

CASABLANCA

GROUP LIMITED

(INCORPORATED IN THE CAYMAN ISLANDS
WITH LIMITED LIABILITY)

STOCK CODE: 2223

INTERIM REPORT 2022



CONTENTS

2	Management Discussion and Analysis
13	Corporate Governance and Other Information
20	Report on Review of Condensed Consolidated Financial Statements
22	Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
23	Condensed Consolidated Statement of Financial Position
24	Condensed Consolidated Statement of Changes in Equity
25	Condensed Consolidated Statement of Cash Flows
26	Notes to the Condensed Consolidated Financial Statements
42	Corporate Information

About Casablanca

Casablanca Group Limited, 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 “Casa Calvin”, “Casablanca” 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 2022 (the “**Period**” or the “**Review Period**”).

Overview

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

Business Review

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

Adjusted Sales Channels

As of 30 June 2022, the Group had a total of 199 POS (31 December 2021: 200), among which 104 were self-operated POS and 95 were distributor-operated POS, covering a total of 48 cities in the Greater China Region. In the first quarter of 2022, the retail market conditions and the revenue of the Group were hit hard by the resurgence of COVID-19 in Hong Kong and the PRC. In the second quarter of 2022, despite significant improvement in consumer sentiment after the launch of the new round of electronic consumption vouchers and more promotional offers from department stores in Hong Kong, the increase in retail sales of the Group for the second quarter could not fully compensate for the decrease for the first quarter. During the Review Period, the Group's self-operated retail sales and sales to distributors have recorded year-on-year decrease of 1.5% and 6.5% respectively.

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

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

Enhanced Product Mix

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



MANAGEMENT DISCUSSION AND ANALYSIS

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

Strengthened Brand Leadership

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

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

Prospects

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

Mainland China

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

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



MANAGEMENT DISCUSSION AND ANALYSIS

Hong Kong

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

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

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

Financial Review

Revenue

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

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

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

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

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



MANAGEMENT DISCUSSION AND ANALYSIS

Gross Profit and Gross Profit Margin

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

Other Income

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

Other Gains and Losses

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

Expenses

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

Profit for the Period

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

EBITDA represents gross profit less selling and distribution costs and administrative expenses, adding back depreciation. The Group's EBITDA for the Period decreased to HK\$12.9 million from HK\$15.8 million for the corresponding period last year, representing a decrease of 18.3%. The decrease in EBITDA was mainly attributable to the decrease in gross profit for the Period.

Liquidity, Financial Resources and Capital Structure

During the Period, the Group adhered to the principle of prudent financial management in order to minimise financial and operational risks. The Group mainly financed its operations with internally generated cash flows. The financial position of the Group was healthy with net cash at 30 June 2022.

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

As at 30 June 2022, the pledged bank deposit of the Group was approximately HK\$8.7 million (31 December 2021: HK\$7.2 million), which was denominated in HKD and RMB, and the bank balances and cash of the Group were approximately HK\$141.8 million (31 December 2021: HK\$135.1 million) which were denominated mainly in HKD and RMB except for about 1.4% (31 December 2021: 2.3%) in United States dollars and Euro. The increase in bank balances and cash of the Group at 30 June 2022 was primarily due to less working capital being tied up as compared to that at 31 December 2021.

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



MANAGEMENT DISCUSSION AND ANALYSIS

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

Foreign Exchange Exposure

The Group carries on its business mainly in Hong Kong and the PRC. The Group is exposed to foreign exchange risk principally in RMB which may affect the Group's performance. RMB depreciated by about 4.5% against HKD during the Period (the year of 2021: appreciated by about 3.3%). The management is aware of the possible exchange rate exposure on RMB and will closely monitor its impact on the performance of the Group to assess if any hedging arrangement is necessary. The Group currently does not use derivative financial instruments to hedge against the volatility associated with foreign currency transactions and other financial assets and liabilities arising in the ordinary course of business.

Pledge of Assets

As at 30 June 2022, no leasehold land and buildings were pledged to banks as securities for banking facilities granted to the Group (31 December 2021: nil). The Group had pledged only its fixed deposits with an aggregate value of HK\$8.7 million (31 December 2021: HK\$7.2 million) to certain banks in Hong Kong and Mainland China to secure banking facilities granted to the Group at 30 June 2022.

