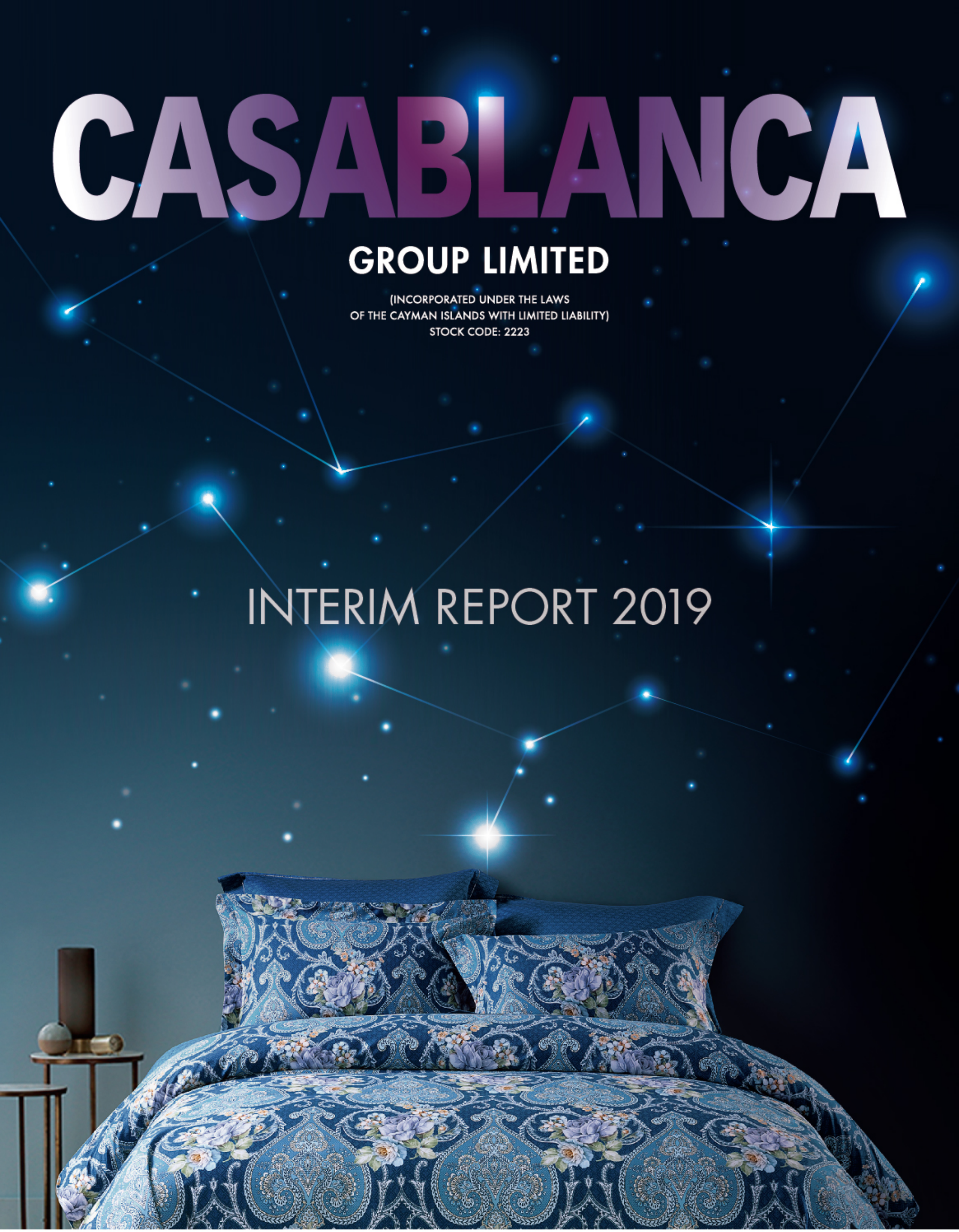
CASABLANCA GROUP LIMITED

(INCORPORATED UNDER THE LAWS
OF THE CAYMAN ISLANDS WITH LIMITED LIABILITY)
STOCK CODE: 2223

INTERIM REPORT 2019



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About Casablanca

Casablanca Group, since its establishment in 1993 in Hong Kong, primarily engages in designing, manufacturing, distribution and retailing of bedding products with a focus on the high-end and premium markets under its proprietary "Casablanca", "Casa Calvin" and "CASA-V" brands. The Group's products include three main categories: bed linens, duvets and pillows, and home accessories. The Group is one of the leading branded bedding products companies in the PRC and Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2019 (the "Period").

Overview

During the first half of 2019, the Sino-US trade dispute remained unresolved. Though the Group did not export any of its goods to the US and the imposition of additional tariffs by the US on goods imported from the People's Republic of China (the "PRC" or "Mainland China", for the purpose of this report, excluding Hong Kong, Macau and Taiwan) would not have impact on the Group directly, consumer confidence in the Greater China Region (for purpose of this report, comprising the PRC, Hong Kong and Macau) was nonetheless affected to a certain extent. Despite the complicated economic conditions, the GDP of Mainland China grew steadily at 6.3% during the first half of 2019, and overall consumption showed signs of faster growth over the first quarter of 2019 with total retail sales of consumer goods growing by 8.4%. However, the Group remained cautious towards the consumer market in Mainland China for the second half of 2019. With regard to the Hong Kong market, consumption sentiment remained normal during most of the first half of 2019; however, towards the latter part of the second quarter when social tensions began to emerge, the retail market was significantly impacted.

Business Review

Since the publication of the annual report for the year ended 31 December 2018, there has been no material changes in the Group's operational and segmental information. During the Period, the Group recorded a decrease of 6.0% and 5.3% in self-operated retail sales and sales to distributors respectively. However, due to substantial sales growth by 380.5% recorded from the wholesale operation, total revenue during the Period amounted to HK$183.8 million, representing an increase of 24.8% as compared with HK$147.3 million for the corresponding period of 2018. During the Period, the Group recorded a profit attributable to owners of the Company of HK$11.9 million as compared with a loss attributable to owners of the Company of HK$2.5 million for the corresponding period last year. The turnaround from loss to profit for the six months ended 30 June 2019 was mainly due to (i) sales growth; and (ii) the absence of share-based payment expense.

Expanded Sales Channels

As at 30 June 2019, the Group had a total of 232 points of sales ("POS") (31 December 2018: 224), among which 128 were self-operated POS and 104 were distributor-operated POS, covering a total of 65 cities in the Greater China Region.

During the Period, the Group established the "New Retail Project Department" in Mainland China to implement a complementary strategy for its online and offline sales channels, with the aim of integrating its online and offline businesses. It also continued to adopt the "cross-sector alliance" strategy to share cross-sector membership resources with enterprises from industries engaging in wedding dress, beauty, fitness and interior design related activities, while actively expanding sales channels for corporate gifts. For instance, it provided exclusive products to banks as their point redemption gifts.

During the Period, the Group consistently optimised its online sales strategies and product mix in Hong Kong. The online sales business performed satisfactorily, including the Group's self-operated official eShop in Hong Kong and via the websites of large online retail platforms. In addition, the Group offered items to various commercial customers in Hong Kong for their free gifts and point redemption schemes. These customers included personal care chain stores, telecommunication network providers, banks, infant and health food brands and electrical appliance brands. The Group also provided original equipment manufacturing (OEM) products for various commercial customers. As for the export business, the Group participated in the Hong Kong International Home Textiles and Furnishings Fair during the first half of 2019, and subsequently provided quotations for customers from Asia and Europe, some of which confirmed their orders. The Group's confidence in expanding its export business has therefore increased.

Introduced Innovative Products and Improved Product Mix

The Group is committed to providing quality products and attentive services, and strives to become the "Healthy Sleeping Expert" for its customers. In the first quarter of 2019, it launched the revolutionary Sleeptech Pillow Series (科技枕頭系列). The series includes a total of three products featuring various technological fabrics and quality latex rubber imported from Thailand, namely, the Universe Thermocules™ Pillow (恆溫宇宙枕), which adopts patented materials from Outlast® to effectively manage heat energy; the Auto-Sanitized Protect Pillow (納米淨化枕), which adopts Self Clean technological materials; and the Magnetic Stress-Relief Pillow (零壓磁療枕), which entered the market for testing in 2018. All of these new products received highly encouraging response from the market.

In respect of product planning for the Mainland China market, the Group enhanced its presence in high-end markets by increasing the proportion of imported products. At the same time, the Group further developed the "warmth-preserving system" for different duvet products, including the introduction of quality imported materials for the production of premium duvets, in order to offer consumers with an even wider range of duvet product options.

