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 2017

FINANCIAL HIGHLIGHTS

	Notes	**Six months ended 30 June 2017**	2016	Change
Revenue *(HK$'000)*		**177,343**	184,555	-3.9%
Gross profit *(HK$'000)*		**116,772**	116,065	0.6%
EBITDA *(HK$'000)*	*1*	**31,907**	23,939	33.3%
Profit for the period *(HK$'000)*		**22,221**	6,925	220.9%
Gross profit margin		**65.8%**	62.9%	
EBITDA margin		**18.0%**	13.0%	
Net profit margin		**12.5%**	3.8%	
Earnings per share				
– Basic and diluted (HK cents)		**8.60**	2.68	220.9%

	Notes	**As at 30/06/2017**	As at 31/12/2016	Change
Total assets *(HK$'000)*		**492,644**	490,105	0.5%
Total equity *(HK$'000)*		**384,291**	356,323	7.8%
Total bank balances and cash *(HK$'000)*	*2*	**208,084**	180,482	15.3%
Total bank borrowings *(HK$'000)*		**41,967**	50,171	-16.4%
Net cash *(HK$'000)*	*3*	**166,117**	130,311	27.5%
Gross gearing ratio	*4*	**10.9%**	14.1%	

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 2017 and 31 December 2016 respectively.

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 2017 (the "Period") as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	Notes	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Revenue	*3*	**177,343**	184,555
Cost of goods sold		**(60,571)**	(68,490)
Gross profit		**116,772**	116,065
Other income		**925**	721
Other gains and losses	*4*	**1,885**	(4,070)
Selling and distribution costs		**(67,717)**	(74,014)
Administrative expenses		**(23,646)**	(26,267)
Finance costs		**(745)**	(1,144)
Profit before taxation	*5*	**27,474**	11,291
Taxation	*6*	**(5,253)**	(4,366)
Profit for the period		**22,221**	6,925
Other comprehensive income (expense)			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		**5,747**	(4,608)
Reclassification adjustments for cumulative exchange differences upon deregistration of a foreign operation		**–**	(8,775)
Other comprehensive income (expense) for the period		**5,747**	(13,383)
Total comprehensive income (expense) for the period		**27,968**	(6,458)
Profit for the period attributable to owners of the Company		**22,221**	6,925
Total comprehensive income (expense) for the period attributable to owners of the Company		**27,968**	(6,458)
Earnings per share			
– Basic and diluted (HK cents)	*8*	**8.60**	2.68

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	**30.6.2017**	31.12.2016
		HK$'000	*HK$'000*
		(unaudited)	(audited)
Non-current assets			
Property, plant and equipment		**134,291**	122,923
Prepaid lease payments		**23,990**	23,540
Deposits paid for acquisition of property, plant and equipment		**304**	594
Rental and other deposits		**2,365**	1,689
		160,950	148,746
Current assets			
Inventories		**66,686**	77,101
Trade and other receivables	*9*	**56,245**	82,465
Prepaid lease payments		**558**	541
Taxation recoverable		**121**	770
Pledged bank deposits		**6,608**	8,038
Bank balances and cash		**201,476**	172,444
		331,694	341,359
Current liabilities			
Trade and other payables	*10*	**60,592**	81,413
Taxation payable		**5,084**	1,307
Bank borrowings		**39,594**	43,846
Obligation under a finance lease		**–**	63
		105,270	126,629
Net current assets		**226,424**	214,730
Total assets less current liabilities		**387,374**	363,476
Non-current liabilities			
Bank borrowings		**2,373**	6,325
Deferred tax liabilities		**710**	828
		3,083	7,153
Net assets		**384,291**	356,323
Capital and reserves			
Share capital		**25,843**	25,843
Reserves		**358,448**	330,480
Total equity		**384,291**	356,323

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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 ("the Listing Rules").

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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

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 the above amendments to HKFRSs in the current interim period has had no material impact on the amounts and/or disclosures reported in these condensed consolidated financial statements. Additional disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes on application of amendments to HKAS 7 will be provided in the consolidated financial statements for the year ending 31 December 2017.

