# CSMall Group Limited
# 金 貓 銀 貓 集 團 有 限 公 司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1815)**

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

**HIGHLIGHTS OF 2018 ANNUAL RESULTS**

- As a result of adjustment of sales strategy, consolidated revenue decreased to RMB2.50 billion, representing a decrease of approximately 29.0% as compared to 2017
- Excluding one-off professional fees relating to the listing of the Company, gross profit and profit for the year increased by 25.4% and 27.1% respectively as compared to 2017
- Gross profit margin and net profit margin for the year expanded to 12.6% (2017: 7.1%) and 5.7% (2017: 2.9%) respectively as compared to 2017

The board of directors (individually, a "**Director**", or collectively, the "**Board**") of CSMall Group Limited (the "**Company**") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively the "**Group**" or "**we**") for the year ended 31 December 2018.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31 DECEMBER 2018

| | *Notes* | **2018** | 2017 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Revenue | 3 | **2,497,849** | 3,519,581 |
| Cost of sales | | **(2,182,667)** | (3,268,296) |
| Gross profit | | **315,182** | 251,285 |
| Other income, gains and losses | | **19,612** | 22 |
| Impairment loss on financial assets | | **(2,006)** | — |
| Selling and distribution expenses | | **(48,363)** | (41,726) |
| Administrative expenses | | **(68,404)** | (51,339) |
| Share of results of associates | | **—** | (18) |
| Other expenses | | **(10,095)** | (81) |
| Listing expenses | | **(9,285)** | (18,645) |
| Profit before tax | | **196,641** | 139,498 |
| Income tax expense | 5 | **(53,964)** | (38,557) |
| Profit for the year | 6 | **142,677** | 100,941 |
| **Other comprehensive expense** | | | |
| *Item that may reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising on translation of foreign operations | | **—** | (16) |
| Total comprehensive income for the year | | **142,677** | 100,925 |
| Profit (loss) for the year attributable to: | | | |
| Owners of the Company | | **142,677** | 101,305 |
| Non-controlling interests | | **—** | (364) |
| | | **142,677** | 100,941 |
| Total comprehensive income (expense) for the year attributable to: | | | |
| Owners of the Company | | **142,677** | 101,289 |
| Non-controlling interests | | **—** | (364) |
| | | **142,677** | 100,925 |
| Basic earnings per share (RMB) | 8 | **0.14** | 0.12 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

| | *Notes* | **2018** | 2017 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **14,987** | 10,711 |
| Intangible assets | | **2,463** | 4,351 |
| Deferred tax assets | | **1,140** | — |
| Deposits paid on acquisition of property, plant and equipment | | **—** | 6,920 |
| Deposits paid on acquisition of a land use right | | **138,043** | — |
| | | **156,633** | 21,982 |
| CURRENT ASSETS | | | |
| Inventories | | **388,580** | 342,783 |
| Trade and other receivables | 9 | **702,415** | 201,962 |
| Amount due from immediate holding company | | **10,600** | 522 |
| Amount due from a fellow subsidiary | | **898** | — |
| Amount due from a related company | | **—** | 30 |
| Bank balances and cash | | **269,007** | 338,006 |
| | | **1,371,500** | 883,303 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 10 | **263,660** | 158,255 |
| Contract liabilities | | **13,305** | — |
| Amount due to immediate holding company | | **—** | 380,228 |
| Amounts due to fellow subsidiaries | | **6,223** | 3,273 |
| Amount due to related companies | | **10,660** | 760 |
| Income tax payable | | **14,250** | 16,578 |
| | | **308,098** | 559,094 |
| NET CURRENT ASSETS | | **1,063,402** | 324,209 |
| NET ASSETS | | **1,220,035** | 346,191 |

| | 2018 | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| CAPITAL AND RESERVES | | |
| Share capital | **711** | 572 |
| Reserves | **1,219,324** | 345,619 |
| TOTAL EQUITY | **1,220,035** | 346,191 |

## 1. GENERAL, GROUP REORGANISATION AND BASIS OF PREPARATION

CSMall Group Limited (the "**Company**") was incorporated and registered as an exempted company in the Cayman Islands with limited liability on 19 January 2017. The addresses of the registered office is Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman, KY1-9007, Cayman Islands and principal place of business of the Company is Room 1417, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Sheung Wan, Hong Kong.