In respect of the "Healthy Lifestyle Store" business, the Group continued to provide one-stop shopping experiences for customers seeking bedding and customised furniture products with the goal of "Full House Output (全屋輸出)". During the Period, the Group participated in a renowned furniture exhibition organised by the interior design industry in Guangdong Province, which has not only enhanced recognition of the Group's "Healthy Lifestyle Store" business in the industry, but has also attracted interior designers to cooperate in depth with the Group, thus further enhancing its brand position.

MANAGEMENT DISCUSSION AND ANALYSIS

Enhanced Corporate Image and Strengthened Brand Leadership

In order to capture opportunities arising from the Chinese government's Greater Bay Area initiative which has been under vigorous promotion, the Group has stepped up its marketing efforts in the region during the Period, including placing advertisements in high speed rail stations in Guangzhou, Shenzhen, Huizhou, Chaozhou-Shantou, Chaoyang and other regions. Moreover, the Group has actively co-operated with various organisations and enterprises in order to further enhance the leading position of its brand. At the beginning of 2019, the Group was invited by the Hong Kong Trade Development Council to be the guest speaker at the Asian Licensing Conference of the Hong Kong International Licensing Show, and to share with the industry its experience in management and promotion of licensed brands. It marked a recognition of the Group's committed efforts over the years. Furthermore, the Group's Casablanca brand was included as one of the highlighted brands at the Hong Kong International Home Textiles and Furnishings Fair 2019, and its Mosquito Repellent Quilt was also listed as one of the showcased products of the fair.

In order to attract young customers and create a more youthful image for its brands, the Group has placed great efforts in recent years towards collaborating with famous cartoon characters or brands, or engaging in licensed production of their products. During the first half of 2019, the Group launched licensed bedding products of Coca-Cola, the world renowned beverage brand. At the same time, the Group also kept abreast of the market trends and launched licensed bedding products for famous trendy cartoon characters from South Korea, including "BT21" and "Kakao Friends". During the Period, the Group also introduced licensed products of "Chibi Maruko-chan", a Japanese cartoon character that is well known by the general public in Hong Kong. The licensed bedding products under these new brands and cartoon characters were highly popular and produced very positive effects in terms of promoting the Group's brand image.

During the Period, the Group collaborated with the Crossroads Foundation for the first time, and organised the "Bedding Products Recycling Scheme" (床品回收計劃) to promote an environmentally-friendly lifestyle. During the event, the Group encouraged consumers to collect and donate bedding products and duvets that are clean and still in good condition to the grassroots in Hong Kong or to the people in need overseas via the Crossroads Foundation. The event successfully aroused the attention of consumers.

Future Prospects

In 2019, the Chinese government aims to maintain the GDP growth rate between 6.0% and 6.5%, and the growth rate of 6.3% recorded in the first half of 2019 has laid a solid foundation for achieving its annual target. According to the spokesman of the National Bureau of Statistics, the external environment is expected to remain complicated in the second half of 2019, while the domestic market will continue to face downside pressure. Nevertheless, the fundamentals for stable economic operation remain unchanged. The continuous growth of the domestic market will be favourable for achieving the main goals of Mainland China in respect of economic and social development for the year. The Group will remain prudent towards the consumption sentiment in Mainland China. Regarding the Hong Kong market, affected by the Sino-US trade dispute and external economic factors, compounded by tensions in society which will take time to resolve, consumption sentiment will need time to recover. Under such conditions, retailers will have to proactively broaden their sources of income and improve cost control. The Group will adhere to the principle of maintaining profitability while striving vigorously to achieve better results, and adjust its business strategies to cope with various challenges.

Mainland China

In the second half of 2019, the Group will abide by a complementary strategy for its online and offline sales channels and put great efforts to grasp business opportunities brought by new media sales. For the offline POS, the Group will encourage distributors to establish "furniture and home textile megastores" and/or "home textile experience outlets" and continue to optimise its internal policies to encourage co-operation with distributors so as to drive online sales of the Group's products. For the self-operated POS, the Group will focus on strengthening its presence in cities in Guangdong Province, such as Shenzhen and Guangzhou, so as to leverage advantages arising from the development of the Greater Bay Area. In light of such major online sales festivals such as "Single's Day" and "Double 12" during the second half year, the Group has now started making preparations for promoting its products. In addition, the Group will introduce new exclusive products for e-commerce in a timely manner to encourage consumers to keep abreast of the Group's product development efforts.

The newly established "New Retail Project Department" will continue to promote integration between online and offline businesses and the Group plans to (1) enhance training for sales personnel (including product knowledge, customer service, POS sales software, etc.); (2) upgrade the VIP system to enhance interaction between the Group's brands and their members; (3) expand the mobile sales platforms; and (4) regularly launch hero products that are only available via the new media sales channel and promote sales involving the Group's "Fast Fashion" products. Furthermore, besides traditional and online advertisements, the Group will employ targeted advertisements in the second half of 2019. This will include posting promotional posters in various residential areas that feature QR codes so that customers can directly scan and order suitable products.

MANAGEMENT DISCUSSION AND ANALYSIS

Hong Kong

As the second half year is the peak season for promotions in department stores across Hong Kong, aligning with such factors as seasonality, peak wedding season and relatively more festivals, the Group will work diligently on product planning and marketing strategies to seize opportunities arising from these occasions. In order to compensate for the offline retail business which was affected by sluggish consumer sentiment, the Group will place greater effort in developing its online sales business, including launching more online exclusive products and online limited offers. Furthermore, the Group will continue to direct energies towards establishing business collaborations for brand promotions, and will actively seek opportunities for supplying products as corporate gifts. In particular, the Group has confirmed with a hotel in Hong Kong that it will collaborate in the launch of cartoon-themed rooms in August and September, using bedding products under licence from the B.Duck cartoon brand. The Group will also continue to develop its export business and participate in industry exhibitions to drum up business.

Striving to incorporate "Contemporary, Innovative and Functional" features in all of its products, the Group will endeavour to provide consumers with quality bedding products that are fashionably designed and reasonably priced, and home accessories that are trendy yet practical. The Group will also continue to broaden 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$183.8 million (2018: HK$147.3 million) which increased by 24.8% as compared to the corresponding period last year. The overall increase in revenue was primarily due to the significant increase in sales to wholesale customers despite decreases in self-operated retail sales and sales to distributors during the Period.

Sales of our proprietary brands, which accounted for approximately 88.6% (2018: 85.8%) of the Group's revenue, increased by 28.8% to HK$162.8 million (2018: HK$126.4 million) due to the significant increase in sales of proprietary brand products, especially CASA-V, to wholesale customers during the Period. The sales of our licensed and authorised brands for the Period were HK$21.0 million (2018: HK$20.9 million) at similar level for the corresponding period last year.

In terms of channels, self-operated retail sales during the Period amounted to HK$112.7 million (2018: HK$119.9 million), accounted for approximately 61.3% (2018: 81.4%) of the total revenue, representing a decrease of 6.0% as compared to the corresponding period last year due to the number of self-operated POS in Hong Kong reduced. During the Period, sales to distributors slightly decreased by 5.3% to HK$14.9

million (2018: HK$15.7 million). With the significant increase in sales to wholesale customers as compared to the corresponding period last year, sales to others during the Period amounted to HK$56.3 million (2018: HK$11.7 million) representing an increase of 380.5%.

In terms of products, sales of bed linens during the Period were HK$104.3 million (2018: HK$78.0 million), representing an increase of 33.7% as compared to the corresponding period last year. During the Period, sales of duvets and pillows were HK$70.8 million (2018: HK$63.0 million) and sales of other home accessories were HK$8.7 million (2018: HK$6.3 million). The reason for increases in sales of bed linens and duvets and pillows during the Period was due to the increase in sales to wholesale customers as compared to the corresponding period last year.

In terms of regions, revenues from Hong Kong and Macau, the PRC and others during the Period were HK$138.7 million (2018: HK$103.8 million), HK$45.0 million (2018: HK$42.5 million) and HK$0.1 million (2018: HK$1.0 million) respectively. The overall revenue from Hong Kong and Macau increased by 33.7% mainly attributable to the increase in sales to wholesale customers in Hong Kong.

Gross Profit and Gross Profit Margin

During the Period, the Group achieved gross profit of HK$113.7 million (2018: HK$94.2 million) which increased by 20.6% as compared to the corresponding period last year. Owing to the increase in sales to wholesale customers, the overall gross profit margin for the Period was 61.8% which was lower than 64.0% for the corresponding period last year.