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

The information of segment revenue is as follows:

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Self-operated retail sales	**109,645**	129,050
Sales to distributors	**14,235**	14,192
Others	**53,463**	41,313
	177,343	184,555

Entity-wide information

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

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Bed linens	**74,401**	113,843
Duvets and pillows	**97,269**	62,517
Other home accessories	**5,673**	8,195
	177,343	184,555

4. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Gain on deregistration of a subsidiary *(note a)*	–	8,775
Impairment loss of available-for-sale investment *(note b)*	–	(7,749)
Impairment loss on convertible bond *(note b)*	–	(2,980)
Net exchange gains (losses)	**1,011**	(979)
Fair value change on derivative component in convertible bond *(note b)*	–	(673)
Net reversal of (allowance for) doubtful debts	**1,082**	(312)
Loss on disposal of property, plant and equipment	**(208)**	(136)
Allowance of other receivables	–	(16)
	1,885	(4,070)

Notes:

(a) 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 represented the cumulated exchange reserve reclassified to profit or loss.

(b) In prior year, the Group invested approximately HK$7,749,000 for 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 were principally engaged in virtual retailing business through a television shopping channel in the PRC.

In addition, the Group also 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 could 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 values of the receivable component and derivative component at initial recognition and as at 31 December 2015 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 was carried at amortised cost using the effective interest method and the derivative component was carried at fair value.

During the six months ended 30 June 2016, the Investee Company's virtual retailing business was suspended. Accordingly, the directors of the Company considered the available-for-sale investment was not recoverable and the amount of HK$7,749,000 was fully impaired. In addition, the directors of the Company considered the recoverability on the convertible bond was remote and the amount of HK$2,980,000 was fully impaired. The directors of the Company also considered the fair value of the derivative component in convertible bond was minimal and a fair value loss of HK$673,000 was charged to profit or loss during the period.

5. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Profit before taxation has been arrived at after charging and crediting:		
Directors' and chief executive's remuneration (excluding share-based payments) *(note a)*	**4,173**	5,077
Other staff costs	**38,988**	40,763
Share-based payments (included in selling and distribution costs and administrative expenses)	**–**	972
Amortisation of intangible assets	**–**	1
Amortisation of prepaid lease payments	**274**	288
Net (reversal of) allowance for inventories (included in costs of goods sold)	**(434)**	141
Interest income	**(322)**	(248)
Investment income	**(377)**	(372)
Depreciation of property, plant and equipment	**6,224**	6,894
Operating lease rentals in respect of		
– rented premises	**365**	854
– retail stores *(note b)*	**4,901**	4,648
– department store counters *(note b)* (including concessionaire commission) (included in selling and distribution costs)	**20,632**	22,208
	25,898	27,710

Notes:

(a) Included rental expenses paid to related companies for the six months ended 30 June 2017 of HK$1,374,000 (six moths ended 30 June 2016: HK$1,374,000) for directors' quarter provided to Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung.

(b) Included contingent rent of HK$9,311,000 for the six months ended 30 June 2017 (six months ended 30 June 2016: HK$11,492,000). 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	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax:		
Hong Kong	**4,089**	3,836
PRC Enterprise Income Tax ("EIT")	**1,286**	430
	5,375	4,266
Deferred tax:		
Current period	**(122)**	100
	5,253	4,366

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 RMB21,373,000 (equivalent to HK$24,606,000) (31 December 2016: RMB17,129,000 (equivalent to HK$19,128,000)) 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 2016: nil).

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2017	2016
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	**22,221**	6,925

	Six months ended 30 June	
	2017	2016
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**258,432,000**	258,432,000

The computation of diluted earnings per share for the six months ended 30 June 2017 and 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 2017 and 2016.

9. 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.

	30.6.2017	31.12.2016
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Within 30 days	**22,778**	33,047
31 to 60 days	**7,155**	26,772
61 to 90 days	**4,036**	5,690
91 to 180 days	**2,407**	2,605
181 to 365 days	**6,589**	275
Over 365 days	**14**	1,036
Trade and bills receivables	**42,979**	69,425

10. 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.

