金貓銀貓 CSmall
买珠宝只选金猫银猫

CSMall Group Limited
金貓銀貓集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1815)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

HIGHLIGHTS OF 2019 INTERIM RESULTS

- Affected by the slowdown in economic growth and the interim effects of the Group's proactive strategic adjustment, profit attributable to owners of the Company for the six months ended 30 June 2019 was approximately RMB41.0 million, representing a decrease of approximately RMB26.4 million or 39.1% as compared to 1H2018

- Benefiting from the remarkable effects of the Group's proactive strategic adjustment and optimisation of product mix, the overall gross profit margin for the period increased significantly to approximately 15.6% (1H2018: 11.7%)

The board of directors (individually, a "**Director**", or collectively, the "**Board**" or the "**Directors**") of CSMall Group Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "**Group**" or "**we**") for the six months ended 30 June 2019 together with the comparative figures for the corresponding period in 2018 ("**1H2018**"). The results for the current interim period have been reviewed by our auditor, Deloitte Touche Tohmatsu, Certified Public Accountants in Hong Kong, 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 and the audit committee of the Company (the "**Audit Committee**") with no disagreement.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Notes	Six months ended 30 June	
		2019	2018
		RMB'000	*RMB'000*
		(unaudited)	(unaudited)
Revenue	3	**709,768**	1,343,490
Cost of sales		**(599,334)**	(1,186,397)
Gross profit		**110,434**	157,093
Other income		**3,115**	2,054
Other gains and losses		**70**	6,782
Impairment loss, net of reversal	9	**(5,577)**	–
Selling and distribution expenses		**(16,976)**	(17,910)
Administrative expenses		**(32,953)**	(41,321)
Finance costs		**(216)**	–
Listing expenses		**–**	(9,285)
Profit before tax		**57,897**	97,413
Income tax expense	4	**(16,881)**	(30,034)
Profit for the period	5	**41,016**	67,379
Other comprehensive expense			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**–**	(1,437)
Total comprehensive income for the period		**41,016**	65,942
Earnings per share	7	***RMB***	***RMB***
Basic		**0.04**	0.07
Diluted		**N/A**	0.07

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019

	Notes	**30 June 2019**	31 December 2018
		RMB'000	RMB'000
		(unaudited)	(audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**13,166**	14,987
Right-of-use assets		**7,544**	–
Deferred tax assets		**4,258**	1,140
Intangible assets		**1,372**	2,463
Deposits paid on acquisition of a land use right		**242,828**	138,043
		269,168	156,633
CURRENT ASSETS			
Inventories		**427,273**	388,580
Trade and other receivables	8	**545,368**	702,415
Amount due from immediate holding company		**9,629**	10,600
Amounts due from fellow subsidiaries		**15,762**	898
Bank balances and cash		**426,477**	269,007
		1,424,509	1,371,500
CURRENT LIABILITIES			
Trade and other payables	10	**383,973**	263,660
Lease liabilities – current portion		**6,545**	–
Contract liabilities		**7,238**	13,305
Amounts due to fellow subsidiaries		**7,509**	6,223
Amounts due to related companies		**9,760**	10,660
Income tax payable		**16,522**	14,250
		431,547	308,098
NET CURRENT ASSETS		**992,962**	1,063,402
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,262,130**	1,220,035

	30 June 2019	31 December 2018
	RMB'000	RMB'000
	(unaudited)	(audited)
CAPITAL AND RESERVES		
Share capital	**711**	711
Share premium and reserves	**1,260,340**	1,219,324
TOTAL EQUITY	**1,261,051**	1,220,035
NON-CURRENT LIABILITY		
Lease liabilities – non-current portion	**1,079**	–
TOTAL EQUITY AND NON-CURRENT LIABILITY	**1,262,130**	1,220,035

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 ("**IAS 34**") *Interim Financial Reporting* issued by International Accounting Standards Board ("**IASB**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("**IFRSs**"), 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 presented in the Group's annual financial statements for the year ended 31 December 2018.

