CASABLANCA® HOME

# Casablanca Group Limited
# 卡撒天嬌集團有限公司

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

**(Stock Code: 2223)**

## 2015 ANNUAL RESULTS ANNOUNCEMENT

**HIGHLIGHTS**

| | *Notes* | **2015** | 2014 | Change |
|---|---|---|---|---|
| Revenue *(HK$'000)* | | **370,969** | 460,824 | -19.5% |
| Gross profit *(HK$'000)* | | **229,205** | 278,294 | -17.6% |
| EBITDA *(HK$'000)* | *1* | **11,193** | 42,321 | -73.6% |
| (Loss)/Profit for the year *(HK$'000)* | *2* | **(16,230)** | 12,753 | -227.3% |
| Gross profit margin | | **61.8%** | 60.4% | |
| EBITDA margin | | **3.0%** | 9.2% | |
| Net (loss)/profit margin | *2* | **-4.4%** | 2.8% | |

| | | **As at 31/12/2015** | As at 31/12/2014 | Change |
|---|---|---|---|---|
| Total assets *(HK$'000)* | | **526,491** | 515,780 | 2.1% |
| Total equity *(HK$'000)* | | **369,553** | 311,710 | 18.6% |
| Total bank borrowings *(HK$'000)* | | **74,495** | 96,437 | -22.8% |
| Pledged bank deposit and bank balances and cash *(HK$'000)* | | **184,185** | 141,433 | 30.2% |
| Net cash *(HK$'000)* | *3* | **109,690** | 44,996 | 143.8% |
| Gearing ratio | *4* | **20.2%** | 30.9% | |

*Notes:*

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

2. If the share-based payments amounted to HK$7.1 million for 2015 and HK$1.7 million for 2014 are excluded, the adjusted loss for the year and net loss margin for 2015 become HK$9.1 million and 2.5% respectively and adjusted profit for the year and net profit margin for 2014 become HK$14.5 million and 3.1% respectively.

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

4. Gearing ratio is calculated as total bank borrowings divided by total equity.

The board (the "Board") of directors (the "Directors") of Casablanca Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2015 (the "Year" or the "Review Period") as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the year ended 31 December 2015*

| | *Notes* | **2015** **HK$'000** | 2014 HK$'000 |
|---|---|---|---|
| Revenue | *3* | **370,969** | 460,824 |
| Cost of goods sold | | **(141,764)** | (182,530) |
| Gross profit | | **229,205** | 278,294 |
| Other income | | **2,247** | 1,985 |
| Other gains and losses | | **(3,527)** | (3,902) |
| Selling and distribution costs | | **(178,085)** | (201,957) |
| Administrative expenses | | **(61,336)** | (50,009) |
| Finance costs | | **(2,890)** | (4,282) |
| (Loss) profit before taxation | *4* | **(14,386)** | 20,129 |
| Taxation | *5* | **(1,844)** | (7,376) |
| (Loss) profit for the year | | **(16,230)** | 12,753 |
| Other comprehensive expense for the year | | | |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences arising on translation of financial statements of foreign operations | | **(11,121)** | (6,518) |
| Total comprehensive (expense) income for the year | | **(27,351)** | 6,235 |
| (Loss) profit for the year attributable to owners of the Company | | **(16,230)** | 12,753 |
| Total comprehensive (expense) income attributable to owners of the Company | | **(27,351)** | 6,235 |
| (Loss) earnings per share | | | |
| – Basic (HK cents) | *7* | **(6.67)** | 6.35 |
| – Diluted (HK cents) | *7* | **(6.67)** | 6.33 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31 December 2015*

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **137,701** | 149,290 |
| Prepaid lease payments | | **25,734** | 27,548 |
| Intangible assets | | **2** | 4 |
| Deferred tax assets | | **–** | 451 |
| Deposits paid for acquisition of property, plant and equipment | | **1,037** | 1,215 |
| Rental and other deposits | | **1,723** | 2,087 |
| Available-for-sale investment | 8 | **7,749** | – |
| Convertible bond | 9 | **2,980** | – |
| Derivative component in convertible bond | 9 | **673** | – |
| | | **177,599** | 180,595 |
| **Current assets** | | | |
| Inventories | | **81,502** | 90,991 |
| Trade and other receivables | 10 | **77,234** | 102,134 |
| Prepaid lease payments | | **578** | 605 |
| Taxation recoverable | | **5,393** | 22 |
| Pledged bank deposits | | **6,812** | 1,225 |
| Bank balances and cash | | **177,373** | 140,208 |
| | | **348,892** | 335,185 |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **79,891** | 100,024 |
| Taxation payable | | **840** | 3,945 |
| Bank borrowings | | **53,756** | 61,141 |
| Obligation under a finance lease | | **745** | 717 |
| | | **135,232** | 165,827 |
| Net current assets | | **213,660** | 169,358 |
| Total assets less current liabilities | | **391,259** | 349,953 |
| **Non-current liabilities** | | | |
| Bank borrowings | | **20,739** | 35,296 |
| Obligation under a finance lease | | **63** | 808 |
| Deferred tax liabilities | | **904** | 2,139 |
| | | **21,706** | 38,243 |
| Net assets | | **369,553** | 311,710 |
| **Capital and reserves** | | | |
| Share capital | 12 | **25,843** | 20,079 |
| Reserves | | **343,710** | 291,631 |
| Total equity | | **369,553** | 311,710 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. GENERAL

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

The 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 REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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 HKAS 19 | Defined benefit plans: Employee contributions |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2010 – 2012 cycle |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2011 – 2013 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.