	30.6.2017	31.12.2016
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Within 30 days	**16,405**	21,259
31 to 60 days	**9,538**	14,751
61 to 90 days	**5,196**	9,654
91 to 180 days	**10,044**	11,852
Over 180 days	**2,264**	2,065
Trade and bills payables	**43,447**	59,581

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$1,527,000 (31 December 2016: HK$1,316,000).

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

Under the influence of the changing consumption habits of consumers in the PRC in recent years, the impact of e-commerce on traditional retailers and the constantly high operating cost including rentals and salaries, the operating environment has become increasingly challenging. E-commerce has undoubtedly become a popular consumption platform in the PRC in recent years. However, Chinese economy is developing steadily with improving consumer confidence. As pointed out by the Ministry of Commerce of the PRC recently, the development of the retail industry of the PRC demonstrated strong momentum in the first half of 2017.

As for the Hong Kong market, consumer confidence remained relatively low. As released by the Census and Statistics Department of Hong Kong recently, the provisional estimate of both value and volume of total sales of the retail industry in the first half of 2017 recorded a slight decrease as compared to the corresponding period last year. Consumer durable goods are yet to benefit from the rebound in the number of tourists visiting Hong Kong and household users are still the major retail purchasers of bedding products. Bedding products companies are seeking to attract consumers' attention by offering discounts or gifts.

BUSINESS REVIEW

The first half of the year is a traditional low season of the bedding products industry. In addition to exercising stringent control over its expenses, the Group also proactively explored opportunities to collaborate with commercial customers, searched for business development opportunities for various products and devoted more resources to develop e-commerce business. During the Period, as affected by the weak retail market in Hong Kong, overall self-operated retail sales experienced a noticeable drop despite a marked increase in sales to others, especially the sales under a bulk-purchase agreement to a wholesale customer. The Group's total revenue was HK$177.3 million, representing a decrease of 3.9% as compared to HK$184.6 million in the corresponding period of 2016. Profit for the Period was HK$22.2 million, representing a significant increase of 220.9% as compared to HK$6.9 million in the corresponding period last year as a result of the relocation of its PRC sales headquarters to Huizhou plant last year, the effective reduction in expenses due to adjustment of our physical sales network in the PRC as well as the decrease in provision for impairment loss of investment.

ADJUSTMENT OF SALES NETWORK AND DEVELOPMENT OF COMMERCIAL-CUSTOMER CHANNELS

In view of the rising operating cost of physical points of sales ("POS"), the Group continued to refine the POS network by closing down the POS with unsatisfactory profitability performance during the Period. As at 30 June 2017, the Group had a total of 225 POS (31 December 2016: 255), among which 113 were self-operated POS and 112 were distributor-operated POS, covering a total of 76 cities in the Greater China Region.

In order to reduce the reliance on retail sales income from physical POS, we have stepped up our efforts in developing the resources in the commercial-customer market in recent years with a view to enhancing the Group's position in the commercial-customer market. In June 2017, the Group jointly organised a luncheon seminar titled "Travel in Comfort With The Cotton The World Trusts (全球信賴美棉，舒適旅行甄選)" with COTTON USA in a high-class hotel in Hong Kong. The event, during which the Group's bedding products under "CASA-V" brand with 5A Features were displayed, attracted approximately 80 representatives from the Hong Kong hotel industry to attend and participate in. The seminar was a huge success and was widely reported by a good few newspapers in Hong Kong. The quality of the Group's products also received high recognition from the Hong Kong hotel industry. In addition to hotels, the Group also provided its bedding products to various organisations, including departments of the Hong Kong government, departments of the PRC government, community health organisations, hospitals and university dormitories during the Period. Moreover, the Group's other business cooperation with commercial customers included provision of products for gift redemption of different enterprises, such as retail chains in Hong Kong, banks in Hong Kong and the PRC, telecommunications network providers in the PRC.