Other Gains and Losses

Other gains for the Period amounted to HK$0.4 million (2018 losses: HK$1.8 million), mainly representing the net exchange gains of HK$0.2 million (2018 net exchange losses: HK$1.2 million) and the net reversal of loss allowance on trade receivables of HK$0.2 million (2018 loss allowance on trade receivables: HK$0.3 million).

Expenses

Selling and distribution costs for the Period increased by 4.5% to HK$75.7 million from HK$72.4 million for the corresponding period last year. The increase in selling and distribution costs was primarily due to increases in staff related expenses in Hong Kong and the advertising expenses in the PRC during the Period.

Administrative expenses for the Period increased by 4.8% to HK$23.9 million as compared with HK$22.8 million for the corresponding period last year. The slight increase in administrative expenses was primarily attributable to the increase in Directors' remuneration despite none of expenses of share-based payments during the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Profit (Loss) for the Period

The Group's profit for the Period attributable to owners of the Company amounted to HK$11.9 million (2018 loss: HK$2.5 million). Reasons for turnaround from loss for corresponding period last year to profit for the Period were mainly attributable to the increase in total sales and none of expenses of the share-based payments.

EBITDA represents gross profit less selling and distribution costs and administrative expenses, adding depreciation, amortization and share-based payments. The Group's EBITDA for the Period increased to HK$29.6 million from HK$7.9 million for the corresponding period last year, representing an increase of 275.3%. This was mainly attributable to the increase 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 minimize 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 2019.

	As at 30 June 2019 HK$'000	As at 31 December 2018 HK$'000
Total bank borrowings	**8,535**	9,961
Pledged bank deposit and bank balance and cash	**171,448**	181,914
Net cash	**162,913**	171,953
Total assets	**515,799**	514,733
Total liabilities	**105,887**	116,070
Total equity	**409,912**	398,663
Current ratio	**3.8**	3.4
Gross gearing ratio (Note)	**2.1%**	2.5%

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

As at 30 June 2019, the total bank borrowings of the Group was approximately HK$8.5 million (31 December 2018: HK$10.0 million), which were wholly denominated in RMB, with all bank borrowings being variable-rated borrowings with effective interest rate at 5.76% per annum (31 December 2018: 5.94%) and repayable not more than two years.

As at 30 June 2019, the pledged bank deposit of the Group was approximately HK$7.2 million (31 December 2018: HK$10.5 million), which was denominated in HKD and RMB, and the bank balances and cash of the Group were approximately HK$164.2 million (31 December 2018: HK$171.4 million) which were denominated in HKD and RMB except for about 1.0% 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

At 30 June 2019, the Group pledged only its fixed deposits with an aggregate carrying value of HK$7.2 million (31 December 2018: HK$10.5 million) to certain banks in Hong Kong and the PRC to secure banking facilities granted to the Group.

Contingent Liabilities

As at 30 June 2019, the Group did not have material contingent liabilities.

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 2019, 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 providing additional warehouse space for own use in Hong Kong, the Group had entered into the provisional agreement on 3 June 2019 and the formal agreement on 17 June 2019 with an independent third party for acquisition of a property at a total consideration of HK$12.2 million of which HK$0.6 million was paid each on signing the provisional agreement and the formal agreement. The acquisition of the property was completed on 31 July 2019 with HK$11.0 million as the remaining balance of consideration being settled by the Group.

Apart from the above-mentioned acquisition of the property as warehouse for own use by the Group and those disclosed in this report, there was no plan authorised by the Board for material investments or additions of capital assets at the date of this report.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Interim Dividend

On 23 August 2019, the Board has declared an interim dividend of HK$0.02 per ordinary share for the six months ended 30 June 2019 (six months ended 30 June 2018: nil). The interim dividend will become payable on Friday, 20 September 2019 to the Shareholders whose names appear on the register of members of the Company on Thursday, 12 September 2019.

Closure of Register of Members

For determining the entitlement to the interim dividend, the register of members of the Company will be closed from Tuesday, 10 September 2019 to Thursday, 12 September 2019 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all completed transfer documents accompanying with the relevant share certificates must be lodged with the Company's Hong Kong Branch Share Registrar, Union Registrars Limited, at Suite 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration no later than 4:00 p.m. (Hong Kong time) on Monday, 9 September 2019.

Subsequent Event

Apart from the completion of acquisition of property by the Group at a total consideration of HK$12.2 million on 31 July 2019 (as announced on 31 July 2019), there was no material subsequent event after the Period and up to the date of this report. For more information in relation to the above acquisition of property, please refer to the announcement of the Company dated 3 June 2019.

Use of Proceeds From the Listing And Placement of Shares

The Company received net proceeds raised from the listing of approximately HK$44.2 million, which had fully been utilised as at 31 December 2018, and the placement of shares completed in March 2015 (the "Placing") of approximately HK$57.0 million.

Reference is made to the annual report of the Company for the year ended 31 December 2018 (the "Annual Report"). As stated in the Annual Report, as at 31 December 2018, the unutilised amount of proceeds from the Placing was HK$9.1 million. The Company would like to clarify that such unutilised amount was expected to be fully utilised by 31 December 2019 and the intended use remained as for general working capital and possible investments.

The use of net proceeds from the Placing until 30 June 2019 was as below:

	Planned Amount HK$ million	**Utilised Amount** HK$ million	**Remaining Amount** HK$ million
From the Placing			
General working capital and possible investments	57.0	53.3	3.7

The remaining amount of net proceeds from the Placing of approximately HK$3.7 million as at 30 June 2019 is expected to be fully utilised by 31 December 2019.

Employee and Remuneration Policy

As at 30 June 2019, the employee headcount of the Group was 636 (2018: 637) and the total staff costs, including Directors' remuneration and share-based payments, amounted to HK$49.9 million (2018: HK$45.8 million). Despite the absence of share-based payments, the increase in total staff costs was mainly due to increases in staff related expenses, especially provisions for bonuses and annual leaves, and Directors' remuneration as compared to the corresponding period last year. Despite the provision for bonuses to Executive Directors for the Period, the amount of bonuses will be finalized subject to the final results of the Group for the year ended 31 December 2019 and the approval by the remuneration committee of the Company.

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.

Share Option Scheme

The Group adopted a share option scheme, which was approved by the sole shareholder's resolution passed on 22 October 2012, (the "Share Option Scheme"). The Group granted share options to Directors and employees on 17 April 2018 to subscribe for a total of 5,250,000 ordinary shares of HK$0.10 per share with the exercise price of HK$1.18 per share. Details of the grant of share options on 17 April 2018 are set out in announcement of the Company dated 17 April 2018. The share options shall be exercisable during the period from 17 April 2018 to 16 April 2021. Based on the valuation report of an independent valuer, the aggregate estimated fair value of the options granted on 17 April 2018 under the Share Option Scheme was approximately HK$1,904,000.

As at 30 June 2019, 5,250,000 share options were still outstanding under the Share Option Scheme. Particulars of the Company's Share Option Scheme are set out in note 17 to the condensed consolidated financial statements.

The following table disclosed movements in the Company's share options during the Period:

	Date of grant	Exercise period	Exercise price (HK$)	Number of options at 1.1.2019	Movements during the period				Number of options at 30.6.2019
					Granted	Cancelled	Exercised	Lapsed	
Directors and Chief Executive									
Mr. Cheng Sze Kin	17.4.2018	17.4.2018 – 16.4.2021	1.18	1,400,000	–	–	–	–	1,400,000
Mr. Cheng Sze Tsan	17.4.2018	17.4.2018 – 16.4.2021	1.18	1,400,000	–	–	–	–	1,400,000
Ms. Wong Pik Hung	17.4.2018	17.4.2018 – 16.4.2021	1.18	1,400,000	–	–	–	–	1,400,000
Mr. Lo Siu Leung	17.4.2018	17.4.2018 – 16.4.2021	1.18	250,000	–	–	–	–	250,000
Dr. Cheung Wah Keung	17.4.2018	17.4.2018 – 16.4.2021	1.18	250,000	–	–	–	–	250,000
Mr. Chow On Wa	17.4.2018	17.4.2018 – 16.4.2021	1.18	250,000	–	–	–	–	250,000
Total Directors and Chief Executive				4,950,000	–	–	–	–	4,950,000
Employees	17.4.2018	17.4.2018 – 16.4.2021	1.18	300,000	–	–	–	–	300,000
Total				5,250,000	–	–	–	–	5,250,000

