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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 SIX MONTHS ENDED 30 JUNE 2020

FINANCIAL HIGHLIGHTS				
	Notes	Six months ended 30 June		
		2020	2019	Change
Revenue (HK\$ '000)		135,841	183,822	-26.1%
Gross profit (HK\$ '000)		84,408	113,677	-25.7%
EBITDA (HK\$ '000)	1	12,351	29,622	-58.3%
(Loss) profit for the period attributable to owners of the Company (HK\$ '000)		(2,169)	11,856	N/A
Gross profit margin		62.1%	61.8%	
EBITDA margin		9.1%	16.1%	
Net (loss) profit margin		-1.6%	6.4%	
(Loss) earnings per share				
– Basic and diluted (HK cents)		(0.84)	4.59	N/A
Interim dividend per share (HK cents)		Nil	2.00	N/A
		As at	As at	
		30/06/2020	31/12/2019	Change
Total assets (HK\$ '000)		474,670	511,252	-7.2%
Total equity (HK\$ '000)		393,158	406,268	-3.2%
Total bank balances and cash (HK\$ '000)	2	188,216	175,889	7.0%
Total bank borrowings (HK\$ '000)		4,388	6,432	-31.8%
Net cash (HK\$ '000)	3	183,828	169,457	8.5%
Gross gearing ratio	4	1.1%	1.6%	
Notes:				
1. EBITDA represents gross profit less selling and distribution costs and administrative expenses adding back depreciation.				
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 2020 and 31 December 2019 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 2020 (the “Period” or the “Review Period”) as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	4	135,841	183,822
Cost of goods sold		(51,433)	(70,145)
Gross profit		84,408	113,677
Other income	5	4,792	611
Other losses and gains	6	(3,485)	392
Selling and distribution costs		(64,919)	(75,650)
Administrative expenses		(21,537)	(23,884)
Finance costs		(630)	(864)
(Loss) profit before taxation	7	(1,371)	14,282
Taxation	8	(816)	(3,013)
(Loss) profit for the period		(2,187)	11,269
Other comprehensive expense			
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of financial statements of foreign operations		(3,222)	(20)
Release of translation reserve upon deregistration of a subsidiary		(29)	–
Other comprehensive expense for the period		(3,251)	(20)
Total comprehensive (expense) income for the period		(5,438)	11,249
(Loss) profit for the period attributable to:			
Owners of the Company		(2,169)	11,856
Non-controlling interests		(18)	(587)
		(2,187)	11,269
Total comprehensive (expense) income for the period attributable to:			
Owners of the Company		(5,420)	11,828
Non-controlling interests		(18)	(579)
		(5,438)	11,249
(Loss) earnings per share			
– Basic and diluted (HK cents)	10	(0.84)	4.59

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	Notes	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment		122,551	131,417
Right-of-use assets		35,167	34,098
Intangible assets		—	—
Deposits paid for acquisition of property, plant and equipment		784	738
Rental and other deposits		1,936	1,704
Deferred tax assets		3	4
		<u>160,441</u>	<u>167,961</u>
Current assets			
Inventories		81,589	89,935
Trade and other receivables	11	44,393	77,467
Taxation recoverable		31	—
Pledged bank deposits		5,158	7,146
Bank balances and cash		183,058	168,743
		<u>314,229</u>	<u>343,291</u>
Current liabilities			
Trade and other payables	12	52,628	73,570
Lease liabilities		12,594	11,109
Taxation payable		2,937	6,376
Bank borrowings		4,388	4,195
		<u>72,547</u>	<u>95,250</u>
Net current assets		<u>241,682</u>	<u>248,041</u>
Total assets less current liabilities		<u>402,123</u>	<u>416,002</u>
Non-current liabilities			
Bank borrowings		—	2,237
Lease liabilities		8,335	6,724
Deferred tax liabilities		630	773
		<u>8,965</u>	<u>9,734</u>
Net assets		<u>393,158</u>	<u>406,268</u>
Capital and reserves			
Share capital		25,843	25,843
Reserves		367,315	380,488
Equity attributable to owners of the Company		393,158	406,331
Non-controlling interests		—	(63)
Total equity		<u>393,158</u>	<u>406,268</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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 (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2019.