ACTIVE PROMOTION OF PRODUCTS FEATURING CARTOON CHARACTERS

Following the reorganisation of the authorised cartoon characters portfolio in 2016, the Group proactively promoted the products featuring newly authorised cartoon characters, such as DIN DONG and DustyKid, during the first half of 2017, showing active support for the development of the creative industry in Hong Kong. The Group also marketed its new products featuring internationally renowned cartoon characters, for example Minions, TRANSFORMERS and etc., by riding on the popularity of cartoon movies during the summer holiday. During the Period, the Group entered into a license agreement for the use of cartoon characters with "Fumeancats", a well-known Taiwanese comic, and debuted promotional activities for the limited edition products under "Fumeancats" in March 2017. For each set of limited edition products sold, the Group would donate HK$20 to the Society for Abandoned Animals Limited in an effort to support its works in respect of animal protection in Hong Kong. The Group also helped promoting its motto of "Love Animal, Respect Life, No Killing or Abandoning" on the Company's Facebook page, which has gained wide support from the consumers.

ENHANCED MARKETING PROMOTION

With increased application of social media among consumers from all age groups, in addition to promotion on traditional marketing channels, the Group also stepped up its efforts in carrying out promotion through online advertisements and social media in recent years. The Group released information and facilitated two-way communication with the consumers in Hong Kong mainly through its Facebook page. As of June 2017, the Group had over 15,000 subscribers supporting its Facebook page. We also promoted the Group's image of "Healthy Sleeping Expert (健康睡眠專家)" by educating consumers professional knowledge about how to choose suitable pillows and duvets as well as proper product care through our Facebook page. During the Period, the Group filmed a new set of publicity photos for the spokesman and renovated its stores image. The Group's efforts during the Period have been widely recognised by the community in Hong Kong. The Group was once again awarded "Mother's Favourite Brand for Bedding Products 2017" by TVB Weekly and "Q-Mark Elite Brand Award 2017" by the Federation of Hong Kong Industries.

The Group also made great efforts in strengthening the online promotion in the PRC. During the Period, we devoted more resources to improve the quality of the Group's WeChat articles, as a result, there was a noticeable increase in the number of shares of our WeChat articles as well as interaction and engagement as compared to the corresponding period last year. As of June 2017, the number of subscribers to the Group's WeChat corporate account exceeded 15,000 while our most viewed Weibo article hitting over 600,000 views. In order to gain higher profile, the Group joined hands with "VOSSEN", an Austrian brand offering premium terry toweling products of which we exclusively distribute in the Greater China Region, to participate in the "Tmall International Textile Fair (天貓國際家紡展)" in Shanghai during the Period with an aim to promote the new home-living product collection of "VOSSEN" for spring and summer 2017.

FUTURE PROSPECTS

In the second half of 2017, the PRC government will continue to push ahead urban-rural integration and boost domestic demand in order to achieve stable annual growth of the economy. As we expect the number of people moving into new flats and moving houses in the PRC and Hong Kong will remain high, coupled with the fact that the second half of the year is a popular season for wedding, the weather is getting cold and there will be more festive days, we will uphold a cautiously optimistic attitude for the second half of 2017. The Group will implement various measures in relation to products, sales channels and marketing promotion with a view to seizing the opportunities arising during the peak season of the bedding products market.

ENHANCE PRODUCT AND BUSINESS DIVERSIFICATION

In early August, the Group launched "CASA-V" mosquitos and insects repellent series of products with the use of HHL Technology Vital Protection, a UK-based development formula, for comprehensive mosquitos and insects repellency. The Vital Protection, being a completely safe and extremely effective chemical, has been proven to effectively drive away insects, such as mosquitos, midges, bugs, flies and fleas, and thus reduce the health-related risk of diseases being spread by these vectors. The "CASA-V" mosquitos and insects repellent series of products will further promote the Group's image of "Healthy Sleeping Expert (健康睡眠專家)".

