

Pledged bank deposits and bank balances and cash

As at 31 December 2016, the pledged bank deposits of the Group was approximately HK$8.0 million (2015: HK$6.8 million), which was denominated in Hong Kong dollars and Renminbi, and the bank balances and cash of the Group were approximately HK$172.4 million (2015: HK$177.4 million), which were denominated in HKD and RMB except for about 0.5% in United States dollars and Euro. Details of the Group's pledged bank deposits and bank balances and cash are set out in note 21 to the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Bank borrowings

As at 31 December 2016, the bank borrowings of the Group was approximately HK$50.2 million (2015: HK$74.5 million), which were denominated as to 89.3% and 10.7% in HKD and RMB respectively, with all bank borrowings balances being variable-rated borrowings with effective interest rates ranging from 1.63% to 5.97% per annum. During the Year, the financial position of the Group was healthy and the Group reduced the total bank borrowings by 32.7% to HK$50.2 million (2015: HK$74.5 million). Details of the Group's bank borrowings are set out in note 23 to the consolidated financial statements.

On 24 March 2017, Casablanca Hong Kong Limited, Casablanca International Limited and Casablanca Home Limited, the wholly-owned subsidiaries of the Company, as borrowers (the "Borrowers"), the Company as guarantor confirmed their acceptance of the facility letters (the "Facility Letters") issued by Bank of China (Hong Kong) Limited as lender (the "Lender"). The Facility Letters, which consist of banking facilities granted by the Lender to the Borrowers, impose a covenant relating to specific performance of the Ultimate Controlling Shareholders (as defined below) of the Company.

Under the Facility Letters, it is (among other matters) an event of default if Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung (the "Ultimate Controlling Shareholders") collectively cease to hold and control shares of the Company directly or indirectly so that they collectively cannot remain as the single largest group of shareholders of the Company, and in such event all facilities under the Facility Letters will be terminated and all outstanding loans under the Facility Letters may immediately become payable on demand. At the date of this annual report, the Ultimate Controlling Shareholders ultimately hold approximately 62.7% of the issued share capital of the Company.

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.

Share Capital

The total number of shares of the Company as at 31 December 2016 was 258,432,000 shares (2015: 258,432,000 shares) of HK$0.10 each. As at 31 December 2016, the total issued share capital of Company was HK$25,843,000 (2015: HK$25,843,000). The movements of share capital during the Year are set out in note 26 to the consolidated financial statements.

In order to provide incentive or reward to eligible persons for their contribution to the Group and to enable the Group to recruit and retain human resources that are valuable to the Group, the Company adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option scheme (the "Share Option Scheme") before the listing. Details of the Pre-IPO Share Option Scheme and Share Option Scheme and movements of share options during the Year are set out in note 27 to the consolidated financial statements.

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

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

Dividend

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

Employee and Remuneration Policy

As at 31 December 2016, the employee headcount of the Group was 684 (2015: 695) and the total staff costs, including directors' emoluments, for the Year amounted to HK$91.5 million (2015: HK$99.8 million). The decrease in employee headcount as at 31 December 2016 was primarily due to the decrease in staff of supporting departments such as logistics department and administration department after the relocation of the PRC sales headquarters from Shenzhen to Huizhou during the Year. The decrease in total staff costs for the Year was mainly due to the decrease in total share-based payments by HK$6.5 million in addition the saving in staff costs after the relocation.

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.

Foreign Exchange Exposure

The Group carries on its business mainly in Hong Kong and the PRC. The Group is exposed to foreign exchange risk principally in RMB which may affect the Group's performance. RMB depreciated by about 6.6% against HKD in 2016. To mitigate foreign exchange risk, the Group has stopped fixed deposit in RMB in Hong Kong and will reduce the amount of intercompany loan in RMB from a subsidiary in Hong Kong to a subsidiary in the PRC. 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 2016, the Group did not have material contingent liabilities.

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

The Group did not have any acquisitions and disposals of subsidiaries and associated companies for the Year.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Cheng Sze Kin (鄭斯堅), aged 56, is one of the founders of the Group to establish the Group's business in May 1993. He was appointed as a Director on 2 April 2012 and re-designated as an Executive Director and the Chairman of the Board on 22 October 2012. He is currently the Director of all the subsidiaries of the Group incorporated in Hong Kong and the British Virgin Islands ("BVI") and the legal representative of all the subsidiaries of the Group established in the PRC. He is responsible for strategic planning of the Group, in particular product development and production. He has over 20 years of experience in the production of bedding products and textile trading. Mr. Cheng is the spouse of Ms. Wong Pik Hung (王碧紅) and the brother of Mr. Cheng Sze Tsan (鄭斯燦), both of whom are also Executive Directors.

Mr. Cheng Sze Tsan (鄭斯燦), aged 44, is one of the founders of the Group to establish the Group's business in May 1993. He was appointed as a Director on 2 April 2012 and re-designated as an Executive Director and Vice-chairman of the Board on 22 October 2012. He is currently the Director of all the subsidiaries of the Group incorporated in Hong Kong and BVI. Mr. Cheng was appointed as the Chief Executive Director of the Company on 1 September 2016 and is responsible for strategic planning of the Group, in particular product development and sales management. He has over 20 years of experience in the bedding products industry. He is the brother of Mr. Cheng Sze Kin (鄭斯堅) and the brother-in-law of Ms. Wong Pik Hung (王碧紅), both of whom are also Executive Directors. Mr. Cheng is awarded for "Young Industrialists of Hong Kong 2013" by Federation of Hong Kong Industries and has been appointed as standing committee member of Chinese People's Political Consultative Conference Guangzhou Committee (Huangpu District) since August 2015.

Ms. Wong Pik Hung (王碧紅), aged 50, has been a Director of a subsidiary of the Group since August 1993. She was appointed as a Director on 2 April 2012 and re-designated as an Executive Director on 22 October 2012. She is currently the Director of all the subsidiaries of the Group incorporated in Hong Kong and BVI. She is responsible for strategic planning of the Group, in particular procurement and sales management in Hong Kong. She has over 20 years of experience in the bedding products industry. She obtained a diploma in international economic cooperation at the University of International Business and Economics (對外經濟貿易大學) in Beijing. Ms. Wong is the spouse of Mr. Cheng Sze Kin (鄭斯堅) and the sister-in-law of Mr. Cheng Sze Tsan (鄭斯燦), both of whom are also Executive Directors.

Non-executive Director

Mr. Mok Tsan San (莫贊生), aged 46, was appointed as a Non-executive Director on 9 April 2015. Mr. Mok is the managing director of Capital Union Investments Limited, a direct investment firm with a portfolio in Great China and overseas. He is currently the executive director of Chinese Strategic Holdings Limited (stock code: 8089), the shares of which are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Mok was the executive director of Chinese Food and Beverage Group Limited (stock code: 8272) from April 2014 to January 2017 and Hin Sang Group (International) Holding Co. LTD. (stock code: 6893), from May 2015 to September 2015, the shares of which are listed on the Stock Exchange respectively. He was the non-executive director of Newtree Group Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 1323), from August 2014 to February 2016. Mr. Mok has over 14 years of solid experiences in fund raising and investment syndication in a number of ventures. He has helped, funded, and/or personally invested in and advised in a number of other Silicon Valley companies, including but not limited to Facebook Inc. and Proteus Digital Health.

Independent Non-executive Directors

Mr. Zhang Senquan (張森泉), aged 40, was appointed as an Independent Non-executive Director on 1 April 2015. Mr. Zhang currently acts as the managing director of Southwest Securities International Securities Limited, the shares of which are listed on the Stock Exchange (stock code: 812). Mr. Zhang is also the independent non-executive director of Jiande International Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 865). He is a member of Hong Kong Institute of Certified Public Accountants, China Institute of Certified Public Accountants and American Institute of Certified Public Accountants. Mr. Zhang used to be the independent non-executive director of Topchoice Medical Investment Co. Inc., the shares of which are listed on the Shanghai Stock Exchange (stock code: 600763SH), from December 2014 to 13 March 2017. He was the chief financial officer and joint company secretary of Huazhong In-Vehicle Holdings Company Limited, the shares of which are listed on the Stock Exchange (stock code: 6830) from May 2014 to July 2015. He served as head of the Strategic Development Department of Goodbaby International Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 1086), from March 2013 to April 2014. He has more than 10 years of professional experience in accounting and auditing, and worked at Ernst & Young, KPMG and Deloitte Touche Tohmatsu serving several positions from audit staff to audit partner from 1999 to 2012. Mr. Zhang received his bachelor's degree from Fudan University in the PRC in 1999.

Mr. Kam Leung Ming (甘亮明), aged 42, was appointed as an Independent Non-executive Director on 1 April 2015. Mr. Kam is currently the executive director and company secretary of Get Nice Financial Group Limited, the shares of which are listed on the Stock Exchange (stock code: 1469). He was the company secretary of Get Nice Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 64), before Get Nice Financial Group Limited spin-off from Get Nice Holdings Limited. Mr. Kam is also the independent non-executive director of Ever Harvest Group Holdings Limited, the shares of which are listed on the Stock Exchange (stock code: 1549). He is a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of The Institute of Chartered Accountants in England and Wales, an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom. He has over 20 years of experience in auditing, professional accounting, financial management and business administration. Mr. Kam worked for two Hong Kong listed companies namely, Hutchison Harbour Ring Industries Limited (currently named as China Oceanwide Holdings Limited), the shares of which are listed on the Stock Exchange (stock code: 715), and Mandarin Entertainment (Holdings) Limited (currently named as Nine Express Limited), the shares of which are listed on the Stock Exchange (stock code: 9), and served management roles in financial management. He holds a bachelor degree in accountancy and a master degree in corporate governance from the Hong Kong Polytechnic University. Mr. Kam has been appointed as the standing committee member of Chinese People's Political Consultative Conference Shanghai Committee (Baoshan District) since December 2016.

Mr. Leung Yiu Man (梁耀文), aged 48, was appointed as an Independent Non-executive Director on 22 May 2015. Mr. Leung is currently the director and responsible officer of JAIC International (Hong Kong) Co. Ltd. Before joining JAIC International, he was the China advisor and responsible officer of Kirin Investment Management (HK) Limited. He was the managing director of Morgan Stanley Asia between 2011 and 2015, the chief investment officer of SPG Land Limited (currently named as Greenland Hong Kong Holdings Limited), the shares of which are listed on the Stock Exchange (stock code: 337), during 2009 to 2011, and the executive director and managing director of China International Capital Corporation during 2001 to 2009. Mr. Leung has over 20 years of experience in equity research, investment advisory and corporate finance. He is a chartered financial analyst of the CFA Institute in the United States. He holds a bachelor degree in social sciences, with major in political science and economics, from The University of Hong Kong.

DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Mr. Ho Yiu Leung (何耀樑), aged 50, joined the Group as the Financial Controller and Company Secretary in January 2012. He is responsible for the Group's overall financial reporting, finance and company secretarial matters. He has over 20 years of experience in auditing, accounting and financial management. He is a fellow member of each of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. He holds a master degree in business administration from the University of Strathclyde.

Mr. Gao Yan (高岩), aged 58, joined the Group in June 2007. He is currently the General Manager of Casablanca Home (Huizhou) Company Limited. He is responsible for the production, procurement and logistics management in the PRC. Prior to joining the Group, Mr. Gao has over 20 years of experience in production management. He obtained a diploma in weaving machinery from Northwest Institute of Textile Science and Technology (西北紡織工學院) and was awarded a qualification of senior engineer from Guangdong Province Personnel Office (廣東省人事廳).

Mr. Lin Yi Kai (林奕凱), aged 47, joined the Group in May 2007. He is currently the Deputy General Manager of Casablanca Home (Shenzhen) Limited. He is responsible for the financial management of our operations in the PRC. Mr. Lin has over 20 years of experience in audit and accounting. He was awarded qualification of certified internal control specialist from Internal Control Institute, senior international finance manager from International Financial Management Association and certified financial planner from The Chinese Institute of Certified Financial Planners, and is a member of Internal Control Institute, a member of International Financial Management Association and The Chinese Institute of Certified Financial Planners. He was conferred qualification of assistant accountant in accounting (corporate) speciality and intermediate level in accounting speciality from Ministry of Finance of the PRC. Mr. Lin holds a bachelor's degree in accounting from Guangdong Polytechnic Normal University.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2016.

Principal Activities

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

Business Review

A review of the Group's business for the year ended 31 December 2016 and a discussion on the Group's future business development are set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 6 to 23 of this annual report.

