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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

	Notes	**Six months ended 30 June 2016**	2015	Change
Revenue *(HK$'000)*		**184,555**	176,617	4.5%
Gross profit *(HK$'000)*		**116,065**	111,652	4.0%
EBITDA *(HK$'000)*	*1*	**23,939**	2,846	741.1%
Profit (loss) for the period *(HK$'000)*		**6,925**	(9,096)	N/A
Gross profit margin		**62.9%**	63.2%	
EBITDA margin		**13.0%**	1.6%	
Net profit (loss) margin		**3.8%**	-5.2%	
Earnings (loss) per share				
– Basic and diluted (HK cents)		**2.68**	(3.98)	N/A
		As at 30/06/2016	As at 31/12/2015	Change
Total assets *(HK$'000)*		**498,615**	526,491	-5.3%
Total equity *(HK$'000)*		**364,067**	369,553	-1.5%
Total bank balances and cash *(HK$'000)*	*2*	**206,628**	184,185	12.2%
Total bank borrowings *(HK$'000)*		**62,964**	74,495	-15.5%
Net cash *(HK$'000)*	*3*	**143,664**	109,690	31.0%
Gross gearing ratio	*4*	**17.3%**	20.2%	

Notes:

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

2. Total bank balances and cash included pledged bank deposits.

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

4. Gross gearing ratio is calculated as total bank borrowings divided by total equity, whereas the Company was at net cash position at 30 June 2016 and 31 December 2015.

The board (the "Board") of directors (the "Directors") of Casablanca Group Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2016 (the "Period") as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Notes	Six months ended 30 June **2016** ***HK$'000*** **(unaudited)**	 2015 *HK$'000* (unaudited)
Revenue	*3*	**184,555**	176,617
Cost of goods sold		**(68,490)**	(64,965)
Gross profit		**116,065**	111,652
Other income		**721**	1,091
Other gains and losses	*4*	**(4,070)**	(887)
Selling and distribution costs		**(74,014)**	(90,655)
Administrative expenses		**(26,267)**	(28,578)
Finance costs		**(1,144)**	(1,545)
Profit (loss) before taxation	*5*	**11,291**	(8,922)
Taxation	*6*	**(4,366)**	(174)
Profit (loss) for the period		**6,925**	(9,096)
Other comprehensive expense			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		**(4,608)**	(21)
Reclassification adjustments for cumulative exchange differences upon deregistration of a foreign operation		**(8,775)**	–
Other comprehensive expense for the period		**(13,383)**	(21)
Total comprehensive expense for the period		**(6,458)**	(9,117)
Profit (loss) for the period attributable to owners of the Company		**6,925**	(9,096)
Total comprehensive expense for the period attributable to owners of the Company		**(6,458)**	(9,117)
Earnings (loss) per share			
– Basic and diluted (HK cents)	*8*	**2.68**	(3.98)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	NOTES	30.6.2016 HK$'000 (unaudited)	31.12.2015 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**132,938**	137,701
Prepaid lease payments		**24,883**	25,734
Intangible assets		**1**	2
Deposits paid for acquisition of property, plant and equipment		**240**	1,037
Rental and other deposits		**1,930**	1,723
Available-for-sale investment	*9*	**–**	7,749
Convertible bond	*10*	**–**	2,980
Derivative component in convertible bond	*10*	**–**	673
		159,992	177,599
Current assets			
Inventories		**72,558**	81,502
Trade and other receivables	*11*	**57,049**	77,234
Prepaid lease payments		**566**	578
Taxation recoverable		**1,822**	5,393
Pledged bank deposits		**6,778**	6,812
Bank balances and cash		**199,850**	177,373
		338,623	348,892
Current liabilities			
Trade and other payables	*12*	**69,346**	79,891
Taxation payable		**795**	840
Bank borrowings		**49,421**	53,756
Obligation under a finance lease		**439**	745
		120,001	135,232
Net current assets		**218,622**	213,660
Total assets less current liabilities		**378,614**	391,259
Non-current liabilities			
Bank borrowings		**13,543**	20,739
Obligation under a finance lease		**–**	63
Deferred tax liabilities		**1,004**	904
		14,547	21,706
Net assets		**364,067**	369,553
Capital and reserves			
Share capital	*13*	**25,843**	25,843
Reserves		**338,224**	343,710
Total equity		**364,067**	369,553

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for derivative component in convertible bond, which is measured at fair value.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current interim period.