Pursuant to a group reorganisation to rationalise the group structure in the preparation for the listing of the Company's shares on the Main Board of the Stock Exchange (the "**Reorganisation**"), the Company became the holding company of the companies now comprising the Group on 19 January 2017. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. Details of the Reorganisation are set out in the Company's prospectus dated 28 February 2018 (the "**Prospectus**") and the Company's shares are successfully listed since 13 March 2018.

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2017 have been prepared as if the group structure under the Reorganisation had been in existence throughout the year or since its respective date of incorporation or establishment, whichever is the shorter period.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the "**Group**") operate the business of design and sale of gold, silver and jewellery products in Hong Kong and the People's Republic of China (the "**PRC**").

The immediate and ultimate holding company is China Silver Group Limited ("**China Silver Group**"), a public limited company incorporated in the Cayman Islands with its shares listed on the Main Board of the Stock Exchange.

The consolidated financial statements are presented in Renminbi ("**RMB**"), which is the same as the functional currency of the Company.

## 2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

**New and Amendments to IFRSs that are mandatorily effective for the current year**

The Group has applied the following new and amendments to IFRSs issued by the International Accounting Standards Board ("**IASB**") for the first time in the current year.

| | |
|---|---|
| IFRS 9 | Financial Instruments |
| IFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts |
| Amendments to IAS 28 | As part of the Annual Improvements to IFRS Standards 2014 - 2016 Cycle |
| Amendments to IAS 40 | Transfers of Investment Property |

Except as disclosed below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or the disclosures set out in these consolidated financial statements.

### 2.1 IFRS 15 "Revenue from Contracts with Customers"

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 "Revenue" and the related interpretations. The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 18 and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Sales of gold products, except for first-hand gold bars
- Sales of first-hand gold bars
- Sales of silver products
- Sales of gem-set and other jewellery products
- Sales of diamonds

*Summary of effects arising from initial application of IFRS 15*

As at 1 January 2018, customer receipts in advance of RMB2,249,000 were reclassified to contract liabilities.

Without application of IFRS 15, contract liabilities of RMB13,305,000 would be classified as customer receipts in advance under trade and other payables as at 31 December 2018.

Other than the reclassification of contract liabilities, the application of IFRS 15 has no material impact on the amounts reported in the consolidated financial statements.

### 2.2 IFRS 9 "Financial Instruments"

In the current year, the Group has applied IFRS 9 "Financial Instruments" and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("**ECL**") for financial assets and 3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

*Summary of effects arising from initial application of IFRS 9*

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. The application of IFRS 9 has had no material effect on classification and measurement of financial assets in these consolidated financial statements. The directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9. No impairment allowance was recognised at 1 January 2018 as the amount involved is insignificant.

**New and amendments to IFRSs in issue but not yet effective**

The Group has not early applied the following new and amendments to IFRSs and an interpretation that have been issued but are not yet effective:

| | |
|---|---|
| IFRS 16 | Leases[1] |
| IFRS 17 | Insurance Contracts[4] |
| IFRIC 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to IFRS 3 | Definition of a Business[3] |
| Amendments to IFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5] |
| Amendments to IAS 1 and IAS 8 | Definition of Material[2] |
| Amendments to IAS 19 | Plan Amendment, Curtailment or Settlement[1] |
| Amendments to IAS 28 | Long-term Interests in Associates and Joint Ventures[1] |
| Amendments to IFRSs | Annual Improvements to IFRS Standards 2015-2017 Cycle[1] |

1 Effective for annual periods beginning on or after 1 January 2019

2 Effective for annual periods beginning on or after 1 January 2020

3 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

4 Effective for annual periods beginning on or after 1 January 2021

5 Effective for annual periods beginning on or after a date to be determined

## 3. REVENUE

**Disaggregation of revenue from contracts with customers**

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Sales of gold products, except for first-hand gold bars | **1,322,595** | 1,256,151 |
| Sales of first-hand gold bars | **255,778** | 1,488,385 |
| Sales of silver products | **695,095** | 568,588 |
| Sales of gem-set and other jewellery products | **196,151** | 206,457 |
| Sales of diamonds | **28,230** | — |
| | **2,497,849** | 3,519,581 |
| **Geographical markets** | | |
| The PRC | **2,469,619** | 3,519,581 |
| Hong Kong | **28,230** | — |
| **Total** | **2,497,849** | 3,519,581 |

All of the revenue are recognised at one a point in time during the year ended 31 December 2018.

