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 2018

FINANCIAL HIGHLIGHTS

	Notes	**Six months ended 30 June 2018**	2017	Change
Revenue *(HK$'000)*		**147,308**	177,343	-16.9%
Gross profit *(HK$'000)*		**94,226**	116,772	-19.3%
EBITDA *(HK$'000)*	*1*	**7,893**	31,907	-75.3%
(Loss) profit for the period *(HK$'000)*		**(3,232)**	22,221	N/A
Gross profit margin		**64.0%**	65.8%	
EBITDA margin		**5.4%**	18.0%	
Net (loss) profit margin		**-2.2%**	12.5%	
(Loss) earnings per share				
– Basic and diluted (HK cents)		**(0.97)**	8.60	N/A
		As at 30/06/2018	As at 31/12/2017	Change
Total assets *(HK$'000)*		**470,380**	475,787	-1.1%
Total equity *(HK$'000)*		**394,703**	397,580	-0.7%
Total bank balances and cash *(HK$'000)*	*2*	**179,762**	164,710	9.1%
Total bank borrowings *(HK$'000)*		**11,851**	3,575	231.5%
Net cash *(HK$'000)*	*3*	**167,911**	161,135	4.2%
Gross gearing ratio	*4*	**3.0%**	0.9%	

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 2018 and 31 December 2017 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 2018 (the "Period") as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	Six months ended 30 June **2018** ***HK$'000*** **(unaudited)**	 2017 *HK$'000* (unaudited)
Revenue	*3*	**147,308**	177,343
Cost of goods sold		**(53,082)**	(60,571)
Gross profit		**94,226**	116,772
Other income		**531**	925
Other gains and losses	*4*	**(1,781)**	1,885
Selling and distribution costs		**(72,369)**	(67,717)
Administrative expenses		**(22,793)**	(23,646)
Finance costs		**(37)**	(745)
(Loss) profit before taxation	*5*	**(2,223)**	27,474
Taxation	*6*	**(1,009)**	(5,253)
(Loss) profit for the period		**(3,232)**	22,221
Other comprehensive (expense) income			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		**(2,418)**	5,747
Other comprehensive (expense) income for the period		**(2,418)**	5,747
Total comprehensive (expense) income for the period		**(5,650)**	27,968
(Loss) profit for the period attributable to:			
Owners of the Company		**(2,502)**	22,221
Non-controlling interests		**(730)**	–
		(3,232)	22,221
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		**(4,898)**	27,968
Non-controlling interests		**(752)**	–
		(5,650)	27,968
(Loss) earnings per share			
– Basic and diluted (HK cents)	*8*	**(0.97)**	8.60

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	30.6.2018 HK$'000 (unaudited)	31.12.2017 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**134,806**	139,264
Prepaid lease payments		**24,121**	24,731
Intangible assets		**–**	–
Deposits paid for acquisition of property, plant and equipment		**906**	1,229
Rental and other deposits		**1,774**	2,364
Derivative financial assets		**232**	492
		161,839	168,080
Current assets			
Inventories		**67,827**	62,843
Trade and other receivables	*9*	**59,132**	77,853
Prepaid lease payments		**574**	582
Taxation recoverable		**1,246**	1,719
Pledged bank deposits		**7,615**	6,293
Bank balances and cash		**172,147**	158,417
		308,541	307,707
Current liabilities			
Trade and other payables	*10*	**61,767**	71,597
Taxation payable		**894**	1,897
Bank borrowings		**2,963**	2,200
		65,624	75,694
Net current assets		**242,917**	232,013
Total assets less current liabilities		**404,756**	400,093
Non-current liabilities			
Bank borrowings		**8,888**	1,375
Deferred tax liabilities		**1,165**	1,138
		10,053	2,513
Net assets		**394,703**	397,580
Capital and reserves			
Share capital		**25,843**	25,843
Reserves		**368,372**	371,366
Equity attributable to owners of the Company		**394,215**	397,209
Non-controlling interests		**488**	371
Total equity		**394,703**	397,580

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

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 financial assets, which is measured at fair value.