CORPORATE GOVERNANCE AND OTHER INFORMATION

Directors' and Chief Executive's Interests in Shares

At 30 June 2019, the interests of the Directors and the chief executive and their associates in the shares and share options of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions

(a) Ordinary shares of HK$0.1 each of the Company

Name of Director	**Nature of interest**	**Number of issued ordinary shares held**	**Percentage of the issued share capital of the Company** (Note 4)
Mr. Cheng Sze Kin	Beneficial interest	4,500,000	1.8%
	Spouse interest	3,375,000	1.3%
	Interest in a controlled corporation (Note 1)	150,000,000	58.0%
		157,875,000	61.1%
Mr. Cheng Sze Tsan	Beneficial interest	4,125,000	1.6%
	Interest in a controlled corporation (Note 2)	150,000,000	58.0%
		154,125,000	59.6%
Ms. Wong Pik Hung	Beneficial interest	3,375,000	1.3%
	Spouse interest (Note 3)	154,500,000	59.8%
		157,875,000	61.1%

(b) *Share options*

Name of Directors	Nature of interest	Number of options held	Number of underlying shares interested
Mr. Cheng Sze Kin	Beneficial interest (Note 1)	1,400,000	1,400,000
	Spouse interest (Note 1)	1,400,000	1,400,000
		2,800,000	2,800,000
Mr. Cheng Sze Tsan	Beneficial interest (Note 2)	1,400,000	1,400,000
Ms. Wong Pik Hung	Beneficial interest (Note 3)	1,400,000	1,400,000
	Spouse interest (Note 3)	1,400,000	1,400,000
		2,800,000	2,800,000
Mr. Lo Siu Leung	Beneficial interest	250,000	250,000
Dr. Cheung Wah Keung	Beneficial interest	250,000	250,000
Mr. Chow On Wa	Beneficial interest	250,000	250,000

Notes:

(1) World Empire Investment Inc. ("World Empire") is a company incorporated in British Virgin Islands with limited liability. Mr. Cheng Sze Kin is interested in 40% of World Empire, which is in turn interested in 58.0% of the Company's issued share capital. Therefore, Mr. Cheng Sze Kin is deemed to be interested in such 58.0% of the Company's issued share capital, by virtue of Mr. Cheng Sze Kin's interests in World Empire. Mr. Cheng Sze Kin is also interested in 1.8% of the Company's issued share capital and the options granted under the Share Option Scheme to subscribe 1,400,000 shares. Mr. Cheng Sze Kin is deemed to be interested in 1.3% of the Company's issued share capital held by and the options granted to his spouse, Ms. Wong Pik Hung, under the Share Option Scheme to subscribe 1,400,000 shares. However, each of Mr. Cheng Sze Kin and Ms. Wong Pik Hung has confirmed that he/she will not exercise any option if as a result of which the Company will not be able to comply with the public float requirements of the Listing Rules.

(2) Mr. Cheng Sze Tsan is interested in 35% of World Empire, which is in turn interested in 58.0% of the Company's issued share capital. Therefore, Mr. Cheng Sze Tsan is deemed to be interested in such 58.0% of the Company's issued share capital, by virtue of Mr. Cheng Sze Tsan's interests in World Empire. Mr. Cheng Sze Tsan is also interested in 1.6% of the Company's issued share capital and the options granted under the Share Option Scheme to subscribe 1,400,000 shares. However, Mr. Cheng Sze Tsan has confirmed that he will not exercise any option if as a result of which the Company will not be able to comply with the public float requirements of the Listing Rules.

(3) Ms. Wong Pik Hung is the spouse of Mr. Cheng Sze Kin and is interested in 25% of World Empire, thus, Ms. Wong Pik Hung is deemed to be interested in 58.0% of the Company's issued share capital. Ms. Wong Pik Hung is interested in 1.3% of the Company's issued share capital and the options granted under the Share Option Scheme to subscribe 1,400,000 shares. Ms. Wong Pik Hung is deemed to be interested in 1.8% of the Company's issued share capital held by and the options granted to her spouse, Mr. Cheng Sze Kin, under the Share Option Scheme to subscribe 1,400,000 shares. However, each of Mr. Cheng Sze Kin and Ms. Wong Pik Hung has confirmed that he/she will not exercise any option if as a result of which the Company will not be able to comply with the public float requirements of the Listing Rules.

(4) The percentage is calculated on the basis of 258,432,000 shares in issue as at the date of this report.

Save as disclosed above, none of the Directors, chief executive and their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2019.

Substantial Shareholders and Other Persons

As at 30 June 2019, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that other than the interests disclosed above in respect of certain Directors and chief executive, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions in ordinary shares of HK$0.10 each of the Company

Name of shareholder	**Capacity**	**Number of issued ordinary shares held**	**Percentage of the issued share capital of the Company** (Note 2)
World Empire (Note 1)	Beneficial owner	150,000,000	58.0%

Notes:

(1) The issued share capital of World Empire is owned as to 40%, 35% and 25% by Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung respectively.

(2) The percentage is calculated on the basis of 258,432,000 shares in issue as at the date of this report.

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 2019.

In addition, the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2019 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Board of Directors

As at the date of this report, 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.

By Order of the Board
Casablanca Group Limited

Cheng Sze Kin
Chairman
Hong Kong, 23 August 2019

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Cheng Sze Kin (鄭斯堅), aged 59, is one of the founders of the Group to establish the Group's business in May 1993. He was appointed as a Director on 2 April 2012 and re-designated as an Executive Director and the Chairman of the Board on 22 October 2012. He is currently the Director of all the subsidiaries of the Group incorporated in Hong Kong and the British Virgin Islands ("BVI"). He is responsible for strategic planning of the Group, in particular product development and production. He has over 20 years of experience in the production of bedding products and textile trading. Mr. Cheng is the spouse of Ms. Wong Pik Hung (王碧紅) and the brother of Mr. Cheng Sze Tsan (鄭斯燦), both of whom are also Executive Directors.

Mr. Cheng Sze Tsan (鄭斯燦), aged 46, is one of the founders of the Group to establish the Group's business in May 1993. He was appointed as a Director on 2 April 2012 and re-designated as an Executive Director and Vice-chairman of the Board on 22 October 2012. He is currently the Director of all the subsidiaries of the Group incorporated in Hong Kong and BVI. Mr. Cheng was appointed as the Chief Executive Officer of the Company on 1 September 2016 and is responsible for strategic planning of the Group, in particular product development and sales management. He has over 20 years of experience in the bedding products industry. He is the brother of Mr. Cheng Sze Kin (鄭斯堅) and the brother-in-law of Ms. Wong Pik Hung (王碧紅), both of whom are also Executive Directors. Mr. Cheng is awarded by the Federation of Hong Kong Industries as "Young Industrialists of Hong Kong" in 2013 and has been appointed as standing committee member of Chinese People's Political Consultative Conference Guangzhou Committee (Huangpu District) since August 2015.

Ms. Wong Pik Hung (王碧紅), aged 52, has been a Director of a subsidiary of the Group since August 1993. She was appointed as a Director on 2 April 2012 and re-designated as an Executive Director on 22 October 2012. She is currently the Director of all the subsidiaries of the Group incorporated in Hong Kong and BVI. She is responsible for strategic planning of the Group, in particular procurement and sales management in Hong Kong. She has over 20 years of experience in the bedding products industry. She obtained a diploma in international economic cooperation at the University of International Business and Economics (對外經濟貿易大學) in Beijing. Ms. Wong is the spouse of Mr. Cheng Sze Kin (鄭斯堅) and the sister-in-law of Mr. Cheng Sze Tsan (鄭斯燦), both of whom are also Executive Directors.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. Lo Siu Leung (盧紹良), aged 41, was appointed as an Independent Non-executive Director on 9 April 2018. He is currently the director of Cheerful Arts Group Limited, which is a wholly owned subsidiary of China Cloud Copper Company Limited (the shares of which are listed on the Main Board of the Stock Exchange, stock code: 33). He was the partner of Lui & Mak Certified Public Accountants. He has over 15 years of experience in auditing, accounting, tax and finance. Mr. Lo is a Chartered Financial Analyst. He is also a fellow member of each of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and The Institute of Chartered Accountants in England and Wales. He holds a master degree in Business Administration from The Hong Kong Polytechnic University.