## 4. 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 maker ("**CODM**") (i.e. the executive directors of the Company). The CODM assesses the operating performance and allocates 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 other jewellery products in 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 CODM does not rely on such analysis for resource allocation and performance assessment.

**Geographical information**

The Group's operations are located in the PRC and Hong Kong. Information about the Group's revenue from external customers is presented based on the location of the operations. Information about the Group's non-current assets are presented based on the geographical location of the assets.

| | **Revenue from external customers** | | **Non-current assets** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| The PRC | **2,469,619** | 3,519,581 | **155,493** | 21,982 |
| Hong Kong | **28,230** | — | **—** | — |
| | **2,497,849** | 3,519,581 | **155,493** | 21,982 |

Note: Non-current assets excluded financial instruments and deferred tax assets.

**Information about major customers**

Revenue from customers of the corresponding years contributing over 10% of the Group's total revenue is as follows:

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Customer A[1] | **255,778** | 1,488,385 |
| Customer B[2] | **273,033** | N/A[3] |

1 Revenue from sales of first-hand gold bars.

2 Revenue from sales of gold products, except for sales of first-hand gold bars, sales of silver products, sales of gem-set and other jewellery products.

3 The corresponding revenue did not contribute over 10% of the total revenue of the Group.

## 5. INCOME TAX EXPENSE

| | 2018 | 2017 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| PRC Enterprise Income Tax ("**EIT**") | | |
| – current year | **55,100** | 39,370 |
| – under/(over) provision in respect of prior years | **4** | (813) |
| | **55,104** | 38,557 |
| Deferred taxation – current year | **(1,140)** | — |
| | **53,964** | 38,557 |

The Group had no assessable profit subject to tax in any jurisdictions other than the PRC for both years.

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 years, except for 深圳雲鵬軟件開發有限公司, which is recognised as a Software Enterprise (軟件企業) by the PRC tax authorities and it is entitled to an exemption for the first two consecutive years beginning from 2016 and a 50% reduction for the following three consecutive years, and is subject to review once every year.

## 6. PROFIT FOR THE YEAR

| | **2018** | 2017 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit for the year has been arrived at after charging: | | |
| Directors' emoluments | **3,010** | 951 |
| Other staff costs: | | |
| – salaries and other allowances | **38,211** | 31,131 |
| – retirement benefits scheme contributions | **4,169** | 4,187 |
| Total staff costs | **45,390** | 36,269 |
| Auditor's remuneration | **1,523** | 1,211 |
| Amortisation of intangible assets (included in selling and distribution expenses) | **2,437** | 2,747 |
| Depreciation of property, plant and equipment | **3,638** | 2,368 |
| Cost of inventories recognised as an expense | **2,182,667** | 3,268,296 |
| Impairment loss for trade receivables for sales of goods | **2,006** | — |

## 7. DIVIDENDS

No dividends were paid, declared or proposed for shareholders of the Company for the year ended 31 December 2018 (2017: Nil), nor has any dividend been proposed since the end of the reporting period.

## 8. EARNINGS PER SHARE

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

| | **2018** | 2017 |
|---|---|---|
| Profit for the year attributable to owners of the Company for the purpose of basic earnings per share (RMB'000) | **142,677** | 101,305 |
| Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousand) | **1,010,550** | 828,838 |
| Basic earnings per share (RMB) | **0.14** | 0.12 |

The basic earnings per share for the year ended 31 December 2017 is calculated based on 828,838,000 ordinary shares on the assumption that the Reorganisation had been effective on 1 January 2017.

No diluted earnings per share was presented as there were no potential ordinary shares in issue for the year ended 31 December 2017.

For the year ended 31 December 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 option was higher than the average market price for shares.