In the current interim period, the Group has applied, for the first time, certain new and amendments to IFRSs issued by the IASB which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements. Except as described below in note 2, the application of the new and amendments to IFRS in the current period has had no material impact on the Group's financial positions and performance for the current or prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2. IMPACTS AND CHANGES IN ACCOUNTING POLICIES OF APPLICATION OF IFRS 16 LEASES ("IFRS 16")

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 *Leases* ("**IAS 17**"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 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 IFRS 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

Short-term leases

The Group applies the short-term lease recognition exemption to leases of office premises, showrooms, warehouses and retail shops that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, 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 assets 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 is 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.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* ("**IFRS 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 recognises 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 payable 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.

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 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.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

2.1.2 Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard 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 IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 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 IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 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 terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of office premises, showrooms, warehouses and retail shops was determined on a portfolio basis.

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

As at 1 January 2019, the Group recognised lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying IFRS 16.C8(b)(ii) transition.

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 incremental borrowing rate applied by the relevant group entities is 4.75% per annum.

	At 1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	11,644
Lease liabilities discounted at relevant incremental borrowing rates	11,184
Less: Recognition exemption – lease terms end within 12 months from the date of initial application	(821)
Lease liabilities as at 1 January 2019	10,363
Analysed as	
Current	6,246
Non-current	4,117
	10,363

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

	Right-of-use assets
	RMB'000
Right-of-use assets relating to operating leases recognised upon application of IFRS 16	10,363
By class:	
Office premises, showrooms, warehouses and retail shops	10,363

Before the application of IFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which IAS 17 applied. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. The adjustment arising from refundable rental deposit as at 1 January 2019 is insignificant and has no material impact to the Group's financial position and performance.

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 IFRS 16 at 1 January 2019**
	RMB'000	*RMB'000*	*RMB'000*
Non-current Assets			
Right-of-use assets	–	10,363	10,363
Current Liabilities			
Lease liabilities – current portion	–	6,246	6,246
Non-current Liability			
Lease liabilities – non-current portion	–	4,117	4,117

Note: For the purpose of reporting cash flows for the six months ended 30 June 2019, movements have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

The application of IFRS 16 has no material impact on the retained profits.

3. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue from contracts with customers

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Sales of gold products, other than first hand gold bars	**384,016**	664,815
Sales of silver products	**224,332**	322,209
Sales of gem-set and other jewellery products	**101,420**	96,327
Sales of first hand gold bars	**–**	255,778
Sales of diamonds	**–**	4,361
	709,768	1,343,490

All of the Group's revenue is recognised at a point in time during the six months ended 30 June 2019 and 2018.

(ii) Segment information

The Group only has one operating and reportable segment. Management determines the operating segment based on the information reported to the Group's chief operating decision makers ("**CODMs**") (i.e. the executive directors of the Company). The CODMs assess the operating performance and allocate the resources of the Group as a whole as the Group is primarily engaged in the business of design and sale of gold, silver and jewellery products in the People's Republic of China (the "**PRC**") and Hong Kong. Accordingly, there is only one operating and reportable segment.

No analysis of segment assets and liabilities is presented because the CODMs do not base on such analysis for resources allocation and performance assessment.

(iii) Geographical information

Information about the Group's revenue is presented below by geographical location based on the location of operations.

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
The PRC	**709,768**	1,339,129
Hong Kong	**–**	4,361
	709,768	1,343,490

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
PRC Enterprise Income Tax ("**EIT**")		
– current period	**19,049**	29,871
– underprovision in respect of prior periods	**950**	163
	19,999	30,034
Deferred taxation for the period	**(3,118)**	–
	16,881	30,034

At the end of the reporting period, the Group has unused tax losses of RMB17,676,000 (31 December 2018: RMB15,879,000) available for offset against future profits. Included in unrecognised tax losses are losses of RMB13,090,000 (31 December 2018: RMB11,294,000) that will expire in 2019 to 2024 (31 December 2018: 2018 to 2023). Other losses may be carried forward indefinitely. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams.

Under the Law of the PRC on EIT (the "**EIT Law**") and its related implementation regulations, the tax rate of the Group's PRC subsidiaries is 25% for both periods, except that Shenzhen Yunpeng Software Development Company Limited（深圳雲鵬軟件開發有限公司）, was recognised as a Software Enterprise by the PRC tax authorities and entitled to an exemption for the first two consecutive years beginning from 2016 and a 50% reduction for the following three consecutive years, which is subject to review once every year.

5. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging (crediting):		
Cost of inventories recognised as an expense	**599,334**	1,186,397
Depreciation of property, plant and equipment	**1,881**	1,735
Depreciation of right-of-use assets	**3,376**	–
Exchange gain	**(78)**	(6,788)
Amortisation of intangible assets (included in selling and distribution expenses)	**1,091**	1,331
Rental expense on short-term lease in respect of retail shops	**793**	–
Operating lease rentals in respect of office premises and retail shops	**–**	5,113

6. DIVIDENDS

No dividends were paid, declared or proposed during the current interim period (six months ended 30 June 2018: Nil). The directors of the Company have determined that no dividends will be paid in respect of the current interim period.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic and diluted earnings per share	**41,016**	67,379
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share (in thousand)	**1,053,588**	966,798
Basic earnings per share *(RMB)*	**0.04**	0.07
Diluted earnings per share *(RMB)*	**N/A**	0.07

For the six months ended 30 June 2018, the computation of diluted earnings per share does not assume the exercise of the Company's over-allotment option because the exercise price of those options was higher than the average market price for shares.

No diluted earnings per share for the six months ended 30 June 2019 is presented as there were no potential dilutive shares in issue for that period.

8. TRADE AND OTHER RECEIVABLES

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
Trade receivables for sales of goods	**300,202**	218,894
Less: allowance for credit loss	**(7,583)**	(2,006)
	292,619	216,888
Deposits and prepayments	**39,565**	44,476
Prepayments to suppliers *(Note)*	**196,228**	412,081
Value-added tax recoverable	**16,956**	28,970
	545,368	702,415

Note: Included in the balance are prepayments to a fellow subsidiary with a carrying amount of RMB195,726,000 (31 December 2018: RMB362,081,000).

The Group does not grant any credit period to its retail customers and generally grants its other customers a credit period ranging from 0 to 60 days and requires advance deposits for 30% to 100% of the contract value from its customers before delivery of goods.

The ageing analysis of the Group's trade receivables net of allowance for credit losses based on invoice date, which approximately the respective revenue recognition dates at the end of the reporting period, is as follows:

	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
0 – 30 days	**207,724**	164,017
31 – 60 days	**26,594**	12,552
61 – 90 days	**25,169**	13,713
Over 90 days	**33,132**	26,606
	292,619	216,888

In order to minimise credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts.

Details of impairment assessment of trade and other receivables for the six months ended 30 June 2019 and 2018 are set out in note 9.

9. IMPAIRMENT ASSESSMENT ON FINANCIAL ASSETS SUBJECT TO EXPECTED CREDIT LOSS MODEL

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Impairment loss recognised in respect of trade receivables, net of reversal	**5,577**	–

The basis of determining the inputs and assumptions and the estimation techniques used in these 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 financial statements for the year ended 31 December 2018.

10. TRADE AND OTHER PAYABLES

	30 June 2019 *RMB'000* **(unaudited)**	31 December 2018 *RMB'000* (audited)
Trade payables		
0-30 days	**63,390**	119,761
31-60 days	**33,855**	71,387
60-90 days	**47,742**	49,684
91-180 days	**67,868**	–
181-365 days	**136,861**	327
Over 365 days	**3,399**	–
	353,115	241,159
Accrued listing costs	**1,346**	1,281
Other payables and accrued expenses	**21,475**	17,299
Customer receipts in advance	**1,132**	2,517
Value-added tax and other taxes payables	**6,905**	1,404
	383,973	263,660

The credit period of purchase of goods and subcontracting costs generally ranges from 1 to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Due to the adverse impact of the Sino-US trade war on the macro-economy, PRC's economic growth has slowed down, posing a negative impact on the PRC's retail market. Changes in and impacts on the macro-environment created a sluggish business climate and reduced consumer sentiment, adding uncertainties to the Group. In addition, the Group implemented proactive strategic adjustments to its previous promotion strategy of attracting user traffic with low-margin gold bars. The Group has shifted its strategy to the expansion and optimisation of product mix to enhance the sales proportion of high-margin products on the basis of consolidating and further capitalising on the results of the previous traffic-boosting promotion strategy. As a result, the Group's overall sales in the first half of 2019 showed a downward trend compared with the same period of last year.