The application of those amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in the Group's condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

The Group's operating activities are attributable to a single operating segment focusing on manufacture and sales of bedding products. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies conforming to HKFRSs, which 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 period 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 Group. 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 (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:

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Self-operated retail sales	**129,050**	141,469
Sales to distributors	**14,192**	25,491
Others	**41,313**	9,657
	184,555	176,617

Entity-wide information

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

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Bed linens	**113,843**	100,738
Duvets and pillows	**62,517**	66,842
Other home accessories	**8,195**	9,037
	184,555	176,617

4. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Gain on deregistration of a subsidiary *(note)*	**8,775**	–
Impairment loss of available-for-sale investment *(note 9)*	**(7,749)**	–
Impairment loss on convertible bond *(note 10)*	**(2,980)**	–
Net exchange (losses) gains	**(979)**	416
Fair value change on derivative component in convertible bond *(note 10)*	**(673)**	–
Allowance for doubtful debts	**(312)**	(660)
Loss on disposal of property, plant and equipment	**(136)**	(643)
Allowance for other receivables	**(16)**	–
	(4,070)	(887)

Note: During the six months ended 30 June 2016, Forcetech (Shenzhen) Company Limited 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.

5. PROFIT (LOSS) BEFORE TAXATION

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit (loss) before taxation has been arrived at after charging:		
Directors' and chief executive's remuneration (excluding share-based payments)	**5,077**	4,735
Other staff costs	**40,763**	42,476
Share-based payments (included in selling and distribution costs and administrative expenses)	**972**	3,047
Amortisation of intangible assets	**1**	1
Amortisation of prepaid lease payments	**288**	302
Allowance for inventories (included in costs of goods sold)	**141**	357
Depreciation of property, plant and equipment	**6,894**	7,077
Operating lease rentals in respect of		
– rented premises	**854**	1,768
– retail stores *(note)*	**4,648**	5,075
– department store counters *(note)* (including concessionaire commission) (included in selling and distribution costs)	**22,208**	32,735
	27,710	39,578

Note: Included contingent rent of HK$11,492,000 for the six months ended 30 June 2016 (six months ended 30 June 2015: HK$19,374,000). The contingent rent refers to the operating lease rentals based on pre-determined percentages of realised sales less basic rentals of the respective leases.

6. TAXATION

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax:		
Hong Kong	**3,836**	442
PRC Enterprise Income Tax ("EIT")	**430**	–
	4,266	442
Overprovision in prior period:		
Hong Kong	**–**	(48)
Withholding tax paid on distributed profits	**–**	1,113
Deferred tax:		
Current period	**100**	128
Withholding tax on undistributed profits	**–**	(1,461)
	100	(1,333)
	4,366	174

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both periods. The PRC EIT is provided at 25% on the estimated assessable profit for both periods.

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 condensed consolidated financial statements in respect of the temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB18,535,000 (equivalent to HK$21,631,000) (31 December 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.

7. DIVIDEND

No dividends were paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period (six months ended 30 June 2015: nil).

8. 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:

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Earnings (loss)		
Profit (loss) for the period attributable to owners of the Company for the purposes of basic and diluted earnings (loss) per share	**6,925**	(9,096)

	Six months ended 30 June	
	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**	228,414,707

The computation of diluted earnings per share for the six months ended 30 June 2016 does not assume the exercise of the Company's share options because the adjusted exercise price of the share options (after the adjustment of the fair value of the unvested share options) were higher than the average market prices of shares of the Company during the six months ended 30 June 2016.

The diluted earnings per share for the six months ended 30 June 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.

9. 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 six months ended 30 June 2016, the Investee Company's virtual retailing business is suspended. Accordingly, the directors of the Company considered the available-for-sale investment is not recoverable and the amount is fully impaired.