## 9. TRADE AND OTHER RECEIVABLES

| | **2018** | 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Trade receivables for sales of goods | **218,894** | 37,807 |
| Less: allowance for credit loss | **(2,006)** | — |
| | **216,888** | 37,807 |
| Deposits and prepayments | **73,446** | 44,936 |
| Prepayments to suppliers (Note) | **412,081** | 115,000 |
| Deferred and prepaid listing costs | **—** | 4,219 |
| Total trade and other receivables | **702,415** | 201,962 |

*Note:* Included in the balance is prepayments paid to a fellow subsidiary with a carrying amount of RMB362,081,000 (2017: nil).

The Group does not grant any credit period to its retail customers and generally grants its corporate 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 loss based on invoice date at the end of the reporting period is as follows:

| | **2018** | 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| 0 - 30 days | **164,017** | 33,987 |
| 31 - 60 days | **12,552** | 1,033 |
| 61 - 90 days | **13,713** | 1,819 |
| Over 90 days | **26,606** | 968 |
| | **216,888** | 37,807 |

## 10. TRADE AND OTHER PAYABLES

| | **2018** | 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Trade payables | **241,159** | 134,569 |
| Accrued listing costs | **1,281** | 9,081 |
| Other payables and accrued expenses | **17,299** | 11,899 |
| Customer receipts in advance | **2,517** | 2,249 |
| Value-added tax and other taxes payables | **1,404** | 457 |
| Total trade and other payables | **263,660** | 158,255 |

The following is an ageing analysis of trade payables presented based on the invoice date at the end of the reporting period:

| | **2018** | 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| 0 - 30 days | **119,761** | 121,015 |
| 31 - 60 days | **71,387** | 13,143 |
| 61 - 90 days | **49,684** | — |
| Over 90 days | **327** | 411 |
| | **241,159** | 134,569 |

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

## MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

The Group completed its global offering and listing on the Main Board of the Stock Exchange (the "**Global Offering**") on 13 March 2018 (the "**Listing Date**"). During the year, we maintained our market leadership in the integrated online and offline jewellery retailing business.

Leveraging our innovative business model, our business has continued to grow rapidly since 2014. As a result of the persistent improvement and expansion of our product mix, we have been able to substantially improve our margins. Despite a drop in revenues due to the market environment and changes in our sales strategy, the optimization of sales strategy and improvement of operational efficiency have enhanced the Company's profitability. Increased margins have resulted in a 41.3% rise in profit for the year compared to that in 2017. Profit attributable to owners of the Company reached RMB143 million for the year.

Through the adjustment of sales strategy, we are determined to develop diversified products and provide customers with more choices. Our original focus of sales was low-margin gold bars which attracted customers but led to a low overall profit margin so we recalibrated this tactic and shifted to the sale of diversified product groups and promote high-margin jewellery, resulting in significant growth of our overall profit for the whole year. In the past years, for the sake of expanding its customer base and quickly gaining more market share, the Group had vigorously promoted the sale of gold bars with competitive prices. However, the gross profit margin of gold bar products was inherently low, which, together with our substantially discounted sales prices meant to attract customers and tap into the market, resulted in an even much lower gross profit margin. After the large-scale promotion in the past years, which gained us a firm footing in the market and successfully attracted a large number of customers, the Group began to adjust its sales strategy this year to reduce the scale of discount sale of low-margin gold bars and to increase the overall sales volume of high-margin silver products, thus effectively improving the Group's overall profit margin.

Our integrated online and offline jewellery retail structure provides our customers with easy access to a wide spectrum of multi-tier and multi-brand jewellery products anytime, anywhere. We sell a wide selection of self-branded and third-party branded jewellery products, including gold bars, silver bars, jewels and gemstones, silverwares and other collectibles.

***Online Sales Channels***

*(i) Self-operated online platform*

As of 31 December 2018, 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 9.7 million, with over 850 million aggregate page views (PV), 210 million unique visitors (UV) and 127 million internet protocols (IP). As at 31 December 2018, the platform carried an aggregate of 192 self-owned and third-party brands which offers a comprehensive range of products to customers.

*(ii) Television and video shopping channels*

As of 31 December 2018, we cooperated with a total of 22 television and video shopping channels to promote and sell our jewellery products and become a core supplier of 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 home viewers in the PRC, our brand awareness among Chinese viewers of television and video shopping channels was enhanced substantially.

