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Casablanca Group Limited

卡撒天嬌集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2223)

ANNOUNCEMENT OF INTERIM RESULTS FOR SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS				
		Six months ended 30 June		
	Notes	2022	2021	Change
Revenue (HK\$ '000)		143,742	142,681	0.7%
Gross profit (HK\$ '000)		86,781	89,345	-2.9%
EBITDA (HK\$ '000)	1	12,914	15,808	-18.3%
Profit for the period attributable to owners of the Company (HK\$ '000)		2,585	1,590	62.6%
Gross profit margin		60.4%	62.6%	
EBITDA margin		9.0%	11.1%	
Net profit margin		1.8%	1.1%	
Earnings per share				
– Basic (HK cents)		1.00	0.62	61.3%
– Diluted (HK cents)		1.00	0.61	63.9%
Interim dividend per share (HK cents)		–	5.00	N/A
		As at	As at	
		30/06/2022	31/12/2021	Change
Total assets (HK\$ '000)		498,973	522,259	-4.5%
Total equity (HK\$ '000)		397,674	404,718	-1.7%
Total bank balances and cash (HK\$ '000)	2	150,554	142,335	5.8%
Total bank borrowings (HK\$ '000)		9,289	3,980	133.4%
Net cash (HK\$ '000)	3	141,265	138,355	2.1%
Gearing ratio	4	2.3%	1.0%	
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.	Gearing ratio is calculated as total bank borrowings divided by total equity.			

The board (the “Board”) of directors (the “Directors”) of Casablanca Group Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2022 (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 2022

	Notes	Six months ended 30 June	
		2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
Revenue	4	143,742	142,681
Cost of goods sold		<u>(56,961)</u>	<u>(53,336)</u>
Gross profit		86,781	89,345
Other income	5	4,005	669
Other gains (losses)	6	1,004	(338)
Selling and distribution costs		(66,291)	(66,572)
Administrative expenses		(20,799)	(20,335)
Finance costs		<u>(558)</u>	<u>(472)</u>
Profit before taxation	7	4,142	2,297
Taxation	8	<u>(1,557)</u>	<u>(707)</u>
Profit for the period attributable to owners of the Company		<u>2,585</u>	<u>1,590</u>
Other comprehensive (expense) income			
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of financial statements of foreign operations		<u>(9,629)</u>	<u>2,288</u>
Other comprehensive (expense) income for the period		<u>(9,629)</u>	<u>2,288</u>
Total comprehensive (expense) income for the period attributable to owners of the Company		<u><u>(7,044)</u></u>	<u><u>3,878</u></u>
Earnings per share	10		
– Basic (HK cents)		1.00	0.62
– Diluted (HK cents)		<u>1.00</u>	<u>0.61</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

	<i>Notes</i>	30.6.2022 <i>HK\$'000</i> (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
Non-current assets			
Property, plant and equipment		166,598	180,317
Right-of-use assets		40,478	37,874
Investment properties		10,723	–
Intangible assets		–	–
Deposits paid for acquisition of property, plant and equipment		–	296
Rental and other deposits		2,058	2,290
Deferred tax assets		165	96
		220,022	220,873
Current assets			
Inventories		70,093	85,804
Trade and other receivables	11	49,173	65,442
Financial assets at fair value through profit or loss		9,046	7,349
Taxation recoverable		85	456
Pledged bank deposits		8,745	7,213
Bank balances and cash		141,809	135,122
		278,951	301,386
Current liabilities			
Trade and other payables	12	64,859	91,585
Lease liabilities		14,149	11,536
Taxation payable		2,375	736
Bank borrowings		9,289	3,980
		90,672	107,837
Net current assets		188,279	193,549
Total assets less current liabilities		408,301	414,422
Non-current liabilities			
Lease liabilities		10,107	9,165
Deferred tax liabilities		520	539
		10,627	9,704
Net assets		397,674	404,718
Capital and reserves			
Share capital		25,785	25,785
Reserves		371,889	378,933
Total equity		397,674	404,718

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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 2021.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021.