Contingent Liabilities

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

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

Employee and Remuneration Policy

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

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

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

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

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

Significant Investments

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

Financial Assets at Fair Value Through Profit or Loss

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



MANAGEMENT DISCUSSION AND ANALYSIS

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 its business development and expansion, the Group will also consider to acquire properties for its own use when necessary. For medium to long-term investment purposes, the Company may consider investing in shares of companies listed on the Stock Exchange and investment properties to strive for better return in the medium to long-term by utilizing surplus cash on hand.

References are made to the announcements of the Company dated 18 January 2022, 16 April 2021 and 30 October 2020 and the circular of the Company dated 15 December 2020 in relation to the construction of complex with four floors for the new production building B under phase II of the Casablanca Industrial Park in Huizhou, the PRC (the “**Construction**”). The Group entered into a construction agreement on 30 October 2020 and a supplemental agreement on 16 April 2021 (collectively the “**Construction Agreements**”) with an independent third party contractor for the Construction which was duly completed in April 2022 with a total construction area of 25,255.09 square metres. The total consideration to the independent third party contractor for the Construction and other small constructions not under the Construction Agreements was finalised to be RMB55.2 million (equivalent to approximately HK\$64.6 million). Up to the date of this report, the Company had made payments of about RMB52.4 million (equivalent to approximately HK\$61.4 million), representing 95% of the total consideration, to the independent third party contractor.

To cope with the business development, the interior designs of the new production building B under phase II of the Casablanca Industrial Park have been modified into a complex comprising research and development centre, office, conference rooms, training rooms, showroom, livestream centres, and catering facilities. The interior decoration works for the new production building B will cost about RMB19.7 million (equivalent to approximately HK\$23.0 million) in total and are expected to complete by the end of 2022.

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

Interim Dividend

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

Purchase, Sale or Redemption of Listed Securities of the Company

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

Share Option Schemes

References are made to the circular of the Company dated 29 April 2022 in relation to the termination of share option scheme (the **"2012 Share Option Scheme"**), which was approved by the sole Shareholder's resolution passed on 22 October 2012 with a life for 10 years until 21 October 2022, and the adoption of new share option scheme (the **"2022 Share Option Scheme"**). The 2012 Share Option Scheme had been terminated upon the adoption of the 2022 Share Option Scheme after approval of the Shareholders at the annual general meeting which was held on 6 June 2022.

Upon the termination of the 2012 Share Option Scheme, no further options would be offered under the 2012 Share Option Scheme but the 2012 Share Option Scheme would in other respects remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to such termination and any such options (to the extent not already exercised) shall continue to be valid and exercisable in accordance with the terms of the 2012 Share Option Scheme.

The Group granted share options under the 2012 Share Option Scheme to Directors and employees on 2 July 2020 to subscribe for a total of 5,250,000 ordinary shares of HK\$0.1 each of the Company (the **"Share"**) with the exercise price of HK\$0.48 per Share and the exercise period from 2 July 2020 to 1 July 2023, of which all share options were outstanding at 30 June 2022. Details of the grant of share options on 2 July 2020 are set out in the announcement of the Company dated 2 July 2020. Based on the valuation report of an independent valuer, the aggregate estimated fair value of the options granted on 2 July 2020 was approximately HK\$445,000, of which HK\$417,000 and HK\$28,000 represented the estimated fair value of the share options granted to Directors and employees respectively. During the Period, no share option was granted under the 2022 Share Option Scheme and there were share options under the 2022 Share Option Scheme remained available for issue to subscribe for a total of 25,785,400 Shares.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Particulars of the Company's share option schemes 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 (Note)	Exercise price (HK\$)	Number of options at 1.1.2022	Movements during the Period				Number of options at 30.6.2022
					Granted	Cancelled	Exercised	Lapsed	
Under 2012 Share Option Scheme									
Directors and Chief Executive									
Mr. Cheng Sze Kin	2.7.2020	2.7.2020- 1.7.2023	0.48	1,400,000	-	-	-	-	1,400,000
Mr. Cheng Sze Tsan	2.7.2020	2.7.2020- 1.7.2023	0.48	1,400,000	-	-	-	-	1,400,000
Ms. Wong Pik Hung	2.7.2020	2.7.2020- 1.7.2023	0.48	1,400,000	-	-	-	-	1,400,000
Mr. Lo Siu Leung	2.7.2020	2.7.2020- 1.7.2023	0.48	250,000	-	-	-	-	250,000
Dr. Cheung Wah Keung	2.7.2020	2.7.2020- 1.7.2023	0.48	250,000	-	-	-	-	250,000
Mr. Chow On Wa	2.7.2020	2.7.2020- 1.7.2023	0.48	250,000	-	-	-	-	250,000
Total Directors and Chief Executive				4,950,000	-	-	-	-	4,950,000
Employees	2.7.2020	2.7.2020- 1.7.2023	0.48	300,000	-	-	-	-	300,000
Total				5,250,000					5,250,000