The condensed consolidated financial statements have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousands, except when otherwise indicated.

3. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

None of these developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period except for the amendment to HKFRS 16, Covid-19-Related Rent Concessions, which provides a practical expedient that allows lessees not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

Amendment to HKFRS 16, Covid-19-Related Rent Concessions

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic (“COVID-19-related rent concessions”) are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendments and applies the practical expedient to all qualifying COVID-19-related rent concessions granted to the Group during the interim reporting period. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. There is no impact on the opening balance of equity at 1 January 2020.

4. 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) e-sales; (iii) sales to distributors and (iv) 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 retail sales to end-user consumers at the self-operated concession counters in department stores and self-operated retail stores.
- E-sales: E-sales refer to retail sales to end-user consumers through online platforms on internet or mobile devices operated by the Group or third parties, but not by distributors or wholesale customers.
- 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 ("PRC" or "Mainland China", for the purpose of this announcement, excluding Hong Kong, Macau and Taiwan) and Hong Kong and Macau 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	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Disaggregated by distribution channels		
– Self-operated retail sales	98,492	110,064
– E-sales	14,789	4,298
– Sales to distributors	8,520	14,895
– Others	14,040	54,565
	<u>135,841</u>	<u>183,822</u>

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Disaggregated by major products		
– Bed linens	78,474	104,300
– Duvets and pillows	50,533	70,797
– Other home accessories	6,834	8,725
	<u>135,841</u>	<u>183,822</u>

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Disaggregated by geographical location of customers		
– Hong Kong and Macau	104,584	138,720
– PRC	31,257	45,005
– Other countries	–	97
	<u>135,841</u>	<u>183,822</u>

5. OTHER INCOME

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Bank interest income	607	513
Government subsidies	2,796	–
Investment income	11	20
Others	1,378	78
	<u>4,792</u>	<u>611</u>

6. OTHER LOSSES AND GAINS

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Gain on deregistration of a subsidiary	27	—
Impairment loss on property, plant and equipment	(309)	—
Impairment loss on right-of-use assets	(1,318)	—
Property, plant and equipment written off	(374)	—
Net exchange (losses) gains	(827)	173
Net (loss allowance) reversal of loss allowance on trade receivables	(154)	219
Loss allowance on other receivables	(530)	—
	<u>(3,485)</u>	<u>392</u>

7. (LOSS) PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss) profit before taxation has been arrived at after charging:		
Directors' and chief executive's remuneration (<i>Note</i>)	5,346	6,329
Other staff costs	37,108	43,568
Net allowance for inventories (included in cost of goods sold)	3,024	614
Cost of inventories recognised as expenses	48,409	69,531
Depreciation of property, plant and equipment	6,651	6,797
Depreciation of right-of-use assets (<i>Note</i>)	7,748	8,682
Expenses relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16	8,659	8,819
Variable lease payments not included in the measurement of lease liabilities	<u>7,224</u>	<u>9,574</u>

Note: The leases of directors' quarters provided to Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung were classified as the right-of-use assets. The depreciation of the right-of-use assets related to the directors' quarters for the six months ended 30 June 2020 was approximately HK\$1,057,000 (2019: approximately HK\$1,053,000), which is included in both the directors' and chief executive's remuneration and depreciation of right-of-use assets. The rental payments paid to related companies for the six months ended 30 June 2020 was HK\$1,110,000 (2019: HK\$1,110,000).

8. TAXATION

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax		
Hong Kong	674	3,204
PRC Enterprise Income Tax ("EIT")	281	94
	955	3,298
Under-provision in prior years		
PRC EIT	3	–
	958	3,298
Deferred taxation	(142)	(285)
	816	3,013

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, during the six months ended 30 June 2020 and 2019, the Hong Kong profits tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million.

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

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 approximately RMB28,391,000 (equivalent to approximately HK\$31,144,000) (31 December 2019: approximately RMB27,600,000 (equivalent to approximately HK\$30,868,000)) 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 be reversed in the foreseeable future.