In the first half of 2019, the Group rolled out, implemented and optimized its strategic deployment, made appropriate adjustments to its strategies and invested more resources in its offline retail and service network. During the period, the Group expanded its offline service outlets by integrating, optimizing and empowering traditional jewellery retail franchisees to realise the continuous enhancement and positive development of the Group's online and offline integrated new jewellery retail strategy.

Since establishment, the Group has implemented a clear development strategy: we will first attract user traffic through promotion of low-margin gold bars to build a large-scale fundamental user base; on this basis, the Group will then capitalise on the fundamental user base and stimulate users, so as to increase the repeat purchase rate and conversion rate. Based on big data, cloud computing, artificial intelligence and other technologies and online and offline integrated mutual boosting of traffic, the Group will manage its user traffic through automatic matching, accurate push, social fission and other intelligent, social, Internet-based precision marketing initiatives to let this fundamental user base grow continuously to form an enormous user traffic base gradually.

In order to expand the customer base, quickly capture more market share and substantially increase user traffic, in previous years the Group conducted promotion of low-margin gold bars, thus attracting a lot of users. After attracting a large number of users due to the recognition by the market and following the adjustment to the sales strategy in 2018, the Group ceased to promote the sales of low-margin first hand gold bars. In view of the declined sales of first hand gold bars which had a higher unit price, the overall revenue of the Group declined compared with the previous year, as a result of the interim effects of the Group's proactive strategic adjustment. Meanwhile, the Group vigorously developed more diverse products to provide more options to customers and increased the sales of high-margin products. The abovementioned strategy of optimisation of product mix has achieved the expected significant positive effects, giving rise to an increase in the revenue from high-margin products in the first half of 2019 as compared to the same period of 2018 and a significantly higher overall gross profit margin of the Group.

Furthermore, on the basis of developing its offline retail sales network, the Group intensified service and membership maintenance and management of the platform and the platform was upgraded to a membership-based platform with the stimulation, operation and maintenance for the existing approximately 9.7 million members intensified. As a result, the platform's number of active members, repeat purchase rate and sales conversion rate all recorded a substantial increase over the same period of last year. With the continuous development of technologies such as artificial intelligence, cloud computing and big data, the development of the internet has entered a new era. The combination of the internet with intelligent technologies has made offline scenes an important traffic portal. We developed the "Intelligent Marketing Decision Support System" by using technologies and big data to analyse the data from online platforms and offline stores, which provided valuable information on customers' behaviors and preferences and allowed us to gain an insight into operational and business strategies, thereby creating a new online and offline integrated retail platform that better satisfies users' needs and offers better consumer experience.

Online Sales Channels

(1) Self-operated online platform

The Group's past implementation of the established strategy of attracting user traffic through promotion of low-margin gold bars has achieved significant expected results. As of 30 June 2019, the number of registered members on our self-operated online jewellery platform, which consists of www.csmall.com, m.csmall.com and the mobile app of "金貓銀貓CSmall", surpassed approximately 9.7 million. On this basis, the Group started to implement the second stage of the established strategy and the platform was upgraded to a membership-based platform in the first half of 2019. The focus of the platform was adjusted from the original vigorous solicitation of new members to the stimulation and enhancement of benefits for existing members, which generated remarkable results. As of 30 June 2019, the number of active members of the platform was approximately 3.1 million, representing an increase of approximately 39.9% as compared with the same period of last year; the repeat purchase rate of members was approximately 6.4%, representing an increase of approximately 213.0% as compared with the same period of last year; and the sales conversion rate of the platform's members was approximately 40.0%, representing an increase of approximately 66.7% as compared with the same period of last year.

(2) Television and video shopping channels

As of 30 June 2019, we cooperated with a total of 23 television and video shopping channels to promote and sell our jewellery products and became a core supplier in the gold, silver and jewellery category of all top television channels, which enabled us to achieve satisfactory sales performance. With a daily coverage of over 100 million domestic viewers in the PRC, our brand awareness among viewers of Chinese television and video shopping channels was enhanced substantially.

(3) Third-party online marketplaces

We cooperate with third-party online marketplaces and retail platforms such as Tmall (天貓), JD.com (京東), Suning (蘇寧) and WeChat (微信), etc., to promote our jewellery products.