Note: The options, granted and vested on 2 July 2020, are exercisable from 2 July 2020 to 1 July 2023 (both days inclusive).

Directors' and Chief Executive's Interests in Shares

As at 30 June 2022, the interests and short positions of the Directors and the chief executive and their associates in the Shares, underlying Shares and debentures and share options of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") (the "Model Code"), were as follows:

Long positions

(a) Shares

Name of Director	Nature of interest	Number of Shares held/interested	Percentage of the issued share capital of the Company
Mr. Cheng Sze Kin ^(Note 1)	Beneficial interest	4,500,000	1.7%
	Spouse interest	3,375,000	1.3%
	Interest in a controlled corporate	150,000,000	58.2%
		157,875,000	61.2%
Mr. Cheng Sze Tsan ^(Note 2)	Beneficial interest	4,125,000	1.6%
	Interest in a controlled corporate	150,000,000	58.2%
		154,125,000	59.8%
Ms. Wong Pik Hung ^(Note 3)	Beneficial interest	3,375,000	1.3%
	Spouse interest	154,500,000	59.9%
		157,875,000	61.2%



CORPORATE GOVERNANCE AND OTHER INFORMATION

(b) Share options

Name of Directors	Nature of interest	Number of options held/interested	Number of underlying Shares interested
Mr. Cheng Sze Kin ^(Note 1)	Beneficial interest	1,400,000	1,400,000
	Spouse interest	1,400,000	1,400,000
		2,800,000	2,800,000
Mr. Cheng Sze Tsan ^(Note 2)	Beneficial interest	1,400,000	1,400,000
Ms. Wong Pik Hung ^(Note 3)	Beneficial interest	1,400,000	1,400,000
	Spouse interest	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) Mr. Cheng Sze Kin is interested in 40% of World Empire Investment Inc. ("**World Empire**"), a holder of 150,000,000 Shares, representing 58.2% of the Company's issued share capital. Therefore, Mr. Cheng Sze Kin is deemed to be interested in such 150,000,000 Shares, representing 58.2% of the Company's issued share capital. Mr. Cheng Sze Kin is also the beneficial owner of 4,500,000 Shares, representing 1.7% of the Company's issued share capital, and holds options granted under the 2012 Share Option Scheme to subscribe for 1,400,000 Shares. Mr. Cheng Sze Kin is deemed to be interested in the 3,375,000 Shares held by Ms. Wong Pik Hung (his spouse), representing 1.3% of the Company's issued share capital; and the options granted to his spouse, Ms. Wong Pik Hung, under the 2012 Share Option Scheme to subscribe for 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, a holder of 150,000,000 Shares, representing 58.2% of the Company's issued share capital. Therefore, Mr. Cheng Sze Tsan is deemed to be interested in such 150,000,000 Shares, representing 58.2% of the Company's issued share capital. Mr. Cheng Sze Tsan is also the beneficial owner of 4,125,000 Shares, representing 1.6% of the Company's issued share capital, and holds options granted under the 2012 Share Option Scheme to subscribe for 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 the equity interest in World Empire, thus, Ms. Wong Pik Hung is deemed to be interested in 150,000,000 Shares held by World Empire in which Mr. Cheng Sze Kin is indirectly interested, representing 58.2% of the Company's issued share capital. Ms. Wong Pik Hung holds 3,375,000 Shares, representing 1.3% of the Company's issued share capital, and holds options granted under the 2012 Share Option Scheme to subscribe for 1,400,000 Shares. Ms. Wong Pik Hung is deemed to be interested in the 4,500,000 Shares held by Mr. Cheng Sze Kin (her spouse), representing 1.7% of the Company's issued share capital; and the options granted to her spouse, Mr. Cheng Sze Kin, under the 2012 Share Option Scheme to subscribe for 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 257,854,000 Shares in issue 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 2022.