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

| | |
|---|---|
| HKFRS 9 | Financial instruments[2] |
| HKFRS 15 | Revenue from contracts with customers[2] |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2012-2014 cycle[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 10, HKFRS 12 and HKAS 28 | Investment entities: Applying the consolidation exception[1] |
| Amendments to HKFRS 11 | Accounting for acquisitions of interests in joint operations[1] |
| Amendments to HKAS 1 | Disclosure initiative[1] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of acceptable methods of depreciation and amortisation[1] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer plants[1] |

[1] Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

[2] Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

[3] Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future will affect the classification and measurement of the Group's financial assets but unlikely affect the Group's financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect until the Group performs a detail analysis.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

The directors of the Company anticipate that the application of other new and revised HKFRSs or amendments will have no material impact on the consolidated financial statements of the Group.

## 3. REVENUE AND SEGMENT INFORMATION

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

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

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

- Others: Other sales include sales to wholesale customers located in the People's Republic of China (for purpose of this announcement, excluding Hong Kong, Macau and Taiwan) (the "PRC") and Hong Kong and Macau (collectively the "Greater China Region"), and sales made to overseas customers.

The information of segment revenue is as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Self-operated retail sales | **291,655** | 309,075 |
| Sales to distributors | **50,867** | 57,587 |
| Others | **28,447** | 94,162 |
| | **370,969** | 460,824 |

**Entity-wide information**

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

| | 2015<br>*HK$'000* | 2014<br>*HK$'000* |
|---|---|---|
| Bed linens | **195,373** | 234,086 |
| Duvets and pillows | **159,227** | 212,015 |
| Other home accessories | **16,369** | 14,723 |
| | **370,969** | 460,824 |

**Geographical information**

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

| | 2015<br>*HK$'000* | 2014<br>*HK$'000* |
|---|---|---|
| PRC | **136,682** | 176,864 |
| Hong Kong and Macau | **233,012** | 280,380 |
| Others | **1,275** | 3,580 |
| | **370,969** | 460,824 |

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:

| | 2015<br>*HK$'000* | 2014<br>*HK$'000* |
|---|---|---|
| PRC | **148,952** | 165,219 |
| Hong Kong | **15,522** | 12,838 |
| | **164,474** | 178,057 |

**Information about major customers**

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

| | 2015<br>*HK$'000* | 2014<br>*HK$'000* |
|---|---|---|
| Customer A[1] | **N/A**[2] | 71,781 |

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

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

## 4. (LOSS) PROFIT BEFORE TAXATION

| | 2015<br>*HK$'000* | 2014<br>*HK$'000* |
|---|---|---|
| (Loss) profit before taxation has been arrived at after charging: | | |
| Directors' and chief executive's remuneration | **14,950** | 9,604 |
| Other staff costs | **77,010** | 81,770 |
| Retirement benefit schemes contributions for other staff | **5,924** | 6,160 |
| Share-based payments for other staff | **1,933** | 428 |
| Total staff costs | **99,817** | 97,962 |
| Auditor's remuneration | **1,440** | 1,387 |
| Amortisation of intangible assets | **2** | 2 |
| Amortisation of prepaid lease payments | **598** | 610 |
| Allowance for inventories (included in costs of goods sold) | **1,655** | 1,005 |
| Bad debts written off | **2,359** | 102 |
| Cost of inventories recognised as expenses | **141,764** | 182,530 |
| Depreciation of property, plant and equipment | **13,749** | 13,678 |
| Share-based payments for customers, supplier and consultant (included in selling and distributions costs and administrative expenses) | **–** | 133 |
| Operating lease rentals in respect of | | |
| – rented premises *(note a)* | **4,253** | 3,104 |
| – retail stores *(note b)* | **10,115** | 9,438 |
| – department store counters *(note b)* (including concessionaire commission) (included in selling and distribution costs) | **61,352** | 80,643 |
| | **75,720** | 93,185 |
| Design costs (included in administrative expenses) *(note c)* | **1,195** | 1,229 |

*Notes:*

(a) Included rental expenses paid to related companies of HK$2,748,000 (2014: HK$2,760,000) for the year ended 31 December 2015 for directors' quarters provided to Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung.

(b) Included contingent rent of HK$35,363,000 (2014: HK$46,527,000) for the year ended 31 December 2015. The contingent rent refers to the operating lease rentals based on predetermined percentages to realised sales less basic rentals of the respective leases.

(c) The design costs comprised of staff salaries of HK$844,000 (2014: HK$1,110,000) for the year ended 31 December 2015, which were included in the staff costs disclosed above.

## 5. TAXATION

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax | | |
| Hong Kong | **825** | 7,914 |
| PRC Enterprise Income Tax (the "EIT") | **758** | – |
| | **1,583** | 7,914 |
| (Over)under provision in prior years | | |
| Hong Kong | **(68)** | 24 |
| PRC EIT | **–** | (227) |
| | **(68)** | (203) |
| Withholding tax on distributed profits of a subsidiary in the PRC | **1,113** | – |
| Deferred taxation | **(784)** | (335) |
| | **1,844** | 7,376 |

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

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

## 6. DIVIDENDS

No dividend was paid or proposed by the Company during the year ended 31 December 2015 (2014: nil), nor has any dividend been proposed since the end of the reporting period.