Dr. Cheung Wah Keung (張華強), aged 58, was appointed as an Independent Non-executive Director on 26 May 2017. He is currently the chairman of each of Shinhint Group and Tai Sing Industrial Company Limited. He has more than 30 years of experience in trading and manufacturing of consumer electronic products. Dr. Cheung is currently an independent non-executive director and the independent non-executive chairman of PanAsialum Holdings Company Limited (stock code: 2078) and an independent non-executive director of Sky Light Holdings Limited (stock code: 3882). He was also an independent non-executive director and the non-executive chairman of Harmonic Strait Financial Holdings Limited (currently named as China Cloud Copper Company Limited and stock code: 33) from June 2007 to September 2016 and September 2013 to September 2016 respectively. The shares of above companies with stock code indicated are listed on the Stock Exchange.

Dr. Cheung holds a bachelor degree in business administration, a master degree in global political economy from The Chinese University of Hong Kong and a master degree in corporate governance, a doctor degree in business administration from The Hong Kong Polytechnic University. He was awarded by the Federation of Hong Kong Industries as "Young Industrialist of Hong Kong" in 2005 and "Certificates of Merit in Directorship" by the Hong Kong Institutes of Directors in 2006. He has taken up a variety of roles, including the president of the Hong Kong Young Industrialists Council from 2015 to 2016, the chairman of the Advisory Board for Master of Corporate Governance of The Hong Kong Polytechnic University and a committee member of the Council of The Hang Seng University of Hong Kong.

Mr. Chow On Wa (周安華), aged 57, was appointed as an Independent Non-executive Director on 26 May 2017. He is currently the director of JTF Development Limited which provides professional management and investment consulting services to various clients. Mr. Chow has over 20 years of experience in management of retail business of home accessories in the PRC. During 1986 to 2001, he worked for IKEA Group for 15 years. He was a general manager for India and Pakistan regional office of IKEA and subsequently stationed in the PRC. During 1995 to 2001, Mr. Chow was responsible for IKEA's retail and operational management in the PRC and opened the first retail shopping mall in the PRC for IKEA Group in 1997. He established Amfield Consultants Limited, which engaged in consultancy on management and strategic planning in business and retailing in the PRC, in 2001. Mr. Chow established New Concept International Enterprise Limited, in 2004, which was engaged in retailing of home accessories across the PRC focusing on shopping malls and department stores, and mainly distributed internationally renowned brands, including Frette, Trussardi-home and Esprit-home etc., until its business was sold to Li & Fung Limited, the shares of which are listed on the Stock Exchange (stock code: 494), in 2013. From 2013 to June 2016, Mr. Chow was a senior vice president of Global Brands Group Holding Limited, the shares of which are listed on the Stock Exchange (stock code: 787) after its spin-off from Li & Fung Limited in 2014, and was responsible for management of its multi-branded home accessory business covering all over Asia. Mr. Chow holds a bachelor degree in engineering from University of Manchester in the United Kingdom.

Senior Management

Mr. Ho Yiu Leung (何耀樑), aged 53, joined the Group as the Financial Controller and Company Secretary in January 2012. He is responsible for the Group's overall financial reporting, finance and company secretarial matters. He has over 20 years of experience in auditing, accounting and financial management. He is a fellow member of each of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. He holds a master degree in business administration from the University of Strathclyde.

Mr. Gao Yan (高岩), aged 60, joined the Group in June 2007. He is currently the General Manager of Casablanca Home (Huizhou) Company Limited. He is responsible for the production, procurement and logistics management in the PRC. Prior to joining the Group, Mr. Gao has over 20 years of experience in production management. He obtained a diploma in weaving machinery from Northwest Institute of Textile Science and Technology (西北紡織工學院) and was awarded a qualification of professoriate senior engineer from Guangdong Province Personnel Office (廣東省人事廳).

Mr. Lin Yi Kai (林奕凱), aged 49, joined the Group in May 2007. He is currently the Deputy General Manager of Casablanca Home (Shenzhen) Limited. He is responsible for the financial management of the Group's operations in the PRC. Mr. Lin has over 20 years of experience in audit, tax and accounting. He was awarded qualification of certified internal control specialist from Internal Control Institute, senior international finance manager from International Financial Management Association and certified financial planner from The Chinese Institute of Certified Financial Planners, and is a member of Internal Control Institute, a member of International Financial Management Association and The Chinese Institute of Certified Financial Planners, and an associate member of The Association of International Accountants. He was conferred qualification of assistant accountant in accounting (corporate) speciality and intermediate level in accounting speciality from Ministry of Finance of the PRC and qualification of senior accountant from Human Resources and Social Security Department of Guangdong Province. Mr. Lin holds a bachelor's degree in accounting from Guangdong Polytechnic Normal University.

Company Secretary

Mr. Ho Yiu Leung (何耀樑), aged 53, joined the Group as the Financial Controller and Company Secretary in January 2012. Please refer to the paragraph headed "Senior Management" above for his biography.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

CHENG & CHENG LIMITED
CERTIFIED PUBLIC ACCOUNTANTS
鄭鄭會計師事務所有限公司

4/F., Allied Kajima Building,
138 Gloucester Road, Wanchai, Hong Kong
香港灣仔告士打道138號聯合鹿島大廈4樓

TO THE BOARD OF DIRECTORS OF CASABLANCA GROUP LIMITED
卡撒天嬌集團有限公司
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Casablanca Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 51, which comprises the condensed consolidated statement of financial position as of 30 June 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Scope of Review

We conducted our review 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. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

CHENG & CHENG LIMITED
Certified Public Accountants
Hong Kong
23 August 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		Six months ended 30 June	
	Notes	**2019 HK$'000 (unaudited)**	2018 HK$'000 (unaudited)
Revenue	4	**183,822**	147,308
Cost of goods sold		**(70,145)**	(53,082)
Gross profit		**113,677**	94,226
Other income		**611**	531
Other gains and losses	5	**392**	(1,781)
Selling and distribution costs		**(75,650)**	(72,369)
Administrative expenses		**(23,884)**	(22,793)
Finance costs	6	**(864)**	(37)
Profit (loss) before taxation	7	**14,282**	(2,223)
Taxation	8	**(3,013)**	(1,009)
Profit (loss) for the period		**11,269**	(3,232)
Other comprehensive expense			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		**(20)**	(2,418)
Other comprehensive expense for the period		**(20)**	(2,418)
Total comprehensive income (expense) for the period		**11,249**	(5,650)
Profit (loss) for the period attributable to:			
Owners of the Company		**11,856**	(2,502)
Non-controlling interests		**(587)**	(730)
		11,269	(3,232)
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**11,828**	(4,898)
Non-controlling interests		**(579)**	(752)
		11,249	(5,650)
Earnings (loss) per share			
– Basic and diluted (HK cents)	10	**4.59**	(0.97)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	30.6.2019 HK$'000 (unaudited)	31.12.2018 HK$'000 (audited)
Non-current assets			
Property, plant and equipment	11	**123,838**	128,003
Right-of-use assets	11	**38,780**	–
Prepaid lease payments		**–**	17,330
Intangible assets		**–**	–
Deposits paid for acquisition of property, plant and equipment		**3,282**	422
Rental and other deposits		**1,792**	1,211
Deferred tax assets		**5**	–
		167,697	146,966
Current assets			
Inventories		**99,330**	97,530
Trade and other receivables	12	**77,304**	87,142
Prepaid lease payments		**–**	418
Taxation recoverable		**20**	763
Pledged bank deposits		**7,201**	10,506
Bank balances and cash		**164,247**	171,408
		348,102	367,767
Current liabilities			
Trade and other payables	13	**72,236**	103,755
Lease liabilities		**12,704**	–
Taxation payable		**2,551**	1,190
Bank borrowings	15	**3,983**	3,415
		91,474	108,360
Net current assets		**256,628**	259,407
Total assets less current liabilities		**424,325**	406,373
Non-current liabilities			
Bank borrowings	15	**4,552**	6,546
Lease liabilities		**8,977**	–
Deferred tax liabilities		**884**	1,164
		14,413	7,710
Net assets		**409,912**	398,663
Capital and reserves			
Share capital	16	**25,843**	25,843
Reserves		**382,882**	371,054
Equity attributable to owners of the Company		**408,725**	396,897
Non-controlling interests		**1,187**	1,766
Total equity		**409,912**	398,663