Principal Risks and Uncertainties

The Group's results of operations and prospects may be exposed to a number of risks and uncertainties. The following are key risks that are considered to be of most significance to the Group at this time. They are not exhaustive or comprehensive and there may be other risks which are not known by the Group or which may not be material now but could turn out to be material in the future.

(i) Business Risk

The Group's sales and results significantly depend on economic conditions, consumer habits and competition of operating markets in Hong Kong and the PRC.

Owing to the slowdown of economic growth and the increasing trend for online sales in the PRC, the Group has sustained loss in operating retail business through physical POS network in the PRC for the year ended 31 December 2016. Furthermore, the Group operates in markets subject to pricing and other competitive pressures such as advertising, designs, product innovations and technological advances. Changes in economic conditions, consumer habits and competition are uncertain such that the Group cannot predict any material adverse effect of these changes on the current or future business and results of operations of the Group. However, the Group has closed down a number of inefficient self-operated POS in the PRC, increased its investment in the development of its online sales business, strengthened its advertising and marketing, and enhanced its research and development of new products in order to mitigate the impact.

(ii) Operational Risk

In view of sluggish retail markets in Hong Kong and the PRC, the Group has endeavoured to develop the wholesale business during the recent years to reduce the reliance on retail business. The Group's revenue as well as results greatly depend on the sales to a wholesale customer under a bulk-purchase agreement for its membership redemption in Hong Kong and Macau. The loss of this customer or the decline in sales to it can adversely affect the Group's results of operations. The Group closely keeps in touch with this customer all around the year and puts the utmost efforts to deliver high quality products and services to it.

The Group's success and growth also depend on skilled and experienced managers, sales and marketing personnel and front-line sales promoters. It is important to attract, train, motivate and retain employees in support of the future growth of the Group. The risk of the loss of key personnel or the inability to attract qualified personnel is mitigated by regular reviews of retention and recruitment practices, remuneration packages and succession planning within the Group.

(iii) Financial Risk

The Group's results are subject to interest rate risk, foreign currency risk, credit risk and liquidity risk. The financial risk management objectives and policies of the Group in managing these financial risks are set out in note 34 to the consolidated financial statements. These discussions form part of this report.

Financial Key Performance Indicators

An analysis of the Group's performance for the year ended 31 December 2016 using financial key performance indicators (the "KPIs") is set out in the section headed "Financial Highlights and Summary" on pages 4 and 5 of this annual report. Such KPIs are selected on basis of their effectiveness in measuring the performance of Group's business with nature in manufacturing and trading.

Environmental Policies and Performance

The Group is committed to build an environmentally-friendly corporation that pays close attention to conserving natural resources and protecting environment. The Group strives to minimize the impact on environment by saving electricity and water and has implemented internal recycling program on a continuous basis for office consumables such as carbon toners, cartridges and papers. We also arrange tablet computers at our self-operated POS to show product catalogues to customers in order to reduce printed versions of the product catalogues. In 2014, Casablanca Hong Kong Limited, the principal subsidiary of the Company in Hong Kong, was awarded the certificate under the CarbonSmart Programme organized by the Hong Kong Productivity Council in collaboration with the Federation of Hong Kong Industries, Hong Kong General Chamber of Commerce and Business Environment Council. In 2016, the Company participated in the On-site Improvement Assessment Projects of Cleaner Production Partnership Programme organised by Environmental Protection Department of Hong Kong SAR in collaboration with the Economic and Information Commission of Guangdong Province.

In contribution to the environment, the Group uses environmentally-friendly raw materials for its products such as milk protein fibres and soybean protein fibres for the fill materials in our duvets and pillows. In addition, the Group also introduced new products with healthy functions such as products under "CASA-V" brand with "5A Features". In 2016, the Company has extended "5A Features" to baby products and launched the "CASA-V Baby" series. The Group intends to make "CASA-V" a brand for healthy and environmentally-friendly home living.

The Company will publish an Environmental, Social and Governance Report separately on the websites of the Company and the Stock Exchange not later than three months after publication of this annual report.

Compliance with Laws and Regulations

The Group's operations are mainly carried out by the Company's subsidiaries in Hong Kong and the PRC. The Group's operations accordingly shall comply with relevant laws and regulations in Hong Kong and the PRC. During the Year, the Group has complied, to the best knowledge of the Directors, in material aspects with the relevant laws and regulations that have a significant impact on the operations of the Group.

Key Relationships with Employees, Customers, Distributors and Suppliers

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

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

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

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

Results and Appropriations

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 59 of this annual report.

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

Five-Year Financial Summary

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

Property, Plant and Equipment

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

Share Capital

Details of the movements in the share capital of the Company during the Year are set out in note 26 to the consolidated financial statements.

DIRECTORS' REPORT

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

Distributable Reserves

The Company's reserves available for distribution to shareholders as at 31 December 2016 calculated in accordance with the Companies Law of the Cayman Islands, amounted to HK$171,330,000, comprising share premium of approximately HK$166,688,000 and retained earnings of HK$4,642,000.

Directors

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

Executive Directors

Mr. Cheng Sze Kin *(Chairman)*
Mr. Cheng Sze Tsan *(Vice Chairman)* (also appointed as Chief Executive Officer on 1 September 2016)
Ms. Wong Pik Hung
Mr. Kwok Yuen Keung Tommy *(Chief Executive Officer)* (resigned on 1 September 2016)

Non-executive Director

Mr. Mok Tsan San

Independent Non-executive Directors

Mr. Zhang Senquan
Mr. Kam Leung Ming
Mr. Leung Yiu Man

In accordance with Article 16.18 of the Company's Articles of Association (the "Articles of Association"), Mr. Zhang Senquan and Mr. Kam Leung Ming will retire from office by rotation at the forthcoming annual general meeting. In accordance with Article 16.13 of the Articles of Association, Mr. Leung Yiu Man will hold office only until the forthcoming annual general meeting.

Mr. Zhang Senquan, being eligible, will offer himself for re-election, whereas Mr. Kam Leung Ming and Mr. Leung Yiu Man have notified that they will not seek for re-election and will retire from office of Independent Non-executive Director at the forthcoming annual general meeting. Therefore, the Board will seek and nominate two candidates for election as new Independent Non-executive Directors at the same meeting.

Both of Mr. Kam Leung Ming and Mr. Leung Yiu Man confirm that they do not have any disagreement with the Board and there is nothing to be brought to the attention of the Shareholders in relation to their proposed retirements.

Directors' Service Contracts

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Share Option Scheme

The Group adopted the Share Option Scheme, which was approved by the sole shareholder's resolution passed on 22 October 2012, and granted share options to Directors and employees on 9 April 2015 to subscribe for a total of 5,594,000 ordinary shares of HK$0.10 per share with the exercise price of HK$4.95 per share. Details of the grant of share options on 9 April 2015 are set out in announcement of the Company dated 9 April 2015. The share options shall be exercisable during the period from 9 October 2015 to 8 April 2018. As at 31 December 2016, 3,134,000 share options were still outstanding under the Share Option Scheme.

Particulars of the Company's Share Option Scheme are set out in note 27 to the consolidated financial statements.

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

	Date of grant	Exercisable period (Note)	Exercised price (HK$)	Number of options as at 1.1.2016	Movements during the Year Granted	Exercised	Lapsed	Number of options as at 31.12.2016
Directors and Chief Executive								
Mr. Cheng Sze Kin	9.4.2015	9.10.2015 – 8.4.2018	4.95	330,000	–	–	–	330,000
Mr. Cheng Sze Tsan	9.4.2015	9.10.2015 – 8.4.2018	4.95	330,000	–	–	–	330,000
Ms. Wong Pik Hung	9.4.2015	9.10.2015 – 8.4.2018	4.95	330,000	–	–	–	330,000
Mr. Kwok Yuen Keung Tommy	9.4.2015	9.10.2015 – 8.4.2018	4.95	2,000,000	–	–	(2,000,000)	–
Mr. Mok Tsan San	9.4.2015	9.10.2015 – 8.4.2018	4.95	1,000,000	–	–	–	1,000,000
Total Directors and Chief Executive				3,990,000	–	–	(2,000,000)	1,990,000
Employees	9.4.2015	9.10.2015 – 8.4.2018	4.95	1,514,000	–	–	(370,000)	1,144,000
Total				5,504,000	–	–	(2,370,000)	3,134,000

Note: The options, granted on 9 April 2015, are exercisable from 9 October 2015 to 8 April 2018 (both days inclusive) in the following manner:

(i) 50% of the total number of options granted under the Share Option Scheme commencing 9 October 2015; and

(ii) 50% of the total number of options granted under the Share Option Scheme commencing 9 April 2016.

Directors' and Chief Executive's Interests in Shares

As at 31 December 2016, the interests of the Directors and the chief executive and their associates in the shares and share options of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") (the "Model Code"), were as follows:

Long positions

(a) Ordinary shares of HK$0.10 each of the Company

Name of Director	Nature of interest	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Cheng Sze Kin	Beneficial interest	4,500,000	1.8%
	Spouse interest	3,375,000	1.3%
	Interest in a controlled corporation (Note 1)	150,000,000	58.0%
		157,875,000	61.1%
Mr. Cheng Sze Tsan	Beneficial interest	4,125,000	1.6%
	Interest in a controlled corporation (Note 2)	150,000,000	58.0%
		154,125,000	59.6%
Ms. Wong Pik Hung	Beneficial interest	3,375,000	1.3%
	Spouse interest (Note 3)	154,500,000	59.8%
		157,875,000	61.1%

(b) Share options

Name of Director	Nature of interest	Number of options held	Number of underlying shares interested
Mr. Cheng Sze Kin	Beneficial interest (Note 1)	330,000	330,000
	Spouse interest (Note 1)	330,000	330,000
		660,000	660,000
Mr. Cheng Sze Tsan	Beneficial interest (Note 2)	330,000	330,000
Ms. Wong Pik Hung	Beneficial interest (Note 3)	330,000	330,000
	Spouse interest (Note 3)	330,000	330,000
		660,000	660,000
Mr. Mok Tsan San	Beneficial interest	1,000,000	1,000,000

Notes:

(1) Mr. Cheng Sze Kin is interested in 40% of World Empire Investment Inc. ("World Empire"), which is in turn interested in 58.0% of the Company's issued share capital. Therefore, Mr. Cheng Sze Kin is deemed to be interested in such 58.0% of the Company's issued share capital, by virtue of Mr. Cheng Sze Kin's interests in World Empire. Mr. Cheng Sze Kin is also interested in 1.8% of the Company's issued share capital and the options granted under the Share Option Scheme to subscribe 330,000 shares. Mr. Cheng Sze Kin is deemed to be interested in 1.3% of the Company's issued share capital held by and the options granted to his spouse, Ms. Wong Pik Hung, under the Share Option Scheme to subscribe 330,000 shares. However, each of Mr. Cheng Sze Kin and Ms. Wong Pik Hung has confirmed that he/she will not exercise any option if as a result of which the Company will not be able to comply with the public float requirements of the Listing Rules.

(2) Mr. Cheng Sze Tsan is interested in 35% of World Empire, which is in turn interested in 58.0% of the Company's issued share capital. Therefore, Mr. Cheng Sze Tsan is deemed to be interested in such 58.0% of the Company's issued share capital, by virtue of Mr. Cheng Sze Tsan's interests in World Empire. Mr. Cheng Sze Tsan is also interested in 1.6% of the Company's issued share capital and the options granted under the Share Option Scheme to subscribe 330,000 shares. However, Mr. Cheng Sze Tsan has confirmed that he will not exercise any option if as a result of which the Company will not be able to comply with the public float requirements of the Listing Rules.

(3) Ms. Wong Pik Hung is the spouse of Mr. Cheng Sze Kin and is interested in 25% of World Empire, thus, Ms. Wong Pik Hung is deemed to be interested in 58.0% of the Company's issued share capital. Ms. Wong Pik Hung is interested in 1.3% of the Company's issued share capital and the options granted under the Share Option Scheme to subscribe 330,000 shares. Ms. Wong Pik Hung is deemed to be interested in 1.8% of the Company's issued share capital held by and the options granted to her spouse, Mr. Cheng Sze Kin, under the Share Option Scheme to subscribe 330,000 shares. However, each of Mr. Cheng Sze Kin and Ms. Wong Pik Hung has confirmed that he/she will not exercise any option if as a result of which the Company will not be able to comply with the public float requirements of the Listing Rules.

Save as disclosed above, none of the Directors, chief executive and their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31 December 2016.

Arrangements to Purchase Shares and Debentures

Save as disclosed under the section "Share Option Scheme" above, at no time during the Year was the Company, its holding company, or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

Equity-linked Agreements

Save as disclosed under the section "Share Option Scheme" above, no equity-linked agreements were entered into by the Group or existed during the Year.