10. 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 six months ended 30 June 2016, the Investee Company's virtual retailing business is suspended. 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 period.

11. TRADE AND OTHER RECEIVABLES

Retail 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 ranges from 30 to 75 days. For distributors and wholesale sales, the Group allows a credit period of 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 date at the end of the reporting period, which approximated the respective revenue recognition dates.

	30.6.2016	31.12.2015
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Within 30 days	**22,689**	35,543
31 to 60 days	**9,859**	15,601
61 to 90 days	**3,932**	4,439
91 to 180 days	**2,030**	4,849
181 to 365 days	**7,013**	2,147
Over 365 days	**228**	1,744
Trade and bills receivables	**45,751**	64,323

12. TRADE AND OTHER PAYABLES

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

	30.6.2016 ***HK$'000*** **(unaudited)**	31.12.2015 *HK$'000* (audited)
Within 30 days	**8,667**	34,875
31 to 60 days	**17,428**	10,686
61 to 90 days	**11,890**	8,438
91 to 180 days	**10,161**	3,021
Over 180 days	**3,896**	–
Trade and bills payables	**52,042**	57,020

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

Included in other payables is payable for acquisition of property, plant and equipment of HK$2,277,000 (31 December 2015: HK$1,180,000).

13. SHARE CAPITAL

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

	Number of shares	**Amount** *HK$'000*
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2015, 31 December 2015 and 30 June 2016	500,000,000	50,000
Issued and fully paid:		
At 1 January 2015	200,788,000	20,079
Issue of shares on 13 March 2015 *(note a)*	40,000,000	4,000
Exercise of share options *(note b)*	17,644,000	1,764
At 31 December 2015 and 30 June 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 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 retail market had remained weak with the slowdown of the Chinese economy and the depressed consumer confidence of the general public in the PRC and Hong Kong. Retailers have been under the pressure from declining revenue, at the same time struggling to cope with the rising operating costs, such as rental and labour costs, as well as facing the impact brought by e-commerce on the traditional retail industry. Furthermore, the first half of the year is the traditional low season of the bedding products industry. Bedding products retailers have therefore innovated their own strategies and launched more promotional activities to boost customer spending. In the first half of 2016, the Group continued to explore different sales channels for its businesses, so as to get well-prepared for the development of O2O business by upgrading its back-end system. It also strengthened the efforts in promoting the strengths of the Group's products in a bid to expand the Group's market share and enhance its reputation with the best endeavours.

During the Period, the Group recorded exceptional gains and losses including the gain on reclassification of cumulated exchange reserve as other gains arising from deregistration of a subsidiary in the PRC and impairment losses of the available-for-sale investment and the convertible bond due to the suspension of Investee Company's virtual retail business.

BUSINESS REVIEW

During the Period, the Group further strengthened its collaboration with different enterprises for joint promotions. These collaborations not only proven effective in terms of marketing promotion, but also enhanced the brand recognition of the Group among consumers and significantly increased the sales income of the Group. During the Period, the Group's total revenue was HK$184.6 million, representing an increase of 4.5% as compared to HK$176.6 million in the corresponding period of 2015; and the profit for the period was HK$6.9 million, as compared to the loss of HK$9.1 million in the corresponding period last year. Affected by the sluggish retail market and the closure of some self-operated points of sale ("POS") in the PRC, the Group's revenue from operations in the PRC decreased by 41.8% during the Period as compared with the same period last year. Meanwhile, due to the bulk sales to a wholesale customer in Hong Kong made by the Group during the Period, the revenue from operations in Hong Kong and Macau increased by 34.6% as compared with the same period last year. During the Period, the Group still recorded a 3.9% growth of revenue from the retail business in Hong Kong and Macau, despite the slowdown of the general retail market in Hong Kong.

Expanded into commercial market and further optimised the sales network structure

In order to broaden income streams and reduce the dependence on retail income, the Group proactively provided service providers and organisations, such as hotels, beauty centres, community health organisations and university dormitories, etc., with quality bedding products which can satisfy their unique needs during the Period. Moreover, we provided commercial-customers, such as retail chains, telecommunications service providers and banks, etc., with 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 Period, the Group recorded a bulk sales in relation to the supply of "CASA-V" bed linens to a wholesale customer in Hong Kong, which had not only increased the income of the Group, but also effectively aroused consumers' interests and attention to the Group's product under the new brand.