## 7. (LOSS) EARNINGS PER SHARE

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

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **(Loss) earnings** | | |
| (Loss) profit for the year attributable to owners of the Company for the purposes of basic and diluted (loss) earnings per share | **(16,230)** | 12,753 |

| | **2015** | 2014 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share | **243,316,575** | 200,788,000 |
| Effect of dilutive potential ordinary shares on share options | – | 630,715 |
| Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share | **243,316,575** | 201,418,715 |

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

## 8. AVAILABLE-FOR-SALE INVESTMENT

The balance represents 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. As at 31 December 2015, the investment is measured at cost less impairment because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

## 9. CONVERTIBLE BOND/DERIVATIVE COMPONENT IN CONVERTIBLE BOND

During the year ended 31 December 2015, 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 at initial recognition of the receivable component and derivative component, which amounted to HK$2,884,000 and HK$716,000, respectively, are determined based on the valuation provided by Asset Appraisal Limited, independent professional qualified valuers not connected with the Group. 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.

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 | – | (43) |
| At 31 December 2015 | **2,980** | **673** |

## 10. TRADE AND OTHER RECEIVABLES

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **65,256** | 87,789 |
| Less: Allowance for doubtful debts | **(1,141)** | (158) |
| | **64,115** | 87,631 |
| Bills receivables | **208** | – |
| Trade and bills receivables | **64,323** | 87,631 |
| Deposits | **3,735** | 3,657 |
| Prepayments | **4,925** | 2,548 |
| Value added tax recoverable | **3,154** | 6,712 |
| Advances to employees | **766** | 495 |
| Other receivables | **331** | 1,091 |
| | **12,911** | 14,503 |
| Total trade and other receivables | **77,234** | 102,134 |

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.

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 30 days | **35,543** | 46,745 |
| 31 to 60 days | **15,601** | 17,576 |
| 61 to 90 days | **4,439** | 5,594 |
| 91 to 180 days | **4,849** | 3,370 |
| 181 to 365 days | **2,147** | 10,105 |
| Over 365 days | **1,744** | 4,241 |
| | **64,323** | 87,631 |

## 11. TRADE AND OTHER PAYABLES

| | 2015<br>*HK$'000* | 2014<br>*HK$'000* |
|---|---|---|
| Trade payables | **27,961** | 42,319 |
| Bills payables | **29,059** | 29,659 |
| Trade and bills payables | **57,020** | 71,978 |
| Deposits received from customers | **3,783** | 3,140 |
| Accrued expenses | **7,678** | 7,300 |
| Salaries payables | **6,312** | 6,660 |
| Payable for acquisition of property, plant and equipment | **1,180** | 2,381 |
| Other payables | **3,918** | 8,565 |
| | **22,871** | 28,046 |
| Total trade and other payables | **79,891** | 100,024 |

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

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

| | 2015<br>*HK$'000* | 2014<br>*HK$'000* |
|---|---|---|
| Within 30 days | **34,875** | 35,743 |
| 31 to 60 days | **10,686** | 13,412 |
| 61 to 90 days | **8,438** | 11,520 |
| 91 to 180 days | **3,021** | 10,162 |
| Over 180 days | **–** | 1,141 |
| | **57,020** | 71,978 |

## 12. 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 2014, 31 December 2014 and 31 December 2015 | **500,000,000** | **50,000** |
| Issued and fully paid: | | |
| At 1 January 2014 and 31 December 2014 | 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 | **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.

## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW

The year of 2015 has been the most challenging year since the Group's listing. The Group's total revenue decreased by 19.5% to HK$371.0 million for 2015 from HK$460.8 million for 2014. Affected by the sluggish retail market in the PRC and the decrease in the number of self-operated points of sale ("POS"), the Group's revenue from operations in the PRC decreased by 22.7% during the Review Period. Due to the decrease in bulk sales to a wholesale customer in Hong Kong, the Group's revenues from operations in Hong Kong and Macau also decreased by 16.9% during the Review Period. However, excluding the sales of wholesale business, the Group still recorded a 6.8% growth of revenues from the retail business in Hong Kong and Macau during the Review Period, despite frequent disputes among the community, decline in the number of Chinese tourists visiting Hong Kong and unfavourable sentiment of the retail market in Hong Kong in 2015.

During the Review Period, the Group's business model in the PRC was still in the transition period. Although the Group has closed down a number of self-operated POS, the overall operating expenses in the PRC remained at a high level, therefore, the Group had recorded loss in the operations in the PRC. With a view to raise brand awareness and support the launch of new brand products, the Group's promotion costs have increased during the Review Period. Along with the share-based payments during the period, as a result, the Group recorded a loss of HK$16.2 million in 2015 as compared to a profit of HK$12.8 million in 2014.

### BUSINESS REVIEW

The bedding products industry was operating in a difficult environment in 2015. Apart from challenges such as high rentals and staff costs, various bedding products companies launched price-cutting promotions to clear inventory and actively developed online sales channels, which had a huge impact to the traditional offline sales channels. During the Review Period, the Group continued to adopt various measures to reduce costs, strengthen our foundation and develop new business areas.