*(iii) 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), Gome (國美), Yihaodian (1號店) and WeChat (微信), etc., to promote our jewellery products.

### *Offline Retail and Service Network*

*(i) CSmall Shops*

We offer intimate on-the-ground sales and services to our customers, including jewellery fitting and maintenance services, which we believe are indispensible to the jewellery shopping experience, at our CSmall Shops.

As of 31 December 2018, we had 98 CSmall Shops located in 16 provinces and municipalities in the PRC, consisting of 15 self-operated CSmall Shops and 83 franchised CSmall Shops with presence in Anhui, Beijing, Fujian, Guangdong, Hebei, Heilongjiang, Hubei, Hunan, Inner Mongolia, Jiangsu, Jiangxi, Liaoning, Shanghai, Tianjin, Xinjiang and Zhejiang.

*(ii) 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.

*(iii) 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".

*(i) Turning jewellery into accessory*

With the rise of young customers and the heightening of spending level, 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.

*(ii) 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.

*(iii) 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 also promote cultural and creative handicraft in collaboration with communities and tourist attractions. Meanwhile, the

Group has made significant investments in Baiyin Town, which can lay an important foundation for the Group to strengthen its new integrated online and office retail platform by building a demonstration site of incorporating jewellery business into cultural tourism, as well as a production and incubation base for jewellery retailing.

*(iv) 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 a smart marketing decision support system for jewellery industry. Big data analysis not only allows us to understand customer behaviors and preferences, but also equips us with insight into our operations and business strategies, helping to provide consumers with enhanced shopping experience and better products.

## PROSPECTS

Looking ahead, we are confident about the future jewellery market in the PRC.

In recent years, as the marginal effect utility of the "internet dividend" gradually diminished, major internet enterprises have turned their attention to the offline market and the "new retailing" sector has become a key area for internet giants to compete in. The changes in Chinese consumer's shopping habits require the support of offline service outlets, and the trial and service functions of offline jewellery outlets are particularly important for the shopping experience. With the rapid growth of the Group's customer base, adapting to the service needs of customers and strengthening their offline experience and our service network have become the top priority of the Group's strategy of setting up new integrated online and offline retail platforms in the future. To this end, the Group will make appropriate adjustments to its future strategy by investing more resources in the offline retail service network and creating a new integrated online and offline retail platform that will better meet customers' needs and render a better consumer experience based on our strong network of offline retail service.

Unlike traditional jewellery retail brands or platforms, our strategy is to integrate, optimize and empower traditional jewellery retail franchisees by leveraging the comprehensive advantages of platforms, technologies, supply chains and a new integrated online and offline retail platform. We seek to utilize complementary advantages, promote mutual benefits and attain development together for the overall growth of the jewellery industry. We plan to introduce renowned companies or entrepreneurs in the jewellery industry as strategic investors, combining the strength of the mighty ones to consolidate the traditional jewellery market and fortify the strategic layout of new offline retail. On the other hand, we are also taking advantage of Baiyin Town in which the Group has made significant investments to establish a brand foothold of jewellery industry in the cultural tourism market.

Looking ahead, we will strengthen the offline retail service network layout by empowering jewellery retailers to consolidate the traditional jewellery market. We expect the number of the Group's offline retail service stores to expand rapidly to 500-1,000 in 2019, establishing an offline retail service network that is 5-10 times bigger as compared with that in 2018. We shall also continue to maintain rapid expansion in 2020 and beyond, laying a solid foundation for the Group to implement its new integrated online and offline jewellery retail strategy.

## Financial Review

### *Revenue*

The revenue of the Group for the year ended 31 December 2018 was approximately RMB2.50 billion (2017: RMB3.52 billion), representing a decrease of approximately 29.0% from that of 2017.