Other than the changes in accounting policies resulting from application of new and amendments of Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

In the current interim period, the Group has applied, for the first time, certain new and amendments to HKFRSs issued by the HKICPA that are mandatorily effective for the current interim period.

The application of the new and 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.

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 Company. Accordingly, no analysis of this single operating segment is presented.

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

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

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

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by distribution channels, major products and geographical location of customers is as follows:

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Disaggregated by distribution channels		
– Self-operated retail sales	**119,875**	109,645
– Sales to distributors	**15,723**	14,235
– Others	**11,710**	53,463
	147,308	177,343
Disaggregated by major products		
– Bed linens	**78,035**	74,401
– Duvets and pillows	**62,974**	97,269
– Other home accessories	**6,299**	5,673
	147,308	177,343
Disaggregated by geographical location of customers		
– Hong Kong and Macau	**103,793**	138,569
– PRC	**42,538**	38,099
– Other countries	**977**	675
	147,308	177,343

4. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net exchange (losses) gains	**(1,194)**	1,011
Net (allowance for) reversal of allowance for doubtful debts	**(327)**	1,082
Loss on disposal of property, plant and equipment	**–**	(208)
Fair value change on derivative financial assets	**(260)**	–
	(1,781)	1,885

5. (LOSS) PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss) profit before taxation has been arrived at after charging and crediting:		
Directors' and chief executive's remuneration (excluding share-based payments) *(note a)*	**3,924**	4,173
Other staff costs	**39,939**	38,988
Share-based payments (included in administrative expenses)	**1,904**	–
Amortisation of prepaid lease payments	**298**	274
Net allowance for (reversal of allowance for) inventories (included in costs of goods sold)	**481**	(434)
Interest income	**(331)**	(322)
Investment income	**(65)**	(377)
Depreciation of property, plant and equipment	**6,627**	6,224
Operating lease rentals in respect of		
– rented premises	**487**	365
– retail stores *(note b)*	**5,358**	4,901
– department store counters *(note b)* (including concessionaire commission) (included in selling and distribution costs)	**21,381**	20,632
	27,226	25,898

Notes:

(a) Included rental expenses paid to related companies for the six months ended 30 June 2018 of HK$1,110,000 (six months ended 30 June 2017: HK$1,374,000) for directors' quarters provided to Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung.

(b) Included contingent rent of HK$11,358,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: HK$9,311,000). 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	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current tax:		
Hong Kong	**982**	4,089
PRC Enterprise Income Tax ("EIT")	**–**	1,286
	982	5,375
Deferred tax:		
Current period	**27**	(122)
	1,009	5,253

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 RMB19,199,000 (equivalent to HK$22,753,000) (31 December 2017: RMB20,882,000 (equivalent to HK$25,075,000)) 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 2017: nil).

8. (LOSS) 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	
	2018	2017
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Loss) Earnings		
(Loss) profit for the period attributable to owners of the Company for the purposes of basic and diluted (loss) earnings per share	**(2,502)**	22,221

	Six months ended 30 June	
	2018	2017
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share	**258,432,000**	258,432,000

The diluted loss per share for the six months ended 30 June 2018 has not taken into account the effect of outstanding share options as exercise of such options would result in decrease in loss per share.

9. TRADE AND OTHER RECEIVABLES

	30.6.2018 *HK$'000* (unaudited)	31.12.2017 *HK$'000* (audited)
Trade receivables	**45,265**	67,367
Less: Allowance for doubtful debts	**(4,034)**	(3,769)
Trade receivables, net	**41,231**	63,598
Other receivables	**17,901**	14,255
Trade and other receivables	**59,132**	77,853

The following is an aged analysis of trade 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.