#### Optimised brand structure and launched pioneer products in the market

The Group continued to increase the differentiation of our proprietary brands "Casa Calvin" and "Casablanca" by seeking improvement in areas such as product mix, packaging, shop image and sales strategies. In view of consumers' concern over environmental pollution and their demands for healthy products, the Group proudly introduced a new proprietary brand, "CASA-V", in the Hong Kong market in May 2015, bringing stylishly-designed home accessories with health functions and environmental-friendly features to the high-end consumers. "CASA-V" products are the first series of bedding products with "5A Features" in Hong Kong, which include functions such as Air purification, Anti-bacteria, Anti-fungal, Anti-mite and Anti-odor, thereby creating a refreshing, fashionable and comfortable sleeping environment for the users. The successful launch of the innovative brand "CASA-V" has effectively demonstrated the foresight of the Company in terms of product development and further enhanced the Company's leading position in the industry.

Apart from the health functions, the Company also placed great emphasis on the texture, appearance and the readiness for daily care of its product materials. During the Review Period, the Group developed the "Magic Silk" series with a view to satisfy consumers' demands for soft and smooth bedding products that are easy to wash. The "Magic Silk" series of the Company features a combination of Tencel and cotton in the perfect proportion. The products under the series not only possess the softness, smoothness and glowing appearance of Tencel, but also come with the features of breathability, freshness and durability against washing and wearing of pure cotton.

The Group continued to implement its multi-brand strategy. In addition to operating our proprietary brands (including "Casa Calvin", "Casablanca" and "CASA-V"), the Group had also distributed a number of premium European brands of quality bedding products and featured home accessories, including "Home Concept", "Elle Deco" and "Centa Star". During the Review Period, the Company had commenced its cooperation with "VOSSEN", a first-class Austrian brand for bathroom products, and became the exclusive distributor of "VOSSEN" in the Greater China Region, bringing consumers quality terry towelling products that are made in Austria. "VOSSEN" mainly produces quality towels, bathrobes and bathmats. Manufactured by adopting the most advanced AIR Pillow Technology and KKV dyeing method, its products all come with fabulous and long-lasting colours. The Company strongly believes that the alliance with "VOSSEN" will enhance our product mix and introduce more options to mid-high end consumers with an emphasis on lifestyle quality.

**Adjusted the sales network structure in China**

During the Review Period, the Group continued to adjust the sales network structure in China to reduce costs and enhance operation efficiency. Affected by issues such as overlapping services coverage and high operating costs, we closed down 75 inefficient self-operated POS and strategically established 11 new self-operated POS in districts where customers of the Group's brand are located. As at 31 December 2015, the sales network of the Group consists of a total of 287 POS (2014: 361 POS) covering 92 cities in 30 provinces, autonomous regions, municipalities and special administrative regions in the Greater China Region, including a total of 140 self-operated POS and 147 POS operated by distributors.

The Group originally planned to establish "Healthy Lifestyle Store (健康家居生活館)" in Hong Kong and big cities in China, which suffered from relatively severe air pollution problems, in the second half of 2015. "Healthy Lifestyle Store" would focus on selling products with "5A Features" and premium healthy-living related home accessories from around the world. Unfortunately, the Group was not able to identify suitable store for the establishment of "Healthy Lifestyle Store" during the Review Period.

**Expanded sales channels and broadened income streams**

In 2015, the Group actively expanded various sales channels to broaden its income streams. The Group completed the acquisition of 15% equity interests of Million Zone Capital Investment Limited ("Million Zone"), a company incorporated in Hong Kong and is principally engaged in virtual retailing business, on 25 June 2015. As Million Zone further issued shares to other investors, the Group's equity interests in Million Zone was reduced to 13.6% as at 31 December 2015. Million Zone operates a television shopping channel in Guangdong Province in the PRC and possesses internet shopping platforms and mobile shopping platforms. The Board believes that the acquisition of Million Zone's equity interests is a suitable investment with potential and has synergy effect to the Group's existing businesses. The Group wishes to leverage on Million Zone's technology, experience and network to expand its businesses to virtual shopping platforms. The Group had commenced its cooperation with the television shopping channel under Million Zone in Guangdong Province in the second half of 2015, which mainly focused on clearing inventory during the trial stage.

We believe that the successful development in the hotel commercial-customer market will effectively provide a steady income source for the Group and enhance its brand positioning. The Group entered into a framework agreement for cooperation with Golden Tulip (Shanghai) Hospitality Management Co., Ltd. ("SH Golden Tulip") in July 2015, and was granted the priority to provide various duvets, bedding products and towels that SH Golden Tulip may require for "Golden Tulip" branded hotels in the PRC. Although the cooperation with SH Golden Tulip is still in the process of negotiation, we believe that the successful cooperation with SH Golden Tulip will be a crucial step for the Group to expand its business channels to hotel customers.

Furthermore, we had also proactively developed commercial-customer markets which had synergy effect to the Group's business. During the Review Period, in addition to continuing our cooperation with various retail chains, banks and websites, we also actively negotiated with various types of commercial customers, such as airlines, property developers, hospitals, gyms and beauty centres, with an aim to broaden the Group's income streams.

**Stepped up marketing efforts and customer relationship management**

Stepping up marketing efforts and customer relationship management is the main focus in the Group's scope of work in 2015. At the beginning of 2015, the Group officially engaged an entertainment celebrity renowned in both China and Hong Kong to be the spokesman in the Greater China Region, which is the first time for the Group to engage a celebrity to be the spokesperson since its establishment. In order to support the introduction of "CASA-V" in the market, the Group also launched its first TV advertisement starring the spokesman in May 2015 in the Hong Kong market, and it was broadcasted on major TV channels during the prime time so as to enhance its brand awareness. Moreover, we upgraded the POS's image and display at the same time to strengthen our brand's distinctive image. In recognition of our successful advertising strategies, the Group was awarded the "2015 TVB Weekly Brand Award – The Expert of Bedding Products".