The condensed consolidated financial statements have been prepared on the historical cost except for financial instruments that are measured at fair values at the end of each reporting period. 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 HKAS 16	Property, plant and equipment: Proceeds before intended use
Amendments to HKAS 37	Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and on the disclosures set out in these condensed consolidated financial statements.

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 conform 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), 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	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Disaggregated by distribution channels		
– Self-operated retail sales	102,386	103,928
– E-sales	14,433	14,057
– Sales to distributors	12,356	13,212
– Others	14,567	11,484
	<u>143,742</u>	<u>142,681</u>

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Disaggregated by major products		
– Bed linens	81,890	79,519
– Duvets and pillows	56,092	55,085
– Other home accessories	5,760	8,077
	<u>143,742</u>	<u>142,681</u>

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Disaggregated by geographical location of customers		
– Hong Kong and Macau	113,971	106,484
– PRC	29,511	36,156
– Others	260	41
	<u>143,742</u>	<u>142,681</u>

5. OTHER INCOME

	Six months ended 30 June	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Bank interest income	369	108
Government subsidies (<i>Note</i>)	2,994	29
Dividend income	444	403
Rental income	111	–
Others	87	129
	<u>4,005</u>	<u>669</u>

Note: For the six months ended 30 June 2022, government grants of HK\$2,994,000 mainly included the COVID-19-related subsidies of HK\$2,896,000 (2021: Nil) which relates to 2022 Employment Support Scheme provided by the Hong Kong government.

6. OTHER GAINS (LOSSES)

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Impairment loss on property, plant and equipment	–	(505)
Gain on disposal of property, plant and equipment	3,982	–
Net exchange (losses) gains	(3,201)	251
Net loss allowance on trade receivables	(53)	(128)
Net unrealised gains (losses) on financial assets at fair value through profit or loss	276	(38)
Gain on lease modification	–	82
	<u>1,004</u>	<u>(338)</u>

7. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit before taxation has been arrived at after charging/(crediting):		
Staff costs (including directors' remuneration):		
Salaries, wages and other benefits	39,574	40,339
Retirement benefit schemes contributions	3,153	2,943
Total staff costs	<u>42,727</u>	<u>43,282</u>
Net allowance for inventories (included in cost of goods sold)	4,217	1,845
Cost of inventories recognised as expenses	52,744	51,491
COVID-19-related rent concessions	(163)	(60)
Depreciation of property, plant and equipment	5,284	5,708
Depreciation of investment properties	98	–
Depreciation of right-of-use assets	7,841	7,663
Expenses relating to short-term leases	5,526	7,790
Variable lease payments not included in the measurement of lease liabilities	<u>11,078</u>	<u>8,135</u>

8. TAXATION

	Six months ended 30 June	
	2022 <i>HK\$'000</i> (unaudited)	2021 <i>HK\$'000</i> (unaudited)
Current tax		
Hong Kong	1,438	1,197
PRC Enterprise Income Tax (“EIT”)	207	–
	<u>1,645</u>	<u>1,197</u>
Deferred taxation	(88)	(490)
	<u>1,557</u>	<u>707</u>

The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% (2021: 16.5%) to the six months ended 30 June 2022, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2021.

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%.

9. DIVIDEND

During the current interim period, no final dividend in respect of the year ended 31 December 2021 (2021: final dividend of HK\$0.10 per share amounting to approximately HK\$25,785,000 in aggregate in respect of the year ended 31 December 2020) was declared and paid to owners of the Company.

Subsequent to 30 June 2022, the directors of the Company have determined that no interim dividend will be paid in respect of the interim period (2021: interim dividend of HK\$0.05 per share amounting to approximately HK\$12,893,000 in aggregate).

10. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2022	2021
	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	2,585	1,590
	257,854,000	257,854,000
	618,357	848,307
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share		
Effect of dilutive potential ordinary shares:		
Options		
Weighted average number of ordinary shares for the purpose of diluted earnings per share		

11. TRADE AND OTHER RECEIVABLES

	30.6.2022 <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2021 <i>HK\$'000</i> <i>(audited)</i>
Trade receivables	37,422	53,105
Less: Loss allowance	<u>(6,066)</u>	<u>(6,300)</u>
Trade receivables, net	<u>31,356</u>	<u>46,805</u>
Deposits	2,580	2,493
Prepayments	3,997	4,698
Value added tax recoverable	6,857	8,556
Advances to employees	1,622	1,016
Other receivables	<u>2,761</u>	<u>1,874</u>
	<u>17,817</u>	<u>18,637</u>
Trade and other receivables	<u><u>49,173</u></u>	<u><u>65,442</u></u>

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 receivables net of loss allowance presented based on the invoice dates at the end of the reporting period.

	30.6.2022 <i>HK\$'000</i> <i>(unaudited)</i>	31.12.2021 <i>HK\$'000</i> <i>(audited)</i>
Within 30 days	15,244	27,534
31 to 60 days	5,763	8,919
61 to 90 days	6,396	8,047
91 to 180 days	3,096	2,000
181 to 365 days	697	277
Over 365 days	<u>160</u>	<u>28</u>
	<u><u>31,356</u></u>	<u><u>46,805</u></u>

12. TRADE AND OTHER PAYABLES

	30.6.2022 <i>HK\$'000</i> (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
Trade payables	12,562	35,178
Bills payables	25,801	20,697
	<hr/>	<hr/>
Trade and bills payables	38,363	55,875
	<hr/>	<hr/>
Deposits received from customers	1,836	1,772
Accrued expenses	7,270	10,147
Salaries payables	3,446	7,940
Payable for acquisition of property, plant and equipment	12,560	13,875
Other payables	421	572
Contract liabilities	963	1,404
	<hr/>	<hr/>
	26,496	35,710
	<hr/>	<hr/>
Trade and other payables	64,859	91,585
	<hr/> <hr/>	<hr/> <hr/>

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.

	30.6.2022 <i>HK\$'000</i> (unaudited)	31.12.2021 <i>HK\$'000</i> (audited)
Within 30 days	9,242	10,053
31 to 60 days	12,066	18,710
61 to 90 days	8,203	17,944
91 to 180 days	8,470	8,814
Over 180 days	382	354
	<hr/>	<hr/>
	38,363	55,875
	<hr/> <hr/>	<hr/> <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

In the first half of 2022, the novel coronavirus disease (“COVID-19”) again raged through the Greater China Region (for the purpose of this announcement, comprising the PRC, Hong Kong and Macau). In light of the resurgence of COVID-19 confirmed cases in various major regions of Mainland China, local governments implemented a range of measures to restrain the spread of the pandemic, such as the two-month lockdown in Shanghai, which seriously dampened the confidence of consumers in the Greater China Region with gloom and despondency sentiment over the consumer market. In Hong Kong, the government inevitably adopted even more stringent anti-pandemic measures during the first quarter of 2022 when the fifth wave of COVID-19 broke out. Consequently, foot traffic at large shopping malls in various districts that used to have better pedestrian flow plunged dramatically, posing dire operational challenges to retail enterprises. For the health of our employees, the Group also followed the government’s recommendation and coordinated with arrangements of department stores to shorten the opening hours of its points-of-sale (“POS”) in Hong Kong during the Period. Foot traffic at shopping malls did not recover until late April when the Hong Kong government started lifting various anti-pandemic restrictions in stages, including gradually allowing dinnertime dine-in at restaurants and resuming operations of specified businesses. Fortunately, there has been a turnaround in situation in the second quarter of 2022 after distribution of the new round of electronic consumption vouchers by the Hong Kong government in April 2022 along with the promotional offers of various department stores and large shopping malls, contributing to significant improvement in consumer sentiment in Hong Kong. The Hong Kong government also relaunched the Employment Support Scheme in May 2022 to provide enterprises with COVID-19-related subsidies.