	30.6.2018 *HK$'000* (unaudited)	31.12.2017 *HK$'000* (audited)
Within 30 days	**12,872**	29,724
31 to 60 days	**14,500**	22,519
61 to 90 days	**5,683**	6,202
91 to 180 days	**5,090**	2,743
181 to 365 days	**3,086**	2,410
Over 365 days	**–**	–
Trade receivables	**41,231**	63,598

10. TRADE AND OTHER PAYABLES

	30.6.2018 *HK$'000* (unaudited)	31.12.2017 *HK$'000* (audited)
Trade payables	**19,028**	21,262
Bills payables	**27,113**	26,465
Trade and bills payables	**46,141**	47,727
Other payables	**15,626**	23,870
Trade and other payables	**61,767**	71,597

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

	30.6.2018 *HK$'000* (unaudited)	31.12.2017 *HK$'000* (audited)
Within 30 days	**20,451**	20,362
31 to 60 days	**11,823**	13,404
61 to 90 days	**6,947**	8,828
91 to 180 days	**6,170**	4,453
Over 180 days	**750**	680
Trade and bills payables	**46,141**	47,727

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During most of the first half of 2018, the economy of the PRC grew steadily with positive sentiment in retail markets. However, since the Sino-US trade disputes at the end of the second quarter of 2018, the exchange rate of Renminbi depreciated sharply resulting in a slight slowdown in the retail environment. According to data recently published by the National Bureau of Statistics, the growth trend of household consumption and market sales for the first half of 2018 was steady, among which consumption upgrade related products recorded a relatively fast growth. As for the Hong Kong market, the market sentiment in the first half of 2018 drove consumer confidence. Thus, coupling with different large-scale promotional activities launched by various department stores in Hong Kong, the relevant local retailers were benefited in terms of sales income.

BUSINESS REVIEW

Since the publication of the annual report for the year ended 31 December 2017, save for the establishment of a new subsidiary in early 2018, in which the Group holds 51% interests, engaging in Healthy Lifestyle Store business, there had been no material changes in the Group's operational and segmental information. The first half of the year is a traditional low season of the bedding products industry. The Group continued to proactively explore opportunities to collaborate with commercial customers, and launched the new business of Healthy Lifestyle Store which had no notable contribution to the Group in the meantime. During the Period, the Group recorded an increase of 9.3% and 10.4% in self-operated retail sales and sales to distributors respectively. However, due to the substantial sales of wholesale recorded during the corresponding period last year, the wholesale revenue of the Group during the Period decreased by 78.1%. The Group's overall total revenue was HK$147.3 million, representing a decrease of 16.9% as compared to HK$177.3 million in the corresponding period of 2017. During the Period, the Group recorded a loss of HK$3.2 million as compared to a profit of HK$22.2 million in the corresponding period last year.

Launched New Business Models and Enhanced Product Portfolio

In line with the demand for products with a foreign touch from young families with high purchasing power in the PRC, the Group established a new subsidiary at the beginning of this year to launch the Healthy Lifestyle Store business brand named "Livingform" to offer urban customers who are in pursuit of lifestyle in the PRC with a range of ancillary products such as bedding products, mattresses, toweling products, beds, sofas, cabinets, dining tables as well as integrated customised home-furnishing services. The first Livingform flagship store, located in a new large-scale residential zone in Huizhou, was officially opened in early February 2018. The Group holds 51% interests in the subsidiary.

In order to explore customer groups with different purchasing power, the Group had different sales channels and product mix. In particular, “Casablanca Home”, the first “Fast Fashion (快時尚)” bedding products and home accessories store under the Group that targets the value-for-money and youngster’s market and located in a large shopping mall in Hangzhou, was officially opened in mid-June 2018. The Casablanca Home store offers bedding products under the Group’s brands as well as various bed linens with authorised cartoon characters, coupled with towels, loungewear, underwear, slippers, socks, small-sized furniture, travel luggage cases and other travel products and goods under the Group’s proprietary fashionable lifestyle brand named “C2 LIVING”, so as to provide customers with one-stop home shopping experience.

Since 2017, the Group launched CASA-V mosquito repellent quilts for children with the use of HHL Technology Vital Protection, a safe and effective UK-based development formula, which was highly popular among and appreciated by consumers. Further, the mosquito repellent series was expanded into mosquito repellent quilt products for adults during the Period to create a healthy sleeping environment with full protection for customers.