Substantial Shareholders and Other Persons

As at 30 June 2022, the register of substantial Shareholders maintained by the Company pursuant to Section 336 of the SFO showed 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 and underlying Shares in the issued share capital of the Company.

Long positions in Shares

Name of Shareholder	Capacity	Number of Shares held	Percentage of the issued share capital of the Company <small>(Note 2)</small>
World Empire <small>(Note 1)</small>	Beneficial owner	150,000,000	58.2%

Notes:

- (1) World Empire is a company incorporated in the British Virgin Islands, the issued share capital of which 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 257,854,000 Shares in issue at the date of this report.





CORPORATE GOVERNANCE AND OTHER INFORMATION

Save as disclosed above, as at 30 June 2022, the Company has not been notified by any persons/entities (other than interests disclosed above by certain Directors or the chief executive of the Company) who held an interest or short positions in the Shares, underlying Shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under section 336 of the SFO.

Corporate Governance Practices

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

Model Code for Securities Transactions

The Company has adopted its own code of conduct for the Directors in their dealings in the Company's securities on terms no less than the required standard set out in the Model Code. Having made specific enquiry to all the Directors of the Company, all the Directors confirmed that they had complied with the required standard of dealings as required by the Company's code of conduct and the Model Code throughout the Review Period. Save as disclosed herein, the Company considers that there has been no deviation from the Company's code of conduct and the Model Code during the Review Period.

Update on Directors' Information

There is no change in information of the Directors since 31 December 2021 pursuant to Rule 13.51B of the Listing Rules.

Review of Interim Results

The Company has established the audit committee in compliance with rule 3.21 of the Listing Rules and code provision D.3 of the CG Code for the purpose of reviewing and supervising the Group's financial reporting system, risk management and internal control systems. The audit committee of the Company, comprising three Independent Non-executive Directors, namely Mr. Lo Siu Leung, Dr. Cheung Wah Keung and Mr. Chow On Wa, and chaired by Mr. Lo Siu Leung, has reviewed the results (including the unaudited condensed consolidated financial statements) of the Group for the six months ended 30 June 2022.

In addition, the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2022 have been reviewed by our auditors, CHENG & CHENG LIMITED, Certified Public Accountants, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

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, 26 August 2022

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

Level 35, Tower 1, Enterprise Square Five,
38 Wang Chiu Road, Kowloon Bay, Kowloon, Hong Kong
香港九龍九龍灣宏照道38號企業廣場5期1座35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 22 to 41, which comprises the condensed consolidated statement of financial position as of 30 June 2022 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated 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.

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

Lui Chun Yip

Practising Certificate number P07004

Hong Kong

26 August 2022

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2022

Six months ended 30 June			
	NOTES	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
Revenue	4	143,742	142,681
Cost of goods sold		(56,961)	(53,336)
Gross profit		86,781	89,345
Other income	5	4,005	669
Other gains (losses)	6	1,004	(338)
Selling and distribution costs		(66,291)	(66,572)
Administrative expenses		(20,799)	(20,335)
Finance costs	7	(558)	(472)
Profit before taxation	8	4,142	2,297
Taxation	9	(1,557)	(707)
Profit for the period attributable to owners of the Company		2,585	1,590
Other comprehensive (expense) income <i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of financial statements of foreign operations		(9,629)	2,288
Other comprehensive (expense) income for the period		(9,629)	2,288
Total comprehensive (expense) income for the period attributable to owners of the Company		(7,044)	3,878
Earnings per share	11		
– Basic (HK cents)		1.00	0.62
– Diluted (HK cents)		1.00	0.61

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

	NOTES	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	12	166,598	180,317
Right-of-use assets	12	40,478	37,874
Investment properties	12	10,723	-
Intangible assets		-	-
Deposits paid for acquisition of property, plant and equipment		-	296
Rental and other deposits		2,058	2,290
Deferred tax assets		165	96
		220,022	220,873
Current assets			
Inventories		70,093	85,804
Trade and other receivables	13	49,173	65,442
Financial assets at fair value through profit or loss		9,046	7,349
Taxation recoverable		85	456
Pledged bank deposits		8,745	7,213
Bank balances and cash		141,809	135,122
		278,951	301,386
Current liabilities			
Trade and other payables	14	64,859	91,585
Lease liabilities		14,149	11,536
Taxation payable		2,375	736
Bank borrowings	15	9,289	3,980
		90,672	107,837
Net current assets		188,279	193,549
Total assets less current liabilities		408,301	414,422
Non-current liabilities			
Lease liabilities		10,107	9,165
Deferred tax liabilities		520	539
		10,627	9,704
Net assets		397,674	404,718
Capital and reserves			
Share capital	16	25,785	25,785
Reserves		371,889	378,933
Total equity		397,674	404,718