BUSINESS REVIEW

There was no material change in the Group’s operational and segmental information since the annual report for the year ended 31 December 2021 was published. During the Review Period, the total sales revenue of the Group amounted to HK\$143.7 million, slightly increased by 0.7% compared to HK\$142.7 million for the corresponding period of 2021. During the Review Period, profit attributable to owners of the Company was HK\$2.6 million, up by about 62.6% compared to HK\$1.6 million for the corresponding period of 2021. Although the Group recorded revenue at a similar level, the increase in profit was primarily attributable to the increase in other income/gains for the six months ended 30 June 2022, including certain COVID-19-related subsidies received under the 2022 Employment Support Scheme of the Hong Kong government and the gain on disposal of property, plant and equipment.

Adjusted Sales Channels

As of 30 June 2022, the Group had a total of 199 POS (31 December 2021: 196), among which 104 were self-operated POS and 95 were distributor-operated POS, covering a total of 48 cities in the Greater China Region. In the first quarter of 2022, the retail market conditions and the revenue of the Group were hit hard by the resurgence of COVID-19 in Hong Kong and the PRC. In the second quarter of 2022, despite significant improvement in consumer sentiment after the launch of the new round of electronic consumption vouchers and more promotional offers from department stores in Hong Kong, the increase in retail sales of the Group for the second quarter could not fully compensate for the decrease for the first quarter. During the Review Period, the Group's self-operated retail sales and sales to distributors have recorded year-on-year decrease of 1.5% and 6.5% respectively.

During the Review Period, we launched promotional offers for various themes at our official online store from time to time and continuously optimised the back-office system and sales delivery process. In the meantime, we also tapped into self-operated retail business on a number of popular online shopping platforms. Amid the severe outbreak of COVID-19, consumers shopped less at physical stores while some of the shoppers shifted their spending to e-commerce platforms. For the six months ended 30 June 2022, e-sales of the Group increased by 2.7% year-on-year.

During the Review Period, apart from providing bedding products to Hong Kong government authorities, the Group also offered items to various commercial customers in Hong Kong as free gifts and as part of point redemption schemes. These customers included convenience stores, electrical appliance chain stores, public utility companies, telecommunication network providers, infant and health food brands and electrical appliance brands. The Group also provided original equipment manufacturing (OEM) products for various customers. During the Review Period, sales to other customers by the Group significantly increased by 26.8% year-on-year.

Enhanced Product Mix

In order to diversify revenue streams, the Group has been allocating more resources to develop mattress production and sales operations since last year and has launched in February 2022 the first mattress series named "Casa Sleep-Lab Earth Mantle Series", comprising 6 mattress products with "5A" features of the CASA-V brand. The products come each with a different efficient support system and material combinations with reference to ergonomics to cater for different sleeping support needs and preferences of consumers. In six large specialised stores in Hong Kong, dedicated mattress experience area has been set up for consumers to experience our newly-designed mattresses for the first time. Besides, the Group has arranged mattress exhibitions and sales activities in department stores to introduce our brand new mattress products to the wider consumers.

In parallel with continuous research and development efforts on bedding products with health enhancing functions, the Group also actively diversified the cartoon product portfolio. During the Review Period, the Group launched its first licensed bedding products of the lovely cartoon characters “The Smurfs”, along with new licensed bedding products of various popular cartoons, including “Kakao Friends”, “PJai & Friends”, “Chibi Maruko Chan”, “Pokemon”, “B.Duck”, “PEANUTS”, “LuLu the Piggy” and “Crayon Shin-chan”, which were widely accepted by the market. We also launched new bedding products of “The Beloved Series” featuring our in-house designed pet cartoons, which remained well-received by consumers.