Permitted Indemnity Provision

Pursuant to the Articles of Association, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred and sustained by him/her as a Director in defending any proceedings, in which judgement is given in his/her favour, or in which he/she is acquitted. The Company has arranged appropriate directors' and officers' liability insurance which provides coverage for the Directors and officers of the Group throughout the Year.

Directors' Interests in Transactions, Arrangements or Contracts of Significance

Other than those transactions disclosed under the section "Continuing Connected Transactions" below, no transactions, arrangements or contracts of significance, to which a Director or an entity connected with a Director was a party and in which a Director of the Company is or was materially interested, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

Management Contract

The Company has not entered into any contract with any individual, firm or body corporate to manage or administer the whole or any substantial part of any business of the Group during the Year.

Substantial Shareholders

As at 31 December 2016, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance showed that other than the interests disclosed above in respect of certain Directors and chief executive, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions in ordinary shares of HK$0.10 each of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
World Empire (Note)	Beneficial owner	150,000,000	58.0%
Yeung Chun Wai Anthony	Beneficial owner	21,860,000	8.5%

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

Confirmation of Independence

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

Directors' Remunerations and the Five Highest Paid Individuals

Details of the Directors' remunerations and those of the five highest paid individuals in the Group are set out in note 10 to the consolidated financial statements.

Continuing Connected Transactions

During the Year, the Company's subsidiaries have the following continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

	Notes	2016 HK$'000
Rental expenses paid to a related company in the PRC	(a)	**540**
Rental expenses paid to related companies in Hong Kong	(b)	**2,748**

Notes:

(a) The subsidiaries of the Group in the PRC entered into lease agreements with 深圳富盛宏業貿易有限公司 ("Shenzhen Fusheng") which is wholly-owned by Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung, for lease terms until 31 March 2016. The rental expenses paid to Shenzhen Fusheng were for use of the leased properties as office premises in Shenzhen. The rentals were determined by the parties through arm's length negotiations by reference to the market rate for similar premises in the vicinity of each premise. The subsidiaries of the Group in the PRC did not renew lease agreements with Shenzhen Fusheng on expiry of the leases of office premises in Shenzhen.

(b) The subsidiary of the Group in Hong Kong has entered into lease agreements with Gain Harvest Investment Limited ("Gain Harvest") and Wealth Pine Asia Limited ("Wealth Pine") which are wholly-owned by Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung, for lease terms until 31 December 2017. The rental expenses paid to Gain Harvest and Wealth Pine were for use of the leased properties by our Directors as staff quarters in Hong Kong. The rentals were determined by the parties through arm's length negotiations by reference to the market rate for similar premises in the vicinity of each premise.

The Directors are of the opinion that above transactions were conducted in the ordinary course of business of the Group.

The Independent Non-executive Directors have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740, Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed as above in accordance with Main Board Listing Rule 14A.56. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Competing Business

During the Year, no Directors have interests in any business which directly or indirectly competes, or is likely to compete with the business of the Group.

Each of the Controlling Shareholders (as defined in the section headed "Corporate Governance Report") has confirmed to the Company of his/her/its compliance with the non-competition undertakings provided to the Company under the Deed of Non-Competition (as defined in the section headed "Corporate Governance Report"). The Independent Non-executive Directors have reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied with by the Controlling Shareholders.

Emolument Policy

The Group offers competitive remuneration packages commensurate with industry practice and provides various fringe benefits to all employees of the Group including social insurance coverage, provident funds, bonus and share option scheme. The Group mainly determines staff remuneration on basis of the competence, qualifications and performance of individual employee and the salary trends in Hong Kong and the PRC. The staff remuneration will be reviewed regularly.

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted share option schemes as an incentive to Directors and eligible employees, details of the schemes are set out in note 27 to the consolidated financial statements.

Audit Committee

The Audit Committee comprises three Independent Non-executive Directors, namely, Mr. Zhang Senquan, Mr. Kam Leung Ming and Mr. Leung Yiu Man.

The Audit Committee is primarily responsible for the review and supervision of the Group's financial reporting process and risk management and internal control systems. It has reviewed the accounting principles and practices adopted by the Group and the audited annual results of the Group for the year ended 31 December 2016.

Major Customers and Suppliers

For the year ended 31 December 2016, sales to the Group's five largest customers and the largest customer accounted for approximately 15.8% and 10.8%, respectively of the Group's total turnover for the Year.

The largest customer carries a leading health and beauty chain with a wide-spread network of stores in Hong Kong and Macau and offers a program of reward redemption for its huge number of VIP members. The Group has worked with this customer for more than 5 years to launch some bedding products exclusively for its membership redemption in Hong Kong and Macau. The Group's bedding products are sold on wholesale basis under a bulk-purchase agreement for each redemption event with credit period not more than 60 days on issuing invoices. Over 80% of the outstanding receivable due by this customer as at 31 December 2016 has been settled at the date of this annual report.

For the year ended 31 December 2016, the Group's purchases attributable to the five largest suppliers and the largest supplier accounted for approximately 28.5% and 7.4%, respectively of the Group's total purchases for the Year.

At no time during the Year, did a Director, an associate of a Director or a shareholder of the Company (which to the best knowledge of the Directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest suppliers or customers.

Purchase, Sale or Redemption of the Company's Listed Securities

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

No Changes on Articles of Association

The Company's current Articles of Association were adopted on 22 October 2012. There have been no changes in the Company's Articles of Association up to the date of this report.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the Companies Law of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Annual General Meeting

The annual general meeting of the Company for the year ended 31 December 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).

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. The Board considered that sufficient measures of the Company had been taken for this absent Director to understand the views of shareholders. 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.

Sufficiency of Public Float

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

Donations

During the Year, the Group made charitable donations amounting to HK$932,000.

Events After The Reporting Period

There were no significant events after the reporting period of the Group up to the date of this report.

Auditor

A resolution will be submitted to the AGM to re-appoint Messrs. Deloitte Touche Tohmasu as auditor of the Company.

On behalf of the Board

Cheng Sze Kin
Chairman
Hong Kong, 24 March 2017

CORPORATE GOVERNANCE REPORT

The Board and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, sustainable business growth and enhancing shareholders' value.

Corporate Governance Practices

The Company has adopted the code provisions on the CG Code as set out in Appendix 14 to the Listing Rules as its own code of corporate governance. The Directors consider that the Company has complied with the code provisions as set out in the CG Code during the year ended 31 December 2016, save 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 reviews 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 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. The Board considered that sufficient measures of the Company had been taken for this absent Director to understand the views of shareholders. 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.

Directors' Securities Transactions

The Company has adopted its own code of conduct for the Directors in their dealings in the Company's securities on terms no less than the Model Code. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they had complied with the required standard of dealings as required by the Company's code of conduct and the Model Code throughout the Review Period.

Board of Directors

The Board provides leadership, guidance and strategic decisions to the Group's activities and oversees its financial performances. The Board has delegated its powers to the management for the Group's daily management and operations.

Board Composition

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

Executive Directors

Mr. Cheng Sze Kin *(Chairman)*
Mr. Cheng Sze Tsan *(Vice-chairman)* (Also appointed as Chief Executive Officer on 1 September 2016)
Ms. Wong Pik Hung
Mr. Kwok Yuen Keung Tommy *(Chief Executive Officer)* (resigned on 1 September 2016)

Non-executive Director

Mr. Mok Tsan San

Independent Non-executive Directors

Mr. Zhang Senquan
Mr. Kam Leung Ming
Mr. Leung Yiu Man

The biographical details and responsibilities of the Directors as well as the senior management are set out in the section headed "Directors and Senior Management" on pages 24 to 26 of this annual report.

Save as disclosed in the section headed "Directors and Senior Management" to this annual report, the Directors have no other financial, business, family or other material/relevant relationships with one another.

Board Diversity Policy

The Board has established a board diversity policy. The Company recognises the benefits of Board diversity and endeavours to ensure that the Board has the balance of skills, experience and diversity of perspectives appropriate to the Company's business. Diversity of Board members can be achieved through consideration of a number of factors, including but not limited to gender, age, cultural and educational background, race, professional experience, skill, knowledge and length of service. All Board appointments will be based on merits, and candidates will be considered against objective criteria for their potential contribution to the Board and the Company, having due regard to the benefits of diversity on the Board.

As at the date of this annual report, the Board comprises seven Directors. One of them is a woman. All the Executive Directors possess extensive experience in management and the design, production and marketing of bedding products while the Non-executive Director and Independent Non-executive Directors possess professional knowledge and broad experience in accounting, corporate finance and management respectively. The Directors believe that the composition of the Board reflects the necessary diversity, whether considered in terms of gender, professional knowledge, skills and experience, appropriate to the requirements of the business development of the Group and effective leadership. The Directors are of the opinion that the present structure of the Board can ensure the independence and objectivity of the Board and provide a system of checks and balances to safeguard the interests of the shareholders and the Company.

Directors' Training and Continuing Professional Development

Upon appointing a new Director, each new Director receives an induction package so as to ensure that the new Director has appropriate understanding of the Group's business and of a director's duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements.

The Directors are continually updated on the latest development regarding the Listing Rules and relevant statutory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices. All Directors are encouraged to participate in continuous professional development courses and seminars to develop and refresh their knowledge and skills.

According to records maintained by the Company, a summary of training received by the Directors for the Review Period is as follows:

	Types of continuous professional development programmes
Executive Directors	
Mr. Cheng Sze Kin	A, B
Mr. Cheng Sze Tsan	A, B
Ms. Wong Pik Hung	A, B
Mr. Kwok Yuen Keung Tommy (resigned on 1 September 2016)	A, B
Non-executive Director	
Mr. Mok Tsan San	A, B
Independent Non-executive Directors	
Mr. Zhang Senquan	A, B
Mr. Kam Leung Ming	A, B
Mr. Leung Yiu Man	A, B

Notes:

A: Attending briefing sessions and/or seminars

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

Functions and Duties of the Board

The main functions and duties conferred on the Board include:

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

(ii) deciding business plans and investment plans;

(iii) convening general meetings and reporting to the shareholders of the Company; and

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

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

Board Meetings

The Board considers that all meetings have legally and properly been convened during the Review Period. With the assistance of the Company Secretary, the Chairman of the Board takes the lead to ensure that Board meetings and Board committee meetings are convened in accordance with the requirements set out in the Articles of Association of the Company, the terms of reference of the respective Board committees and the Listing Rules.

Prior notice of at least 14 days convening the regular Board meeting was despatched to the Directors setting out the matters to be discussed. At the meeting, the Directors were provided with the relevant documents to be discussed and approved. The Company Secretary was responsible for keeping minutes for the Board meetings.

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

Attendance Record

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

	Number of Meetings Attended/Held				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Annual General Meeting
Executive Directors					
Mr. Cheng Sze Kin	5/5	N/A	N/A	3/3	1/1
Mr. Cheng Sze Tsan	5/5	N/A	N/A	N/A	1/1
Ms. Wong Pik Hung	5/5	N/A	N/A	N/A	1/1
Mr. Kwok Yuen Keung Tommy (Note)	3/3	N/A	N/A	N/A	1/1
Non-executive Director					
Mr. Mok Tsan San	5/5	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Mr. Zhang Senquan	5/5	4/4	3/3	3/3	0/1
Mr. Kam Leung Ming	5/5	4/4	3/3	3/3	1/1
Mr. Leung Yiu Man	5/5	4/4	3/3	3/3	1/1

Note: Mr. Kwok Yuen Keung Tommy resigned as Executive Director and the Chief Executive Officer on 1 September 2016 and attended all Board meetings prior to his resignation and the annual general meeting which was held on 23 May 2016.

Apart from five Board meetings held during the Review Period, an approval from the Board had also been obtained by written resolution signed by all the Board members on a number of matters. During the Review Period, the Chairman held a meeting with the Non-executive Director and the Independent Non-executive Directors without the presence of Executive Directors.

CORPORATE GOVERNANCE REPORT

Confirmation of Independence

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

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

Directors' and Officers' Liability Insurance

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

Procedure for Seeking Independent Professional Advice by Directors

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

Chairman and Chief Executive Officer

Code Provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separate and not be performed by the same individual. To ensure a balance of power and authority, the Company has appointed Mr. Cheng Sze Kin as the Chairman of the Company for the Review Period and Mr. Kwok Yuen Keung Tommy up to 31 August 2016 and Mr. Cheng Sze Tsan commencing from 1 September 2016 as the Chief Executive Officer of the Company. Mr. Cheng Sze Kin, Mr. Kwok Yuen Keung Tommy (up to 31 August 2016) and Mr. Cheng Sze Tsan are also Executive Directors of the Company.