Offline Retail and Service Network

(1) CSmall Shops

We offer intimate on-the-ground sales and services to our customers, including jewellery fitting and maintenance services, which we believe are indispensable to the jewellery shopping experience, at our CSmall Shops. The Group optimised its strategic deployment in the first half of 2019. In the first half of 2019, we closed 28 stores and opened 37 new stores. As of 30 June 2019, we had 107 CSmall Shops located in 17 provinces and municipalities in the PRC, consisting of 16 self-operated CSmall Shops and 91 franchised CSmall Shops with presence in Anhui, Beijing, Fujian, Guangdong, Hebei, Heilongjiang, Henan, Hubei, Hunan, Inner Mongolia, Jiangsu, Jiangxi, Liaoning, Shandong, Shanghai, Tianjin and Zhejiang.

(2) Shenzhen Exhibition Hall

We sell products at our Shenzhen Exhibition Hall with a gross floor area of approximately 1,500 square meters in Shuibei, Shenzhen which is generally believed to be home to PRC's largest and leading jewellery trading and wholesale market. Our Shenzhen Exhibition Hall showcases the product designs of our self-owned brands and certain third-party brands, and also serves as an interactive exhibition and sales platform primarily for our wholesale customers as well as our franchisees.

(3) Third-party offline points of sale

We also distribute our jewellery products and provide product customization service through various third-party offline points of sale, which are certain commercial banks we cooperated with. Meanwhile, we cooperate with branded retailers, entertainment service providers, commercial banks, telecommunications service providers and insurance companies through our innovative business model, namely CSmall Gift.

New Retailing Model

We integrated our online and offline jewellery sales channels and developed a new jewellery retailing model to offer multi-dimensional one-stop shopping experience to customers under our business philosophy of "turning jewellery into accessory, blending silverware into daily life, injecting artistic creativity into products, and intelligentizing service".

(1) Turning jewellery into accessory

With the rise of young customers and the increase in spending levels, jewellery is becoming more fashionable and personalized. We will continue to embrace the product philosophy of affordable luxury and fast fashion and regularly roll out a wide selection of affordable jewellery products with diversified and fashionable designs to keep pace with the evolving market trend and the growing demand for affordable jewellery products in the PRC.

(2) Blending silverware into daily life

Practical silver products such as tableware, tea sets and wineware have become another mainstream development trend in the precious metal gift market. We have strengthened the design and research and development of silver gift products to produce more refined and practical silverwares with the aim of truly integrating precious metal gifts into people's daily lives.

(3) Injecting artistic creativity into products

As the cultural and creative industries are gradually developing into a new economic category with great potential in the PRC, related products are springing up like mushrooms. We have recruited more outstanding designers and maintained cooperation with design associations to explore cultural resources in order to create more products with cultural heritage and artistic elements. We have also promoted cultural and creative handicraft in collaboration with communities and tourist attractions. Meanwhile, the Group has made significant investments in Baiyin Town (Shanghai) Cultural Industry Company Limited（白銀小鎮（上海）文化產業有限公司）, which can lay an important foundation for the Group to strengthen its new integrated online and offline retail platform by building a demonstration site of cultural tourism with jewellery elements, as well as a production and incubation base for jewellery retailing.

(4) Intelligentizing service

One of the subsidiaries of the Group, Shenzhen Yunpeng Software Development Company Limited（深圳雲鵬軟件開發有限公司）, was honourably awarded the National High-Tech Enterprise Qualification in 2018. Our robust technical R&D team has created an "intelligent marketing decision support system" for the jewellery industry. Through collecting and analyzing data from both online platforms and offline stores, such system provides valuable information on customers' behavior and preferences, thereby allowing retailers to gain an insight into operational and business strategies. Big data analytics not only allows us to understand customers' behavior and preferences, but also equips us with an insight into our operational and business strategies, thereby providing consumers with better shopping experience and better products.