Strengthened Brand Leadership

In 2022, the Group has launched a series of television commercials and related advertisements under the theme of “Love CASA Love ECO”, with a view to promote the concept of environmental protection and sustainable lifestyle advocated by the brand, and to encourage the use of products made of natural materials which are harmless to the environment by consumers in daily life. The key products of “Love CASA Love ECO” for promotion include pure cotton products with the “Seal of Cotton” trademark and the “Cotton LEADSSM” label, products made with environmental-friendly and sustainably produced TENCELTM materials, natural and eco-friendly soya bean protein products and VOSSEN pure cotton towels made in Austria.

As one of the leading brands in the bedding products industry, we recognise our responsibility to educate consumers. During the Review Period, we continued to share information on the proper way to calculate thread count, things to note when purchasing products, and washing options and storage procedures of products through social media platforms such as Facebook and WeChat, providing shortcuts for consumers to choose the products that best fit their personal needs and enhancing customers’ knowledge of product care. During the Review Period, the Group was awarded the “10+ Years Award” by GS1 Hong Kong, not only marking the 11th consecutive year the Group has been recognised as a “Consumer Caring Company”, but also reflecting the market’s recognition of the high-quality products and attentive services offered by the Group.

PROSPECTS

Delving into the second half of 2022, it is anticipated that the global business environment will still be impeded by various negative factors, including the sporadic emergence of new COVID-19 variants, the spread of the Monkeypox virus, and the months-long conflict between Russia and Ukraine affecting global energy and food supplies, Taiwan strait tension and the rising inflations which led to sharp rise in global interest rates, will eventually weigh on the development of the global economy and undermine consumer confidence across countries. In the Greater China Region, the potential rise in the number of COVID-19 confirmed cases in Hong Kong coupled with the potential problem on property loans in certain regions of Mainland China have fuelled uncertainties in the Greater China Region’s economic development and consumer confidence during the second half of 2022. Despite heading into the second half of the year which is also the traditional peak-season for sales of bedding products, the Group will adopt a prudent approach to business development.

Mainland China

In the second half of 2022, in terms of self-operated physical retail business, the Group will examine the level of collaboration of various POS from three perspectives, namely staff, products and locations, and adjust personnel deployment and product portfolio of various POS types. The Group also plans to open a “CASA Life Flagship Store” in the southern region. The Group will actively support existing distributors while exploring new distributors, targeting to add 5 to 8 new distributor-operated POS in the second half of the year. In terms of online sales business, the Group will continue to optimise the webpage design and promotional content of self-operated online stores in Mainland China. In this regard, we are proactively working on the promotion planning of commodity, e-commerce livestreaming and seeking collaboration with third-party livestreaming platforms, aiming to get a bigger share of the pie by capitalising on the “Double 11” shopping festival and other large-scale e-commerce campaigns in Mainland China in the second half of the year. On the product front, given the market demand for healthcare products amid the resurgence of COVID-19, the Group will continue to ride on the “5A” features and introduce more products that help with sleeping health for consumers in the domestic market. The Group anticipates that the new intelligent pillow will also be launched in Mainland China by the end of 2022.

The construction of the production building B under phase II of the Casablanca Industrial Park of the Group in Huizhou was completed in April 2022. It has passed various safety inspections of the government and is currently under arrangements for interior decorations. The production building B is expected to be put into operation by the end of 2022. Currently, the Group is planning to establish a new “Sleeping Culture Experience Hall” which introduces the materials and technology development of sleeping products as well as the development journey and key products of the Group for public visits.

Hong Kong

It is expected that the second phase of electronic consumption vouchers distributed by the Hong Kong government in the third quarter of 2022, along with the traditional large sales campaigns of various department stores in Hong Kong, will effectively boost the consumer sentiment of Hong Kong citizens. However, given the rising number of COVID-19 confirmed cases in Hong Kong recently, it is not unlikely that the Hong Kong government will impose stringent anti-pandemic measures. In light of the situation, the Group will capitalise on the relatively sanguine consumer sentiment and the summer peak season to step up the promotions of cartoon products and infant products. In addition to selling bedding products of Crayon Shin-chan at the authorised licensor’s booth at the “Ani-Com & Games Hong Kong 2022” in July 2022, we will also organise promotional campaigns featuring different cartoon themes in various department stores during summer vacation. Riding on the first mattress series “Casa Sleep-Lab Earth Mantle Series” launched in the first half of the year, the Group will introduce new mattress toppers in the second half of the year to enrich our mattress product offerings to better meet different consumer requirements for comfortable sleep. Apart from maintaining short-term exhibitions to showcase mattress series in the mattress experience areas of certain specialised stores and various department stores, the Group will explore the feasibility of opening a POS particularly for mattress sales in the second half of the year, in an effort to enhance consumers’ recognition of the Group’s mattress products.