Optimised Sales Channels

The ongoing restructuring of the development of the Group’s offline points of sales (“POS”) network in recent years was almost completed. The number of POS in Hong Kong and Macau remained substantially stable while the number of POS in the PRC recorded a net increase as compared to the corresponding period last year. As at 30 June 2018, the Group had a total of 229 POS (31 December 2017: 232), among which 125 were self-operated POS and 104 were distributor-operated POS, covering a total of 68 cities in the Greater China Region.

In response to the changes in consumer habits, the Group actively optimised the development of online sales business. During the Period, we upgraded the design, items selection and shopping procedures of existing online sales platforms and made efforts to launch social e-commerce channels to enhance the recognition of the Group’s brands in the online retail market. Apart from self-operated online stores in the PRC, Tmall flagship stores and online stores on JD.com, we added online sales channels including damai.cn, which is a leisure and recreational platform, Haizei (海賊), which is a We Media e-commerce platform, and the shopping platform MARKAVIP during the Period.

During the Period, the Group launched the first New Year bedding product series with the license of “SHIBAinc” worldwide on eShop in Hong Kong. The overwhelming demand was far beyond the pre-determined target. In addition, we also launched different monthly themed online discount activities on eShop in Hong Kong, including “flash sales” and exclusive discount, which has successfully attracted the attention of youths on the Group’s eShop in Hong Kong. Moreover, we also provided consumers with quality products at reasonable prices through group-buying activities on some well-known online shopping platforms in the market.

Recently, the Group put more efforts to explore the resources of the commercial-customer market to enhance its presence in the commercial-customer market. In addition to the receipt of confirmed orders from government departments, the Group also offered items to various commercial customers for their free gifts and point redemption schemes, including renowned food and beverage enterprises, infant and healthy food brands, motor vehicle and consumer goods distribution enterprises and electric appliance brands during the Period. In May 2018, the Group offered staff shopping activities to various business partner organisations and the sales result was better than expected. In addition to expanding the retail customer groups of the Group's brands, the staff shopping activities also effectively strengthened the relationship between the Group and its business partners.

Strengthened Marketing Promotion

The year 2018 marks the 25th anniversary of the establishment of CASABLANCA, the Group's proprietary brand in Hong Kong. We launched various celebration activities under the theme of "The Heritage of Italian Craftsmanship (意藝傳承25)". In particular, in April 2018, we launched a voting campaign named "My Favourite Casablanca Classics" on the Group's Facebook page to recall the classical Italian aesthetic design concept of CASABLANCA products with the general public. Based on the classical design with the highest votes, we added elements of modern arts to produce and launch commemorative product for our 25th anniversary in the second half of the year. We also continued to promote the Group's image of "Healthy Sleeping Expert (健康睡眠專家)" by educating consumers about the professional knowledge regarding how to choose suitable pillows and duvet, bedding products with better quality and features as well as proper product care through our Facebook page. Our efforts during the Period have been widely recognised by the community. The Group was awarded "Mother's Favourite Brand for Bedding Products" by TVB Weekly for three consecutive years.

We greatly value each member under the "Prestige Club" of the Group. During the Period, we launched a brand-new Prestige Club point award scheme to enhance the attractiveness of the membership of the Prestige Club and reward the customers for their support as well as encouraging them to purchase more accordingly. Besides, we also launched joint promotion schemes partnering with various commercial customers to offer various shopping discounts to their members. The commercial customers partnering with us during the Period included chain retailers, financial institutions, professional associations and utility companies.

FUTURE PROSPECTS

It is expected that the second half of 2018 will remain clouded by the Sino-US trade disputes and depreciation of Renminbi. As no goods are exported to US by the Group, the measures for imposing US tariffs on Chinese exports has no direct impact on the Group. However, the retail markets of the Greater China Region will be influenced to some extent. Despite this, the Chinese government has proclaimed to expand domestic demand as one of the key efforts to stabilise the annual economic growth, including the stimulation of household consumption and support to the development of the high-tech manufacturing industries. The Group believes that these efforts will have positive effects on the retail markets. In addition, in the PRC and Hong Kong, the number of people moving into new flats and moving houses is expected to remain huge in the short term, coupled with the fact that the second half of the year is a traditional popular season for wedding and a peak season of the bedding products market, we will remain cautiously optimistic for the second half of 2018. We will put more efforts to optimise our products, sales channels and marketing strategy to explore business opportunities against all odds.