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Revenue *(RMB'000)*** | **% of revenue** | Revenue *(RMB'000)* | % of revenue |
| **Online Sales Channels** | | | | |
| Self-operated online platform | **1,157,075** | **46.3%** | 2,388,972 | 67.9% |
| Third-party online sales channels | **541,975** | **21.7%** | 259,380 | 7.3% |
| | **1,699,050** | **68.0%** | 2,648,352 | 75.2% |
| **Offline Sales and Service Network** | | | | |
| CSmall Shops | **660,560** | **26.5%** | 595,586 | 16.9% |
| Shenzhen Exhibition Hall | **47,072** | **1.9%** | 248,363 | 7.1% |
| Third-party offline points of sale | **8,154** | **0.3%** | 7,317 | 0.2% |
| | **715,786** | **28.7%** | 851,266 | 24.2% |
| **CSmall Gift Initiatives** | **83,013** | **3.3%** | 19,963 | 0.6% |
| Total | **2,497,849** | **100%** | 3,519,581 | 100% |

**Online Sales Channels**

During 2018, the online sales channels recorded sales of RMB1,699.0 million (2017: RMB2,648.3 million), representing a decrease of approximately 35.8%, as we adjusted our sales strategy from the sale of low-margin gold bars to the sale of a more diverse product offering and the promotion of high-margin jewellery.

**Offline Sales and Service Network**

During the year, the offline sales and service network recorded sales of RMB715.8 million (2017: RMB851.3 million), representing a decrease of approximately 15.9%, mainly due to the sales strategy to reduce the scale of discount sale of low-margin gold bars and increase the overall sales volume of high-margin silver products.

**CSmall Gift Initiatives**

Through our innovative business model of third-party offline points of sales, our CSmall Gift concept started growing and the revenue from our CSmall Gift initiatives for the year ended 31 December 2018 was RMB83.0 million (2017: RMB20.0 million).

**Cost of Sales and Services Provided**

Cost of sales decreased from RMB3,268.2 million to RMB2,182.6 million in 2018, which was generally attribute to the decrease in the cost of purchasing gold bars under the new sales strategy.

**Gross Profit and Gross Profit Margin**

We recorded gross profit of RMB315.2 million (2017: RMB251.2 million) for the year ended 31 December 2018, an increase of approximately 25.4% as compared to that of 2017, which was mainly attributable to the new sales strategy by high-margin silver products. The overall gross profit margin increased from 7.1% to 12.6% primarily attributable to a change in product mix, with the proportion of sales of low margin first-hard gold bars as a percentage of total revenue decreasing from 42.3% for the year ended 31 December 2017 to 10.2% for the year ended 31 December 2018.

### Administrative Expenses

Administrative expenses increased by approximately 33.3% from RMB51.3 million to RMB68.4 million for the year ended 31 December 2018. The increase was mainly due to the increase in staff cost during 2018.

### Selling and Distribution Expenses

Selling and distribution expenses increased by approximately 15.9% from RMB41.7 million to RMB48.4 million for year ended 31 December 2018 primarily as a result of the increase of system maintenance fee for the Group's self-operated online platform.

### Other Expenses

Other expenses mainly represent the donation of RMB10 million to a museum which aims to promote silver products in the PRC, namely Jingning She Autonomous County Sheyin Museum (景寧畲族自治縣畲銀博物館), pursuant to a co-operation agreement entered into between the Group and the People's Government of the Jingning She Autonomous County (景寧畲族自治縣人民政府) regarding the museum to provide silver products.

### Income Tax Expense

The amount increased primarily due to the increase in profit before tax. The effective tax rate decreased from 27.6% for the year ended 31 December 2017 to 27.4% for the year ended 31 December 2018 mainly due to the deferred taxation during the year.

### Profit Attributable to Owners of the Company

Profit attributable to owners of the Company increased significantly from RMB101.3 million to RMB142.7 million for the year ended 31 December 2018 mainly due to the increase in gross profit and other income.

### Inventories, Trade Receivables and Trade Payables Turnover Cycle

The Group's inventories mainly comprise gold bars, silver bars and jewellery products. For the year ended 31 December 2018, inventory turnover days were approximately 61.2 days (for the year ended 31 December 2017: 38.3 days) mainly as a result of the rapid expansion of our business and change of product mix.

The turnover days for trade receivables for the year ended 31 December 2018 were approximately 18.6 days (for the year ended 31 December 2017: 4.9 days) mainly due to the changes of customer portfolio.

The turnover days for trade payables for the year ended 31 December 2018 were approximately 31.4 days (for the year ended 31 December 2017: 7.9 days) mainly due to changes of supplier portfolio as a result of the decrease in the purchase of materials relating to first-hand gold bars for sale.