In response to the increasing popularity of large-scale home furnishing stores in the PRC, the Group has successively completed the preparatory work for setting up its "Healthy Lifestyle Store". We have previously entered into a cooperation agreement with a furniture manufacturer and retailer in Guangdong and the first "Healthy Lifestyle Store" is scheduled to open in Huizhou, Guangdong in the fourth quarter in 2017. The "Healthy Lifestyle Store" will be divided into various zones, showcasing bedrooms in different interior design style with matching furniture and bedding products. These stores will not only provide consumers with stylish and personalised choice of bedroom furniture, but will also bring synergy to the Group's own bedding products business.

The Group also planned to devote more resources in expanding the high-quality mattress sales business. We are now approaching different strategic partners in a bid to introduce more imported and PRC-manufactured mattress products. The Group opened two "Mattress Experience Stores (床褥體驗館)" in Hong Kong this July, offering our existing mattress and pillow products at the initial stage. Looking forward, we will expand our mattress product portfolio to provide our consumers with more choices.

REINFORCE THE EXPANSION INTO COMMERCIAL-CUSTOMER MARKET AND ADJUST SALES CHANNELS

The commercial-customer market continues to play an important part in the Group's business development. In early July, the Group entered into a supply agreement with an airline based in Hong Kong for business development to provide products such as blankets for its flights. We regard this cooperation opportunity as a major step of the Group's expansion into the airlines market. Moreover, the Group will continue to participate in the quotation and tendering of products of different enterprises for exploring further growth.

In order to increase sales channels with lower operating costs, the Group is in preparation of the launch of its Hong Kong online shopping website. We believe that the Hong Kong online shopping website will effectively display the Group's products and will at the same time facilitate the collection and analysis of data on Hong Kong consumers' consumption habits in respect of the Group's products such that the Group can optimise the management of customer relationship and the research and development of new targeted products. We will also moderately adjust the structure of our physical sales network in Hong Kong by closing down POS with unsatisfactory profitability upon expiry of store leases and opening new retail stores in different new residential zones in the second half of the year.

As for the PRC market, department stores in the PRC were severely impacted by e-commerce, together with the high cost associated with commission and promotional expenses paid to department stores, the Group will hence focus on new shopping malls and plan to set up new POS mainly in the Southern China. We will also continue to invest in the development of online sales platform to cater for the shopping habits of consumers in the PRC.

STRENGTHEN MARKETING PROMOTION AND ENHANCE BRAND IMAGE

In the second half of 2017, the Group will focus the online marketing promotion in the PRC on the mainstream application platform operated by new media with an aim to create interactive topics within a short period of time and directly increase the rate of purchase through e-commerce. As for the Hong Kong market, online marketing promotion will still be carried out mainly through our Facebook page, the Group's website and online advertisements.

In terms of offline marketing promotion, the Group will advertise on television, newspapers, magazines, as well as platforms and vehicle bodies of public transports. Furthermore, we will sponsor products for a featured drama of a local TV broadcaster, which is preliminarily expected to be broadcasted in Hong Kong in October 2017. We hope that the sponsorship can attract more public attention to the Group's products.

The Group also sponsored various activities and participated in work in relation to corporate social responsibility to make its contribution to the society, while enhancing its brand image at the same time. The Group has confirmed to join hands with those with a loving heart from the Hong Kong community to support the charitable event held by Yan Chai Hospital by acting as the title sponsor for the walkathon named "Yan Chai Charity Walk (仁濟慈善行)" for the third time in the fourth quarter of 2017.

Incorporating "Contemporary, Innovative and Functional" features in our product design, the Group will endeavor to provide consumers with quality bedding products which are fashionably designed but reasonably priced, as well as trendy and suitable home accessories. We will continue to broaden our streams of revenue and strengthen the Group's brand value to bring satisfactory returns to our shareholders.

FINANCIAL REVIEW

Revenue

During the Period, the Group achieved revenue of HK$177.3 million (2016: HK$184.6 million) which decreased by 3.9% as compared to the corresponding period last year. The overall decrease in revenue was primarily due to the decrease in retail revenue in the PRC as well as in Hong Kong more than the increase in sales to others during the Period.