9. DIVIDEND

During the current interim period, a final dividend of HK\$0.03 per share in respect of the year ended 31 December 2019 (2019: Nil) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the interim period amounted to approximately HK\$7,753,000 (2019: Nil).

Subsequent to 30 June 2020, the directors of the Company have determined that no interim dividends (2019: approximately HK\$5,169,000 in aggregate) will be paid.

10. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2020	2019
	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	(2,169)	11,856
	<u>258,432,000</u>	<u>258,432,000</u>
	2020	2019
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 diluted loss per share for the six months ended 30 June 2020 has not taken into account the effect of outstanding share options as exercise of such options would result in decrease in loss per share.

The computation of diluted earnings per share for the six months ended 30 June 2019 does not assume the exercise of the Company's share options because the exercise price of the share options was higher than the average market prices of shares of the Company during the six months ended 30 June 2019.

11. TRADE AND OTHER RECEIVABLES

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Trade receivables	37,121	61,803
Less: Loss allowance	(6,825)	(6,803)
Trade receivables, net	30,296	55,000
Bills receivables	—	5,487
Trade and bills receivables, net	30,296	60,487
Deposits	4,823	4,960
Prepayments	2,721	3,377
Value added tax recoverable	3,592	4,583
Advances to employees	720	968
Other receivables, net	2,241	3,092
	14,097	16,980
Trade and other receivables	44,393	77,467

Retailing sales are mainly made at concession counters in department stores. The department stores collect cash from the ultimate customers and then repay the balance after deducting the concessionaire commission to the Group. The credit period granted to department stores ranging from 30 to 90 days. For distributors and wholesale sales, the Group allows a credit period up to 90 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 loss allowance presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates.

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Within 30 days	15,335	33,531
31 to 60 days	7,930	17,241
61 to 90 days	3,633	6,995
91 to 180 days	2,167	1,526
181 to 365 days	1,148	819
Over 365 days	83	375
	30,296	60,487

12. TRADE AND OTHER PAYABLES

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Trade payables	16,308	21,733
Bills payables	17,017	27,098
Trade and bills payables	33,325	48,831
Deposits received from customers	4,726	2,739
Accrued expenses	6,641	7,823
Salaries payables	3,647	10,140
Payable for acquisition of property, plant and equipment	235	2,116
Deferred income (<i>Note</i>)	2,908	—
Other payables	1,146	1,921
	19,303	24,739
Trade and other payables	52,628	73,570

Note: The amount represents the government subsidies granted under the Employment Support Scheme launched by the Government of the Hong Kong Special Administrative Region received. These subsidies are attached with conditions to be complied by the Group.

The credit period of trade and bills payables is from 30 to 180 days.

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

	30.6.2020 HK\$'000 (unaudited)	31.12.2019 HK\$'000 (audited)
Within 30 days	10,884	28,180
31 to 60 days	10,182	10,500
61 to 90 days	9,377	6,970
91 to 180 days	2,534	2,471
Over 180 days	348	710
	33,325	48,831

13. EVENTS AFTER THE END OF THE REPORTING PERIOD

(a) Share options granted

On 2 July 2020, the Company granted 5,250,000 share options to the directors and an employee of the Company to subscribe for a total of 5,250,000 ordinary shares in the share capital of the Company under the Share Option Scheme. These share options are vested on the date of grant, with an exercise price of HK\$0.48 per ordinary share and exercisable from 2 July 2020 to 1 July 2023.

(b) Impacts of COVID-19 pandemic

The COVID-19 pandemic continues to cause disruptions to the Group's businesses and economic activities and the management of the Group has closely monitored its impact on the operations. Up to the date of this announcement, the Group has taken several measures to ensure safety of the Group's employees. The Group expects that save and except for any extraordinary circumstance which are beyond the expectation of the management, following the gradual improvement of the COVID-19 pandemic, any reasonable fluctuation of the Group's performance as a result of the COVID-19 pandemic will not significantly cause severe negative impact to the Group's cash flow. The management will continue to monitor and assess the ongoing development and respond accordingly.

(c) Other investments

On 3 August 2020, the Group made an investment of approximately HK\$2,835,000 in shares of China Construction Bank Corporation purchased on the Stock Exchange.

14. COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform with the current interim period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the first half of 2020, given the COVID-19 outbreak and the complex yet intense international relations, consumer confidence in the Greater China Region (for the purpose of this announcement, comprising the PRC, Hong Kong and Macau) was severely impacted. The manufacturing industrial chain and the consumer market were among the hardest hit due to the lockdowns of various cities and the sharply reduced economic activities in Mainland China. With regard to Hong Kong, people were encouraged not to and have generally avoided going out to public places such as the restaurants and large shopping malls since the COVID-19 outbreak, thus dealing a blow to a substantial number of sectors. Despite various relief measures introduced by the Hong Kong Government, retail spending remained very sluggish.

BUSINESS REVIEW

After the publication of annual report for the year ended 31 December 2019, there was no material change in the Group's operational and segmental information, but e-sales had grown strongly during the Period and its contribution has come to accounting for a considerable percentage of the total sales. As such, the Group categorised and presented e-sales independently among the revenue by channels with effect from the Period so as to better reflect its current business status. In prior periods, e-sales were included under self-operated retail sales and sales to others.

During the Period, the operating revenue of the Group amounted to HK\$135.8 million, significantly down by 26.1% compared to the HK\$183.8 million for the corresponding period of 2019. Loss attributable to owners of the Company for the Period was HK\$2.2 million as compared to profit of HK\$11.9 million for the corresponding period of 2019. The reasons for loss attributable to owners of the Company for the Period were mainly due to (a) the decline of sales during the Period, which, in turn, was attributable to: (i) the COVID-19 outbreak in Hong Kong and Mainland China in early 2020, imposing adverse impacts on the self-operated retail sales business, and (ii) the decline of wholesale business, and (b) increased provisions for impairment losses on right-of-use assets, inventories and trade and other receivables.

Expanded E-commerce Channels

As at 30 June 2020, the Group had a total of 211 points of sales ("POS") (31 December 2019: 229), among which 120 were self-operated POS and 91 were distributor-operated POS, covering a total of 57 cities in the Greater China Region. Battered by the impacts of pandemic on the retail market and the persistently high operating costs in Mainland China, the Group had a net reduction of 5 self-operated POS and 13 distributor-operated POS, while the number of POS in Hong Kong and Macau remained unchanged.

Owing to the COVID-19 outbreak, the shopping habits of consumers notably turned to e-commerce channels. In particular, the consumers from Hong Kong favoured online purchase of bedding products more than ever, which aligned with the investment of the Group earlier in developing e-sales. During the Period, the Group strengthened its cooperation with online shopping platforms in Mainland China and increased the frequency of product mix adjustment and, at the same time, optimised the delivery logistics to ensure timely delivery of satisfactory products to the customers. With regard to the Hong Kong market, apart from the online exclusive products offering and monthly privileged discounts for members on its official eShop in Hong Kong (“HK Official eShop”), the Group also had periodic launches of “flash sales” events and themed promotion campaigns to attract consumers to keep a close watch on the latest developments of HK Official eShop. During the Period, it further built the database of HK Official eShop step by step and optimised the management and analysis on customer relationship, launched online and offline common cash coupons to foster synergies for the online and offline businesses. In addition, it also put efforts to expand its products for sales on various large online retail platforms including the optimisation of product mix and cooperation with other brands on those online platforms to promote its products, which have all gained support from consumers. For the six months ended 30 June 2020, the revenue from e-sales of the Group amounted to HK\$14.8 million, representing a substantial increase of 244.1% compared to the HK\$4.3 million for the corresponding period of 2019.

During the Period, the Group offered items to various commercial customers in Hong Kong for its free gifts and point redemption schemes. These customers included electrical appliances chain stores, public utilities, telecommunication network providers, banks, infant and health food brands and electrical appliance brands. The Group also provided original equipment manufacturing (OEM) products for various customers. As the export business of the Group was seriously undermined by the COVID-19 pandemic during the Period, some of the export customers requested for suspension on confirming orders until the economic activities of their respective country return to normal.