In order to adapt to consumers' habit in receiving information and the latest marketing trend, apart from advertisement on traditional promotion channels such as bus and MTR train bodies and cabins as well as the printed media, we also enhanced our promotional efforts on online channels. During the Review Period, we actively expanded the Group's Facebook page, updated the page more frequently and launched new games from time to time to increase our interaction with consumers. The number of followers of the Group's Facebook page has increased by more than double to over 10,000 from approximately 4,000 at the beginning of the Year. In respect of domestic consumers, we have launched our first promotion activity on WeChat at the beginning of 2015 to align with the promotion of our self-operated stores in Guangdong province. We also revamped the design of the Company's website at the beginning of the Year to create a more prominent and youthful image of the Group.

Apart from enriching our product offerings and enhancing our promotional efforts, promoting the shopping experience of our customers is also one of the major tasks of the Group during the Review Period. In order to enhance the Group's image as a brand for healthy and environmental-friendly lifestyle, we have strengthened our unified image of POS by adding green elements in the design of product display. Moreover, tablet computers are provided at POS so that customers may read our product catalogues comfortably, at the same time reducing the impacts on the environment from the production of the printed versions of our catalogues. The service quality of the frontline sales staff is the key to customers' shopping experience. In 2015, the Group has strengthened its training on customer services and product knowledge to frontline sales staff and provided them with consistent and clear guidance to ensure that consumers would receive attentive services whenever they shop at our POS.

During the Review Period, the Group actively participated in charitable events, including donation of bedding products to Ronald McDonald House Charities® of Hong Kong, donation to and participation 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, support for the "Pink Revolution" organised by Hong Kong Cancer Fund, title sponsorship for "Yan Chai Charity Walk 2015", etc. The participation in corporate social responsibility activities not only can provide care and assistance to those in needs, but may also help to increase staff members' sense of belonging to the Group as well as enhance the image of the Group as a whole.

**FUTURE PROSPECTS**

Looking into 2016, the global economic environment is likely to remain challenging. However, the Chinese government has further proposed to fully release the household registration system under the National New Urbanisation Plan (國家新型城鎮化規劃) to push forward urbanisation and thus boost the household consumption as well as domestic demand. On the other hand, the "Two-child Policy" has been fully open for implementation in October 2015. Property markets in first and second-tier cities in the Mainland China recorded gradual recovery in the second half of 2015 while local governments of third-tier cities are expected to introduce measures to support the property market. Moreover, the Chinese government also proposed to focus on the development of "Internet +" in 2015, with a view to promote the healthy development of e-commerce, industrial informationisation and internet finance, which will become the most important growth driver for the economic development of China in the future. Driven by the rising consumption power, large number of newborn babies and people moving into new houses, as well as the booming of e-commerce, the vast Chinese market still has strong demand for fashionable and quality bedding products and home accessories with health function. The Group will actively seek to broaden its income stream and make steady progression towards being an O2O brand for green household by taking a cautiously optimistic approach which aims at maintaining profitability and strives for better results.

**Optimise brand structure and expand product portfolio**

The Group will continue to optimise the product mix under its proprietary brands, namely "Casa Calvin", "Casablanca" and "CASA-V". We will enhance brand differentiation of "Casa Calvin" and "Casablanca" in terms of product materials, craftsmanship and design styles, with a view to provide more choices to satisfy customers with different consumption power. As for "CASA-V", the Group will extend the "5A Features" to baby products and other home accessories. It is expected that the baby products with "5A Features" will be first launched in 2016, so that "CASA-V" will be gradually transformed from a brand for traditional bedding products to a brand for healthy and environmental-friendly home living.

We understand that customers with higher consumption power tends to purchase imported goods, therefore, the Group have been identifying brands for fashionable bedding products from overseas in an effort to provide more quality choices for consumers. In addition, the Group also actively discussed with licensors of popular cartoon characters about the authorisation for design, production and sales of related bedding products, which has enriched our offerings for children and kidult customers.

**Enhance the structure of sales channels and expand into commercial-customer markets**

The Group has closed down a number of self-operated POS (mostly in Mainland China) in 2014 and 2015, and it is expected that its control over operation costs will begin to bear fruits in 2016. We will continue to adjust the structure of our physical sales network and close down the self-operated POS with unsatisfactory profitability. We will also continue to look for suitable locations to establish large "Healthy Lifestyle Store", which can offer not only one-stop shopping experience to consumers, but may also serve as the customer service and logistics hub of the Group's O2O business. Moreover, the Group will carry out resources integration of its domestic operation and sales headquarters and production plant in the second quarter in 2016, with a view to reduce the administrative costs such as rentals and back-office staff.

The Group will also increase the investment in the development of its online sales business in 2016. In respect of online sales in the PRC market, we will continue to optimise the business conducted via online sales channels and strengthen the cooperation with the television shopping channel in Guangdong Province operated by Million Zone. Meanwhile, we will also actively develop our account on WeChat shop as well as other shopping websites.