We understand that with the weak consumer sentiment, general consumers will be more prudent when comparing prices, and will even shift from traditional retail stores to online platform for products at lower prices. The Group offered more group-buying online deals during the Period, so as 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.

In view of the rising operating costs, such as rentals and wages, the Group completed the relocation of its PRC sales headquarters from Shenzhen to Huizhou and continued to refine the structure of its offline sales network during the Period. Including self-operated POS and distributor-operated POS, the sales network of the Group consists of a total of 262 POS (31 December 2015: 287) as at 30 June 2016, among which 125 were self-operated POS and 137 were distributor-operated POS, covering a total of 85 cities in the Greater China Region.

Continued to enhance the product mix

In order to serve the needs of customers in premium bedding products market, the Group launched products under "CASA-V" brand, which is the first brand with features such as Air purification, Anti-bacteria, Anti-fungal, Anti-mite and Anti-odor (collectively the "5A Features") in the market, during the first half of 2015. After the promotion and consumer education for about one year, market recognition of "CASA-V" brand significantly improved. In the first half of 2016, as an extension of our marketing theme for "CASA-V" brand of green living and healthy sleeping environment for families, we actively developed bedding products under "CASA-V Baby" series.

We value style and aesthetics and consider them to be of equal importance as health and comfort. During the Period, the Group launched "Pantone Pastel Product Series of the Year" with "Rose Quartz" and "Serenity" as key colors, which were the "Colors of the Year 2016" as announced by Pantone, the international authority on color. "Pantone Pastel Product Series of the Year" offered a number of materials for selection, including tencel, long-staple cotton and 100% cotton, aiming to create a stylish and comfortable sleeping environment for consumers.

The Group launched a number of promotional activities during the Period, which has helped to stimulate offseason consumptions in the industry, attract new members and clear inventories.

Strengthened multi-brands strategy and enhanced brand image

During the Period, the Group had officially commenced the sales of products under the brand "VOSSEN" as an exclusive distributor in the Greater China Region, bringing consumers premium terry towelling products from Austria. In March 2016, the Group participated in a major exhibition with "VOSSEN" in Shenzhen, focusing on enhancing the recognition of the Group's brands and "VOSSEN" in the PRC market. Furthermore, during the Period, the Group developed several products in the name of some authorised popular cartoon characters to cater for varying preferences of customers, including Barbie, Dustykids, Felix the Cat, Madagascar, Thomas & Friends, etc.

Apart from business development, the Group also attaches great importance to its contribution to the society. During the Period, we 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 40,000 pillow cases in support for the event. Furthermore, the Directors and employees of the Group also visited the elderly beneficiaries who live alone. In recent years, the Group proactively strengthened its marketing efforts to enhance brand awareness, at the same time, it also actively participated in charitable events and its brand image has been well-recognised by the market. In the first half of 2016, the Group received honours such as "2016 TVB Weekly Mother's Favourite Brand for Bedding Products" and "U Green Awards 2016 – Excellence of Environmental Contributions", etc.

FUTURE PROSPECTS

In the second half of 2016, the global economy will still be clouded with considerable uncertainties and the consumer confidence in the Greater China Region is expected to remain low. However, as the PRC government continued to implement various measures to stabilise economic development and constantly enhance national consumption, and the real estate market in the PRC is still bullish, the Group believes that the domestic market will still has a high demand for bedding products and home accessories with stylish design, excellent quality and additional health functions. As for the market in Hong Kong, it is expected that the number of people moving into new houses will increase in the second half of the year. Therefore, we expect the demand for bedding products and home accessories which are easy to match with household designs and helpful to protect family health will remain high among Hong Kong consumers. We will continue to strengthen the Group's leadership position in Hong Kong market and strive to enhance our brand awareness in the PRC market. Moreover, the Group will continue to develop the commercial market and O2O business, so as to broaden our income streams.