Prospects

Looking ahead, we remain optimistic about the long-term prospects of the PRC jewellery market, in particular the broad prospects for the change of the traditional jewellery retail model with the online and offline integrated new jewellery retail strategy. Worries about the Sino-US trade war have hit the global business climate, but we will remain vigilant in the tough retail environment. To further enhance the Group's competitive advantage, we will continue to expand the retail network strategically in various regions. Our goal is still to maintain and consolidate our position as a leading integrated online and offline Internet-based jewellery retailer in the PRC. The strengthening of our offline experience and service network construction has become the top priority for the Group to achieve offline and online integrated new jewellery retail strategy. With the adjustment and strategic realignment of our offline retail network in the first half of 2019, we expect to see a rapid growth trend in the second half of the year. We will integrate, optimize and empower traditional jewellery enterprises through the introduction of renowned companies or entrepreneurs in the jewellery industry as strategic investors to combine the strength of the mighty ones, the participation in jewellery fairs in collaboration with jewellery industry associations to attract potential franchisees, and other ways to rapidly expand our physical sales network. Meanwhile, we also bring growth opportunities through upgrading products and services. After upgrading to a membership-based mall, our CSMall self-operated online platform plans to provide independent operation functionality for cooperating brands and merchants in the second half of 2019, with an open platform providing optimized big data services. With intelligentization, big data and other technologies and the support of the supply chain of CSMall, we have built a very strong new online and offline integrated jewellery retail platform.

We believe that the Sino-US trade negotiations will take time to resolve, while the maintenance of domestic consumption growth is an important strategy for the government. The Group remains optimistic about its medium and long-term business prospects. On the other hand, we have also noticed that the continuous growth of risk aversion sentiment caused by global economic instability has led to the continuous increase in the price of precious metals including gold and silver in the international market since May 2019, which may stimulate consumers' purchase of gold, silver and other precious metal products or other jewellery with value-preserving functions. The Group is therefore confident in the business performance in the second half of 2019. From the perspective of the Group's previous formulation of a sound development strategy and its effective implementation, including the interim effects of the implementation of proactive strategic adjustments in the first half of 2019, it is expected that, after the important strategic adjustments in the current stage, the conditions will be more mature for the Group to further enhance and develop the online and offline integrated new jewellery retail strategy and the Group will see more promising and sustained long-term growth in the foreseeable future.

Financial Review

Revenue

The revenue of the Group for the six months ended 30 June 2019 was approximately RMB709.8 million (1H2018: RMB1,343.5 million), representing a decrease of approximately 47.2% from that of the corresponding period in 2018. This was a result of the market environment affected by economic slowdown and, more importantly, the Group's proactive strategic adjustment whereby it changed its promotion strategy from attracting user traffic through low-margin gold bars in the first stage to the optimisation of product mix and promotion of high-margin products.

	Six months ended 30 June			
	2019		2018	
	Revenue *RMB'000*	**% of revenue**	Revenue *RMB'000*	% of revenue
Online Sales Channels				
Self-operated online platform	283,447	39.9%	701,325	52.2%
Third-party online sales channels	168,173	23.7%	221,681	16.5%
	451,620	63.6%	923,006	68.7%
Offline Sales and Service Network				
CSmall Shops	112,909	15.9%	360,937	26.9%
Shenzhen Exhibition Hall	134,311	18.9%	12,735	0.9%
Third-party offline points of sale	637	0.1%	5,425	0.4%
	247,857	34.9%	379,097	28.2%
CSmall Gift Initiatives	10,291	1.5%	41,387	3.1%
Total	709,768	100%	1,343,490	100%

Online Sales Channels

For the six months ended 30 June 2019, the online sales channels recorded sales of approximately RMB451.6 million (1H2018: RMB923.0 million), representing a decrease of approximately 51.1%, mainly due to the adverse impact of the Sino-US trade war on the macro-economy and the slowdown in PRC's economic growth, which have had a negative impact on the PRC retail market.

Offline Sales and Service Network

During the period, the offline sales and service network recorded sales of approximately RMB247.9 million (1H2018: RMB379.1 million), representing a decrease of approximately 34.6%, mainly due to the strategic reduction of the sale of low-margin first hand gold bars coupled with an increase in the sale of high-margin silver and jewellery products.

CSmall Gift Initiatives

Revenue from our CSmall Gift Initiatives for the six months ended 30 June 2019 was approximately RMB10.3 million (1H2018: RMB41.4 million), representing a decrease of approximately 75.1%, mainly because our CSmall Gift partners have shifted their purchase to our online and offline sales channels.

Cost of Sales and Services Provided

Cost of sales decreased from approximately RMB1,186.4 million for the six months ended 30 June 2018 to approximately RMB599.3 million for the six months ended 30 June 2019, representing a decrease of approximately 49.5%, mainly due to the decrease in our overall revenue during the current period.