Sales of our proprietary brands, which accounted for approximately 86.7% (2016: 85.8%) of the Group's revenue, decreased by 3.0% to HK$153.7 million (2016: HK$158.4 million) due to the decrease in self-operated retail sales in Hong Kong and the PRC. The decrease in sales of our licensed and authorised brands by 9.7% to HK$23.6 million (2016: HK$26.2 million) since the increase in sales of new licensed cartoons in Hong Kong during the Period could not offset the decrease in sales of products of licensed brands due to termination of contracts.

In terms of channels, self-operated retail sales during the Period amounted to HK$109.6 million (2016: HK$129.1 million), accounted for approximately 61.8% (2016: 69.9%) of the total revenue, representing a decrease of 15.0% 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 13 as compared to the corresponding period last year and the self-operated retail sales in the PRC decreased by 9.2%. During the Period, the self-operated retail sales in Hong Kong also decreased by 16.7% due to the sluggish retail market in Hong Kong. As compared to the corresponding period last year, sales to distributors maintained at almost the same level of HK$14.2 million (2016: HK$14.2 million). With increase in sales under a bulk-purchase agreement to a wholesale customer in Hong Kong, sales to others amounted to HK$53.5 million (2016: HK$41.3 million), representing an increase of 29.4% during the Period.

In terms of products, sales of bed linens during the Period were HK$74.4 million (2016: HK$113.8 million). Sales of duvets and pillows were HK$97.2 million (2016: HK$62.5 million), whereas sales of other home accessories were HK$5.7 million (2016: HK$8.3 million). Other than the reason for the decrease in self-operated retail sales, the decrease in sales of bed linens by 34.6% and the increase in sales of duvets and pillow by 55.6% were due to the sales of "CASA-V" branded bed linens under a bulk-purchase agreement to a wholesale customer in Hong Kong shifted to "CASA-V" branded duvets during the Period as compared to the corresponding period last year.

In terms of regions, revenues from Hong Kong and Macau, the PRC and others during the Period were HK$138.6 million (2016: HK$144.3 million), HK$38.1 million (2016: HK$40.0 million) and HK$0.6 million (2016: HK$0.3 million) respectively. As the decrease in self-operated retail sales in Hong Kong during the Period could not be offset by the increase in sales under a bulk-purchase agreement to a wholesale customer, the overall revenue from Hong Kong and Macau reduced by 4.0%. Owing to the reduction of 13 self-operated POS in the PRC, there was an decrease in revenue from the PRC by 4.8% despite the increase in sales to distributors in the PRC.

Gross Profit and Gross Profit Margin

Gross profit of HK$116.8 during the Period was at similar level as compared to HK$116.1 million for the corresponding period last year. The overall gross profit margin for the Period was 65.8% which was higher than 62.9% for the corresponding period last year. The increase in overall gross profit margin was primarily due to lower costs of raw materials and production with depreciation of Renminbi during the Period as compared to the corresponding period last year.

Other Gains and Losses

Without the gain on deregistration of a subsidiary in the PRC (2016: HK$8.8 million), the impairment loss of available-for-sale investment (2016: HK$7.7 million), the impairment loss on convertible loan (2016: HK$3.0 million) and the decrease in fair value of derivative component in convertible bond (2016: HK$0.7 million) for the Period, other gains for the Period amounted to HK$1.9 million (2016 losses: HK$4.1 million) mainly representing the net reversal of provision for doubtful debts and the net exchange gains.

Expenses

Selling and distribution costs for the Period decreased by 8.5% to HK$67.7 million from HK$74.0 million for the corresponding period last year. This was primarily due to the absence of royalty payments in the PRC for a licensed brand terminated in 2016, decrease in concessionaire commissions and related expenses for department store counters and less advertising and promotional expenses in Hong Kong as well as the PRC.

Administrative expenses for the Period also decreased by 10.0% to HK$23.6 million compared with HK$26.3 million for the corresponding period last year. The decrease in administrative expenses was primarily attributable to less staff costs and rental payments incurred in the PRC during the Period after the PRC retail headquarters moved from Shenzhen to Huizhou in 2016 and the absence of share-based payments recognised for the Period under the share option scheme.