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	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	Total HK\$'000
At 1 January 2022 (audited)	25,785	165,956	2,000	1,319	4,300	(940)	445	205,853	404,718
Changes in equity for the six months ended 30 June 2022:									
Profit for the period	-	-	-	-	-	-	-	2,585	2,585
Exchange differences arising on translation of financial statements of foreign operations	-	-	-	-	-	(9,629)	-	-	(9,629)
Other comprehensive expense for the period	-	-	-	-	-	(9,629)	-	-	(9,629)
Total comprehensive expense for the period	-	-	-	-	-	(9,629)	-	2,585	(7,044)
At 30 June 2022 (unaudited)	25,785	165,956	2,000	1,319	4,300	(10,569)	445	208,438	397,674
At 1 January 2021 (audited)	25,785	165,956	2,000	1,319	4,146	(7,607)	2,349	230,845	424,793
Changes in equity for the six months ended 30 June 2021:									
Profit for the period	-	-	-	-	-	-	-	1,590	1,590
Exchange differences arising on translation of financial statements of foreign operations	-	-	-	-	-	2,288	-	-	2,288
Other comprehensive income for the period	-	-	-	-	-	2,288	-	-	2,288
Total comprehensive income for the period	-	-	-	-	-	2,288	-	1,590	3,878
Lapse of share options	-	-	-	-	-	-	(1,904)	1,904	-
Dividend paid	-	-	-	-	-	-	-	(25,785)	(25,785)
At 30 June 2021 (unaudited)	25,785	165,956	2,000	1,319	4,146	(5,319)	445	208,554	402,886

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 a deregistered company in the People's Republic of China ("PRC") 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 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 2022

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash from operating activities	17,532	15,196
Net cash used in investing activities		
Placement of pledged bank deposits	(15,681)	(11,435)
Deposit paid for acquisition of property, plant and equipment	-	(689)
Proceed from disposal of property, plant and equipment	3,982	-
Purchase of property, plant and equipment	(10,291)	(18,487)
Withdrawal of pledged bank deposits	13,810	11,657
Dividend received	77	-
Interest received	369	108
	(7,734)	(18,846)
Net cash used in financing activities		
New bank loan raised	5,663	10,000
Repayments of bank borrowings	-	(12,401)
Repayments of lease liabilities	(7,523)	(7,682)
Interest paid	(558)	(472)
Dividend paid	-	(25,785)
	(2,418)	(36,340)
Net increase (decrease) in cash and cash equivalents	7,380	(39,990)
Cash and cash equivalents at beginning of the period	135,122	188,383
Effect of foreign exchange rate changes	(693)	177
Cash and cash equivalents at end of the period, represented by bank balances and cash	141,809	148,570





NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2021.

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

The condensed consolidated financial statements have been prepared on the historical cost except for financial instruments, that are measured at fair values at the end of each reporting period. These financial statements are presented in Hong Kong dollars (“**HK\$**”) and all values are rounded to the nearest thousands, except when otherwise indicated.

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

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

Amendments to HKAS 16	Property, plant and equipment: Proceeds before intended use
Amendments to HKAS 37	Provisions, contingent liabilities and contingent assets: Onerous contracts — cost of fulfilling a contract

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

4. REVENUE AND SEGMENT INFORMATION

The Group's operating activities are attributable to a single operating segment focusing on manufacture and sales of bedding products. This operating segment has been identified on the basis of internal management reports prepared in accordance with accounting policies conform to HKFRSs, which are regularly reviewed by the executive directors of the Company, the chief operating decision maker of the Group. The executive directors of the Company regularly review revenue analysis by (i) self-operated retail sales; (ii) e-sales; (iii) sales to distributors and (iv) others. However, other than revenue analysis, no operating results and other discrete financial information is available for the assessment of performance of the respective products. The executive directors of the Company review the revenue and the profit for the period of the Group as a whole to make decision about resources allocation. No analysis of segment assets or segment liabilities is presented as they are not regularly provided to the executive directors of the Company. Accordingly, no analysis of this single operating segment is presented.