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the Company										
	Share capital HK$'000	**Share premium** HK$'000	**Capital reserve** HK$'000 (Note i)	**Merger reserve** HK$'000 (Note ii)	**PRC statutory reserve** HK$'000 (Note iii)	**Translation reserve** HK$'000	**Share options reserve** HK$'000	**Accumulated profits** HK$'000	**Sub-total** HK$'000	**Non-controlling interests** HK$'000	**Total** HK$'000
At 1 January 2019 (audited)	25,843	166,268	2,000	1,319	3,488	(14,565)	1,904	210,640	396,897	1,766	398,663
Changes in equity for the six months ended 30 June 2019:											
Profit (loss) for the period	–	–	–	–	–	–	–	11,856	11,856	(587)	11,269
Exchange differences arising on translation of financial statements of foreign operations	–	–	–	–	–	(28)	–	–	(28)	8	(20)
Other comprehensive (expense) income for the period	–	–	–	–	–	(28)	–	–	(28)	8	(20)
Total comprehensive (expense) income for the period	–	–	–	–	–	(28)	–	11,856	11,828	(579)	11,249
At 30 June 2019 (unaudited)	**25,843**	**166,268**	**2,000**	**1,319**	**3,488**	**(14,593)**	**1,904**	**222,496**	**408,725**	**1,187**	**409,912**
At 1 January 2018 (audited)	25,843	166,268	2,000	1,319	3,161	(4,512)	4,300	198,830	397,209	371	397,580
Changes in equity for the six months ended 30 June 2018:											
Loss for the period	–	–	–	–	–	–	–	(2,502)	(2,502)	(730)	(3,232)
Exchange differences arising on translation of financial statements of foreign operations	–	–	–	–	–	(2,396)	–	–	(2,396)	(22)	(2,418)
Other comprehensive expense for the period	–	–	–	–	–	(2,396)	–	–	(2,396)	(22)	(2,418)
Total comprehensive expense for the period	–	–	–	–	–	(2,396)	–	(2,502)	(4,898)	(752)	(5,650)
Contributions from non-controlling interests	–	–	–	–	–	–	–	–	–	869	869
Recognition of equity-settled share-based payments	–	–	–	–	–	–	1,904	–	1,904	–	1,904
Lapse of share options	–	–	–	–	–	–	(4,300)	4,300	–	–	–
At 30 June 2018 (unaudited)	25,843	166,268	2,000	1,319	3,161	(6,908)	1,904	200,628	394,215	488	394,703

Notes:

(i) The capital reserve represents the waiver of the amount due to a related company.

(ii) The merger reserve of the Group represented the difference between the par value of the shares of Company issued in exchange for the entire share capital of Jollirich Investment Limited, Casablanca International Limited and Rich Creation Asia Investment Limited and transfer of 11.76% of equity interest in Forcetech (Shenzhen) Company Limited pursuant to the group reorganisation prior to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

(iii) According to the relevant requirements in the Articles of Association of the Group's subsidiaries in The People's Republic of China ("PRC"), a portion of their profits after taxation is transferred to PRC statutory reserve. The transfer must be made before the distribution of a dividend to equity owners. The PRC statutory reserve fund can be used to make up the prior year losses, if any. The PRC statutory reserve fund is non-distributable other than upon liquidation.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net cash from operating activities	**5,020**	9,877
Investing activities		
Placement of pledged bank deposits	**(15,574)**	(23,754)
Deposit paid for acquisition of property, plant and equipment	**(2,867)**	(1,124)
Purchase of property, plant and equipment	**(2,835)**	(2,669)
Withdrawal of pledged bank deposits	**18,927**	22,308
Other investing cash flows	**533**	395
Net cash used in investing activities	**(1,816)**	(4,844)
Financing activities		
Addition of bank borrowing	**–**	12,311
Repayments of bank borrowings	**(1,444)**	(3,665)
Repayments of lease liabilities	**(8,035)**	–
Contribution from non-controlling interests	**–**	869
Other financing cash flows	**(864)**	(37)
Net cash (used in) from financing activities	**(10,343)**	9,478
Net (decrease) increase in cash and cash equivalents	**(7,139)**	14,511
Cash and cash equivalents at beginning of the period	**171,408**	158,417
Effect of foreign exchange rate changes	**(22)**	(781)
Cash and cash equivalents at end of the period, represented by bank balances and cash	**164,247**	172,147

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. Basis of Preparation

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

2. Principal Accounting Policies

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

Other than the changes in accounting policies resulting from application of new and amendments of Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

In the six months ended 30 June 2019, the Group has applied, for the first time, certain new and amendments to HKFRSs issued by the HKICPA that are mandatorily effective for the six months ended 30 June 2019.

3. Application of New and Revised HKFRSs

(a) Overview

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 16, Leases
- HK(IFRIC)-Int 23, Uncertainty over Income Tax Treatments
- Amendments to HKAS 19, Plan Amendment, Curtailment or Settlement
- Amendments to HKFRSs, Annual Improvements to HKFRSs 2015-2017 Cycle

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and on the disclosures set out in these condensed consolidated financial statements.

3. Application of New and Revised HKFRSs (Continued)

(b) HKFRS 16, Leases

The Group has applied HKFRS 16 for the first time in the six months ended 30 June 2019. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

(b)(i) Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

3. Application of New and Revised HKFRSs (Continued)

(b) HKFRS 16, Leases (Continued)

(b)(i) Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of rented premises and department store counters that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

3. Application of New and Revised HKFRSs (Continued)

(b) HKFRS 16, Leases (Continued)

(b)(i) Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

3. Application of New and Revised HKFRSs (Continued)

(b) HKFRS 16, Leases (Continued)

(b)(i) Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

As a lessee (Continued)

Lease liabilities (Continued)

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

3. Application of New and Revised HKFRSs (Continued)

(b) HKFRS 16, Leases (Continued)

(b)(ii) Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply HKFRS16 to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease by- lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 Provisions, Contingent Liabilities and Contingent Assets as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iv. applied a single discount rate to a portfolio of leases with a similar remaining term for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of retail stores and department store counters in the PRC and Hong Kong was determined on a portfolio basis.

3. Application of New and Revised HKFRSs (Continued)

(b) HKFRS 16, Leases (Continued)

(b)(ii) Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of approximately HK$19,956,000 and right-of-use assets of approximately HK$37,704,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 5.27%.

	At 1 January 2019 HK$'000
Operating lease commitments disclosed as at 31 December 2018	28,099
Lease liabilities discounted at relevant incremental borrowing rates	(1,124)
Less: Recognition exemption – short-term leases	(6,918)
Others	(101)
Lease liabilities as at 1 January 2019	19,956
Analysed as	
Current	13,051
Non-current	6,905
	19,956

3. Application of New and Revised HKFRSs (Continued)

(b) HKFRS 16, Leases (Continued)

(b)(ii) Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of–use assets HK$'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	19,956
Reclassified from prepaid lease payments (note)	17,748
By class:	
Retail stores	9,704
Department store counters	3,587
Directors' quarters	4,210
Rented premises	2,455
Leasehold lands	17,748
	37,704

Note:

Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to approximately HK$418,000 and approximately HK$17,330,000 respectively were reclassified to right of-use assets.

3. Application of New and Revised HKFRSs (Continued)

(b) HKFRS 16, Leases (Continued)

(b)(ii) Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts Previously reported at 31 December 2018	Adjustments	Carrying amounts Under HKFRS 16 At 1 January 2019
	HK$'000	HK$'000	HK$'000
Non-current Assets			
Prepaid lease payments	17,330	(17,330)	–
Right-of-use assets	–	37,704	37,704
Current Assets			
Prepaid lease payments	418	(418)	–
Current Liabilities			
Lease liabilities	–	13,051	13,051
Non-current Liabilities			
Lease liabilities	–	6,905	6,905

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) sales to distributors and (iii) others. However, other than revenue analysis, no operating results and other discrete financial information is available for the assessment of performance of the respective products. The executive directors of the Company review the revenue and the profit for the period of the Group as a whole to make decision about resources allocation. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the executive directors of the Company. Accordingly, no analysis of this single operating segment is presented.