Enhance Product Mix

As one of the leading enterprise of the bedding products industry, we launch quality bedding products and home accessories with health functions which are fashionably designed from time to time. Apart from ongoing promotion of the series of products with mosquitos and insects repellent functions which were highly recognised since its launch in 2017, the Group also launched a brand new product "Magnetic Stress-Relief Pillow" (零壓磁療枕) under CASABLANCA brand in July 2018. The new product has adopted the patented magnetic healthcare material extracted from minerals under Comfytex, a Turkish brand. It can facilitate the blood circulation by means of the ferrous materials extracted from minerals and allow users to attain muscle relaxation generally for better quality sleep. The Group will continue to focus its R&D efforts in sleep related products with health functions to further strengthen its image of "Healthy Sleeping Expert".

The Group will continue to devote more resources in expanding the business of high-quality mattress. In early 2018, we expanded the mattress product mix with Dolce Sogno (多舒樂) brand. In the first half of the year, we displayed our bedding products with ancillary mattresses at certain selected stores in the PRC. In the second half of the year, we will further increase the number of POS where our bedding products with ancillary mattresses are to be displayed. For the first phase, we will focus on POS in South China region as our target.

Continue to Explore Revenue Sources and Optimise Sales Channels

Regarding bedding products, the commercial-customer market continues to play an important role in the Group's business development. In the second half of the year, the Group will continue to seek opportunities in joint promotion of brands and offer items to enterprises for free gifts and point redemption schemes. Among them, the target organizations will include press media groups, telecommunication service providers, electrical appliance brands, food and beverage retail enterprises, fashion apparel brands and others. In the second half of the year, we plan to launch staff shopping activities again to other large-scale business partner organizations. In addition, we will continue to expand markets for the export of our products, including the sales of the Group's proprietary brand products or original equipment manufacturing (OEM) orders.

Regarding the Healthy Lifestyle Store business, we have opened our second Livingform flagship store in a high-end residential area of Xiamen in August 2018 to provide consumers with "one-stop home" shopping experience including design services, custom-made furniture and home ancillary products. We will cautiously promote Livingform to more cities clustering with high-end consumers so as to increase the consumer recognition of Livingform and the contribution of Healthy Lifestyle Stores business to the revenue of the Group. As for the Fast Fashion business, the Group currently has one self-operated store for Fast Fashion products. In the second half of 2018, we will identify satisfactory venues in Guangdong region to establish more self-operated Fast Fashion stores. Meanwhile, the Group will attract distributors as partners to invest in opening similar retail stores in other provinces and cities for cautiously expanding the sales network of Casablanca Home.

In the second half of the year, the PRC e-commerce team under the Group will focus on pushing forward to the social e-commerce platform to expand the online retail network. In addition, more e-commerce platforms will launch strategic promotion campaigns, including "Tmall Global Joy Carnival" (天貓全球狂歡節), "Tmall Year-end Grand Festival" (天貓年終盛典) and others in the second half of the year. We will make thorough preparatory efforts in planning in products and promotion accordingly.

Strengthen Marketing Promotion and Enhance Brand Image

We believe that the store images can directly affect the Group's brand images of consumers. To enhance store images and customers' shopping experience, the Group took steps to improve the interior design of stores in Hong Kong in the first half of 2018. We will continue to improve our store images in the second half of 2018.

The Group puts great emphasis on its contribution to the society and provision of assistance to underprivileged groups jointly with consumers. In mid of July 2018, we supported the B.Duck Hong Kong Run 2018 by acting as the title sponsor. The event attracted approximately 4,000 participants from the general public and raised funds as donation to the Sowers Action for supporting their efforts in education and welfare projects for children. Apart from the joint charitable efforts with the public, the Group considered the event fostering highly positive marketing and promotional effect.

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$147.3 million (2017: HK$177.3 million) which decreased by 16.9% as compared to the corresponding period last year. The overall decrease in revenue was primarily due to the decrease in sales to wholesale customers despite increases in self-operated retail sales and sales to distributors by 9.3% and 10.4% respectively during the Period.