- Self-operated retail sales: Sales through the self-operated retail sales channel refer to retail sales to end-user consumers at the self-operated concession counters in department stores and self-operated retail stores.
- E-sales: E-sales refer to retail sales to end-user consumers through online platforms on internet or mobile devices operated by the Group or third parties, but not by distributors or wholesale customers.
- Sales to distributors: Sales to distributors refer to the sales to distributors who resell the products to end-user consumers, typically at concession counters in department stores and retail stores operated by distributors.
- Others: Other sales include sales to wholesale customers located in the PRC, Hong Kong and Macau, and sales made to overseas customers.

Disaggregation of revenue

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

	Six months ended 30 June	
	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
Disaggregated by distribution channels		
– Self-operated retail sales	102,386	103,928
– E-sales	14,433	14,057
– Sales to distributors	12,356	13,212
– Others	14,567	11,484
	143,742	142,681

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

4. REVENUE AND SEGMENT INFORMATION (Continued)

Disaggregation of revenue (Continued)

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

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

5. OTHER INCOME

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

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

6. OTHER GAINS (LOSSES)

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

7. FINANCE COSTS

	Six months ended 30 June	
	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
Interest on:		
Bank borrowings	154	42
Lease liabilities	404	430
Total finance costs	558	472

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

8. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
Profit before taxation has been arrived at after charging/(crediting):		
Staff costs (including directors' remuneration):		
Salaries, wages and other benefits	39,574	40,339
Retirement benefit schemes contributions	3,153	2,943
Total staff costs	42,727	43,282
Net allowance for inventories (included in cost of goods sold)	4,217	1,845
Cost of inventories recognised as expenses	52,744	51,491
Covid-19-related rent concessions (Note 12(a))	(163)	(60)
Depreciation of property, plant and equipment	5,284	5,708
Depreciation of investment properties	98	–
Depreciation of right-of-use assets	7,841	7,663
Expenses relating to short-term leases	5,526	7,790
Variable lease payments not included in the measurement of lease liabilities	11,078	8,135

9. TAXATION

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

9. TAXATION (Continued)

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

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

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

10. DIVIDEND

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

11. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	2,585	1,590

	Six months ended 30 June	
	2022	2021
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	257,854,000	257,854,000
Effect of dilutive potential ordinary shares: Options	618,357	848,307
Weighted average number of ordinary shares for the purpose of diluted earnings per share	258,472,357	258,702,307

12. PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES

(a) Right-of-use assets

During the six months ended 30 June 2022, the Group entered into a number of lease agreements for use as retail stores and department store counters, and therefore recognized the additions of right-of-use assets of HK\$11,336,000 (six months ended 30 June 2021: HK\$10,682,000).

12. PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES (Continued)

(a) Right-of-use assets (Continued)

The leases of retail stores contain variable lease payment terms that are based on sales generated from the retail stores and department store counters and minimum annual lease payment terms that are fixed. These payment terms are common in retail stores and department store counters in Hong Kong and the PRC where the Group operates. During the six months ended 30 June 2022, the Group received rent concessions in the form of a discount on fixed payments during the period of severe social distancing and travel restriction measures introduced to contain the spread of COVID-19. The amount of fixed and variable lease payments for the interim reporting period is summarised below:

	Six months ended 30 June 2022			
	Fixed payments HK\$'000	Variable payments HK\$'000	COVID-19-related rent concessions HK\$'000	Total payments HK\$'000
Retail stores and rented premises without variable lease payments	2,352	-	-	2,352
Retail stores with variable lease payments	4,323	15	(163)	4,175
Department store counters with variable lease payments	6,941	11,063	-	18,004
	13,616	11,078	(163)	24,531

	Six months ended 30 June 2021			
	Fixed payments HK\$'000	Variable payments HK\$'000	COVID-19-related rent concessions HK\$'000	Total payments HK\$'000
Retail stores and rented premises without variable lease payments	2,716	-	(60)	2,656
Retail stores with variable lease payments	4,090	17	-	4,107
Department store counters with variable lease payments	9,156	8,118	-	17,274
	15,962	8,135	(60)	24,037