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

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

- Others: Other sales include sales to wholesale customers located in the PRC 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	
	2019 **HK$'000** **(unaudited)**	2018 HK$'000 (unaudited)
Disaggregated by distribution channels		
– Self-operated retail sales	**112,657**	119,875
– Sales to distributors	**14,895**	15,723
– Others	**56,270**	11,710
	183,822	147,308

4. Revenue and Segment Information (Continued)

Disaggregation of revenue (Continued)

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Disaggregated by major products		
– Bed linens	**104,300**	78,035
– Duvets and pillows	**70,797**	62,974
– Other home accessories	**8,725**	6,299
	183,822	147,308

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Disaggregated by geographical location of customers		
– Hong Kong and Macau	**138,720**	103,793
– PRC	**45,005**	42,538
– Other countries	**97**	977
	183,822	147,308

5. Other Gains and Losses

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Net exchange gains (losses)	**173**	(1,194)
Net reversal of loss allowance (loss allowance) on trade receivables	**219**	(327)
Fair value change on derivative financial assets	**–**	(260)
	392	(1,781)

6. Finance Costs

	Six months ended 30 June	
	2019 **HK$'000** **(unaudited)**	2018 HK$'000 (unaudited)
Interest on:		
Bank borrowings	**274**	37
Lease liabilities	**590**	–
Total borrowing costs	**864**	37

7. Profit (Loss) Before Taxation

	Six months ended 30 June	
	2019 **HK$'000** **(unaudited)**	2018 HK$'000 (unaudited)
Profit (loss) before taxation has been arrived at after charging and crediting:		
Directors' and chief executive's remuneration (excluding share-based payments) (note a)	**6,329**	3,924
Other staff costs	**43,568**	39,939
Share-based payments (included in administrative expenses)	**–**	1,904
Amortisation of prepaid lease payments	**–**	298
Net allowance for inventories (included in costs of goods sold)	**614**	481
Interest income	**(513)**	(331)
Investment income	**(20)**	(65)
Depreciation of property, plant and equipment	**6,797**	6,627
Depreciation of right-of-use assets (note a)	**7,629**	–
Operating lease rentals in respect of		
– rented premises (note b)	**117**	487
– retail stores (note c)	**6**	5,358
– department store counters (note d) (including concessionaire commission) (included in selling and distribution costs)	**18,270**	21,381

7. Profit (Loss) Before Taxation (Continued)

Notes:

(a) Upon application of HKFRS 16, the operating 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 2019 was approximately HK$1,053,000, which is included in the directors' and chief executive's remuneration. The rental payments paid to related companies for the six months ended 30 June 2019 was HK$1,110,000 (six months ended 30 June 2018: HK$1,110,000).

(b) The amount is represented by rental expenses for leases of offices and warehouses which are short-term leases.

(c) Included contingent rent of approximately HK$6,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: approximately HK$60,000). The contingent rent refers to the operating lease rentals based on pre-determined percentages of realised sales less basic rentals of the respective leases.

(d) Included contingent rent of approximately HK$9,568,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: approximately HK$11,298,000). The contingent rent refers to the operating lease rentals based on pre-determined percentages of realised sales less basic rentals of the respective leases. The remaining amount of approximately HK$8,702,000 represented minimum rental expenses paid for usage of department store counters which are entitled to the short-term lease recognition exemption in accordance with the HKFRS 16.

8. Taxation

	Six months ended 30 June	
	2019 HK$'000 (unaudited)	2018 HK$'000 (unaudited)
Current tax:		
Hong Kong	**3,204**	982
PRC Enterprise Income Tax ("EIT")	**94**	–
	3,298	982
Deferred tax:		
Current period	**(285)**	27
	3,013	1,009

8. Taxation (Continued)

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 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 RMB26,824,000 (equivalent to approximately HK$30,523,000) (31 December 2018: approximately RMB23,435,000 (equivalent to approximately HK$26,680,000)) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

9. Dividend

Subsequent to 30 June 2019, the directors of the Company have determined that an interim dividend of HK$0.02 per ordinary share in the share capital of the Company amounting to HK$5,169,000 in aggregate (2018: nil) will be paid on 20 September 2019 to the owners of the shares of the Company whose names appear in the Register of Members on 12 September 2019.

10. Earnings (Loss) Per Share

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

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(unaudited)	(unaudited)
Earnings (Loss)		
Profit (loss) for the period attributable to owners of the Company for the purposes of basic and diluted earnings (loss) per share	**11,856**	(2,502)

	Six months ended 30 June	
	2019	2018
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share	**258,432,000**	258,432,000

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.

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

11. Property, Plant and Equipment and Right-of-use Assets

During the six months ended 30 June 2019, the Group acquired property, plant and equipment with a cost of approximately HK$2,646,000 (six months ended 30 June 2018: approximately HK$3,693,000).

During the six months ended 30 June 2019, the Group entered into new lease agreements for the use of the retail stores and an office for one to three years. The Group is required to make fixed monthly payments and additional variable payments depending on the monthly revenue accrued of the retail stores during the contract period. On lease commencement, the Group recognized both right-of-use asset and lease liabilities of approximately HK$9,744,000 respectively.

12. Trade and Other Receivables

	30.6.2019 HK$'000 (unaudited)	31.12.2018 HK$'000 (audited)
Trade receivables	62,057	73,384
Less: Loss allowance	(6,193)	(6,412)
Trade receivables, net	55,864	66,972
Deposits	3,523	3,860
Prepayments	7,763	5,685
Value added tax recoverable	6,122	7,451
Advances to employees	1,669	1,313
Other receivables	2,363	1,861
	21,440	20,170
Trade and other receivables	77,304	87,142

Retail sales are mainly made at concession counters in department stores. The department stores collect cash from the ultimate customers and then repay the balance after deducting the concessionaire commission to the Group. The credit period granted to department stores ranges from 30 to 90 days. For distributors and wholesale sales, the Group allows a credit period of 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, which approximated the respective revenue recognition dates.

	30.6.2019 HK$'000 (unaudited)	31.12.2018 HK$'000 (audited)
Within 30 days	24,529	42,619
31 to 60 days	23,178	14,160
61 to 90 days	3,392	6,151
91 to 180 days	2,940	3,328
181 to 365 days	1,800	705
Over 365 days	25	9
Trade receivables	55,864	66,972

13. Trade and Other Payables

	30.6.2019 HK$'000 (unaudited)	31.12.2018 HK$'000 (audited)
Trade payables	**21,498**	39,430
Bills payables	**29,503**	39,677
Trade and bills payables	**51,001**	79,107
Deposits received from customers	**5,325**	2,797
Accrued expenses	**7,055**	9,541
Salaries payables	**6,357**	8,708
Payable for acquisition of property, plant and equipment	**1,774**	1,963
Other payables	**724**	1,639
	21,235	24,648
Trade and other payables	**72,236**	103,755

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

	30.6.2019 HK$'000 (unaudited)	31.12.2018 HK$'000 (audited)
Within 30 days	**30,204**	53,902
31 to 60 days	**7,963**	11,868
61 to 90 days	**7,659**	9,103
91 to 180 days	**4,340**	3,513
Over 180 days	**835**	721
Trade and bills payables	**51,001**	79,107

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

14. Impairment Assessment on Financial Assets Subject to Expected Credit Loss ("ECL") Model

	30.6.2019 HK$'000 (unaudited)	31.12.2018 HK$'000 (audited)
Impairment loss recognised in respect of trade receivables	6,193	6,412

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

During the six months ended 30 June 2019, the Group provided approximately HK$399,000 and reversed approximately HK$618,000 of impairment allowance respectively. As at 30 June 2019, the amount of credit impaired ECL was approximately HK$6,193,000 (31 December 2018: approximately HK$5,718,000).

15. Bank Borrowings

During the six months ended 30 June 2019, the Group has not obtained any new bank borrowings (six months ended 30 June 2018: approximately HK$12,311,000) and repaid bank borrowings of HK$1,444,000 (six months ended 30 June 2018: approximately HK$3,665,000). The loans carry an effective interest rate of 5.76% (31 December 2018: 5.94%) per annum and are repayable up to two years.

16. Share Capital

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2018, 30 June 2018, 1 January 2019 and 30 June 2019	500,000,000	50,000
Issued and fully paid:		
At 1 January 2018, 30 June 2018, 1 January 2019 and 30 June 2019	258,432,000	25,843

17. Share Option Scheme

(a) The principal terms of the share option scheme which is approved by the sole shareholder's resolution passed on 22 October 2012 (the "Share Option Scheme"), for the primary purpose of providing incentives or rewards to directors or eligible employees, motivating the eligible participants to optimise their performance efficiency for the benefit of the Company and tracking and retaining with the eligible participants, are as follows:

(i) the exercise price of the share option will be determined at the highest of the closing price of the company's shares on the Stock Exchange on the date of grant and the average of closing prices of the Company's shares on the Stock Exchange on the five business days immediately preceding the date of grant of the option;

(ii) the maximum number of shares in respect of which options may be granted shall not exceed 10% of the total number of shares in issue at the date of listing of the shares of the Company on the Main Board of the Stock Exchange; and

(iii) the maximum entitlement of each eligible participant in any 12-month period up to the date of offer to grant shall not exceed 1% of the shares in issue as at the date of offer to grant.