Hong Kong and Macau

The "CASA-V" products have been well-received by consumers which proves that the development of products with health functions is a right track for the Group to move on. Bedding products under the "CASA-V Baby" series have been officially launched to the market in July 2016 by the Group to provide consumers and their families with the experience of healthy and green lifestyle. In addition to the 5A Features, "CASA-V Baby" products also use "Colored Eco-cotton" as its key material, which is characterised by its dye-free, smooth and soft, breathable, sweat-absorbing, and fire-retardant features, thereby providing all-round care for baby's sleeping environment. We expect that such products will be well-received by parents who are conscious of baby's healthcare. To keep abreast of the changes in market demand for premium and high-end bedding products, we will continue to work on the research and development of comfortable and stylish bedding products and home accessories which will help healthy sleeping.

In order to strive to enhance the Group's brand image and brand awareness, we will hold a large-scale spokesman endorsement activity in the second half of the year as our intensified efforts in marketing. Together with our employees, members and customers, the Group will also participate in major charitable activities and contribute to the society.

The Group will engage in negotiation with various types of commercial-customers regarding the proposals on product supply and cooperation, striving to explore the commercial-customer market and broaden the revenue sources of the Group. Apart from providing bedding products to satisfy varying demands of service providers, such as hotels and beauty centres, we also provide products for gift redemption to different enterprises, which will help to increase the Group's revenue and realise benefits from promotion through brands cooperation.

Mainland China

In order to control the operating costs, the Group has completed the relocation of its PRC sales headquarters to Huizhou and the resources integration of the PRC sales headquarters and production plant in the first half of 2016, which will help to reduce administrative costs such as rentals and back-office staff. In addition, we expect to continue adjusting the structure of our physical sales network and close down the self-operated POS with unsatisfactory profitability in the second half of the year.

In order to adapt to the trend of online shopping which is popular among consumers in the PRC, we will step up our efforts in developing online sales platforms, with a view to actively promoting the business development of O2O and online shops. By optimising the software of our back-end system, we will be committed to integrating the operational management of online shops with a view to improve the efficiency of order processing and logistics management. This can also facilitate the establishment of the membership system for collecting and analysing customers' data in a comprehensive manner, and facilitate the Group's research, development and promotion of products based on customers' preferences in the future.

In addition to focusing on the development of the online business, the Group will step up its efforts in expanding the commercial market in the PRC during the second half of the year and actively cooperate with potential customers, including various gift redemption channels and hotels, to broaden income streams of the Group. Meanwhile, we will offer more group-buying online deals so that more consumers in the PRC can experience our affordable, stylish and comfortable products and enhance their recognition of the Group's brands.

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. We will continue to broaden our revenue streams and enhance the brand value of the Group, so as to bring satisfactory returns to our shareholders in the long run.

FINANCIAL REVIEW

Revenue

During the Period, the Group achieved revenue of HK$184.6 million (2015: HK$176.6 million) which increased by 4.5% as compared to the corresponding period last year. The increase was primarily due to the sales under a bulk-purchase agreement to a wholesale customer in Hong Kong offsetting the reduction in number of self-operated POS, of which most were in the PRC during the Period.

Sales of our proprietary brands, which accounted for approximately 85.8% (2015: 79.5%) of the Group's revenue, increased by 12.8% to HK$158.4 million (2015: HK$140.4 million) when the sales of bed linens under a bulk-purchase agreement to a wholesale customer in Hong Kong was in "CASA-V" brand during the Period. The significant decrease in sales of our licensed and authorised brands by 27.6% to HK$26.2 million (2015: HK$36.2 million) was due to the closure of many POS under the "Elle Deco" brand in the PRC and less sales of licensed cartoons in Hong Kong during the Period.