In 2016, the Group will also continue to broaden its income stream from commercial-customer markets. The Group expects to resume its sales conducted through cooperation with a wholesale customer under a bulk-purchase agreement in Hong Kong in 2016. In 2015, the Group entered into a framework agreement for cooperation with SH Golden Tulip, and the business operation with SH Golden Tulip branded hotels is expected to commence officially in 2016. Moreover, the Group will continue to approach commercial customers such as hospitals, airlines, property developers, etc., so as to promote its products specifically designed for different sectors that are able to cater for their special needs. The Group believes that the expansion into commercial-customer markets not only can broaden its income stream, but may also further enhance the Group's leading position in the industry and strengthen consumers' confidence in the brands under the Group.

**Enhance image positioning of the brands and strengthen customer relationship management**

In 2016, the Group will continue to enhance the image positioning of the brands and strengthen the customer relationship management through online and offline promotional channels. The Group will maintain its promotional efforts in traditional offline channels such as television, radio, the printed media as well as public transportation. For instance, in January 2016, we have placed large outdoor advertisement on the external wall of a famous department store in Causeway Bay, Hong Kong. Promotions conducted through traditional offline channels will effectively increase the consumers' recognition for our brands. Moreover, the Group will also closely follow the trend of social media marketing and continue to release the Group's latest information regularly on Facebook and WeChat. Various games will also be launched to increase the interaction with consumers.

During 2016, the Group will launch limited edition products endorsed by the spokesman for charity purpose, thereby encouraging consumers to join hands with the Group to support good deeds, at the same time promoting the concept of environmentally-friendly and green living. In addition, the Group is planning to launch limited edition products in collaboration with world famous cartoon characters or renowned local illustrators to support the development of creative designs.

We will provide more benefits to our members and step up our efforts in recruiting new members in 2016, including offering members pre-sale of promotional or limited edition products. Furthermore, we will also adopt the co-branding promotion strategy to provide members with other benefits from different enterprises such as membership for fitness club and cosmetic services to attract more customers to join our membership and increase the number of our members.

Incorporating "Contemporary, Innovative and Functional" features in our product design, the Group will endeavour to provide consumers with quality bedding products which are fashionably designed but reasonably priced, as well as appropriate and trendy home accessories. Leveraging our quality products, diversified sale channels and attentive customer services, the Group will strive for steady development in the bedding product market in the Greater China Region and continue to bring satisfactory returns to our shareholders.

## FINANCIAL REVIEW

### Revenue

For the Year, the Group recorded revenue of HK$371.0 million (2014: HK$460.8 million), representing a decrease of 19.5% over 2014. The decrease in revenue was primarily attributable to the decline in sales under a bulk-purchase agreement to a wholesale customer in Hong Kong and the reduction in number of self-operated POS, of which most were in the PRC during the Year.

***Breakdown of revenue by brands:***

| | **2015** | | 2014 | | Change | |
|---|---|---|---|---|---|---|
| | ***HK$'000*** | ***% of Total*** | *HK$'000* | *% of Total* | *HK$'000* | *%* |
| Proprietary brands | **299,607** | **80.8%** | 377,699 | 82.0% | (78,092) | -20.7% |
| Licensed and authorised brands | **71,362** | **19.2%** | 83,125 | 18.0% | (11,763) | -14.2% |
| **Total** | **370,969** | **100.0%** | 460,824 | 100.0% | (89,855) | -19.5% |

Casa Calvin, Casablanca and CASA-V are our major proprietary brands. Sales of proprietary brands recorded an overall decrease for 2015 by 20.7% to HK$299.6 million (2014: HK$377.7 million). The decline in sales under a bulk-purchase agreement to a wholesale customer in Hong Kong and through self-operated POS in the PRC was mainly for products of proprietary brands. Sales of our licensed and authorised brands for 2015 decreased by 14.2% to HK$71.4 million (2014: HK$83.1 million) primarily due to the decline in retail sales of licensed and authorised brands in the PRC.

***Breakdown of revenue by products:***

| | **2015** | | 2014 | | Change | |
|---|---|---|---|---|---|---|
| | ***HK$'000*** | ***% of Total*** | *HK$'000* | *% of Total* | *HK$'000* | *%* |
| Bed linens | **195,373** | **52.7%** | 234,086 | 50.8% | (38,714) | -16.5% |
| Duvet and pillows | **159,227** | **42.9%** | 212,015 | 46.0% | (52,788) | -24.9% |
| Other home accessories | **16,369** | **4.4%** | 14,723 | 3.2% | 1,647 | 11.2% |
| **Total** | **370,969** | **100%** | 460,824 | 100.0% | (89,855) | -19.5% |

Bed linens and duvets and pillows are major products of the Group. Sales of bed linens and duvets and pillows for 2015 were HK$195.4 million (2014: HK$234.1 million) and HK$159.2 million (2014: HK$212.0 million) respectively. Both sales of bed linens and duvets and pillows decreased as a result of the overall decline in sales. The higher percentage of decrease in sales of duvets and pillows compared to the overall percentage of decrease in sales was due to the decline in sales of duvets under a bulk-purchase agreement to a wholesale customer in Hong Kong.