Gross Profit and Gross Profit Margin

We recorded gross profit of approximately RMB110.4 million (1H2018: RMB157.1 million) for the six months ended 30 June 2019, a decrease of approximately 29.7% as compared to that of the corresponding period in 2018, which was mainly attributable to the decrease in overall revenue during the period. The overall gross profit margin increased from approximately 11.7% to approximately 15.6%, primarily attributable to the adjustments to our sale strategy as we optimised our product mix to focus on the sale of a more diverse product offering and the promotion of high-margin silver and jewellery products.

Other Income, Gains and Losses

Other income, gains and losses mainly includes interest income and net exchange (gain)/losses.

Selling and Distribution Expenses

Selling and distribution expenses decreased by approximately 5.2% from approximately RMB17.9 million for the six months ended 30 June 2018 to approximately RMB17.0 million for the six months ended 30 June 2019 primarily as a result of the decrease in advertising and promotion expenses in line with the decrease in our overall revenue in current period.

Administrative Expenses

Administrative expenses decreased by approximately 20.3% from approximately RMB41.3 million for the six months ended 30 June 2018 to approximately RMB32.9 million for the six months ended 30 June 2019. The decrease was primarily due to the decrease in staff remuneration expenses as a result of a decrease in the average number of staff members during the period.

Listing Expenses

Listing expenses represent expenses incurred in connection with the listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Listing**") and the global offering of the Company (the "**Global Offering**") such as underwriting commissions and professional fees paid to our reporting accountants, legal advisers and other professional advisers for their services rendered. No listing expense was recorded for the six months ended 30 June 2019 (1H2018: RMB9.3 million).

Income Tax Expense

The amount decreased primarily due to a decrease in profit before tax.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company decreased significantly from approximately RMB67.4 million to approximately RMB41.0 million for the six months ended 30 June 2019 mainly due to the decrease in our overall revenue in the current period.

Inventories, Trade Receivables and Trade Payables Turnover Cycle

The Group's inventories mainly comprise silver bars, jewellery products and gold bars. For the six months ended 30 June 2019, inventory turnover days were approximately 125 days (for the year ended 31 December 2018: 61 days) mainly due to relatively more purchases made towards the end of the period to fulfill customer orders for the second half of 2019.

The turnover days for trade receivables for the six months ended 30 June 2019 were approximately 66 days (for the year ended 31 December 2018: 19 days) mainly due to relatively more sales generated towards the end of the period resulting in increased trade receivables at the end of the period.

The turnover days for trade payables for the six months ended 30 June 2019 were approximately 91 days (for the year ended 31 December 2018: 31 days) mainly due to the extension of credit periods from certain suppliers and more purchases of certain products in order to fulfill customer orders for the second half of 2019.

Borrowings

Save as aforesaid and apart from intra-group liabilities and lease liabilities, as of 30 June 2019, we did not have any outstanding bank borrowings, debt securities, charges, mortgages, or other similar indebtedness, liabilities under acceptances or acceptance credits, hire purchase and finance lease commitments, any guarantees or material contingent liabilities. We do not expect to raise material external debt financing in the near future based on our current business plans.

Capital Expenditures

For the six months ended 30 June 2019, the Group invested approximately RMB0.06 million in property, plant and equipment (1H2018: RMB7.9 million).

For the six months ended 30 June 2019, the Group paid additional deposits and other direct cost of approximately RMB104.8 million in relation to the acquisition of land use right (1H2018: Nil).

Capital Commitments

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of land use right	**91,618**	182,932

Contingent Liabilities

As at 30 June 2019 and 31 December 2018, the Group did not have any contingent liabilities.

Employees

As of 30 June 2019, the Group employed 337 staff members and the total remuneration for the six months ended 30 June 2019 amounted to approximately RMB18.8 million (1H2018: RMB23.2 million). The Group's remuneration packages are in line with the current legislation in the relevant jurisdictions, the experience and qualifications of individual employees and the general market conditions. Bonuses are linked to the Group's financial results as well as to individual performances. The Group ensures that adequate training and professional development opportunities are provided to all employees so as to satisfy their career development needs.