We will extend the annual promotional theme “Love CASA Love ECO” launched in 2022 by introducing more products made of environmental-friendly materials and educating consumers to incorporate the concept of environmental sustainability into living and sleeping environment.

Adhering to its “Contemporary, Innovative and Functional” design concept, the Group strives to integrate sustainable growth, environmental protection and social responsibility in business strategies to provide consumers with quality bedding products of fashionable designs and at reasonable prices, as well as home accessories that are trendy yet practical and drive benefits to the communities. It will also continue to broaden revenue streams and enhance the Group’s brand value so as to bring satisfactory returns to shareholders of the Company (the “Shareholders”) in the long run.

FINANCIAL REVIEW

Revenue

During the Period, the Group achieved revenue of HK\$143.7 million (2021: HK\$142.7 million), which slightly increased by 0.7% as compared to the corresponding period last year. The slight increase in overall revenue of the Group was primarily due to the increase in wholesales being more than decreases in self-operated retail sales and sales to distributors for the Period.

Self-operated retail sales during the Period amounted to HK\$102.4 million (2021: HK\$103.9 million), accounted for approximately 71.2% (2021: 72.8%) of the total revenue, representing an decrease of 1.5% as compared to the corresponding period last year as a result of the weak consumption sentiment in Hong Kong under strict anti-pandemic measures imposed by the Hong Kong government during the first quarter of 2022 and the rebound of COVID-19 confirmed cases in Mainland China. E-sales during the Period slightly increased by 2.7% to HK\$14.4 million (2021: HK\$14.1 million). During the Period, sales to distributors decreased by 6.5% to HK\$12.4 million (2021: HK\$13.2 million) mainly due to the decrease in sales to the distributor in Macau. Sales to others increased by 26.8% to HK\$14.6 million (2021: HK\$11.5 million) when there was a significant increase in sales to wholesale customers in Hong Kong despite the decrease in sales to wholesale customers in Mainland China.

In terms of brands, sales of our proprietary brands, which accounted for approximately 81.8% (2021: 83.3%) of the Group’s revenue, decreased by 1.0% to HK\$117.6 million (2021: HK\$118.9 million) due to weaker retail sales and sales to distributors under the bounce back of COVID-19 pandemic during the Period. Sales of our licensed and authorised brands increased by 9.7% to HK\$26.1 million (2021: HK\$23.8 million) because more products of licensed and authorised brands were launched during the Period.

In terms of products, sales of bed linens and sales of duvets and pillows during the Period were HK\$81.9 million (2021: HK\$79.5 million) and HK\$56.1 million (2021: HK\$55.1 million) respectively. The reason for increases in sales of bed linens by 3.0% and sales of duvets and pillows by 1.8% during the Period was the improved sales in Hong Kong as compared to the corresponding period last year. During the Period, sales of other home accessories were HK\$5.7 million (2021: HK\$8.1 million). The decrease in sales of other home accessories by 28.7% was due to the furniture business scaling down in Mainland China during the Period.

In terms of regions, revenues during the Period were HK\$114.0 million (2021: HK\$106.5 million) from Hong Kong and Macau and HK\$29.5 million (2021: HK\$36.2 million) from Mainland China. The increase in revenue from Hong Kong and Macau by 7.0% was attributable to the aggregated increase in self-operated retail sales, e-sales and sales to wholesale customers being more than the decrease in sales to distributors during the Period. The decrease in revenue from Mainland China by 18.4% was primarily due to the rebound of COVID-19 confirmed cases in Mainland China during the Period.