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

Appointment and Re-election of Directors

Each of Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung has renewed his/her service contract with the Company as an Executive Director for a term of three years commencing from 23 November 2015. All of such service contracts may only be terminated by either party giving to the other not less than three months' prior notice in writing.

Each of the Non-executive Director and Independent Non-executive Directors has been reappointed for a term of one year subject to compliance with the Listing Rules and the CG Code. Upon the expiry of the term, the reappointment shall be subject to the approval by the Board and compliance with the Listing Rules and the CG Code. The term of reappointment shall be terminable by either the Non-executive Director/Independent Non-executive Director or the Company by giving the other party not less than one month's prior notice in writing.

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

Board Committees

The Company has established three Board committees (the "Board Committees"), namely the Audit Committee, the Remuneration Committee and the Nomination Committee to assist the Board in discharging its duties and responsibilities. The Board Committees are provided with sufficient resources to discharge their duties and are able to obtain outside independent professional advice in connection with their duties at the Company's expenses.

Audit Committee

The Company has established the Audit Committee with specific written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the Group's financial reporting process, risk management and internal control systems.

The Audit Committee comprises three Independent Non-executive Directors, namely, Mr. Zhang Senquan, Mr. Kam Leung Ming and Mr. Leung Yiu Man. The Chairman of the Audit Committee is Mr. Zhang Senquan.

During the Review Period, the Audit Committee held four meetings without the presence of Executive Directors. The record of attendance of individual Directors at the committee meetings is set out on page 43 of this annual report.

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

(i) reviewed the annual report and results announcement of the Company for the year ended 31 December 2015 and made a recommendation to the Board for approval;

(ii) reviewed the external auditor's independence and their report and made a recommendation to the Board for reappointment of the external auditor by the shareholders of the Company at its annual general meeting which was held on 23 May 2016;

(iii) reviewed continuing connected transactions;

(iv) reviewed the interim report and results announcement of the Company for the six months ended 30 June 2016 and made a recommendation to the Board for approval;

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

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

(vii) reviewed audit fee quoted by the external auditor for the Review Period and made a recommendation to the Board for approval; and

(viii) discussed audit planning with external auditor for the year ended 31 December 2016.

Auditor's Remuneration

The annual audit services for the year ended 31 December 2016 was provided by Deloitte Touche Tohmatsu, the external auditor.

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

Services Rendered	**Remuneration Paid/Payable**
	HK$'000
Annual audit services	1,380
Non-audit services	549
Total	1,929

The Audit Committee has expressed its views to the Board that the level of fees paid/payable to the Company's external auditor for annual audit services is reasonable. There has been no major disagreement between the auditor and the management of the Company during the Review Period.

The Audit Committee is responsible for making recommendation to the Board as to the appointment, reappointment and removal of the external auditor, which is subject to the approval by the shareholders at the annual general meetings of the Company.

Remuneration Committee

The Company has established the Remuneration Committee with specific written terms of reference in compliance with the CG Code. The main function of the Remuneration Committee is to assist the Board in establishing a formal and transparent procedure for setting policy on the remuneration packages for all Directors and senior management.

With the delegated responsibility, the Remuneration Committee determines the remuneration packages of individual Executive Directors and senior management. In determining such remuneration packages, the Remuneration Committee makes reference to companies of comparable business or scale, and the nature and volume of work in order to compensate the Directors reasonably for their time and efforts spent. The Remuneration Committee also makes recommendations to the Board on the remunerations of Non-executive Director and Independent Non-executive Directors.

The Remuneration Committee comprises three Independent Non-executive Directors, namely, Mr. Zhang Senquan, Mr. Kam Leung Ming and Mr. Leung Yiu Man. The Chairman of the Remuneration Committee is Mr. Kam Leung Ming.

During the Review Period, the Remuneration Committee held three meetings. The record of attendance of individual Directors at the committee meetings is set out on page 43 of this annual report.

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

(i) reviewed and approved 2015 year-end bonus and 2016 salary to Executive Directors and senior management;

(ii) reviewed and made recommendation to the Board for approval of remuneration package of the newly appointed Chief Executive Officer; and

(iii) reviewed and made recommendation to the Board for approval of revised director fee to the Non-executive Director.

Pursuant to Code Provision B.1.5 of the CG Code, details of the annual remuneration of the senior management by band for the Review Period are as follows:

	Number of employees
Nil to HK$1,000,000	2
HK$1,000,001 to HK$2,000,000	1

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

Nomination Committee

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

The Chairman of the Nomination Committee is Mr. Cheng Sze Kin. The Nomination Committee has four members, comprising Mr. Cheng Sze Kin and three Independent Non-executive Directors, namely, Mr. Zhang Senquan, Mr. Kam Leung Ming and Mr. Leung Yiu Man.

When vacancies on the Board exists, the Nomination Committee reviews and assesses candidates for directorship, before making recommendations to the Board, by making reference to the board diversity policy as well as the skills, experience, professional knowledge and time commitments of each candidate, the Company's needs and the current composition of the Board. The Board may consider engaging an external recruitment agency to carry out the recruitment and selection process when necessary.

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

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

(i) considered the candidate of new Executive Director;

(ii) reviewed and made recommendation to the Board for approval of the appointment of new Chief Executive Officer;

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

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

(v) proposed the reappointment of the Directors who would retire from office by rotation at the forthcoming annual general meeting and offer themselves for re-election.

Accountability and Audit

The Company provides the annual budget and monthly updates on the business performance with explanatory information to the Directors for them to understand the position, development and prospects of the Group.

The Directors acknowledge their responsibilities for preparing the financial statements of the Group in accordance with the statutory requirements and accounting standards and other financial disclosure requirements under the Listing Rules. The Directors also acknowledge their responsibilities to ensure that the financial statements of the Group are published in a timely manner as required by the Listing Rules.

The external auditor's statement about reporting responsibility is set out on pages 53 to 58.

Risk Management and Internal Control

During the year, the Group has complied with the Principle C.2 of the CG Code by establishing appropriate and effective risk management and internal control systems. Management is responsible for the design, implementation and monitoring of such systems, while the Board oversees management in performing its duties on an ongoing basis. Main features of the risk management and internal control systems are described in the sections below.

Risk Management System

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- *Identification:* Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- *Evaluation:* Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- *Management:* Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

Internal Control System

The Company has in place an internal control system which is compatible with the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013 framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are shown as follow:

- *Control Environment:* A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.

- *Risk Assessment:* A dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.

- *Control Activities:* Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.

- *Information and Communication:* Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.

- *Monitoring:* Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

The Group's risk management and internal control systems have been designed to mitigate significant risks in achieving its strategic objectives, safeguard its assets, maintain proper accounting records, execute appropriate limits of authority and ensure compliance with relevant laws and regulations. Such systems are to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

Disclosure of Inside Information

The Group acknowledges its responsibilities to ensure potential inside information being captured and confidentiality of such information being maintained until consistent and timely disclosure are made in accordance with the Listing Rules. The Group has an inside information policy with the procedures and internal controls for the handling and dissemination of inside information as follows:

- the Group conducts its affairs with close regard to the disclosure requirements under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong in June 2012;

- the Group has implemented its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through public announcements and the company website;

- the access of information is restricted to a limited number of employees on a need-to-know basis such that employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality; and

- the Group has established and implemented procedures for responding to external enquiries about the Group's affairs and only designated persons are authorised to speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

Effectiveness of the Risk Management and Internal Control Systems

The Board is responsible for maintaining and reviewing the effectiveness of the Group's risk management and internal control systems and ensuring review of the effectiveness of these systems has been conducted annually. SHINEWING Risk Services Limited ("SHINEWING") has been appointed to carry out the internal audit function such as the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems covering financial, operational and legal compliance controls.

During the Review Period, the Audit Committee had meetings with SHINEWING to review findings on the Group's risk management and internal control systems and respective corrective actions done on an on-going basis. The Board, through its review and the reviews by Audit Committee, concluded that the Group's risk management and internal control systems were adequate and effective and the Company had complied with the code provisions on risk management and internal control of the CG Code during the Review Period. The Board also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

Non-Competition Undertakings

In accordance with the non-competition undertakings set out in the deed of non-competition (the "Deed of Non-Competition") executed by Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan, Ms. Wong Pik Hung and World Empire (collectively the "Controlling Shareholders") in favour of the Company to the effect that with effect from 23 November 2012 when the Company was successfully listed on the main board of the Stock Exchange (the "Listing Date"), each of the Controlling Shareholders will not, except through the Group, (i) directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of the Group or be in competition with any member of the Group in any business activities (the "Restricted Business") which any member of the Group may undertake in the future in Hong Kong, Macau and the PRC (the "Restricted Territory") save for the holding of not more than 5% shareholding interests in any listed company and (ii) directly or indirectly take any action which constitutes an interference with or a disruption of any of the Group's business activities in the Restricted Territory.

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

In order to ensure the Controlling Shareholders' compliance with the terms of the Deed of Non-Competition for the Review Period, (i) each of the Controlling Shareholders has given a written confirmation to the Company that he/she/it has complied with the terms of the Deed of Non-Competition for the Review Period, (ii) the Company has enquired each of the Controlling Shareholders from time to time, about whether he/she/it has been interested, involved or engaged in any business which competes with the business of the Group, and enquiries about the same have been made with each of them before publication of this annual report, and (iii) the Independent Non-Executive Directors of the Company have reviewed the available information and understood that, as far as they can ascertain, the Controlling Shareholders have complied with the terms of the Deed of Non-Competition for the Review Period.

Company Secretary

The Company Secretary of the Company is Mr. Ho Yiu Leung who fulfils the requirements under Rules 3.28 and 3.29 of the Listing Rues. His biography is set out in the "Directors and Senior Management" section of this annual report.

As an employee of the Company, the Company Secretary supports the Board, ensures good information flow within the Board and Board policy and procedures are followed; advises the Board on governance matters, facilitates induction to each new Director and monitors the training and continuous professional development of Directors. He attained not less than 15 hours of relevant professional training during the Review Period.

Communications with Shareholders and Investors

Meanwhile, the Company has not engaged any professional public relation firm. However, the Company will consider engaging some investor relations consultancy companies, whenever necessary, to organise various investor relations programs (including briefing meetings with the media and analysts) aiming at increasing the transparency of the Company, enhancing communication with shareholders and investors, increasing their understanding of and confidence in the Group's businesses.

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

The Company maintains a website at http://www.casablanca.com.hk where extensive information and updates on the Company's financial information, corporate governance practices and other useful information are posted and available for access by public investors.

Shareholders' Rights

How shareholders can convene an extraordinary general meeting and putting forward proposals at shareholders' meetings

Pursuant to Article 12.3 of the Articles of Association, any two or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition deposited at the principal office of the Company in Hong Kong specifying the objects of the meeting and signed by the requisitionist(s), to require an extraordinary general meeting to be called by the Board. If the Board does not within 21 days of such deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) himself (themselves) representing more than one-half of the total rights of all of them may do so in the same manner as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after three months from the date of deposit of the requisition. All reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

In respect of proposing a person for election as a Director at general meetings, the period during which a written notice of intention to propose a person for election as a Director and a written notice by that person of his willingness to be elected are to be given to the Company shall be at least 7 days, such period shall commence on the day after the date when the notice of the general meeting convened for such election is dispatched and end no later than 7 days prior to the date of such meeting.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the Company Secretary by mail to the principal office of the Company in Hong Kong. The Company Secretary forwards communications relating to matters within the Board's purview to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and consumer complaints, to the Chief Executive Officer.

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

To the Shareholders of Casablanca Group Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

We have audited the consolidated financial statements of Casablanca Group Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 59 to 115, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Estimated allowance for finished goods	
We identified the estimated allowance for finished goods as a key audit matter due to the use of judgment and estimates by the management in identifying aged or obsolete, or out-of-season finished goods and estimating the allowance for finished goods. Aged or obsolete, or out-of-season finished goods were identified by the management based on aging, conditions and marketability of finished goods. Allowance is applied to finished goods based on assessment of net realisable value by the management, by considering the current market conditions, product life cycle, marketing and promotion plans, historical sales records, aging analysis and subsequent selling prices of the finished goods. (Refer to notes 4 and 19 to the consolidated financial statements.) At 31 December 2016, the carrying amount of finished goods is HK$56,408,000 (net of allowance for finished goods of HK$4,702,000).	Our procedures in relation to assessing the appropriateness of the estimated allowance for finished goods included: • Obtaining an understanding of how allowance for finished goods is estimated by the management. • Understanding and testing the key controls relating to the preparation of aging analysis of finished goods. • Testing the aging analysis of finished goods, on a sample basis, to the goods received notes or the warehouse receipts. • Identifying aged or obsolete finished goods when attending inventory count. • Discussing with the management and evaluating the basis of identification of aged or obsolete, or out-of-season finished goods by the management, based on the current market conditions, product life cycle and marketing and promotion plans. • Assessing the reasonableness of allowance for finished goods with reference to historical sales records, current market conditions, product life cycle, marketing and promotion plans, aging analysis and subsequent selling prices of the finished goods. • Tracing a selection of finished goods with subsequent selling prices to the sales invoices. • Evaluating the historical accuracy of the allowance estimation by management by comparing historical allowance made to the actual selling prices and actual loss incurred, and tracing the selling prices, on a sample basis, to the sales invoices.