Sales of our proprietary brands, which accounted for approximately 85.8% (2017: 86.7%) of the Group's revenue, decreased by 17.8% to HK$126.4 million (2017: HK$153.7 million) due to the increase in sales of proprietary brands being unable to counteract the decrease in sales to wholesale customers as compared to the corresponding period last year. The sales of our licensed and authorised brands decreased by 11.4% to HK$20.9 million (2017: HK$23.6 million) primarily attributable to the termination of contracts with some of the licensed and authorised brands during the Period.

In terms of channels, self-operated retail sales during the Period amounted to HK$119.9 million (2017: HK$109.6 million), accounted for approximately 81.4% (2017: 61.8%) of the total revenue, representing an increase of 9.3% as compared to the corresponding period last year due to new products launched and more promotional activities carried out in Hong Kong and the PRC. As compared to the corresponding period last year, sales to distributors increased by 10.5% to HK$15.7 million (2017: HK$14.2 million). With the decrease in sales to wholesale customers as compared to the corresponding period last year, sales to others during the Period amounted to HK$11.7 million (2017: HK$53.5 million) representing a decrease of 78.1%.

In terms of products, sales of bed linens during the Period were HK$78.0 million (2017: HK$74.4 million). Sales of duvets and pillows were HK$63.0 million (2017: HK$97.2 million), whereas sales of other home accessories were HK$6.3 million (2017: HK$5.7 million). The decrease in sales of duvets and pillow by 35.3% during the Period were due to the decrease in sales of duvets to wholesale customers 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$103.8 million (2017: HK$138.6 million), HK$42.5 million (2017: HK$38.1 million) and HK$1.0 million (2017: HK$0.6 million) respectively. The overall revenue from Hong Kong and Macau decreased by 25.1% mainly attributable to the decrease in sales to wholesale customers in Hong Kong. Owing to increases in retail sales by self-operated POS and the wholesales in the PRC, the revenue from the PRC increased by 11.7%.

Gross Profit and Gross Profit Margin

During the Period, the Group achieved gross profit of HK$94.2 million (2017: HK$116.8 million) which decreased by 19.3% as compared to the corresponding period last year. The overall gross profit margin for the Period was 64.0% which was slightly lower than 65.8% for the corresponding period last year. In addition to the increase in raw material costs during the Period, the decrease in overall gross profit margin was also due to the appreciation of Renminbi ("RMB") against Hong Kong Dollar ("HKD") during the most period of the first half year of 2018.

Other Gains and Losses

Other losses for the Period amounted to HK$1.8 million (2017 gains: HK$1.9 million), mainly representing the net exchange losses of HK$1.2 million (2017 net exchange gains: HK$1.0 million) due to the sharp depreciation of RMB against HKD for the month of June 2018, the decrease in fair value of derivative financial assets of HK$0.3 million (2017: nil) and the allowance for doubtful debts of HK$0.3 million (2017 reversal of allowance for doubtful debts: HK$1.1 million).

Expenses

Selling and distribution costs for the Period increased by 6.9% to HK$72.4 million from HK$67.7 million for the corresponding period last year. In addition to more staff related expenses of new business units in the PRC, the increase in selling and distribution costs was primarily due to more concessionaire commissions and other selling expenses incurred in relation to the increase in self-operated retail sales and sales to distributors.

Administrative expenses for the Period decreased by 3.6% to HK$22.8 million as compared with HK$23.6 million for the corresponding period last year. The decrease in administrative expenses was primarily attributable to savings in general expenses more than the expense of share-based payments for share options granted during the Period.

(Loss) Profit for the Period

The Group's loss for the Period amounted to HK$3.2 million (2017 profit: HK$22.2 million). Reasons for suffering loss for the Period were mainly attributable to the decrease in sales to wholesale customers, the increase in sales related expenses for self-operated retail sales and sales to distributors, the share-based payments and the net exchange losses arising from the sharp depreciation of RMB against HKD for the month of June 2018.

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 decreased to HK$7.9 million from HK$31.9 million for the corresponding period last year, representing a decrease of 75.3%. This was mainly attributable to the decrease in sales to wholesale customers and the increase in sales related expenses for self-operated retail sales and sales to distributors.