Liquidity and Financial Resources

The Group maintained a healthy liquidity position during the current interim period. The Group was principally financed by internal resources and net proceeds received from the Global Offering. The Group's principal financial instruments comprise cash and cash equivalents, trade and other receivables and trade and other payables. As of 30 June 2019, the cash and cash equivalents, net current assets and total assets less current liabilities were approximately RMB426.5 million (as of 31 December 2018: RMB269.0 million), RMB993.0 million (as of 31 December 2018: RMB1,063.4 million) and RMB1,262.1 million (as of 31 December 2018: RMB1,220.0 million), respectively. As of 30 June 2019, the Group did not have bank borrowings.

Interim Dividend

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2019 (1H2018: Nil).

Significant Investment Held, Material Acquisition and Disposal

Save as disclosed above, the Group did not hold any significant investment nor did the Group carry out any material acquisition and disposal during the six months ended 30 June 2019.

Use of Proceeds from the Global Offering

The net proceeds received by the Company from the Global Offering amounted to approximately RMB329.3 million after deducting underwriting commissions and all related expenses; and were being kept at the bank accounts of the Group as of 30 June 2019. Proceeds have been and will continue to be used in a manner consistent with that mentioned in the section headed "Future Plans and Use of Proceeds" in the Company's prospectus dated 28 February 2018. The unused amount of the net proceeds as at 30 June 2019 amounted to approximately RMB156.3 million.

The Group mainly holds unused net proceeds as short-term deposits or time deposits with licensed banks and accredited financial institutions in the PRC or Hong Kong.

Significant Event After the Reporting Period

On 16 August 2019, an extraordinary general meeting of the Company were held to approve the transactions disclosed in the announcement jointly issued by the Company and China Silver Group Limited on 6 May 2019 (the "**Joint Announcement**") and the circular of the Company dated 31 July 2019 (the "**Circular**") regarding, among other things, the issuance of new shares to participants of a new employee share scheme and the subscription by a strategic investor, Mr. Yao Runxiong (the "**Transactions**").

As at the date of this announcement, no new share has been issued by the Company pursuant to the Transactions. Further details of the Transactions are set out in the Joint Announcement and the Circular.

Code of Corporate Governance Practice

The Company is committed to maintaining high standard of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and responsibility. The Board comprises three executive Directors and three independent non-executive Directors. The Board has adopted the code provisions of the Corporate Governance Code (the "**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). During the six months ended 30 June 2019, the Company had complied with the code provisions under the CG Code except for code provision A.2.1.

Code provision A.2.1 of the CG Code provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Chen He is currently both the Chairman of the Board and a co-Chief Executive Officer of the Company. He has been leading the Group for many years since he joined the Group in 2013. He has been the driving force behind our development, growth and expansion and is primarily responsible for the overall management of the Group and for directing strategic developments and business plans of the Group. In light of the above, all of the Directors consider Mr. Chen to be the best candidate for both positions and that such arrangement is beneficial to and in the best interests of the Group and the shareholders of the Company as a whole.

The Board will continue to review the situation and consider splitting the roles of Chairman and Chief Executive Officer of the Company in due course after taking into account of the then overall circumstances of the Group.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct for Directors in their dealings in the securities of the Company. Having made specific enquiry with all the Directors, all the Directors confirmed that they had complied with the required standard of dealings as set out in the Model Code during the six months ended 30 June 2019.

Purchase, Sale or Redemption of the Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2019.

Audit Committee

The Audit Committee has reviewed the financial reporting processes, risk management and internal control systems of the Group, and discussed with the external auditors the condensed consolidated financial statements for the six months ended 30 June 2019. The Audit Committee is of the opinion that these statements had complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures had been made.

Acknowledgement

Gratitude is expressed to the management and all of our staff for their hard work and dedication, as well as our shareholders and customers for their continuous support to the Group.

Publication of Results Announcement and Interim Report

This announcement is published on the websites of the Company (www.csmall.com) and the Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The 2019 interim report of the Company will be dispatched to the shareholders of the Company and made available on the same websites in due course.

By Order of the Board
CSMall Group Limited
Chen He
Chairman

Hong Kong, 28 August 2019

As at the date of this announcement, the executive directors of the Company are Mr. Chen He, Mr. Zhang Jinpeng, and Mr. Qian Pengcheng; and the independent non-executive directors of the Company are Mr. Fu Lui, Mr. Hu Qilin, and Mr. Zhang Zuhui.