Key Audit Matters (continued)

Key audit matter

Estimated allowance for trade receivables from distributors

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

In determining the allowance for trade receivables from distributors, the management considers the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables from distributors. (Refer to note 4 to the consolidated financial statements)

At 31 December 2016, the carrying amount of trade receivables from distributors is HK$17,119,000 (net of allowance for doubtful debts of HK$1,267,000).

How our audit addressed the key audit matter

Our procedures in relation to assessing the appropriateness of the estimated allowance for trade receivables from distributors included:

- Obtaining an understanding of how allowance for trade receivables from distributors is estimated by the management.
- Understanding and testing the key controls relating to the preparation of aging analysis of trade receivables from distributors.
- Testing the aging analysis of the trade receivables from distributors, on a sample basis, to the sales invoices.
- Discussing with the management and evaluating the basis of identification of distributors with distribution agreements early terminated or not renewed or distributors who delayed settlements by the management and their assessment on the recoverability of trade receivables from these distributors.
- Assessing the reasonableness of allowance for trade receivables from distributors with reference to the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables from distributors.
- Tracing a selection of the subsequent settlements to the bank receipts.
- Evaluating the historical accuracy of the allowance estimation by management by comparing historical allowance made to the actual settlement and actual loss incurred and tracing the actual settlement, on a sample basis, to the bank receipts.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Leung Chui Shan.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
24 March 2017

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	5	**356,717**	370,969
Cost of goods sold		**(132,776)**	(141,764)
Gross profit		**223,941**	229,205
Other income	6	**1,599**	2,247
Other gains and losses	7	**(6,304)**	(3,527)
Selling and distribution costs		**(152,431)**	(178,085)
Administrative expenses		**(50,148)**	(61,336)
Finance costs	8	**(2,066)**	(2,890)
Profit (loss) before taxation	9	**14,591**	(14,386)
Taxation	11	**(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)	13	**3.07**	(6.67)
– Diluted (HK cents)	13	**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	14	**122,923**	137,701
Prepaid lease payments	15	**23,540**	25,734
Intangible assets	16	**–**	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	17	**–**	7,749
Convertible bond	18	**–**	2,980
Derivative component in convertible bond	18	**–**	673
		148,746	177,599
Current assets			
Inventories	19	**77,101**	81,502
Trade and other receivables	20	**82,465**	77,234
Prepaid lease payments	15	**541**	578
Taxation recoverable		**770**	5,393
Pledged bank deposits	21	**8,038**	6,812
Bank balances and cash	21	**172,444**	177,373
		341,359	348,892
Current liabilities			
Trade and other payables	22	**81,413**	79,891
Taxation payable		**1,307**	840
Bank borrowings	23	**43,846**	53,756
Obligation under a finance lease	24	**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	23	**6,325**	20,739
Obligation under a finance lease	24	**–**	63
Deferred tax liabilities	25	**828**	904
		7,153	21,706
Net assets		**356,323**	369,553

	NOTE	2016 HK$'000	2015 HK$'000
Capital and reserves			
Share capital	26	**25,843**	25,843
Reserves		**330,480**	343,710
Total equity		**356,323**	369,553

The consolidated financial statements on pages 59 to 115 were approved and authorised for issue by the Board of Directors on 24 March 2017 and are signed on its behalf by:

Cheng Sze Kin
Director

Cheng Sze Tsan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 (Note i)	Merger reserve HK$'000 (Note ii)	PRC statutory reserve HK$'000 (Note iii)	Translation reserve HK$'000	Share options reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1 January 2015	20,079	80,459	2,000	1,319	8,833	14,494	13,531	170,995	311,710
Loss for the year	–	–	–	–	–	–	–	(16,230)	(16,230)
Exchange differences arising on translation of financial statements of foreign operations and other comprehensive expense for the year	–	–	–	–	–	(11,121)	–	–	(11,121)
Total comprehensive expense for the year	–	–	–	–	–	(11,121)	–	(16,230)	(27,351)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	7,060	–	7,060
Exercise of share options (note 26(b))	1,764	32,848	–	–	–	–	(13,439)	–	21,173
Lapse of share options	–	–	–	–	–	–	(92)	92	–
Issue of shares upon placing (note 26(a))	4,000	56,000	–	–	–	–	–	–	60,000
Expenses incurred in connection with the issue of shares	–	(3,039)	–	–	–	–	–	–	(3,039)
Transfer of reserve	–	–	–	–	155	–	–	(155)	–
At 31 December 2015	25,843	166,268	2,000	1,319	8,988	3,373	7,060	154,702	369,553
Profit for the year	–	–	–	–	–	–	–	7,930	7,930
Exchange differences arising on translation of financial statements of foreign operations and other comprehensive expense for the year	–	–	–	–	–	(12,959)	–	–	(12,959)
Reclassification adjustments for the cumulative exchange differences upon deregistration of a foreign operation	–	–	–	–	–	(8,775)	–	–	(8,775)

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000 (Note i)	Merger reserve HK$'000 (Note ii)	PRC statutory reserve HK$'000 (Note iii)	Translation reserve HK$'000	Share options reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
Total comprehensive expense for the year	–	–	–	–	–	(21,734)	–	7,930	(13,804)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	574	–	574
Lapse of share options	–	–	–	–	–	–	(3,042)	3,042	–
Transfer of reserve	–	–	–	–	229	–	–	(229)	–
Release of reserve due to deregistration of a subsidiary	–	–	–	–	(6,470)	–	–	6,470	–
At 31 December 2016	**25,843**	**166,268**	**2,000**	**1,319**	**2,747**	**(18,361)**	**4,592**	**171,915**	**356,323**

Notes:

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

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
Operating activities		
Profit (loss) before taxation	**14,591**	(14,386)
Adjustments for:		
Interest income	**(567)**	(636)
Interest income on convertible bond	**–**	(96)
Investment income	**(630)**	(635)
Interest expenses	**2,066**	2,890
Allowance for doubtful debts on trade receivables	**325**	1,025
Allowance for doubtful debts on other receivables	**15**	–
Allowance of inventories	**1,777**	1,655
Amortisation of intangible assets	**2**	2
Amortisation of prepaid lease payments	**566**	598
Bad debts written off	**139**	2,359
Depreciation of property, plant and equipment	**13,272**	13,749
Gain on deregistration of a subsidiary	**(8,775)**	–
Loss (gain) on disposal of property, plant and equipment	**227**	(78)
Decrease in fair value of derivative component in convertible bond	**673**	43
Impairment loss of available-for-sale investment	**7,749**	–
Impairment loss of convertible bond	**2,980**	–
Share-based payment expense	**574**	7,060
Operating cash flows before movements in working capital	**34,984**	13,550
(Increase) decrease in inventories	**(1,444)**	4,385
(Increase) decrease in trade and other receivables	**(8,414)**	18,599
(Increase) decrease in rental and other deposits	**(179)**	286
Increase (decrease) in trade and other payables	**5,928**	(15,270)
Cash generated from operations	**30,875**	21,550
Hong Kong Profits Tax paid	**(870)**	(9,966)
PRC Enterprise Income Tax paid	**(717)**	–
PRC withholding tax paid	**–**	(1,113)
Net cash from operating activities	**29,288**	10,471
Investing activities		
Withdrawal of pledged bank deposits	**13,931**	1,225
Net cash inflow from investment income	**630**	635
Interest received	**567**	636
Proceeds from disposal of property, plant and equipment	**93**	1,581
Placement of pledged bank deposits	**(15,604)**	(6,812)
Purchase of property, plant and equipment	**(5,277)**	(10,363)
Deposit paid for acquisition of property, plant and equipment	**(568)**	(144)
Purchase of available-for-sale investment	**–**	(7,749)
Purchase of convertible bonds	**–**	(3,600)
Net cash used in investing activities	**(6,228)**	(24,591)

	2016 HK$'000	2015 HK$'000
Financing activities		
New bank loans raised	**10,000**	6,787
Repayments of bank loans	**(33,885)**	(28,286)
Interest paid	**(2,049)**	(2,845)
Repayments of obligation under a finance lease	**(745)**	(717)
Finance lease charges paid	**(17)**	(45)
Proceeds from issue of shares	**–**	60,000
Exercise of share options	**–**	21,173
Expenses incurred in connection with the issue of shares	**–**	(3,039)
Net cash (used in) from financing activities	**(26,696)**	53,028
Net increase in cash and cash equivalents	**(3,636)**	38,908
Cash and cash equivalents at beginning of the year	**177,373**	140,208
Effect of foreign exchange rate changes	**(1,293)**	(1,743)
Cash and cash equivalents at end of the year represented by bank balances and cash	**172,444**	177,373

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 ("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.

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

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.

HKFRS 9 "Financial instruments"

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

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

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

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.

It should be noted that the above assessments were made based on analysis of the Group's financial assets and financial liabilities as at 31 December 2016 on the basis of the facts and circumstances that existed at that date. As facts and circumstances may change during the period leading up to the initial date of application of HKFRS 9, which is expected to be 1 January 2018 as the Group does not intend to early apply the standard, the assessment of the potential impact is subject to change.

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

HKFRS 15 "Revenue from contracts with customers"

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

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

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

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

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

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.

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

HKFRS 16 "Leases" (continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK$28,363,000 as disclosed in note 29. A preliminary assessment indicates that these arrangements 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. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

3. Significant Accounting Policies (continued)

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

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

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

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

3. Significant Accounting Policies (continued)

Merger accounting for business combination involving entities under common control

The consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amount receivable for goods sold in the normal course of business, net of discounts, estimated customer returns and sales related taxes.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

3. Significant Accounting Policies (continued)

Property, plant and equipment (continued)

Assets held under finance lease are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

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

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below).

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

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

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

3. Significant Accounting Policies (continued)

Leasehold land and building (continued)

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

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

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

Financial instruments

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

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

Financial assets

The Group's financial assets are mainly classified into financial assets at FVTPL, loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including convertible bond, trade and other receivables, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less any identified impairment losses at the end of the reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Derivative component in convertible bond

Derivative component in convertible bond is initially recognised at fair value and is classified separately into respective items on initial recognition. The derivative component is subsequently remeasured at fair value at the end of the reporting period with resulting gain or loss recognised in profit or loss immediately.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, accumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

Financial liabilities and equity instruments

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

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Derecognition

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees

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

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

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

Share options granted to supplier/consultant/customers

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

3. Significant Accounting Policies (continued)

Impairment losses on tangible and intangible assets

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

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

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

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

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

3. Significant Accounting Policies (continued)

Borrowing costs

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

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

Government grants

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

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

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

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

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

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

3. Significant Accounting Policies (continued)

Taxation

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

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

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

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

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

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

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

Current and deferred tax is recognised in profit or loss. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

4. Key Sources of Estimation Uncertainty

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

Estimated allowance for trade receivables from distributors

In determining the allowance for trade receivables from distributors, the management considers the credit history including default or delay in payments, settlement records, subsequent settlements and aging analysis of the trade receivables from distributors.

As at 31 December 2016, the carrying amount of trade receivables from distributors is HK$17,119,000 (2015: HK$22,322,000) (net of allowance for doubtful debts of HK$1,267,000 (2015: HK$1,083,000)).

Estimated allowance for finished goods

Aged or obsolete, or out-of-season finished goods were identified by the management based on aging, conditions and marketability of finished goods. Allowance is applied to finished goods based on assessment of net realisable value by the management, by considering the current market conditions, product life cycle, marketing and promotion plans, historical sales records, aging analysis and subsequent selling prices of the finished goods.

As at 31 December 2016, the carrying amount of finished goods is HK$56,408,000 (2015: HK$59,259,000) (net of allowance for finished goods of HK$4,702,000 (2015: HK$2,937,000).