Enhanced Product Mix

The Group is committed to providing quality products and attentive services, and has continued its research and development of products that embody green concepts and health enhancing functions, all in a bid to become the “Healthy Sleeping Expert” for its customers. During the Period, it launched the Royal Dragonfly Quilt (御蜓暖芯被), which adopts quality environmentally-friendly plant fiber SUSTANS[®] processed with SORONA[®] technology of DuPont[™] from the United States. The product is suitable for all seasons and effectively promotes the concept of green living. In addition, the Group has also introduced 3M[™] Vibrant Silk series (柔彩絲系列) bed linens, which adopts the material of 3M[™] Scotchgard[™] 50% Tencel fabric (半天絲) that is harmless to human body, and also easy to degrade in nature as well as less polluting to the environment. The product has been certified with bluesign[®], a safety accreditation from Switzerland, and proved to meet the strict requirements in respect of ecological environment and consumer safety.

By increasing the sales proportion of imported goods, the Group grew its business in the high-end market. During the Period, it introduced the Comfort Down Quilts, which were imported from Eastern Europe. The product has attached with the OEKO-TEX® certification of non-toxic textile that is free from harmful substances and being environmental-friendly. It also provided recommendations for VOSSSEN, an Austrian brand of quality sanitary and bathroom products, and introduced an exclusive Asian series of products to suit the climate and using habits of customers, and offered quality towel products catering for humid weather conditions to the Asian market.

Strengthened Brand Leadership

In view of the deteriorating environmental pollution in recent years and the current COVID-19 outbreak, the Group focused on promoting its products during the first half of 2020 under the “CASA-V” brand with 5A features of anti-bacteria, anti-mites, anti-mould, anti-odour and air purification, and provided more information on bedding product maintenance via social media to help consumers maintain a healthy and comfortable sleeping environment, thereby strengthening the Group’s image of being the “Healthy Sleeping Expert”. In addition, it has enhanced interaction with consumers through games on Facebook and increased the use of short videos featuring popular artists or internet celebrities to promote the Group’s brand philosophy and products in tandem with the market trends. In May 2020, the Group launched a brand promotion campaign of “In Love With Sleep” on television channel and its official Facebook Page, integrating television advertisements, online video clips and posters featuring movie style. The innovative campaign has aroused the attention of consumers, thus driving online and offline sales of the Group’s highlighted products effectively.

Through the joint promotion campaigns with various organisations or brands, the Group developed business among the mutual young members and increased their consumption. At the beginning of 2020, HK Official eShop collaborated with a Hong Kong television channel targeting the youth market for the first time by the offering of premium discounts to its members. Besides, it provided privileged discounts to the subscribing members of a renowned child-toddling and parenting social forum so as to enhance the popularity of its bedding products for babies among the new parents.

PROSPECTS

During the second half of 2020, as the COVID-19 pandemic continues to cloud the globe, the international relations are increasingly intense and the economic outlook of the Greater China Region remains gloomy, it will take some time for the recovery of consumer sentiment. During this period of operational difficulties for the retail business in both Mainland China and Hong Kong, the Group will actively promote its innovative series of bedding products under “CASA-V” brand with 5A protection functions to demonstrate the superiority of its proprietary brands in the market. Leveraging its diversified product mix, the Group will strive to capture the opportunities arising from the traditional peak seasons for bedding product industry in the second half of a year. At the same time, it will consistently focus on the expansion of sales on channels such as e-commerce and commercial customers with a view to overcome the impacts by the expected contraction of offline retail business on the Group’s revenue.

Mainland China

During the second half of 2020, the Group continues to push forward the development of e-commerce channels, review on resources allocation, product mix and the pricing and efficiency of the supply chain. It targets to better seize the sales opportunities arising from the major online sales festivals such as the “Single’s Day” and “Double 12”. In view of the bleak market sentiment in the retail market, it is difficult for the traditional retail business model to contribute satisfactory profit given the high operating costs. The Group plans to further close down 10 to 15 offline self-operated POS which are suffering losses or generating unsatisfactory profits in order to increase the efficiency of resources allocation.