(b) Acquisitions of owned assets

During the six months ended 30 June 2022, the Group acquired property, plant and equipment with a cost of HK\$9,866,000 (six months ended 30 June 2021: HK\$21,067,000) which mainly related to the construction cost of the new factory building in the PRC of HK\$9,381,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

12. PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES (Continued)

(c) Transfer of properties to investment properties

During the six months ended 30 June 2022, certain properties, which were previously used as self-operated retail shops of the Group, with a carrying amount of HK\$11,161,000 was transferred to investment properties from property, plant and equipment as these properties are currently held for rental income purpose. The investment properties with carrying amount of HK\$10,723,000 as at 30 June 2022 (2021: Nil) are stated at cost less accumulated depreciation.

13. TRADE AND OTHER RECEIVABLES

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

Retailing sales are mainly made at concession counters in department stores. The department stores collect cash from the ultimate customers and then repay the balance after deducting the concessionaire commission to the Group. The credit period granted to department stores ranging from 30 to 90 days. For distributors and wholesale sales, the Group allows a credit period up to 90 days to its trade customers, which may be extended to 180 days for selected customers.

13. TRADE AND OTHER RECEIVABLES (Continued)

The following is an aged analysis of trade receivables net of loss allowance presented based on the invoice dates at the end of the reporting period.

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

14. TRADE AND OTHER PAYABLES

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

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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

14. TRADE AND OTHER PAYABLES (Continued)

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

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

15. BANK BORROWINGS

During the six months ended 30 June 2022, the Group has obtained a new bank borrowing amounting to HK\$5,663,000 (six months ended 30 June 2021: HK\$10,000,000) and has renewed bank borrowings amounting to HK\$3,920,000 (six months ended 30 June 2021: Nil). During the six months ended 30 June 2022, no repayments were made (six months ended 30 June 2021: HK\$12,401,000). The loans carried effective interest rates ranging from 5.27% to 5.42% (six months ended 30 June 2021: 2.56% to 5.64%) per annum. As at 30 June 2022, the loans were repayable within one year (31 December 2021: repayable within one year).

16. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 January 2021, 30 June 2021, 1 January 2022 and 30 June 2022	500,000,000	50,000
Issued and fully paid:		
At 1 January 2021, 30 June 2021, 1 January 2022 and 30 June 2022	257,854,000	25,785

17. SHARE OPTION SCHEMES

A share option scheme (the “**2012 Share Option Scheme**”) was adopted pursuant to the sole shareholder’s resolution passed on 22 October 2012 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. The 2012 Share Option Scheme was terminated pursuant to an ordinary resolution by the shareholders of the Company passed on 6 June 2022. The principal terms of the 2012 Share Option Scheme are as follows:

- (i) the 2012 Share Option Scheme is valid for 10 years from 22 October 2012;
- (ii) options may be exercised at any time during a period commencing on or after the date on which the option is accepted and granted and expiring on a date to be notified by the Board of Directors to each grantee which shall not be more than 10 years from the date on which the option is accepted and granted;
- (iii) 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;
- (iv) the maximum number of shares in respect of which options may be granted shall not exceed 20,000,000 shares representing 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 (representing 7.76% of the issued shares of the Company as at the date of this interim report);
- (v) Any offer of share options may be accepted in writing received by any director or the secretary of the Company on the date specified in the offer; and
- (vi) 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.

At 30 June 2022, the number of shares in respect of which options had been granted and remained outstanding under the 2012 Share Option Scheme was, in aggregate, 5,250,000 (31 December 2021: 5,250,000), representing 2.0% (31 December 2021: 2.0%) of the shares of the Company in issue at that date.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

17. SHARE OPTION SCHEME (Continued)

During the current interim period, a share option scheme (the “**2022 Share Option Scheme**”) was newly adopted pursuant to the ordinary resolution by the shareholders of the Company passed on 6 June 2022 for the primary purpose of providing incentives or rewards to directors, other than independent non-executive 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. The principal terms of the 2022 Share Option Scheme are as follows:

- (i) the 2022 Share Option Scheme is valid for 10 years from 6 June 2022;
- (ii) options may be exercised at any time during a period commencing on or after the date on which the option is accepted and granted and expiring on a date to be notified by the Board of Directors to each grantee which shall not be more than 10 years from the date on which the option is accepted and granted;
- (iii) 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;
- (iv) the maximum number of shares in respect of which options may be granted shall not exceed 25,785,400 shares representing 10% of the total number of shares in issue at the date of adoption of the 2022 Share Option Scheme;
- (v) Any offer of share options may be accepted in writing received by any director or the secretary of the Company on the date specified in the offer; and
- (vi) 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.