5. Revenue and Segment Information

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

- Self-operated retail sales: Sales through the self-operated retail sales channel refer to sales at the self-operated concession counters in department stores and self-operated retail stores.

- Sales to distributors: Sales to distributors refer to the sales to distributors who resell the products to end-user consumers, typically at concession counters in department stores and retail stores operated by distributors.

- Others: Other sales include sales to wholesale customers located in the PRC and Hong Kong and Macau, and sales made to overseas customers.

5. Revenue and Segment Information (continued)

The information of segment revenue is as follows:

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

5. Revenue and Segment Information (continued)

Information about major customer

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

	2016 HK$'000	2015 HK$'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.

6. Other Income

	2016 HK$'000	2015 HK$'000
Bank interest income	567	636
Interest income on convertible bond	–	96
Government subsidies	126	92
Investment income (note)	630	635
Others	276	788
	1,599	2,247

Note: These investments were entered into and matured during the year ended 31 December 2016 with effective interest rate ranged from 1.9% – 2.7% (2015: 2.16% – 4.08%) per annum.

7. Other Gains and Losses

	2016 HK$'000	2015 HK$'000
Allowance for doubtful debts on trade receivables	(325)	(1,025)
Allowance for doubtful debts on other receivables	(15)	–
Decrease in fair value of derivative component in convertible bond (note 18)	(673)	(43)
Gain on deregistration of a subsidiary (note)	8,775	–
Impairment loss of available-for-sale investment (note 17)	(7,749)	–
Impairment loss of convertible bond (note 18)	(2,980)	–
(Loss) gain on disposal of property, plant and equipment	(227)	78
Net exchange loss	(3,110)	(2,537)
	(6,304)	(3,527)

Note: During the year, Forcetech (Shenzhen) which was established in the PRC was deregistered. The net asset at the date of deregistration was nil and the gain on deregistration represents the cumulated exchange reserve reclassified to profit or loss.

8. Finance Costs

	2016 HK$'000	2015 HK$'000
Interest on:		
Bank borrowings	**2,049**	2,845
Finance lease	**17**	45
Total borrowing costs	**2,066**	2,890

9. Profit (Loss) before Taxation

	2016 HK$'000	2015 HK$'000
Profit (loss) before taxation has been arrived at after charging:		
Directors' and chief executive's remuneration (note a & note 10)	**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
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

9. Profit (Loss) before Taxation (continued)

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.

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

(a) Directors' and chief executive's emoluments

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

	Fees HK$'000	Salaries and allowances HK$'000	Performance related incentive payments HK$'000	Retirement benefit schemes contributions HK$'000	Share-based payments HK$'000	Total HK$'000
For the year ended 31 December 2016						
Executive directors						
Mr. Cheng Sze Kin	–	2,181	36	147	61	2,425
Ms. Wong Pik Hung	–	2,181	720	126	60	3,087
Executive director and chief executive officer						
Mr. Cheng Sze Tsan (appointed as chief executive on 1 September 2016)	–	2,481	–	126	60	2,667
Mr. Kwok Yuen Keung Tommy (resigned on 1 September 2016)	–	840	–	12	–	852
Non-executive director						
Mr. Mok Tsan San	1,000	–	–	–	184	1,184
Independent non-executive directors						
Mr. Zhang Senquan	164	–	–	–	–	164
Mr. Kam Leung Ming	164	–	–	–	–	164
Mr. Leung Yiu Man	164	–	–	–	–	164
	1,492	7,683	756	411	365	10,707

10. Directors' and Chief Executive's and Employees' Emoluments (continued)

(a) Directors' and chief executive's emoluments (continued)

	Fees HK$'000	Salaries and allowances HK$'000	Performance related incentive payments HK$'000	Retirement benefit schemes contributions HK$'000	Share-based payments HK$'000	Total HK$'000
For the year ended 31 December 2015						
Executive directors						
Mr. Cheng Sze Kin	–	2,166	–	125	424	2,715
Mr. Cheng Sze Tsan	–	2,466	–	124	424	3,014
Ms. Wong Pik Hung	–	2,166	–	125	424	2,715
Executive director and chief executive officer						
Mr. Kwok Yuen Keung Tommy	–	1,350	–	87	2,570	4,007
Non-executive director						
Mr. Mok Tsan San (appointed on 9 April 2015)	728	–	–	–	1,285	2,013
Independent non-executive directors						
Mr. Zhang Senquan (appointed on 1 April 2015)	123	–	–	–	–	123
Mr. Kam Leung Ming (appointed on 1 April 2015)	123	–	–	–	–	123
Mr. Leung Yiu Man (appointed on 22 May 2015)	100	–	–	–	–	100
Mr. Tse Yat Hong (resigned on 1 April 2015)	39	–	–	–	–	39
Mr. Leung Lin Cheong (retired on 22 May 2015)	62	–	–	–	–	62
Mr. Li Kai Fat (resigned on 1 April 2015)	39	–	–	–	–	39
	1,214	8,148	–	461	5,127	14,950

Mr. Kwok Yuen Keung Tommy was also the chief executive of the Company before his resignation on 1 September 2016 and Mr. Cheng Sze Tsan was appointed as the chief executive of the Company on 1 September 2016 and their emoluments disclosed above included those for services rendered by them as the chief executive.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group. The emoluments of non-executive director and independent non-executive directors shown above were mainly for their services as directors of the Company.

10. Directors' and Chief Executive's and Employees' Emoluments (continued)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2015: five) were directors and the chief executive of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining one (2015: nil) individual were as follows:

	2016 HK$'000	2015 HK$'000
Salaries and allowances	852	–
Performance related incentive payments	110	–
Retirement benefit schemes contributions	18	–
Share-based payments	91	–
	1,071	–

The emoluments were within the following bands:

	2016	2015
Nil to HK$1,000,000	–	–
HK$1,000,001 to HK$1,500,000	1	–

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

During the two years ended 31 December 2016 and 2015, no emoluments were paid by the Group to the directors of the Company and chief executive of the Group or the five highest paid individuals (including directors, chief executive and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company nor the chief executive of the Group waived any emoluments during both years.

11. Taxation

	2016 HK$'000	2015 HK$'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 (note 25)	**(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%.

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

	2016 HK$'000	2015 HK$'000
Profit (loss) before taxation	**14,591**	(14,386)
Tax charge (credit) at Hong Kong Profits Tax rate of 16.5%	**2,408**	(2,374)
Tax effect of expenses not deductible for tax purposes	**3,737**	3,175
Tax effect of income not taxable for tax purposes	**(1,625)**	(206)
Tax effect of tax losses not recognised	**3,640**	5,986
Utilisation of tax losses previously not recognised	**(681)**	(1,588)
Effect of different tax rate of subsidiaries operating in other jurisdictions	**(517)**	(1,416)
Utilisation of tax effect of undistributed profit of a subsidiary in the PRC previously recognised	**–**	(1,462)
Withholding tax on distributed profits of a subsidiary in the PRC	**–**	1,113
Overprovision in prior years	**(97)**	(68)
Others	**(204)**	(1,316)
Taxation charge	**6,661**	1,844

12. 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.

13. 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 **HK$'000**	2015 HK$'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.

14. Property, Plant and Equipment

	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Computer equipment HK$'000	Total HK$'000
COST							
At 1 January 2015	136,073	12,417	11,808	9,339	13,547	–	183,184
Exchange adjustments	(5,755)	(275)	(519)	(368)	(26)	–	(6,943)
Additions	–	2,577	240	436	6,231	–	9,484
Disposals	–	(2,963)	(455)	–	(4,133)	–	(7,551)
At 31 December 2015	130,318	11,756	11,074	9,407	15,619	–	178,174
Exchange adjustments	(7,866)	(499)	(721)	(503)	(36)	(4)	(9,629)
Additions	–	4,425	214	173	328	1,269	6,409
Disposals	–	(1,680)	–	(718)	(331)	–	(2,729)
At 31 December 2016	**122,452**	**14,002**	**10,567**	**8,359**	**15,580**	**1,265**	**172,225**
DEPRECIATION							
At 1 January 2015	10,348	5,829	4,836	4,298	8,583	–	33,894
Exchange adjustments	(506)	(152)	(234)	(209)	(21)	–	(1,122)
Provided for the year	5,137	3,786	903	1,934	1,989	–	13,749
Eliminated on disposals	–	(1,778)	(384)	–	(3,886)	–	(6,048)
At 31 December 2015	14,979	7,685	5,121	6,023	6,665	–	40,473
Exchange adjustments	(976)	(304)	(368)	(368)	(18)	–	(2,034)
Provided for the year	4,881	3,301	874	1,448	2,533	235	13,272
Eliminated on disposals	–	(1,361)	–	(717)	(331)	–	(2,409)
At 31 December 2016	**18,884**	**9,321**	**5,627**	**6,386**	**8,849**	**235**	**49,302**
CARRYING VALUES							
At 31 December 2016	**103,568**	**4,681**	**4,940**	**1,973**	**6,731**	**1,030**	**122,923**
At 31 December 2015	115,339	4,071	5,953	3,384	8,954	–	137,701

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

	2016 HK$'000	2015 HK$'000
In Hong Kong	**3,212**	3,461
In PRC	**100,356**	111,878
	103,568	115,339

14. Property, Plant and Equipment (continued)

The leasehold land and buildings with carrying values of HK$96,688,000 (2015: HK$107,644,000) were pledged to banks as securities for banking facilities granted to the Group as at 31 December 2016.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method at the following rates per annum:

Leasehold land and buildings	Over the shorter of the term of the lease or 25 years
Leasehold improvements	Over the shorter of the term of the lease or 33 $^1/_3$%
Plant and machinery	10%
Furniture and fixtures	20%
Motor vehicles	20%
Computer equipment	33 $^1/_3$%

The carrying value of motor vehicles includes an amount of HK$1,006,000 (2015: HK$1,438,000) in respect of an asset held under a finance lease.

15. Prepaid Lease Payments

	2016 HK$'000	2015 HK$'000
Analysed for reporting purposes as:		
Current assets	**541**	578
Non-current assets	**23,540**	25,734
	24,081	26,312

The Group's prepaid lease payments comprise of leasehold land located in the PRC.

The leasehold land is amortised over the contractual life of 50 years using the straight-line method.

The prepaid lease payments with carrying values of HK$24,081,000 (2015: HK$26,312,000) were pledged to a bank as securities for a banking facility granted to the Group as at 31 December 2016.

16. Intangible Assets

	Patents HK$'000
COST	
At 1 January 2015, 31 December 2015 and 31 December 2016	**15**
AMORTISATION	
At 1 January 2015	11
Charge for the year	2
At 31 December 2015	13
Charge for the year	2
At 31 December 2016	**15**
CARRYING VALUES	
At 31 December 2016	**–**
At 31 December 2015	2

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

17. 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.

18. 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	**–**	**–**

During the year ended 31 December 2015, the methods and assumptions applied for the valuation of the convertible bond were as follows:

(i) Valuation of receivable component

At initial recognition, the fair value of receivable component was calculated based on the present value of contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the credit risk of the convertible bonds issuer and maturity term. The effective interest rate of the receivable component was 20%.

18. Convertible Bond/Derivative Component in Convertible Bond (continued)

(ii) Valuation of derivative component

Derivative component was measured at fair value using the Binomial Pricing Model, at initial recognition and at the end of the reporting period. The inputs into the model as at date of subscription and at 31 December 2015, were as follows:

	(Date of subscription) 26 October 2015	31 December 2015
Stock price	HK$25.6933	HK$25.6933
Conversion price	HK$25.6933	HK$25.6933
Volatility	27.93%	29.16%
Dividend yield	0%	0%
Option life	2.01 years	1.83 years
Risk free rate	0.288%	0.332%

19. Inventories

	2016 HK$'000	2015 HK$'000
Raw materials	20,693	22,243
Finished goods	56,408	59,259
	77,101	81,502

20. 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

20. Trade and Other Receivables (continued)

Retailing sales are mainly made at concession counters in department stores, the department stores collect cash from the ultimate customers and then repay the balance after deducting the concessionaire commission to the Group. The credit period granted to department stores ranging from 30 to 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 HK$'000	2015 HK$'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

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

The management of the Group closely monitors the credit quality of trade receivables and considers the debtors that are neither past due nor impaired to be of a good credit quality. Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$23,331,000 (2015: HK$12,605,000) which are past due as at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

The following is an aged analysis of trade receivables based on the invoice date which are past due but not impaired at the end of the reporting period.