Profit for the Period

During the Period, the Group achieved profit of HK$22.2 million (2016: HK$6.9 million) which significantly increased by 220.9% as compared to the corresponding period last year. Reasons for the significant increase in profit for the Period were mainly attributable to (i) the decrease in selling and distribution costs, especially the royalty payments in the PRC for a licensed brand terminated in 2016, the concessionaire commissions and related expenses for department store counters and the advertising and promotional expenses; (ii) the decrease in staff cost with the PRC retail headquarters moved from Shenzhen to Huizhou in 2016 and none of expenses of share-based payment; (iii) the absence of the provision for impairment loss on available-for-sale investment and convertible bond; and (iv) the improvement in operations of subsidiaries in the PRC.

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 increased to HK$31.9 million from HK$23.9 million for the corresponding period last year, representing an increase of 33.3%. This was mainly attributable to the decreases in selling and distribution costs and administrative expenses and the improvement in operations of subsidiaries in the PRC.

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 27.5% during the Period.

	As at 30 June 2017 ***HK$'000***	As at 31 December 2016 *HK$'000*
Total bank borrowings	**41,967**	50,171
Pledged bank deposit and bank balances and cash	**208,084**	180,482
Net cash	**166,117**	130,311
Total assets	**492,644**	490,105
Total liabilities	**108,353**	133,782
Total equity	**384,291**	356,323
Current ratio	**3.2**	2.7
Gross gearing ratio *(Note)*	**10.9%**	14.1%

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

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 2017, the Group had pledged its leasehold land and buildings, prepaid lease payments and fixed deposits with an aggregate carrying value of HK$125.4 million to certain banks in Hong Kong and the PRC to secure banking facilities granted to the Group.

Contingent Liabilities

As at 30 June 2017, the Group did not have material contingent liabilities.

INTERIM DIVIDEND

The Directors do not recommend the payment of interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

SUBSEQUENT EVENT

There was no material subsequent event after the Period and up to the date of this announcement.

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 2017 was as follows:

	Planned Amount	**Utilised Amount**	**Remaining Amount**
	HK$ million	*HK$ million*	*HK$ million*
From IPO:			
Expansion of sales networks	37.0	28.5	8.5
Upgrade of management information system	4.0	2.5	1.5
Brand building and product promotion	2.2	2.2	–
General working capital	1.0	1.0	–
Total	44.2	34.2	10.0
From Placement of shares:			
General working capital and possible investments	57.0	26.3	30.7

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2017, the employee headcount of the Group was 637 (2016: 693) and the total staff costs, including Directors' remuneration and shared-based payments, amounted to HK$43.2 million (2016: HK$46.8 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 Directors' remuneration, 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 Listing Rules, save for the code provision A.6.7.

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. At the annual general meeting of the Company held on 26 May 2017 (the "AGM"), an Independent Non-executive Director, was unable to attend the AGM due to other pre-arranged business engagements. The Company had reminded all Independent Non-executive Directors and Non-executive Director to attend general meetings in order to develop a balanced understanding of views of the shareholders.

On 26 May 2017, Mr. Kam Leung Ming and Mr. Leung Yiu Man retired from their offices as Independent Non-executive Directors and Dr. Cheung Wah Keung and Mr. Chow On Wa were elected as Independent Non-executive Directors of the Company at the AGM with effect from the conclusion of the AGM.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the 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 to 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, comprising three Independent Non-executive Directors, namely Mr. Zhang Senquan, Dr. Cheung Wah Keung and Mr. Chow On Wa, and chaired by Mr. Zhang Senquan, has reviewed the results (including the unaudited condensed consolidated financial statements) of the Group for the six months ended 30 June 2017.

In addition, the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2017 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, 21 August 2017

As at the date of this announcement, the Board of the Company comprises Mr. Cheng Sze Kin (Chairman), Mr. Cheng Sze Tsan (Vice-chairman) and Ms. Wong Pik Hung as Executive Directors, Mr. Mok Tsan San as Non-executive Director, and Mr. Zhang Senquan, Dr. Cheung Wah Keung and Mr. Chow On Wa as Independent Non-executive Directors.