Hong Kong

As the second half year is the traditional peak season for the sales of department stores across Hong Kong, which aligns with factors such as seasonality, peak wedding season and relatively more festivals, the Group will focus on product planning and marketing strategies to seize opportunities arising from these occasions. In order to compensate for the offline retail business battered by the sluggish consumer sentiment, the Group will make greater efforts in developing e-sales, including to launch more online exclusive products and online limited offers. With the recently growing trend of rearing pets by younger families, it will also introduce more products catering for consumers as pet lovers. The Group will actively seek opportunities to promote its brands in various shopping malls or department stores, including the promotion of Asia exclusive series of products under VOSSSEN brand by way of Pop-up Store in July, thereby demonstrating the healthy and green concepts of the “CASA-V” brand at the same time. In addition, it plans to launch online and offline premium offers and online games with prizes to share the joy of the Group’s 27th anniversary with the consumers in September.

Adhering to the incorporation of “Contemporary, Innovative and Functional” features in all of its products, the Group endeavours to provide consumers with quality bedding products that are fashionably designed and reasonably priced, and home accessories that are trendy yet practical. It will also continue to broaden the revenue streams and enhance its brand value to bring satisfactory returns to the shareholders of the Company (the “Shareholders”) over the long term.

FINANCIAL REVIEW

Revenue

During the Period, the Group achieved revenue of HK\$135.8 million (2019: HK\$183.8 million) which decreased by 26.1% as compared to the corresponding period last year. The decrease in overall revenue was primarily due to (i) the adverse impacts on self-operated retail sales from the outbreak of COVID-19 pandemic in Hong Kong and Mainland China in early 2020 and (ii) less wholesales business, despite the significant increase in e-sales.

Self-operated retail sales during the Period amounted to HK\$98.5 million (2019: HK\$110.1 million), accounted for approximately 72.5% (2019: 59.9%) of the total revenue, representing a decrease of 10.5% as compared to the corresponding period last year due to the outbreak of COVID-19 in Hong Kong and Mainland China in early 2020. During the Period, sales to distributors decreased by 42.8% to HK\$8.5 million (2019: HK\$14.9 million) for the same reason due to the outbreak of COVID-19 in Mainland China. With the significant decrease in sales to wholesale customers as compared to the corresponding period last year, sales to others during the Period amounted to HK\$14.0 million (2019: HK\$54.6 million) representing a decrease of 74.3%. Owing to the change in consumer shopping habit to online platforms, especially in Hong Kong with COVID-19 pandemic during the Period, the e-sales during the Period significantly increased by 244.1% to HK\$14.8 million (2019: HK\$4.3 million).

In terms of brands, sales of our proprietary brands, which accounted for approximately 83.3% (2019: 88.6%) of the Group's revenue, decreased by 30.5% to HK\$113.2 million (2019: HK\$162.8 million) due to the significant decrease in sales of proprietary brand products to wholesale customers during the Period. The sales of our licensed and authorised brands for the Period were HK\$22.7 million (2019: HK\$21.0 million) at similar level for the corresponding period last year.

In terms of products, sales of bed linens during the Period were HK\$78.5 million (2019: HK\$104.3 million). During the Period, sales of duvets and pillows were HK\$50.5 million (2019: HK\$70.8 million) and sales of other home accessories were HK\$6.8 million (2019: HK\$8.7 million). The reason for decreases in sales of bed linens by 24.8% and duvets and pillows by 28.6% during the Period was due to the decrease in overall sales 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\$104.6 million (2019: HK\$138.7 million), HK\$31.2 million (2019: HK\$45.0 million) and HK\$ Nil (2019: HK\$0.1 million) respectively. The decrease in revenue from Hong Kong and Macau was primarily due to less wholesales achieved during the Period, whereas the decrease in revenue from the PRC was attributable to the COVID-19 impacts during the Period.

Gross Profit and Gross Profit Margin

During the Period, the Group achieved gross profit of HK\$84.4 million (2019: HK\$113.7 million) which decreased by 25.7% as compared to the corresponding period last year. Due to different sales mix of products with various profit margins, the overall gross profit margin for the Period was 62.1% which was slightly higher than 61.8% for the corresponding period last year.