In terms of channels, self-operated retail sales during the Period amounted to HK$129.1 million (2015: HK$141.5 million), accounted for 69.9% (2015: 80.1%) of the total revenue, representing a decrease of 8.8% as compared to the corresponding period last year. Owing to the restructuring of the Group's sales network in response to the stiff competition from online sales in the PRC, the number of self-operated POS reduced by 25 as compared to the corresponding period last year and the self-operated retail sales in the PRC decreased by 35.7%. With more advertising campaigns and promotional activities in Hong Kong, self-operated retail sales in Hong Kong rose by 3.9% despite the sluggish retail market during the Period. Distributors faced the same adverse market condition in the PRC such that sales to distributors decreased by 44.3% to HK$14.2 million (2015: HK$25.5 million). With substantial sales under a bulk-purchase agreement to a wholesale customer in Hong Kong, sales to others amounted to HK$41.3 million (2015: HK$9.7 million), representing a very significant increase of 327.8% during the Period.

In terms of products, sales of bed linens during the Period were HK$113.8 million (2015: HK$100.7 million). Sales of duvets and pillows were HK$62.5 million (2015: HK$66.8 million), whereas sales of other home accessories were HK$8.2 million (2015: HK$9.0 million). Sales of bed linens increased by 13.0% primarily due to the presence of sales of "CASA-V" branded bed linens under a bulk-purchase agreement to a wholesale customer in Hong Kong during the Period.

In terms of regions, revenues from Hong Kong and Macau, the PRC and others during the Period were HK$144.3 million (2015: HK$107.2 million), HK$40.0 million (2015: HK$68.7 million) and HK$0.2 million (2015: HK$0.7 million) respectively. During the Period, the presence of sales under a bulk-purchase agreement to a wholesale customer in Hong Kong resulted in an increase in revenue from Hong Kong and Macau by 34.6%. The reduction of 25 self-operated POS in the PRC and the decrease in sales to distributors in PRC resulted in decrease in revenue from the PRC by 41.8%.

Gross Profit and Gross Profit Margin

Gross profit increased by 4.0% to HK$116.1 million during the Period as compared to HK$111.7 million for the corresponding period last year. The overall gross profit margin for the Period was 62.9% which was slightly lower than 63.2% for the corresponding period last year. The decrease in overall gross profit margin was primarily due to the decrease in proportion of self-operated retail sales with higher gross profit margin.

Other Gains and Losses

Other losses for the Period amounted to HK$4.1 million (2015: HK$0.9 million), mainly representing the impairment loss of available-for-sale investment of HK$7.7 million (2015: nil), the impairment loss on convertible loan of HK$3.0 million (2015: nil), the decrease in fair value of derivative component in convertible bond of HK$0.7 million (2015: nil) and the net exchange losses of HK$1.0 million (2015 net exchange gains: HK$0.4 million) offsetting the gain on deregistration of a subsidiary in the PRC of HK$8.8 million (2015: nil).

Expenses

Despite the increase in total sales by 4.5%, selling and distribution costs for the Period still decreased by 18.4% to HK$74.0 million from HK$90.7 million for the corresponding period last year. During the Period, 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 during the Period.

Administrative expenses for the Period also decreased by 8.1% to HK$26.3 million compared with HK$28.6 million for the corresponding period last year. The decrease in administrative expenses was primarily attributable to decrease in share-based payments recognised for the Period under the share option scheme.

Profit (Loss) for the Period

The Group's profit for the Period amounted to HK$6.9 million (2015 loss: HK$9.1 million). Reasons for resuming profit for the Period were mainly attributable to the increase in sales, especially the presence of sales under a bulk-purchase agreement to a wholesale customer in Hong Kong, and decreases in selling and distribution costs and share-based payments.

EBITDA represents gross profit less selling and distribution costs and administrative expenses, adding depreciation, amortization and share-based payments. The Group's EBITDA for the Period substantially increased to HK$23.9 million from HK$2.8 million for the corresponding period last year, representing a significant increase of 741.1%. This was mainly attributable to the increase in gross profit and the decreases in selling and distribution costs and administrative expenses excluding depreciation, amortization and share-based payments.

Liquidity and Financial Resources

During the Period, the Group adhered to the principle of prudent financial management in order to minimize financial and operational risks. The Group financed its operations with internally generated cash flows. Bank borrowings were primarily for financing the construction of Huizhou Plant in previous years. The financial position of the Group was healthy with net cash increased by 31.0% during the Period.