	2016 HK$'000	2015 HK$'000
0 to 30 days	–	11
31 to 60 days	16,866	3,206
61 to 90 days	2,714	779
91 to 180 days	2,440	4,718
181 to 365 days	275	2,147
Over 365 days	1,036	1,744
	23,331	12,605

20. Trade and Other Receivables (Continued)

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

Based on the historical experience of the Group, trade receivables that are past due but not impaired are generally recoverable.

Movement in the allowance for doubtful debts

	2016 HK$'000	2015 HK$'000
Balance at beginning of the year	1,141	158
Allowance for doubtful debts	325	1,025
Amounts written off during the year as uncollectible	(22)	–
Exchange adjustments	(86)	(42)
Balance at end of the year	1,358	1,141

Included in the allowance for doubtful debts are individually impaired trade receivables relating to distributors with an aggregate balance of HK$1,358,000 (2015: HK$1,141,000). Full provision has been made for individual trade receivables aged over one year with no subsequent settlements as historical evidence shows that such amounts are not recoverable.

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

	2016 HK$'000	2015 HK$'000
United States dollars ("USD")	16	208
Macau pataca ("MOP")	524	398

21. Pledged Bank Deposits/Bank Balances and Cash

Pledged bank deposits represent deposits pledged to banks for a banking facility to the Group and bills payables. The pledged bank deposits carry fixed interest rate of 0% – 0.58% (2015: 0% – 0.24%) per annum as at 31 December 2016. The pledged bank deposits will be released upon the settlement of relevant bank borrowings and bills payables.

The bank balances included fixed deposits with maturity less than three months which carry fixed interests rates of 0.58% (2015: 0.2% to 0.8%) per annum as at 31 December 2016. Other bank balances carry interest at market rates of 0.01% to 0.3% (2015: 0.01% to 0.35%) per annum as at 31 December 2016.

21. Pledged Bank Deposits/Bank Balances and Cash (Continued)

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

	2016 HK$'000	2015 HK$'000
HK$	**80**	78
Renminbi ("RMB")	**303**	6,069
Euro ("EUR")	**41**	890
USD	**820**	840

22. Trade and Other Payables

	2016 HK$'000	2015 HK$'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 HK$'000	2015 HK$'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

22. Trade and Other Payables (Continued)

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

	2016 HK$'000	2015 HK$'000
EUR	–	653
USD	–	144

23. Bank Borrowings

	2016 HK$'000	2015 HK$'000
Secured	50,171	74,495
Carrying amount repayable*		
Within one year	14,046	15,380
More than one year, but not more than two years	5,046	14,186
More than two years, but not more than five years	1,279	6,553
	20,371	36,119
Carrying amount of bank borrowings that contain a repayable on demand clause (shown under current liabilities)		
Within one year	8,762	8,583
Within a period of more than one year but not exceeding two years	9,033	8,808
Within a period of more than two years but not exceeding five years	12,005	20,390
Within a period of more than five years	–	595
	29,800	38,376
	50,171	74,495
Less: Amounts due within one year shown under current liabilities	(43,846)	(53,756)
Amounts shown under non-current liabilities	6,325	20,739

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The above bank borrowings bear interests ranging from Hong Kong Interbank Offered Rate plus 1.5% to 10% margin over the interest rate offered by the People's Bank of China for the year ended 31 December 2016 and 2015.

23. Bank Borrowings (Continued)

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings for the year is as follows:

	2016	2015
Effective interest rates:		
Fixed-rate borrowings	**–**	4.35%
Variable-rate borrowings	**1.63% to 5.97%**	1.62% to 7.31%

24. Obligation under a Finance Lease

The Group leased a motor vehicle under a finance lease with lease term of 3 years (2015: 3 years). Interest rate underlying obligation under finance lease is fixed at respective contract date at 4.94% per annum (2015: 4.94% per annum). The Group has an option to purchase the motor vehicle for a nominal amount at the end of the lease terms. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		**Present value of minimum lease payments**	
	2016 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
Amount payable under finance lease:				
Within one year	**64**	762	**63**	745
More than one year and not more than two years	**–**	64	**–**	63
	64	826	**63**	808
Less: future finance charges	**(1)**	(18)	**N/A**	N/A
Present value of lease obligation	**63**	808	**63**	808
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(63)**	(745)
Amount due for settlement after 12 months			**–**	63

The Group's obligation under a finance lease is secured by the lessor's title to the leased asset.

25. Deferred Tax

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

	Accelerated tax depreciation HK$'000	Undistributed profits HK$'000	Other HK$'000	Total HK$'000
As at 1 January 2015	(338)	(1,462)	112	(1,688)
(Charged) credited to profit or loss (note 11)	(616)	1,462	(62)	784
As at 31 December 2015	(954)	–	50	(904)
Credited (charged) to profit or loss (note 11)	126	–	(50)	76
As at 31 December 2016	**(828)**	**–**	**–**	**(828)**

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset.

At the end of the reporting period, the Group has unused tax losses of HK$47,877,000 (2015: HK$39,366,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Included in the unrecognised tax losses are losses of HK$47,877,000 (2015: HK$39,068,000) that will expire up to 2021 (2015: up to 2020). Other losses may be carried forward indefinitely.

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

Deferred taxation has not been provided for in the consolidated financial statements in respect of the remaining temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB17,129,000 (equivalent to HK$19,128,000) (2015: RMB17,656,000 (equivalent to HK$21,069,000)) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

26. Share Capital

The movement of share capital of the Company is as follows:

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2015, 31 December 2015 and 31 December 2016	**500,000,000**	**50,000**
Issued and fully paid:		
At 1 January 2015	200,788,000	20,079
Issue of shares upon placing (note a)	40,000,000	4,000
Exercise of share options (note b)	17,644,000	1,764
At 31 December 2015 and 31 December 2016	**258,432,000**	**25,843**

Notes:

(a) On 13 March 2015, pursuant to the conditional placing agreement dated 2 March 2015, 40,000,000 ordinary shares of HK$0.1 each were allotted and issued at HK$1.50 per share.

(b) During the year ended 31 December 2015, 17,644,000 ordinary shares of HK$0.1 each were issued at HK$1.20 per share upon exercise of the share options under a pre-IPO share option scheme, which was approved by the sole shareholder's resolution passed on 22 October 2012, (the "Pre-IPO Share Option Scheme") of the Company by the option holders.

All ordinary shares issued during the year ended 31 December 2015 rank pari passu with the then existing ordinary shares in all respects.

27. Share Option Schemes

(a) Pre-IPO Share Option Scheme

The Pre-IPO Share Option Scheme was adopted pursuant to the sole shareholder's resolution passed on 22 October 2012 for the primary purpose of providing incentives or rewards to directors or eligible employees, motivating the eligible participants to optimise their performance efficiency for the benefit of the Company and tracking and retaining with the eligible participants, and had expired on the date of listing of the shares of the Company on the Main Board of the Stock Exchange.

The maximum number of shares in respect of which options may be granted under the Pre-IPO Share Option Scheme is 22,500,000 shares, representing approximately 11.25% of the shares of the Company in issue immediately upon completion of the public share offering and the capitalisation issue.

27. Share Option Schemes (Continued)

(a) Pre-IPO Share Option Scheme (continued)

Options granted must be taken up within one month of the date of grant, upon payment of HK$1 on acceptance of the offer. Options may be exercised at any time during a period commencing on or after the date on which the option is accepted and granted and expiring on a date to be notified by the Board of Directors to each grantee which shall not be more than 10 years from the date on which the option is accepted and granted.

The exercise price is 80% of HK$1.50, the initial public offering price of the Company's shares. The options shall only be exercisable on or after 23 May 2013 and expire not later than 10 years from the date of grant.

(b) Share option scheme

The principal terms of the share option scheme which is approved by the sole shareholder's resolution passed on 22 October 2012 (the "Share Option Scheme") are substantially the same as the terms of the Pre-IPO Option Scheme except that:

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

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

(iii) the maximum entitlement of each eligible participant in any 12-month period up to the date of offer to grant shall not exceed 1% of the shares in issue as at the date of offer to grant.

During the year ended 31 December 2015, share options were granted on 9 April 2015 with an aggregate estimated fair value of HK$8,200,000.

The closing price of the Company's shares immediately before 9 April 2015, the date of grant, was HK$4.84.

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

Date of grant	**9.4.2015**
Share price at grant date	HK$4.95
Exercise price	HK$4.95
Expected volatility	43.10%
Expected life	3 years
Risk-free rate	0.670%
Expected dividend yield	0%
Sub-optimal exercise factor	2.80 for directors of the Company and 2.39 for employees of the Group

27. Share Option Schemes (Continued)

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

The Group recognised the share-based payments of HK$574,000 for the year ended 31 December 2016 (2015: HK$7,060,000) in relation to share options granted by the Company.

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

At 31 December 2016, the number of shares in respect of which options had been granted and remained outstanding under the Pre-IPO Share Option Scheme and Share Option Scheme were, in aggregate, 3,134,000 (2015: 5,504,000), representing 1.2% (2015: 2.1%) of the shares of the Company in issue at that date.

The weighted average exercise price of options outstanding at the end of the reporting period is HK$4.95 (2015: HK$4.95). In respect of the share options exercised during the year ended 31 December 2015, the weighted average share price at the dates of exercise is HK$2.63.

The following table discloses movements of the Company's share options held by directors of the Company, employees, consultant, customers and supplier of the Group during both years:

For the year ended 31 December 2016

				Number of share options		
Categories of participants	Date of grant	Exercisable period	Exercise price HK$	Outstanding at 1.1.2016	Lapsed during the year	Outstanding at 31.12.2016
Under the Share Option Scheme						
Executive directors	9.4.2015	9.10.2015 – 8.4.2018	4.95	2,990,000	(2,000,000)	990,000
Non-executive director	9.4.2015	9.10.2015 – 8.4.2018	4.95	1,000,000	–	1,000,000
Employees	9.4.2015	9.10.2015 – 8.4.2018	4.95	1,514,000	(370,000)	1,144,000
				5,504,000	(2,370,000)	3,134,000
				5,504,000	(2,370,000)	3,134,000

27. Share Option Schemes (Continued)

For the year ended 31 December 2015

				Number of share options				
Categories of participants	Date of grant	Exercisable period	Exercise price HK$	Outstanding at 1.1.2015	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2015
Under the Pre-IPO Share Option Scheme								
Executive directors	7.11.2012	23.5.2013 – 6.11.2022	1.20	12,000,000	–	(12,000,000)	–	–
Employees	7.11.2012	23.5.2013 – 6.11.2022	1.20	4,396,000	–	(4,276,000)	(120,000)	–
Consultant (note a)	7.11.2012	23.5.2013 – 6.11.2022	1.20	320,000	–	(320,000)	–	–
Customers (note b)	7.11.2012	23.5.2013 – 6.11.2022	1.20	928,000	–	(928,000)	–	–
Supplier (note c)	7.11.2012	23.5.2013 – 6.11.2022	1.20	120,000	–	(120,000)	–	–
				17,764,000	–	(17,644,000)	(120,000)	–
Under the Share Option Scheme								
Executive directors	9.4.2015	9.10.2015 – 8.4.2018	4.95	–	2,990,000	–	–	2,990,000
Non-executive director	9.4.2015	9.10.2015 – 8.4.2018	4.95	–	1,000,000	–	–	1,000,000
Employees	9.4.2015	9.10.2015 – 8.4.2018	4.95	–	1,604,000	–	(90,000)	1,514,000
				–	5,594,000	–	(90,000)	5,504,000
				17,764,000	5,594,000	(17,644,000)	(210,000)	5,504,000

Notes:

(a) The share options were granted to a consultant for providing value-added business advice on retail business for the Group.

(b) The share options were granted to customers for contribution in developing retail sales network in Macau and the PRC.

(c) The share options were granted to a supplier with long-term relationship for providing steady supplies of raw materials for the Group.

28. Retirement Benefit Schemes

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

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

The total contribution to the retirement benefit schemes charged to the consolidated statement of profit or loss and other comprehensive income is HK$5,656,000 (2015: HK$6,385,000).

29. Operating Lease Commitments

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016 HK$'000	2015 HK$'000
Within one year	**20,952**	21,178
In the second to fifth years inclusive	**7,411**	6,933
	28,363	28,111

Included in the above operating lease commitments are commitments for future minimum lease payments under non-cancellable operating leases to related parties in respect of rented premises which fall due as follows:

	2016 HK$'000	2015 HK$'000
Within one year	**2,748**	3,299
In the second to fifth years inclusive	**–**	2,748
	2,748	6,047

Operating lease payments represent rentals payable by the Group for the retail stores, department store counters, offices, staff quarters and warehouses. Leases are negotiated for terms ranging from one to six years (2015: one to six years).