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

| | **2015** | | 2014 | | Change | |
|---|---|---|---|---|---|---|
| | ***HK$'000*** | ***% of Total*** | *HK$'000* | *% of Total* | *HK$'000* | *%* |
| **Self-operated retail sales** | | | | | | |
| Self-operated concession counters | **235,749** | **63.5%** | 258,105 | 56.0% | (22,356) | -8.7% |
| Self-operated retail stores | **55,906** | **15.1%** | 50,970 | 11.1% | 4,936 | 9.7% |
| **Sub-total for self-operated retail sales** | **291,655** | **78.6%** | 309,075 | 67.1% | (17,420) | -5.6% |
| **Sales to distributors** | **50,867** | **13.7%** | 57,587 | 12.5% | (6,720) | -11.7% |
| **Others** *(Note)* | **28,447** | **7.7%** | 94,162 | 20.4% | (65,715) | -69.8% |
| **Total** | **370,969** | **100.0%** | 460,824 | 100.0% | (89,855) | -19.5% |

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

Self-operated retail sales for 2015 amounted to HK$291.7 million (2014: HK$309.1 million), accounting for 78.6% of the total revenue and representing a decrease of 5.6% as compared to that of 2014. The increase in self-operated retail sales in Hong Kong by 6.8% was wholly offset by the decrease in self-operated retail sales in the PRC by 24.8% 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 2015 decreased by 11.7% to HK$50.9 million (2014: HK$57.6 million) when distributors in the PRC faced the same problems as our self-operated retail sales. Sales to others for 2015 was HK$28.4 million (2014: HK$94.2 million) representing a significant decrease of 69.8% primarily due to the decline in sales under bulk-purchase agreements to a wholesale customer in Hong Kong.

***Breakdown of revenue by geographic regions:***

| | **2015** | | 2014 | | Change | |
|---|---|---|---|---|---|---|
| | | ***% of*** | | *% of* | | |
| | ***HK$'000*** | ***Total*** | *HK$'000* | *Total* | *HK$'000* | *%* |
| Hong Kong and Macau | **233,012** | **62.8%** | 280,380 | 60.8% | (47,368) | -16.9% |
| PRC | **136,682** | **36.9%** | 176,864 | 38.4% | (40,182) | -22.7% |
| Others *(Note)* | **1,275** | **0.3%** | 3,580 | 0.8% | (2,305) | -64.4% |
| **Total** | **370,969** | **100.0%** | 460,824 | 100.0% | (89,855) | -19.5% |

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

Revenues from Hong Kong and Macau, the PRC and others for 2015 were HK$233.0 million (2014: HK$280.4 million), HK$136.7 million (2014: HK$176.9 million) and HK$1.3 million (2014: HK$3.6 million) respectively. Revenue from Hong Kong and Macau decreased by 16.9% primarily due to the decline in sales under bulk-purchase agreements to a wholesale customer which could not be sufficiently counteracted by the increase in self-operated retail sales in Hong Kong. Revenue from the PRC decreased by 22.7% primarily due to the significant decreases of self-operated retail sales and sales to distributors in the PRC.

**Gross Profit and Gross Profit Margin**

Gross profit decreased by 17.6% to HK$229.2 million for 2015 as compared to HK$278.3 million for 2014. The decrease in gross profit was attributable to the decline in sales. The gross profit margin for 2015 was 61.8% which was higher than 60.4% for 2014. The increase in gross profit margin for 2015 was primarily due to the significant decrease in sales to others which were at gross profit margin lower than self-operated retail sales.

**Operating Expenses**

Selling and distribution costs for 2015 decreased by 11.8% to HK$178.1 million from HK$202.0 million for 2014. The decrease in selling and distribution costs for 2015 was primarily attributable to a decrease in sales commission and rebate, staff and related expenses and transportation with the reduction in number of self-operated concession counters in the PRC despite the increase of marketing and promotional expenses in the launch of CASA-V brand and new products in Hong Kong.

Administrative expenses for 2015 increased by 22.6% to HK$61.3 million from HK$50.0 million for 2014. The increase was mainly due to the increase in the share-based payments, bad debts written off, Directors' remuneration, rent and rates and entertainment for 2015.

**Finance Expenses**

Finance costs decreased by 32.5% to HK$2.9 million for 2015 as compared to HK$4.3 million for 2014. 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 2015 was -12.8% as compared to 36.6% for 2014. The effective tax rate in negative for 2015 was mainly due to operation losses of subsidiaries in the PRC. Had these losses, the withholding tax on distributed profit, the reversal of deferred tax of previously recognised undistributed profit of a subsidiary in the PRC, the non-deductible share-based payments and the exchange loss on loans to subsidiaries for 2015 and 2014 been excluded, the effective tax rate for 2015 and 2014 would be approximately 18.6% and 14.9% respectively.

**Loss/Profit for the Year**

The Group recorded loss for the year of HK$16.2 million for 2015 and profit for year of HK$12.8 million for 2014. The reason for loss for the year for 2015 was mainly attributable to the decrease in gross profit being greater than the decrease in total expenses. Overall operation of the Group in the PRC was at loss for 2015 and 2014.

EBITDA represents gross profit less selling and distribution costs and administrative expenses adding back depreciation, amortisation and share-based payments. The EBITDA for 2015 decreased by 73.6% to HK$11.2 million from HK$42.3 million for 2014.

**Major Operating Efficiency Ratios**

| | **2015** | 2014 |
|---|---|---|
| Inventory turnover *(days)* | **222.1** | 199.5 |
| Trade and bills receivable turnover *(days)* | **74.8** | 74.9 |
| Trade and bills payable turnover *(days)* | **166.1** | 162.8 |

***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 increase in inventory turnover to 222.1 days for 2015, from 199.5 days for 2014, was due to the decline in overall sales and the reduction in number of self-operated POS, of which most were in the PRC, in 2015. Despite the increase in inventory turnover for 2015, the inventory at 31 December 2015 decreased by 10.4% to HK$81.5 million from HK$91.0 million at 31 December 2014.

