中國白銀集團
CHINA SILVER GROUP

China Silver Group Limited
中 國 白 銀 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 815)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

HIGHLIGHTS OF 2012 ANNUAL RESULTS

- Revenue increased by approximately 56.5% to approximately RMB1,540 million
- Profit attributable to owners of the Company increased by 36.7% to approximately RMB158 million
- Adjusted profit attributable to owners of the Company, net of listing expenses, significantly increased by 59.1% to approximately RMB184 million
- Sales volume of silver ingots increased by 86.7% to 211 tonnes
- Production capacity reached full utilization in the second half of 2012

The board of directors (individually, a "**Director**", or collectively, the "**Board**") of China Silver Group Limited (the "**Company**") is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2012.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Revenue	4	**1,540,039**	984,172
Cost of sales		**(1,260,865)**	(796,260)
Gross profit		**279,174**	187,912
Other income		**390**	196
Administrative expenses		**(20,352)**	(15,818)
Selling and distribution expenses		**(1,331)**	(1,179)
Research and development expenses		**(4,709)**	(10,194)
Loss on disposal of property, plant and equipment		**(490)**	(647)
Other expenses		**(11)**	(121)
Listing expenses		**(25,834)**	–
Finance costs		**(6,285)**	(5,291)
Profit before tax		**220,552**	154,858
Income tax expense	5	**(62,810)**	(39,448)
Profit and total comprehensive income for the year	6	**157,742**	115,410
		RMB	*RMB*
Earnings per share	8		
Basic		**0.22**	0.17
Diluted		**0.22**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**142,757**	147,297
Prepaid lease payments		**19,872**	18,460
Intangible asset		**5,668**	–
Deposits for acquisition of property, plant and equipment		**–**	5,700
Deposit for acquisition of an intangible asset		**–**	4,800
Deferred tax asset		**2,500**	2,000
		170,797	178,257
CURRENT ASSETS			
Prepaid lease payments		**432**	394
Inventories	*9*	**168,672**	151,765
Trade receivables and prepayments	*10*	**14,009**	4,486
Trade deposits	*11*	**11,987**	2,757
Amounts due from related parties		**–**	233
Bank balances and cash		**221,908**	41,200
		417,008	200,835
CURRENT LIABILITIES			
Trade and other payables	*12*	**47,728**	15,775
Customer receipts in advance	*13*	**600**	1,844
Income tax payable		**25,173**	6,931
Bank borrowings		**110,000**	100,000
		183,501	124,550
NET CURRENT ASSETS		**233,507**	76,285
TOTAL ASSETS LESS CURRENT LIABILITIES		**404,304**	254,542
CAPITAL AND RESERVES			
Share capital/paid-in capital		**7,172**	110,338
Share premium and reserves		**387,132**	136,204
TOTAL EQUITY		**394,304**	246,542
NON-CURRENT LIABILITY			
Deferred income		**10,000**	8,000
TOTAL EQUITY AND NON-CURRENT LIABILITY		**404,304**	254,542

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 19 July 2012 and its shares are listed on the Stock Exchange (the "**Listing**") with effect from 28 December 2012 (the "**Listing Date**").

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

2. REORGANISATION AND BASIS OF PRESENTATION

In the preparation for the Listing, the Group underwent a reorganisation (the "**Reorganisation**") to rationalise the holding structure of the companies now comprising the Group.

Prior to the Reorganisation, Jiangxi Longtianyong Nonferrous Metals Co., Ltd. ("**Longtianyong Nonferrous Metals**") was owned by certain individuals, including Mr. Chen Wantian, a director of the Company, and his spouse (collectively the "**Longtianyong Shareholders**").