Gross Profit and Gross Profit Margin

During the Period, the Group achieved gross profit of HK\$86.8 million (2021: HK\$89.3 million) which decreased by 2.9% despite the sales of the Group at the similar level as the corresponding period last year. The overall gross profit margin for the Period was 60.4% (2021: 62.6%). In addition to the increase in costs of raw materials, the decrease in gross profit margin for the Period was also due to higher proportion of sales to others which were at relatively lower margin as compared to self-operated retail sales.

Other Income

Other income for the Period amounted to HK\$4.0 million (2021: HK\$0.7 million), mainly representing dividend income of HK\$0.4 million (2021: HK\$0.4 million) from financial assets, subsidies of HK\$3.0 million (2021: HK\$0.1 million) from the governments of Hong Kong and Mainland China and other miscellaneous income of HK\$0.6 million (2021: HK\$0.2 million).

Other Gains and Losses

Other Gains for the Period amounted to HK\$1.0 million (2021 other losses: HK\$0.3 million), mainly representing the gain on disposal of property, plant and equipment of HK\$4.0 million (2021: nil) and the gain on fair value of financial assets of HK\$0.3 million (2021 loss: HK\$0.1 million) offsetting against the net exchange losses of HK\$3.2 million (2021 net exchange gains: HK\$0.3 million) and the loss allowance on trade receivables of HK\$0.1 million (2021: HK\$0.1 million).

Expenses

Selling and distribution costs of HK\$66.3 million (2021: HK\$66.6 million) and administrative expenses of HK\$20.8 million (2021: HK\$20.3 million) for the Period were at approximately the same levels as the corresponding period last year.

Profit for the Period

The Group's profit for the Period attributable to owners of the Company amounted to HK\$2.6 million (2021: HK\$1.6 million), representing an increase of 62.6%. The increase in profit attributable to owners of the Company was primarily due to increases in other income/gains including, among others, the COVID-19-related subsidies under 2022 Employment Support Scheme received from the Hong Kong government and the gain on disposal of property, plant and equipment recorded during the Period despite the net exchange losses and the decrease in gross profit.

EBITDA represents gross profit less selling and distribution costs and administrative expenses, adding back depreciation. The Group's EBITDA for the Period decreased to HK\$12.9 million from HK\$15.8 million for the corresponding period last year, representing a decrease of 18.3%. The decrease in EBITDA was mainly attributable to the decrease in gross profit 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 mainly financed its operations with internally generated cash flows. The financial position of the Group was healthy with net cash at 30 June 2022.

	As at 30 June 2022 HK\$'000	As at 31 December 2021 HK\$'000
Total bank borrowings	9,289	3,980
Pledged bank deposit and bank balance and cash	150,554	142,335
Net cash	141,265	138,355
Total assets	498,973	522,259
Total liabilities	101,299	117,541
Total equity	397,674	404,718
Current ratio	3.1	2.8
Gearing ratio	2.3%	1.0%

The increase in bank balances and cash of the Group at 30 June 2022 was primarily due to less working capital being tied up as compared to that at 31 December 2021.

Gearing ratio is calculated as total bank borrowings divided by total equity at the end of the period or year. As at 30 June 2022, the gross gearing ratio was only 2.3% (31 December 2021: 1.0%) with the bank borrowings increased by HK\$5.3 million in Mainland China when the total equity also decreased by HK\$7.0 million. The Group was at net cash position at 30 June 2022 as well as 31 December 2021.

As at 30 June 2022, the total bank borrowings of the Group was approximately HK\$9.3 million (31 December 2021: HK\$4.0 million), which were wholly denominated in RMB for short-term financing purposes in Mainland China, with all bank borrowings being fixed-rated borrowings with effective interest rate at 5.27% per annum (31 December 2021: 5.42%) and repayable not more than one year.