Liquidity, Financial Resources and Capital Structure

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. The increase in bank borrowings for the Period was primarily due to a bank loan in RMB to a subsidiary in the PRC for reducing the amount of intercompany loan in RMB from a subsidiary in Hong Kong subject to foreign exchange risk. The financial position of the Group was healthy with net cash increased by 4.2% during the Period.

	As at 30 June 2018 *HK$'000*	As at 31 December 2017 *HK$'000*
Total bank borrowings	**11,851**	3,575
Pledged bank deposit and bank balance and cash	**179,762**	164,710
Net cash	**167,911**	161,135
Total assets	**470,380**	475,787
Total liabilities	**75,677**	78,207
Total equity	**394,703**	397,580
Current ratio	**4.7**	4.1
Gross gearing ratio *(Note)*	**3.0%**	0.9%

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

Foreign Exchange Exposure

The Group carries on its business mainly in Hong Kong and the PRC. The Group is exposed to foreign exchange risk principally in RMB which may affect the Group's performance. RMB depreciated by about 1.3% against HKD during the Period, but about 3.1% for the month of June 2018, and appreciated by about 7.5% against HKD for the year of 2017. To mitigate foreign exchange risk, the Group has stopped fixed deposit in RMB in Hong Kong and will further reduce the amount of intercompany loan in RMB from a subsidiary in Hong Kong to a subsidiary in the PRC. The management is aware of the possible exchange rate exposure due to the continuing fluctuations of RMB and will closely monitor its impact on the performance of the Group to see if any hedging arrangement is necessary. The Group currently does not use derivative financial instruments to hedge against the volatility associated with foreign currency transactions and other financial assets and liabilities arising in the ordinary course of business.

Pledge of Assets

The Group had pledged only its fixed deposits with an aggregate carrying value of HK$7.6 million at 30 June 2018 to certain banks in Hong Kong and the PRC to secure banking facilities granted to the Group. As at 31 December 2017, the Group's assets, included leasehold land and buildings, prepaid lease payments and fixed deposits, pledged to certain banks in Hong Kong and the PRC for that purpose amounted to HK$127.0 million.

Contingent Liabilities

As at 30 June 2018, 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 2018 (six months ended 30 June 2017: 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 Initial Public Offering ("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 2018 was as follows:

	Planned Amount *HK$ million*	**Utilised Amount** *HK$ million*	**Remaining Amount** *HK$ million*
From IPO			
Expansion of sales networks	37.0	37.0	–
Upgrade of management information system	4.0	4.0	–
Brand building and product promotion	2.2	2.2	–
General working capital	1.0	1.0	–
Total	44.2	44.2	–
From Placement of shares			
General working capital and possible investments	57.0	39.0	18.0

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2018, the employee headcount of the Group was 637 (2017: 637) and the total staff costs, including Directors' remuneration and share-based payments, amounted to HK$45.8 million (2017: HK$43.2 million). The increase in total staff costs was mainly due to the increase in staff related expenses of new business units in the PRC and the share-based payments 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 during the Period.

On 9 April 2018, Mr. Mok Tsan San tendered his resignation as a Non-executive Director of the Company and Mr. Zhang Senquan tendered his resignation as an Independent Non-executive Director, the chairman of audit committee and a member of each of the remuneration committee and nomination committee of the Company.

On 9 April 2018, Mr. Lo Siu Leung was appointed as an Independent Non-executive Director, the chairman of audit committee and a member of each of the remuneration committee and nomination committee of the Company.

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. Lo Siu Leung, Dr. Cheung Wah Keung and Mr. Chow On Wa, and chaired by Mr. Lo Siu Leung, has reviewed the results (including the unaudited condensed consolidated financial statements) of the Group for the six months ended 30 June 2018.

In addition, the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2018 have been reviewed by our auditors, Cheng & Cheng Limited, Certified Public Accountants, 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, 24 August 2018

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, and Mr. Lo Siu Leung, Dr. Cheung Wah Keung and Mr. Chow On Wa as Independent Non-executive Directors.