In the last interim period, share options were granted on 17 April 2018 with an aggregate estimated fair value of HK$1,904,000.

The closing price of the Company's shares immediately before 17 April 2018, the date of grant, was HK$1.12.

These fair values were calculated using the Binominal model. The inputs into the model were as follows:

Date of grant	**17.4.2018**
Share price at grant date	HK$1.18
Exercise price	HK$1.18
Expected volatility	70.495%
Expected life	3 years
Risk-free rate	1.752%
Expected dividend yield	0%
Sub-optimal exercise factor	1.60 for directors of the Company and 2.39 for employees of the Group

Expected volatility was determined by using the annualised standard deviation of historical share price daily movements of selected comparable companies in same industry. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

17. Share Option Scheme (Continued)

(a) (Continued)

No share-based payments was recognised by the Group during the six months ended 30 June 2019 (six months ended 30 June 2018: approximately HK$1,904,000) in relation to share options granted by the Company during the last interim period.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in the computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

At 30 June 2019, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was, in aggregate, 5,250,000 (31 December 2018: 5,250,000), representing 2.03% (31 December 2018: 2.03%) of the shares of the Company in issue at that date.

The weighted average exercise price of options outstanding at the end of the reporting period is HK$1.18 (31 December 2018: HK$1.18).

The following table discloses movements of the Company's share options held by directors of the Company and employees of the Group during both periods:

For the six months ended 30 June 2019

				Number of share options			
Categories of participants	Date of grant	Exercisable period	Exercise price HK$	Outstanding at 1.1.2019	Granted during the period	Lapsed during the period	Outstanding at 30.6.2019
Under the Share Option Scheme							
Executive directors	17.4.2018	17.4.2018-16.4.2021	1.18	4,200,000	–	–	**4,200,000**
Independent non-executive directors	17.4.2018	17.4.2018-16.4.2021	1.18	750,000	–	–	**750,000**
Employee	17.4.2018	17.4.2018-16.4.2021	1.18	300,000	–	–	**300,000**
				5,250,000	–	–	**5,250,000**

17. Share Option Scheme (Continued)

(a) (Continued)

For the six months ended 30 June 2018

Categories of participants	Date of grant	Exercisable period	Exercise price HK$	Number of share options: Outstanding at 1.1.2018	Granted during the period	Lapsed during the period	Outstanding at 30.6.2018
Under the Share Option Scheme							
Executive directors	9.4.2015	9.10.2015 – 8.4.2018	4.95	990,000	–	(990,000)	–
Non-executive director	9.4.2015	9.10.2015 – 8.4.2018	4.95	1,000,000	–	(1,000,000)	–
Employees	9.4.2015	9.10.2015 – 8.4.2018	4.95	944,000	–	(944,000)	–
				2,934,000	–	(2,934,000)	–
Executive directors	17.4.2018	17.4.2018-16.4.2021	1.18	–	4,200,000	–	4,200,000
Independent non-executive directors	17.4.2018	17.4.2018-16.4.2021	1.18	–	750,000	–	750,000
Employee	17.4.2018	17.4.2018-16.4.2021	1.18	–	300,000	–	300,000
				–	5,250,000	–	5,250,000

(b) Hangzhou Sky Walnut Hi-Tech Limited ("HZSW") was a company established in the PRC on 21 October 2017 in which the Group has 60% equity interest. Pursuant to a share award agreement entered into on 21 September 2017 by the existing shareholders of HZSW and the management of HZSW, 8% equity interest of HZSW will be transferred from its existing shareholders (in proportion to the respective shareholdings) to the management of HZSW as an incentive if certain performance targets are met in year of 2022.

As HZSW was still at loss for the six months ended 30 June 2019 and it was under deregistration procedure as at 30 June 2019, the directors of the Company considered the fair value of the share award as at grant date or 30 June 2019 is insignificant.

18. Capital Commitment

	30.6.2019 HK$'000 (unaudited)	31.12.2018 HK$'000 (audited)
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**11,484**	331

As mentioned in note 20 to the condensed consolidated financial statements, during the six months period ended 30 June 2019, the Group has entered into agreements with an independent third party ("the Vendor") to acquire a property at a total consideration of HK$12,168,000. As at 30 June 2019, the outstanding balance committed to pay for the property was approximately HK$10,952,000.

19. Related Party Transactions

In addition to the transactions and balances disclosed elsewhere in the condensed consolidated financial statements, the Group had entered into the following related party transactions:

Name of related companies	Relationship	Nature of transactions	Six months ended 30 June 2019 HK$'000 (unaudited)	Six months ended 30 June 2018 HK$'000 (unaudited)
Gain Harvest Investment Limited	Related company (note a)	Rental expenses (note b)	–	660
Wealth Pine Asia Limited	Related company (note a)	Rental expenses (note b)	–	450

Name of related companies	Relationship	Nature of balances	30.6.2019 HK$'000 (unaudited)	31.12.2018 HK$'000 (audited)
Gain Harvest Investment Limited	Related company (note a)	Lease liabilities (note b)	**1,901**	–
Wealth Pine Asia Limited	Related company (note a)	Lease liabilities (note b)	**1,296**	–

19. Related Party Transactions (Continued)

Notes:

(a) Mr. Cheng Sze Kin, Mr. Cheng Sze Tsan and Ms. Wong Pik Hung have directorship and beneficial and controlling interests in these related companies.

(b) Upon application of HKFRS 16, the lease contracts related to the 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 rental payments paid to related companies for the six months ended 30 June 2019 was approximately HK$1,110,000 (six months ended 30 June 2018: approximately HK$1,110,000). The balance of the lease liabilities related to the directors' quarters as at 30 June 2019 was approximately HK$3,197,000 (2018: nil).

Compensation of key management personnel

The remuneration of directors and other member of key management during the period was as follows:

	Six months ended 30 June	
	2019 **HK$'000** **(unaudited)**	2018 HK$'000 (unaudited)
Salaries and allowances (note)	**5,705**	4,548
Performance related incentive payments	**1,140**	–
Retirement benefit schemes contributions	**356**	257
Share-based payments	**–**	1,904
	7,201	6,709

Note:

The rental payments of HK$1,110,000 paid for the directors' quarters for the six months ended 30 June 2019 (2018: HK$1,110,000) are included in the amount.

20. Events After the End of the Reporting Period

On 3 June 2019, the Group entered into the provisional agreement with the Vendor to acquire a property at a total consideration of HK$12,168,000 and paid deposits of approximately HK$608,000. On 17 June 2019, the Group entered into the formal agreement with the Vendor and paid further deposit amounted of approximately HK$608,000. The acquisition of the property has been completed on 31 July 2019, by which date the remaining balance of the consideration amounted to approximately HK$10,952,000 was settled by the Group.

CORPORATE INFORMATION

Stock Code

2223

Board of Directors

Executive Directors

Mr. Cheng Sze Kin *(Chairman)*
Mr. Cheng Sze Tsan
(Vice-chairman and Chief Executive Officer)
Ms. Wong Pik Hung

Independent Non-executive Directors

Mr. Lo Siu Leung
Dr. Cheung Wah Keung
Mr. Chow On Wa

Committees

Audit Committee

Mr. Lo Siu Leung *(Chairman)*
Dr. Cheung Wah Keung
Mr. Chow On Wa

Remuneration Committee

Dr. Cheung Wah Keung *(Chairman)*
Mr. Lo Siu Leung
Mr. Chow On Wa

Nomination Committee

Mr. Cheng Sze Kin *(Chairman)*
Mr. Lo Siu Leung
Dr. Cheung Wah Keung
Mr. Chow On Wa

Company Secretary

Mr. Ho Yiu Leung

Authorised Representatives

Ms. Wong Pik Hung
Mr. Ho Yiu Leung

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Hong Kong

Auditor

CHENG & CHENG LIMITED, Certified Public Accountants

Principal Share Registrar and Transfer Office

Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman KY1-1102
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Union Registrars Limited
Suites 3301-04, 33/F,
Two Chinachem Exchange Square,
338 King's Road,
North Point, Hong Kong

Principal Bankers

Standard Chartered Bank (Hong Kong) Limited
Standard Chartered Bank (China) Limited
Bank of China (Hong Kong) Limited
Bank of China Limited

Company Website

www.casablanca.com.hk