Other Income

Other income for the Period amounted to HK\$4.8 million (2019: HK\$0.6 million), mainly representing subsidies of HK\$2.8 million (2019: Nil) from the Government of Hong Kong Special Administrative Region under the situation of COVID-19, written back other payables of HK\$1.2 million (2019: Nil) in the PRC and other miscellaneous income of HK\$0.8 million (2019: HK\$0.6 million).

Other Losses and Gains

Other losses for the Period amounted to HK\$3.5 million (2019 gains: HK\$0.4 million), mainly representing the impairment losses on assets of HK\$1.6 million (2019: Nil), the net exchange losses of HK\$0.8 million (2019 net exchange gains: HK\$0.2 million), the loss allowance on trade and other receivables of HK\$0.7 million (2019 net reversal of loss allowance on trade receivables: HK\$0.2 million) and the written off fixed assets of HK\$0.4 million (2019: Nil).

Expenses

Selling and distribution costs for the Period decreased by 14.2% to HK\$64.9 million from HK\$75.7 million for the corresponding period last year. The decrease in selling and distribution costs was primarily due to the decreases in staff and related expenses and advertising and promotional expenses during the Period.

Administrative expenses for the Period decreased by 9.8% to HK\$21.5 million as compared with HK\$23.9 million for the corresponding period last year. The decrease in administrative expenses was primarily attributable to the decreases in staff and related expenses and Directors' remuneration during the Period.

Loss for the Period

The Group's loss for the Period attributable to owners of the Company amounted to HK\$2.2 million (2019 profit: HK\$11.9 million). Reasons for the loss for the Period were mainly attributable to (a) despite the significant increase in e-sales, the decrease in overall sales of the Group for the Period which resulted from (i) the adverse impacts on self-operated retail sales from the outbreak of COVID-19 in Hong Kong and Mainland China in early 2020, and (ii) less sales of wholesales business, and (b) increased provisions for impairment losses on assets, inventories and trade and other receivables.

EBITDA represents gross profit less selling and distribution costs and administrative expenses, adding depreciation. The Group's EBITDA for the Period decreased to HK\$12.4 million from HK\$29.6 million for the corresponding period last year, representing a decrease of 58.3%. This was mainly attributable to the decrease in total sales for the Period.

Liquidity, Financial Resources and Capital Structure

During the Period, the Group adhered to the principle of prudent financial management in order to minimise financial and operational risks. The Group financed its operations with internally generated cash flows. The financial position of the Group was healthy with net cash at 30 June 2020.

	As at 30 June 2020 HK\$'000	As at 31 December 2019 HK\$'000
Total bank borrowings	4,388	6,432
Pledged bank deposit and bank balance and cash	188,216	175,889
Net cash	183,828	169,457
Total assets	474,670	511,252
Total liabilities	81,512	104,984
Total equity	393,158	406,268
Current ratio	4.3	3.6
Gross gearing ratio (<i>Note</i>)	1.1%	1.6%

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

As at 30 June 2020, the total bank borrowings of the Group was approximately HK\$4.4 million (31 December 2019: HK\$6.4 million), which were wholly denominated in RMB, with all bank borrowings being variable-rated borrowings with effective interest rate at 5.72% per annum (31 December 2019: 5.70%) and repayable not more than one year (31 December 2019: up to two years).

As at 30 June 2020, the pledged bank deposit of the Group was approximately HK\$5.2 million (31 December 2019: HK\$7.1 million), which was denominated in HKD and RMB, and the bank balances and cash of the Group were approximately HK\$183.1 million (31 December 2019: HK\$168.7 million) which were denominated in HKD and RMB except for about 2.8% in United States dollars and Euro.

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. Although the fluctuation of RMB against HKD was not significant during the Period, the management is aware of the possible exchange rate exposure on 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

As at 30 June 2020, no leasehold land and buildings were pledged to banks as securities for banking facilities granted to the Group (31 December 2019: Nil). The Group had pledged only its fixed deposits with an aggregate value of HK\$5.2 million (31 December 2019: HK\$7.1 million) to certain banks in Hong Kong and Mainland China to secure banking facilities granted to the Group at 30 June 2020.