### Borrowings

Save as aforesaid and apart from intra-group liabilities, as of 31 December 2018, 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 year ended 31 December 2018, the Group invested RMB7.9 million in property, plant and equipment (2017: RMB5.3 million) and paid RMB132.5 million for deposits paid on acquisition of a land use right.

**Employees**

As of 31 December 2018, the Group employed 353 staff members and the total remuneration for the year ended 31 December 2018 amounted to RMB45.4 million (2017: RMB36.3 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 period under review. The Group was principally financed by internal resources. The Group's principal financial instruments comprise cash and cash equivalents, trade and other receivables and trade and other payables. As of 31 December 2018, the cash and cash equivalents, net current assets and total assets less current liabilities were RMB269.8 million (as of 31 December 2017: RMB338.0 million), RMB1,063.4 million (as of 31 December 2017: RMB324.2 million) and RMB1,220.0 million (as of 31 December 2017: RMB346.2 million), respectively. As of 31 December 2018, the Group did not have bank borrowings and hence had no applicable gearing ratio.

The net proceeds received from the Global Offering amounted to RMB329.3 million, net of underwriting commission and all related expenses. The net proceeds have been and will continue to be used in a manner consistent with that set out in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

The net proceeds received from the Global Offering has been used as follows during the period from the Listing Date to 31 December 2018:

| | **Net proceeds received from the Global Offering HKD million** | **Used during financial year 2018 HKD million** | **Unused Amount HKD million** |
|---|---|---|---|
| Implement the CSmall Gift initiatives and other crossover marketing initiatives | 132.7 | 87.7 | 45.0 |
| Upgrade the IT systems and enhance the interface of self-operated online jewellery platform | 49.2 | 16.1 | 33.1 |
| Develop offline sales and service network | 32.1 | 15.9 | 16.2 |
| Upgrade the IT infrastructure and data management systems | 32.9 | 3.1 | 29.8 |
| Expand in-house design team and expand the warehouse and upgrade our order fulfilment facilities commensurate with the business needs | 32.9 | 3.1 | 29.8 |
| Brand development and targeted marketing campaigns | 32.9 | 15.4 | 17.5 |
| Working capital and other general corporate purposes | 16.6 | 16.6 | 0.0 |
| **Total** | **329.3** | **157.9** | **171.4** |

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 Investment Held, Material Acquisition and Disposal**

On 23 August 2018, a bid-winning confirmation letter was entered into by Huzhou Baiyin Property Co., Ltd. (湖州白銀置業有限公司), an indirect wholly-owned subsidiary of the Company, with Huzhou Municipal Bureau of Land and Resources (湖州市國土資源局) in relation to our preferred bid for the land use rights over a land parcel in Huzhou, Zhejiang, the PRC. Subsequently, on 3 September 2018, an assignment contract in relation to the acquisition of the said land use rights was entered into by the said parties. Further details of the said arrangements are set out in the announcements of the Company dated 23 August 2018 and 3 September 2018. Completion of the said acquisition of land use rights had not taken place as of 31 December 2018.

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 year.

**Dividend**

No final dividend for the year ended 31 December 2018 was proposed.

**Closure of Register of Members**

The register of members of the Company will be closed from Wednesday, 29 May 2019 to Monday, 3 June 2019 (both days inclusive), during which period no transfer of shares will be effected. In order to qualify for the right to attend and vote at the annual general meeting to be held on Monday, 3 June 2019, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Tuesday, 28 May 2019 for registration of transfer.

## 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 Listing Rules. The Directors consider that during the period from the Listing Date to 31 December 2018, the Company has complied with the code provisions under the CG Code except for code provision A.2.1.

Code provision A.2.1 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 over five 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 have complied with the required standard of dealings as set out in the Model Code throughout the period from the Listing Date to 31 December 2018.

## Purchase, Sale or Redemption of Listed Securities

During the period from the Listing Date to 31 December 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## Audit Committee

The audit committee of the Company (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 consolidated financial statements for the year ended 31 December 2018. 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.

## Scope of Work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

## 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 Annual Report**

This announcement is published on the websites of the Company (www.csmall.com) and Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk). The 2018 annual 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 March 2019

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