	As at 30 June 2016	As at 31 December 2015
	HK$'000	*HK$'000*
Total bank borrowings	**62,964**	74,495
Pledged bank deposit and bank balances and cash	**206,628**	184,185
Net cash	**143,664**	109,690
Total assets	**498,615**	526,491
Total liabilities	**134,548**	156,938
Total equity	**364,067**	369,553
Current ratio	**2.8**	2.6
Gross gearing ratio *(Note)*	**17.3%**	20.2%

Note: Gross gearing ratio is calculated as total bank borrowings divided by total equity.

Available-for-sale investment and convertible loan

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. To the best knowledge of the Board, the business of MZCI's main subsidiary in the PRC has been forced to stop since 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.

Based on the current status of MZCI and its subsidiaries, the Board 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 the Period (2015: nil), 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.

Foreign Exchange Exposure

The Group carries on business mainly in Hong Kong and the PRC. The Group is exposed to foreign exchange risk principally in Renminbi which can be largely offset by our revenue and expenditure in the PRC. The Group does not expect any appreciation or depreciation of the Hong Kong Dollar against Renminbi which materially affects the Group's results on operations. No hedging instrument has been employed. The Group will closely monitor the trends of the Renminbi and take appropriate measures to deal with the foreign exchange exposure if necessary.

Pledge of Assets

As at 30 June 2016, the Group had pledged its leasehold land and buildings, prepaid lease payments and fixed deposits with an aggregate carrying value of HK$135.3 million to certain banks in Hong Kong and the PRC to secure banking facilities granted to the Group.

INTERIM DIVIDEND

The Directors do not recommend the payment of interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

USE OF PROCEEDS FROM IPO AND PLACEMENT OF SHARES

The Company received net proceeds raised from the IPO of approximately HK$44.2 million and the placement of shares of approximately HK$57.0 million. The usage of net proceeds until 30 June 2016 was as follows:

	Planned Amount *HK$ million*	**Utilised Amount** *HK$ million*	**Remaining Amount** *HK$ million*
From IPO:			
Expansion of sales networks	37.0	26.4	10.6
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	32.0	12.2
From Placement of shares:			
General working capital and possible investments	57.0	16.3	40.7

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2016, the employee headcount of the Group was 693 (2015: 768) and the total staff costs, including directors' remuneration and shared-based payments, amounted to HK$46.8 million (2015: HK$50.3 million). The decrease in employee headcount was primarily due to the reduction in number of self-operated POS, mainly in the PRC, during the Period. The decrease in total staff costs was due to decreases in share-based payments and number of PRC staff employed as compared to the corresponding period last year.

The Group offers competitive remuneration packages which commensurate with industry practice and provides various fringe benefits to employees including staff quarters, trainings, medical benefits, insurance coverage, provident funds, bonuses and a share option scheme.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Period, 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 complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), save for the code provisions A.6.7 and E.1.2.

Under the code provision A.6.7 of the CG Code, independent non-executive directors should attend general meetings and develop a balanced understanding of views of the shareholders. Under the 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 "AGM"), an independent non-executive Director, who is also the chairman of the Audit Committee, was unable to attend the AGM due to other pre-arranged business engagements. Despite his absence, other members of the Audit Committee together with the external auditor attended the AGM being able to answer relevant questions raised by and understand the views of the shareholders of the Company thereat.

Mr. Kwok Yuen Keung Tommy tendered their resignations as an Executive Director and the Chief Executive Officer of the Company with effect from 1 September 2016. The Board appointed Mr. Cheng Sze Tsan, an Executive Director of the Company and Vice-chairman of the Board, as the Chief Executive Officer of the Company with effect from 1 September 2016.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct for Directors in their dealings in the Company's securities on terms no less than the Model Code for Securities Transactions by Directors of Listed Companies as contained in Appendix 10 of the Listing Rules (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 dealing as required by the Company's code of conduct and the Model Code throughout the Period.

REVIEW OF INTERIM RESULTS

The audit committee of the Company has reviewed the results (including the unaudited condensed consolidated financial statements) of the Group for the six months ended 30 June 2016.

In addition, the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2016 have been reviewed by our auditors, Messrs. Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

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

Hong Kong, 22 August 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.