As at 30 June 2022, the pledged bank deposit of the Group was approximately HK\$8.7 million (31 December 2021: HK\$7.2 million), which was denominated in HKD and RMB, and the bank balances and cash of the Group were approximately HK\$141.8 million (31 December 2021: HK\$135.1 million) which were denominated mainly in HKD and RMB except for about 1.4% (31 December 2021: 2.3%) 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. RMB depreciated by about 4.5% against HKD during the Period (the year of 2021: appreciated by about 3.3%). 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 assess 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 2022, no leasehold land and buildings were pledged to banks as securities for banking facilities granted to the Group (31 December 2021: nil). The Group had pledged only its fixed deposits with an aggregate value of HK\$8.7 million (31 December 2021: HK\$7.2 million) to certain banks in Hong Kong and Mainland China to secure banking facilities granted to the Group at 30 June 2022.

Contingent Liabilities

The Company and two of its subsidiaries in Hong Kong are defendants in a litigation involving an alleged copyright infringement in Hong Kong. Based on legal advice, it is difficult in the usual course of such litigation to predict the exposure to the Group at this early stage. The pre-trial review by the High Court has been scheduled for 2 March 2023 and the trial has been scheduled to commence on 3 May 2023 with a period of 15 days reserved.

Based on legal advice on preliminary assessment, the exposure in the event of failure to defend the case is estimated not to be material to the Group, assuming that there is no damage for loss of goodwill caused to the plaintiff or its brand names. The Board considers that the alleged claim would not bring any material adverse effect to the business operation and financial position of the Group.

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.

On 8 July 2022, the Group deregistered Leading Force International Limited which was a wholly-owned subsidiary of the Group in Hong Kong and had been dormant for the past few years.

Significant Investments

As at 30 June 2022, the Group did not hold any significant investments save as those disclosed in this announcement.

Financial Assets at Fair Value Through Profit or Loss

The financial assets at fair value through profit or loss (the “FVTPL”) represent the Group’s investments in shares of companies being constituents of Hang Seng Index as listed on the Stock Exchange which were held for medium to long term investment purposes. As at 30 June 2022, the Group had total investments with fair value of HK\$9.0 million (31 December 2021: HK\$7.3 million) which were not more than 5% of the Group’s total assets. The increase in financial assets at FVTPL was mainly attributable to purchases of more shares listed on the Stock Exchange during the Period and an amount of net unrealised gain on financial assets at FVTPL of about HK\$0.3 million (2021 net unrealised loss: HK\$0.1 million), which was mainly derived from increases in prices of listed shares as held at 30 June 2022. As the Group’s investments were constituents of Hang Seng Index as listed on the Stock Exchange, they were expected to bring returns to the Group in the long run in addition to steady dividend income every year. Dividend income for the Period from these investments in shares of companies listed on the Stock Exchange was HK\$0.4 million (2021: HK\$0.4 million).

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$0.05 per ordinary share).

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2022, the employee headcount of the Group was 521 (2021: 525) and the total staff costs, including Directors' remuneration, amounted to HK\$42.7 million (2021: HK\$43.3 million). The slight decreases in both the employee headcount and the total staff costs were mainly due to the reduction of personnel in Mainland China, especially for the furniture business, for the Period as compared to the corresponding period last year.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

CORPORATE GOVERNANCE PRACTICES CODE

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

None of the Directors is aware of any information which would reasonably indicate that the Company has not, for any part of the Review Period, complied with the code provisions as set out in the CG Code

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct for the Directors in their dealings in the Company's securities on terms no less than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers 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 dealings as required by the Company's code of conduct and the Model Code throughout the Review Period. Save as disclosed herein, the Company considers that there has been no deviation from the Company's code of conduct and the Model Code during the Review Period.

REVIEW OF INTERIM RESULTS

The Company has established the audit committee in compliance with rule 3.21 of the Listing Rules and code provision D.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 2022.

In addition, the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2022 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, 26 August 2022

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.