Contingent Liabilities

At as 30 June 2020, the Group did not have material changes in contingent liabilities as compared to the information disclosed in the annual report for the year ended 31 December 2019.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

The Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures for the Period.

Significant Investments

As at 30 June 2020, the Group did not hold any significant investments.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group is actively identifying and exploring suitable investments with potential and synergy effect to its existing businesses. Only potential investments, which are in the interests of the Company and the Shareholders as a whole, will be considered. To cope with the business development and expansion, the Group will also consider to acquire properties for own use or investment whenever necessary. For medium to long-term investment purposes, the Company may consider to invest in shares of companies listed on the Stock Exchange and investment properties to strive for better return in the medium to long-term from surplus cash on hand.

Other than those disclosed above, there was no plan authorised by the Board for material investments or additions of capital assets at the date of this announcement.

EVENTS AFTER THE END OF THE REPORTING PERIOD

- (i) On 2 July 2020, the Company granted 5,250,000 share options to the directors and the employees of the Company to subscribe for a total of 5,250,000 ordinary shares in the share capital of the Company under the Share Option Scheme. These share options are vested on the date of grant, with an exercise price of HK\$0.48 per ordinary share and exercisable from 2 July 2020 to 1 July 2023.

- (ii) In view of the COVID-19 cases resurgence in Hong Kong since the early July 2020, despite reduced in mid-August 2020, the Group is closely monitoring and evaluating its potential impact, and is taking precautionary and necessary measures to mitigate its impact on the financial position and operating results of the Group. The outbreak of COVID-19 is expected to have a short-term negative impact on the Group's revenue and results in the second half of 2020. The Group will pay continuous attention on the change of situation and make timely response and adjustments in the future.
- (iii) On 3 August 2020, the Group made an investment of about HK\$2.8 million in shares of China Construction Bank Corporation (stock code: 939) purchased on the Stock Exchange and intended to hold the investment for medium to long-term.

INTERIM DIVIDEND

The Directors do not recommend the payment of interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$0.02 per ordinary share).

USE OF PROCEEDS FROM THE LISTING AND PLACEMENT OF SHARES

The net proceeds raised from the listing of approximately HK\$44.2 million and the placement of shares completed in March 2015 of approximately HK\$57.0 million had fully been utilised as at 31 December 2018 and 31 December 2019, respectively.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2020 the employee headcount of the Group was 593 (2019: 636) and the total staff costs, including Directors' remuneration and share-based payments, amounted to HK\$42.5 million (2019: HK\$49.9 million). The decrease in employee headcount of the Group was primarily due to some of self-operated POS in the PRC with less profitability closed during the Period. The decrease in total staff costs was mainly due to decreases in employee headcount, in turn staff related expenses, and Directors' remuneration 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.

Subsequent to the end of the Period, the Company repurchased a total of 578,000 ordinary shares in July 2020 at an aggregate consideration of approximately HK\$370,470 (before expenses) on the Stock Exchange. Details of the repurchase of such ordinary shares were as follows:

Month of repurchase	Number of ordinary shares repurchased	Price per ordinary share		Aggregate purchase price (HK\$)
		Highest (HK\$)	Lowest (HK\$)	
July 2020	578,000	0.660	0.470	370,470
Total	578,000			370,470

The 578,000 repurchased ordinary shares were cancelled by the Company on 13 August 2020 and the total number of issued shares of the Company is 257,854,000 shares at the date of this announcement. The issued share capital of the Company was accordingly reduced by the par value of the repurchased ordinary shares so cancelled. The above repurchase was effected by the Directors pursuant to the mandate approved by shareholders of the Company at the annual general meeting on 25 May 2020, with a view to benefiting shareholders as a whole in enhancing the return on net assets and earnings per share of the Company.

CORPORATE GOVERNANCE PRACTICES CODE

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules (the "CG Code") as its own code of corporate governance. The Company has complied with the code provisions as set out in the CG Code during the Period.

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 Company has established the audit committee in compliance with rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code for the purpose of reviewing and supervising the Group's financial reporting process, risk management and internal audit functions and control. 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 2020.

In addition, the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2020 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, 21 August 2020

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.