At 30 June 2022, no options had been granted and remained outstanding under the 2022 Share Option Scheme (31 December 2021: Nil).

17. SHARE OPTION SCHEME (Continued)

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 2022

Categories of participants	Date of grant	Exercisable period	Exercise price HK\$	Number of share options		Outstanding at 30.6.2022
				Outstanding at 1.1.2022	Lapsed during the period	
Under the 2012 Share Option Scheme						
Executive directors	2.7.2020	2.7.2020-1.7.2023	0.48	4,200,000	–	4,200,000
Independent non-executive directors	2.7.2020	2.7.2020-1.7.2023	0.48	750,000	–	750,000
Employee	2.7.2020	2.7.2020-1.7.2023	0.48	300,000	–	300,000
				5,250,000	–	5,250,000

For the six months ended 30 June 2021

Categories of participants	Date of grant	Exercisable period	Exercise price HK\$	Number of share options		Outstanding at 30.6.2021
				Outstanding at 1.1.2021	Lapsed during the period	
Under the 2012 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)	–
Executive directors	2.7.2020	2.7.2020-1.7.2023	0.48	4,200,000	–	4,200,000
Independent non-executive directors	2.7.2020	2.7.2020-1.7.2023	0.48	750,000	–	750,000
Employee	2.7.2020	2.7.2020-1.7.2023	0.48	300,000	–	300,000
				5,250,000	–	5,250,000
				10,500,000	(5,250,000)	5,250,000

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

18. CAPITAL COMMITMENT

	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
Capital expenditure in respect of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	50	5,133

19. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis (31 December 2021: recurring basis), categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	30.6.2022 Level 1 and total HK\$'000 (unaudited)	31.12.2021 Level 1 and total HK\$'000 (audited)
Financial asset at fair value through profit or loss		
– Listed securities	9,046	7,349

During the six months ended 30 June 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (six months ended 30 June 2021: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

20. 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 balances	30.6.2022 HK\$'000 (unaudited)	31.12.2021 HK\$'000 (audited)
Gain Harvest Investment Limited	Related company (Note a)	Lease liabilities (Note b)	1,936	2,561
Wealth Pine Asia Limited	Related company (Note a)	Lease liabilities (Note b)	1,214	1,606

Notes:

- (a) Mr. Cheng Sze Kin, Mr. Cheng Tsz Tsan and Ms. Wong Pik Hung (the “**Ultimate Beneficial Owners**”) have directorship and beneficial and controlling interests in these related companies.
- (b) The lease contracts related to the directors’ quarters provided to the Ultimate Beneficial Owners were classified as right-of-use assets. The rental payments paid to the related companies for the six months ended 30 June 2022 were HK\$1,074,000 (six months ended 30 June 2021: HK\$1,074,000).

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	
	2022 HK\$'000 (unaudited)	2021 HK\$'000 (unaudited)
Salaries and allowances (Note)	6,118	6,069
Retirement benefit schemes contributions	388	385
	6,506	6,454

Note:

The rental payments of HK\$1,074,000 paid for the directors’ quarters for the six months ended 30 June 2022 (six months ended 30 June 2021: HK\$1,074,000) are included in the amount.

21. COMPARATIVE FIGURES

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



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

Investment Committee

Mr. Cheng Sze Kin (*Chairman*)

Mr. Cheng Sze Tsan

Mr. Chow On Wa

Company Secretary

Mr. Ho Yiu Leung

Authorised Representatives

Ms. Wong Pik Hung

Mr. Ho Yiu Leung

Registered Office

PO Box 309, Ugland House

Grand Cayman KY1-1104

Cayman Islands

Headquarters and Principal Place of Business

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Fotan, New Territories

Hong Kong

Auditor

CHENG & CHENG LIMITED,

Certified Public Accountants

Level 35, Tower 1, Enterprise Square Five,

38 Wang Chiu Road, Kowloon Bay, Kowloon,

Hong Kong

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