Certain retail stores and department store counters include payment obligations with rental varied with gross revenue. The additional rental payable (contingent rents) is determined generally by applying pre-determined percentages to future expected sales less the basic rentals of the respective leases.

30. Capital Commitments

	2016 HK$'000	2015 HK$'000
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the consolidated financial statements	**2,187**	1,377

31. Pledge of Assets

	2016 HK$'000	2015 HK$'000
Leasehold land and buildings	**96,688**	107,644
Prepaid lease payments	**24,081**	26,312
Pledged bank deposits	**8,038**	6,812
	128,807	140,768

32. Related Party Transactions

In addition to the transactions and balances disclosed elsewhere in the consolidated financial statements, the Group had entered into the following related party transactions:

Name of related companies	Relationship	Nature of transactions	2016 HK$'000	2015 HK$'000
Shenzhen Fusheng Trading Company Limited	Related company (Note)	Rental expenses	**540**	2,280
Gain Harvest Investment Limited	Related company (Note)	Rental expenses	**1,632**	1,632
Wealth Pine Asia Limited	Related company (Note)	Rental expenses	**1,116**	1,116

Note: The Ultimate Beneficial Owners have directorship or direct beneficial and controlling interests in these related companies.

Compensation of key management personnel

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

	2016 HK$'000	2015 HK$'000
Salaries and allowances	**10,657**	10,736
Performance related incentive payments	**1,100**	217
Retirement benefit schemes contributions	**581**	675
Share-based payments	**291**	4,940
	12,629	16,568

33. Capital Risk Management

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the bank borrowings disclosed in note 23, net of cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group reviews the capital structure regularly. As part of this review, the management considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

34. Financial Instruments

Categories of financial instruments

	2016 **HK$'000**	2015 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**251,670**	252,585
Rental deposits	**5,347**	4,907
Derivative financial instruments	**–**	673
Available-for-sale investment	**–**	7,749
Financial liabilities		
Amortised cost	**120,104**	139,007
Obligation under a finance lease	**63**	808

Financial risk management objectives and policies

The Group's major financial instruments include convertible bond, trade and other receivables, pledged bank deposits, bank balances and cash, derivative financial instruments, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

34. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Market risk

Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable rate bank balances and bank borrowings (see notes 21 and 23 for details of these balances). Interest charged on the Group's borrowings are mainly at variable rates and are mainly at the interest rate offered by the People's Bank of China and Hong Kong Interbank Offered Rate. The Group currently does not have a policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group is also exposed to fair value interest rate risk in relation to the fixed deposits. However, the management considers the fair value interest rate risk on the fixed deposits is insignificant as the fixed deposits are relatively short-term. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank borrowings. The analysis is prepared assuming that the amount of liabilities outstanding at the end of the reporting period were outstanding for the whole year. 50 basis point increase or decrease represent the management's assessment of the reasonably possible change in interest rates of bank borrowings. No sensitivity analysis is presented for bank balances as the directors of the Company considered the Group's exposure to cash flow interest rate risk is not material.

If interest rates on bank borrowings had been 50 basis points higher/lower and all other variables were held constant, the potential effect on the Group's post-tax profit (2015: loss) for the year ended 31 December 2016 is as follows:

	2016 **HK$'000**	2015 HK$'000
(Decrease) increase in profit or (increase) decrease in loss for the year		
– as a result of increase in interest rate	**(207)**	(307)
– as a result of decrease in interest rate	**207**	307

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

34. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

Foreign currency risk

The carrying amounts of the Group's monetary assets and monetary liabilities denominated in currencies other than the respective group entities' functional currencies at the end of the reporting period are as follows:

	Assets		Liabilities	
	2016 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
HK$	**80**	78	**–**	–
RMB	**303**	6,069	**–**	–
EUR	**41**	890	**–**	653
USD	**836**	1,048	**–**	144
MOP	**524**	398	**–**	–

Sensitivity analysis

The Group is mainly exposed to the foreign exchange risk of RMB and USD. Under the pegged exchange rate system, the financial impact on exchange difference between HK$ and USD will be immaterial as most USD denominated monetary assets and liabilities are held by group entities having HK$ as their functional currency, and therefore no sensitivity analysis has been prepared. For EUR and MOP, no sensitivity analysis has been prepared as the amount involved is insignificant.

The sensitivity analysis below details the Group's sensitivity to a 5% increase and decrease in HK$ against RMB. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign currency rate. The sensitivity analysis includes the Group's monetary assets and monetary liabilities denominated in RMB. A positive (negative) number indicates an increase (decrease) in post-tax profit or a decrease (increase) in post-tax loss for the year when HK$ strengthens 5% against RMB. For a 5% weakening of HK$ against RMB, there would be an equal but opposite impact on the post-tax profit or loss for the year.

	2016 HK$'000	2015 HK$'000
RMB	**(9)**	(250)

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

34. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Market risk (continued)

Other price risk

The Group is exposed to equity price risk arising from derivative component in convertible bond. Management manages this exposure by maintaining a portfolio of investments with different risks. The management considers that there is no significant equity price risk to the fair value of derivative component in convertible bond. In addition, the management monitors the price risk and will consider hedging the risk exposure should the need arise.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2016 in relation to each class of recognised financial assets is the carrying amount of these assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group also has concentration of credit risk on the fixed deposits placed with bank, however, the credit risk is limited because all bank deposits are deposited in or contracted with several financial institutions with good reputation and with high credit-ratings assigned by international credit-rating agencies.

Other than the concentration of credit risk on liquid funds, the Group does not have any other significant concentration of credit risk. The Group has no significant concentration of credit risk in trade receivables with exposure spread over a number of counterparties.

Liquidity risk

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

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

34. Financial Instruments (continued)

Financial risk management objectives and policies (continued)

Liquidity risk (continued)

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

Liquidity and interest risk tables

	Weighted average interest rate	On demand or less than 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Total undiscounted cash flows	Carrying amounts
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2016							
Trade and other payables	**–**	**31,610**	**24,405**	**13,918**	**–**	**69,933**	**69,933**
Bank borrowings	**2.73**	**29,871**	**3,135**	**11,489**	**6,574**	**51,069**	**50,171**
Obligation under a finance lease	**4.94**	**64**	**–**	**–**	**–**	**64**	**63**
		61,545	**27,540**	**25,407**	**6,574**	**121,066**	**120,167**
At 31 December 2015							
Trade and other payables	–	42,367	19,125	3,020	–	64,512	64,512
Bank borrowings	2.98	38,488	3,215	13,186	21,584	76,473	74,495
Obligation under a finance lease	4.94	63	127	572	64	826	808
		80,918	22,467	16,778	21,648	141,811	139,815

Bank borrowings with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2016, the aggregate undiscounted principal amounts of these bank loans amounted to HK$29,800,000 (2015: HK$38,377,000). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid in five years (2015: six years) after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements and the aggregate principal and interest cash outflows according to the scheduled repayment dates are set out as follows:

	Weighted average interest rate	On demand or less than 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Total undiscounted cash flows	Carrying amounts
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Bank borrowings								
At 31 December 2016	**2.30**	**795**	**1,589**	**7,151**	**21,797**	**–**	**31,332**	**29,800**
At 31 December 2015	2.33	788	1,576	7,091	30,472	598	40,525	38,376

34. Financial Instruments (continued)

Fair value measurements of financial instruments

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value as at 31.12.2016 HK$'000	Fair value as at 31.12.2015 HK$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Sensitivity/ relationship of unobservable input to fair value
Derivative component in convertible bond	**N/A**	673	Level 3	Binomial Pricing Model The key inputs (1) Share price (2) Risk free rate (3) Dividend yield (4) Volatility	Share price, taking into account the recent transactions on the shares of the issuer Risk free rate, based on the yield of the Hong Kong Sovereign yield curve, 0.332% Volatility, referenced to the historical volatility of comparable companies, 29.16% Dividend yield, provided by the management, 0%	The higher the share price, risk free rate, volatility and dividend yield, the higher the fair value.

Reconciliation of Level 3 fair value measurements is disclosed in note 18. There were no transfers between Level 1, 2 and 3 fair value measurements during the year.

35. Statement of Financial Position of the Company

	2016 HK$'000	2015 HK$'000
Non-current assets		
Property, plant and equipment	**940**	–
Investment in a subsidiary	**36,909**	37,337
Deposit paid for acquisition of property, plant and equipment	**–**	996
	37,849	38,333
Current assets		
Other receivables	**483**	398
Amounts due from subsidiaries	**124,000**	150,662
Tax recoverable	**353**	–
Bank balances	**64,172**	20,422
	189,008	171,482
Current liabilities		
Accrued expenses	**629**	516
Amount due to a subsidiary	**24,308**	5,918
Taxation payable	**–**	69
	24,937	6,503
Net current assets	**164,071**	164,979
Total assets less current liabilities	**201,920**	203,312
Non-current liabilities		
Deferred tax liabilities	**155**	–
Net assets	**201,765**	203,312
Capital and reserves		
Share capital	**25,843**	25,843
Reserves	**175,922**	177,469
Total equity	**201,765**	203,312

35. Statement of Financial Position of the Company (continued)

Movement in reserves:

	Share premium HK$'000	Share options reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1 January 2015	80,879	13,531	3,132	97,542
Profit and total comprehensive income for the year	–	–	589	589
Recognition of equity-settled share-based payments	–	7,060	–	7,060
Exercise of share options	32,848	(13,439)	–	19,409
Lapse of share options	–	(92)	–	(92)
Issue of shares upon placing	56,000	–	–	56,000
Expense included in connection with the issue of shares	(3,039)	–	–	(3,039)
At 31 December 2015	166,688	7,060	3,721	177,469
Profit and total comprehensive income for the year	–	–	921	921
Recognition of equity-settled share-based payments	–	574	–	574
Lapse of share options	–	(3,042)	–	(3,042)
At 31 December 2016	**166,688**	**4,592**	**4,642**	**175,922**

36. Particulars of Principal Subsidiaries of the Company

Particulars of the Company's principal subsidiaries held by the Company as at 31 December 2016 and 2015 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Place of operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group as at 31 December		Principal activities
				2016	2015	
Casablanca Home Holdings Limited[1]	BVI 5 October 2010	Hong Kong	US$4,230,000	**100%**	100%	Investment holding
Casablanca Home (Shenzhen) Limited 卡撒天嬌家居用品(深圳)有限公司[2][3]	PRC 20 August 2010	PRC	HK$80,000,000	**100%**	100%	Trading of home textiles products and accessories
Casablanca Home (Huizhou) Company Limited 卡撒天嬌家居(惠州)有限公司[2][3]	PRC 7 April 2011	PRC	HK$135,000,000	**100%**	100%	Manufacture and sale of home textiles products and accessories
Casablanca Hong Kong Limited	Hong Kong 22 June 2010	Hong Kong	HK$1,000,000	**100%**	100%	Trading of home textile products and accessories
CCW Home Tex (Shenzhen) Company Limited 創想家居用品(深圳)有限公司[2][3]	PRC 25 April 2007	PRC	HK$20,000,000	**100%**	100%	Trading of home textiles products and accessories
Jollirich	Hong Kong 8 April 2002	Hong Kong	HK$10,000	**100%**	100%	Investment holding and trading of home textiles products and accessories

(1) Directly held by the Company.
(2) These companies were established in the PRC in the form of wholly foreign-owned enterprise.
(3) The English name is translated for identification purpose only.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of both years.

CORPORATE INFORMATION

Stock Code

2223

Board of Directors

Executive Directors

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

Non-executive Director

Mr. Mok Tsan San

Independent Non-executive Directors

Mr. Zhang Senquan
Mr. Kam Leung Ming
Mr. Leung Yiu Man

Committees

Audit Committee

Mr. Zhang Senquan *(Chairman)*
Mr. Kam Leung Ming
Mr. Leung Yiu Man

Remuneration Committee

Mr. Kam Leung Ming *(Chairman)*
Mr. Zhang Senquan
Mr. Leung Yiu Man

Nomination Committee

Mr. Cheng Sze Kin *(Chairman)*
Mr. Zhang Senquan
Mr. Kam Leung Ming
Mr. Leung Yiu Man

Company Secretary

Mr. Ho Yiu Leung

Authorised Representatives

Ms. Wong Pik Hung
Mr. Ho Yiu Leung

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Headquarters and Principal Place of Business

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9-13 Wong Chuk Yeung Street
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Hong Kong

Auditor

Deloitte Touche Tohmatsu

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Principal Bankers

In Hong Kong:
Bank of China (Hong Kong) Limited

In the PRC:
Nanyang Commercial Bank (China) Ltd

Company Website

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