***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 2015 was 74.8 days which was almost the same as for 2014.

***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 slightly increased to 166.1 days for 2015 from 162.8 days for 2014, primarily due to longer credit periods granted by more suppliers.

**Liquidity and Capital Resources**

The gearing structure is set out below:

| | **As at 31 December** | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| Total bank borrowings | **74,495** | 96,437 |
| Pledged bank deposit and bank balances and cash | **184,185** | 141,433 |
| Net cash | **109,690** | 44,996 |
| Total assets | **526,491** | 515,780 |
| Total liabilities | **156,938** | 204,070 |
| Total equity | **369,553** | 311,710 |

The Group has been adhering to the principle of prudent financial management in order to minimise financial and operational risks. The Group generally finances its operations with internally generated cash flows. Bank borrowings are primarily for financing the construction of the Huizhou plant.

***Current ratio***

The Group's total current assets increased to HK$348.9 million as at 31 December 2015 (2014: HK$335.2 million), while the total current liabilities also decreased to HK$135.2 million as at 31 December 2015 (2014: HK$165.8 million). As a result, the current ratio improved to 2.6 as at 31 December 2015 from 2.0 as at 31 December 2014.

***Gearing ratio***

Gearing ratio is calculated as total borrowings divided by total equity at the end of the year. As at 31 December 2015, the gearing ratio was 20.2% (2014: 30.9%) with the decrease in the bank borrowings by HK$21.9 million and the increase in total equity by HK$57.8 million. The Group was at net cash position at 31 December 2015.

*Pledge of assets*

As at 31 December 2015, the Group had pledged its leasehold land and buildings, prepaid lease payments and fixed deposits with an aggregate carrying value of HK$140.8 million (2014: HK$146.7 million) to certain banks in Hong Kong and the PRC to secure banking facilities granted to the Group.

*Capital expenditures*

During the Year, the Group invested HK$20.8 million (2014: HK$8.9 million) for acquisition of property, plant and equipment, available-for-sale investment and convertible bonds.

*Capital commitments*

As at 31 December 2015, the Group had capital commitments of approximately HK$1.4 million (2014: HK$2.1 million).

**Available-for-sale Investment**

On 25 June 2015, Rich Creation Asia Investment Limited ("Rich Creation"), a wholly owned subsidiary of the Company, entered into a subscription agreement with Million Zone pursuant to which Rich Creation agreed to subscribe for 301,598 newly issued ordinary shares of Million Zone, representing 15% of the total issued shares of Million Zone immediately after completion of the subscription, for a consideration of HK$7,749,000 (equivalent to US$1,000,000). Details of the subscription were disclosed in the announcements of the Company dated 8 June 2015 and 25 June 2015.

Million Zone further issued 214,064 new ordinary shares to the other two investors in December 2015. Taking these newly issued shares of Million Zone into account, the available-for-sale investment of 301,598 shares of Million Zone held by Rich Creation represented approximately 13.6% of the total issued shares of Million Zone as at 31 December 2015.

**Convertible Bond**

On 26 October 2015, Rich Creation subscribed for a convertible bond issued by Million Zone with principal amount of HK$3,600,000, interest rate at 8% per annum payable on 31 October 2017 with maturity on the same date. The convertible bond can be converted at any time from the date of issue to the maturity date.

**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 2015 was as below:

| | **Planned amount** | **Utilised amount** | **Unutilised amount** |
|---|---|---|---|
| | *HK$ million* | *HK$ million* | *HK$ million* |
| **From IPO:** | | | |
| Expansion of sales network | 37.0 | 24.8 | 12.2 |
| Upgrade of management information system | 4.0 | 2.1 | 1.9 |
| Brand building and product promotion | 2.2 | 2.2 | – |
| General working capital | 1.0 | 1.0 | – |
| Total | 44.2 | 30.1 | 14.1 |
| **From placement of shares:** | | | |
| General working capital and possible investments | 57.0 | 11.3 | 45.7 |

## PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

## CORPORATE GOVERNANCE 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 2015, 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 reviews of the shareholders. At the annual general meeting of the Company held on 22 May 2015 (the "2015 AGM"), an Independent Non-executive Director was unable to attend the 2015 AGM due to other pre-arranged business engagements.

## DIVIDEND

The Directors do not recommend the payment of final dividend for the year ended 31 December 2015.

## ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year ended 31 December 2015 is scheduled to be held on Monday, 23 May 2016 (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 Wednesday, 18 May 2016 to Monday, 23 May 2016 (both days inclusive), during which no transfer of shares will be effected. In order to be eligible to attend and vote at the forthcoming Annual General Meeting of the Company, all completed transfer documents accompanying with the relevant share certificates must be lodged with the Company's Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 17 May 2016.

## REVIEW OF ANNUAL RESULTS

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

## SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2015 as set out in the preliminary announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

## APPRECIATION

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

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

Hong Kong, 24 March 2016

*As at the date of this announcement, the Board comprises Mr. Cheng Sze Kin (Chairman), Mr. Cheng Sze Tsan (Vice-chairman), Ms. Wong Pik Hung and Mr. Kwok Yuen Keung Tommy as Executive Directors, Mr. Mok Tsan San as Non-executive Director, and Mr. Zhang Senquan, Mr. Kam Leung Ming and Mr. Leung Yiu Man as Independent Non-executive Directors.*