The Reorganisation principally involves the following steps:

(i) Incorporation of Rich Union Enterprises Limited ("**Rich BVI**") on 13 July 2010. By 28 March 2012, Rich BVI became the holding company of China Silver Holdings Limited ("**China Silver BVI**"), China Silver Co., Limited ("**China Silver Hong Kong**") and Zhejiang Fuyin Silver Co., Ltd. ("**Zhejiang Fuyin**"). Rich BVI is beneficially owned by the Longtianyong Shareholders. China Silver BVI and China Silver Hong Kong are shell companies acquired by the Group on 1 November 2011 and 14 November 2011 and were incorporated in the BVI and Hong Kong, respectively. Zhejiang Fuyin was established in the the People's Republic of China (the "**PRC**") on 28 March 2012;

(ii) On 27 April 2012, the Longtianyong Shareholders transferred their equity interest in Longtianyong Nonferrous Metals to Zhejiang Fuyin, whereby a sum of RMB110 million was payable by Zhejiang Fuyin to the Longtianyong Shareholders;

(iii) On 13 July 2012, an independent investor, Richwise Capital Group Limited ("**Richwise Capital**") became a 20% shareholder of China Silver BVI by means of (a) subscription of new shares therein to the extent of 10% and (b) acquiring existing shares therein from the Longtianyong Shareholders to the extent of another 10%, at an aggregate consideration of US$10 million; and

(iv) Interspersing the Company between China Silver BVI and its shareholders on 14 August 2012.

Upon completion of the Reorganisation on 15 August 2012, the Company became a holding company of the companies now comprising the Group.

The consolidated statement of comprehensive income and consolidated statement of cash flows which include the results and cash flows of the companies now comprising the Group for the years ended 31 December 2011 and 2012 have been prepared as if the Company had always been the holding company of the Group and the current group structure had been in existence throughout the years, or since their respective dates of establishment/incorporation or acquisition where this is a shorter period.

The consolidated statement of financial position at 31 December 2011 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at that date, taking into account the effective date of establishment/incorporation or acquisition.

3. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standard ("**IFRSs**") and on the historical cost basis.

The International Accounting Standards Board has issued a number of revised International Accounting Standards ("**IASs**"), IFRSs, amendments and interpretations ("**IFRICs**") which are effective for the Group's financial year beginning on 1 January 2012 (hereinafter collectively referred to as the "**New IFRSs**"). For the purpose of preparing and presenting these consolidated financial statements, the Group has consistently adopted the New IFRSs throughout the years ended 31 December 2011 and 31 December 2012.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but not yet effective.

Amendments to IFRSs	Annual Improvements to IFRSs 2009-2011 Cycle[1]
Amendments to IFRS 1	Government Loans[1]
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[2]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[4]
IFRS 9	Financial Instruments[2]
IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[3]
IAS 19 (as revised in 2011)	Employee Benefits[1]
IAS 27 (as revised in 2011)	Separate Financial Statements[1]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[4]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[1]

1 Effective for annual periods beginning on or after 1 January 2013
2 Effective for annual periods beginning on or after 1 January 2015
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2014

The directors of the Company anticipate that the application of these new and revised standards, amendments and interpretations will have no material impact on the results and the financial position of the Group.

4. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacture of silver and other non-ferrous metals for sale in the PRC. The Group's chief operating decision maker, being the executive directors of the Company, regularly reviews the revenue analysis by products and the Group's consolidated profit for the year for the purposes of resources allocation and performance assessment. Accordingly, it is not necessary to analyse the Group's revenue, results, assets and liabilities by operating segment.

Geographical information

The Group's revenue is derived from the PRC, based on the location of customers, and all of its non-current assets are located in the PRC, based on the location of assets. Therefore, no geographical information is presented.

Analysis of revenue by products

An analysis of revenue by products is as follows:

	2012	2011
	RMB'000	*RMB'000*
Silver ingot	**1,157,574**	719,448
Lead ingot	**206,679**	137,060
Bismuth ingot	**93,754**	68,856
Antimony ingot	**60,399**	40,473
Zinc oxide	**11,591**	10,477
Non-standard gold	**9,536**	7,712
Others	**506**	146
	1,540,039	984,172

5. INCOME TAX EXPENSE

	2012	2011
	RMB'000	*RMB'000*
PRC Enterprise Income Tax ("**EIT**")		
– current year	**63,023**	41,159
– underprovision in respect of prior years	**287**	289
	63,310	41,448
Deferred taxation for the year	**(500)**	(2,000)
	62,810	39,448

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 and its related implementation regulations, the Group's PRC subsidiaries are subject to PRC EIT at the statutory rate of 25%.

6. PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR

	2012	2011
	RMB'000	*RMB'000*
Profit and total comprehensive income for the year has been arrived at after charging:		
Directors' emoluments	**2,015**	2,024
Other staff costs		
– salaries and wages	**26,897**	22,938
– retirement benefit scheme contributions	**5,330**	4,979
Total staff costs	**34,242**	29,941
Auditor's remuneration	**1,479**	12
Amortisation of intangible asset	**332**	–
Cost of inventories recognised as expenses	**1,260,865**	796,260
Depreciation of property, plant and equipment	**12,381**	11,960
Exchange losses	**22**	21
Release of prepaid lease payments	**428**	291
Rental expenses	**27**	–

7. DIVIDENDS

The Company has neither paid nor declared any dividend since its incorporation. However, prior to the Reorganisation, Longtianyong Nonferrous Metals paid the following dividends to its then equity holders during the year:

	2012	2011
	RMB'000	*RMB'000*
Dividends recognised as distribution	**44,000**	121,000

No dividend has been proposed by the Company since the end of the reporting period in respect of the year ended 31 December 2012.

8. EARNINGS PER SHARE

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

	2012	2011
	RMB'000	*RMB'000*
Earnings		
Profit for the year	**157,742**	115,410

	2012	2011
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**711,692**	675,000
Effect of dilutive potential ordinary shares:		
Over-allotment option granted in relation to the Listing	**37**	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**711,729**	N/A

The weighted average number of ordinary shares for the purpose of basic earnings per share has been determined assuming the capitalisation issue completed on 28 December 2012 and occurred on 1 January 2011 and taking into account the effect of acquisition of 10% equity interest in the Group on 13 July 2012 through subscription of new shares by Richwise Capital as detailed in note 2.

9. INVENTORIES

	2012	2011
	RMB'000	*RMB'000*
Raw materials	**77,963**	63,119
Work in progress	**85,384**	71,501
Finished goods	**5,325**	17,145
	168,672	151,765

10. TRADE RECEIVABLES AND PREPAYMENTS

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**13,162**	4,486
Prepaid expenses	**847**	–
	14,009	4,486

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credit limits based on reputation of the customer in the industry. The Group generally grants its customers a credit period of 30 days and requires advance deposits from its customers before delivery of goods.

The aged analysis of the Group's trade receivables by invoice date at the end of the reporting period, which approximated the respective revenue recognition date, is as follows:

	2012	2011
	RMB'000	*RMB'000*
0 – 30 days	**13,162**	4,486

The above trade receivables were neither past due nor impaired at the end of the reporting period. These receivables relate to customers that have a good repayment record with the Group.

The Group does not hold any collateral over the above balances, but management considers that no impairment loss is necessary in view of the financial background of these customers and their subsequent repayments.

11. TRADE DEPOSITS

	2012	2011
	RMB'000	*RMB'000*
Trade deposits paid to suppliers	**11,987**	2,757

12. TRADE AND OTHER PAYABLES

	2012	2011
	RMB'000	*RMB'000*
Trade payables	**16,734**	7,984
Value-added tax and other taxes payables	**8,904**	2,533
Listing expenses payables	**13,500**	–
Other payables and accrued expenses	**8,590**	5,258
	30,994	7,791
	47,728	15,775

The following is an aged analysis of the Group's trade payables present based on invoice date at the end of the reporting period:

	2012	2011
	RMB'000	*RMB'000*
0 – 30 days	**16,734**	7,984

The credit period of purchase of goods ranges from 20 to 30 days. The Group has financial management policies in place to ensure that all payables are settled within credit time frame.

13. CUSTOMER RECEIPTS IN ADVANCE

The amounts represent deposits received in advance of delivery of goods to customers.

BUSINESS REVIEW

The year 2012 was an amazing year for the Group.

First of all, 2012 marked the 10th anniversary of the Group. Ever since we began our operations in 2002, we managed to grow and develop to become one of the leading silver producers in China. Our well-recognized silver brand, Longtianyong, has ranked as one of the 20 most popular silver brands for 8 consecutive years since 2005. In addition, we are the only private company to be accepted by the LBMA Good Delivery List, the de-facto international standard for both silver and gold.

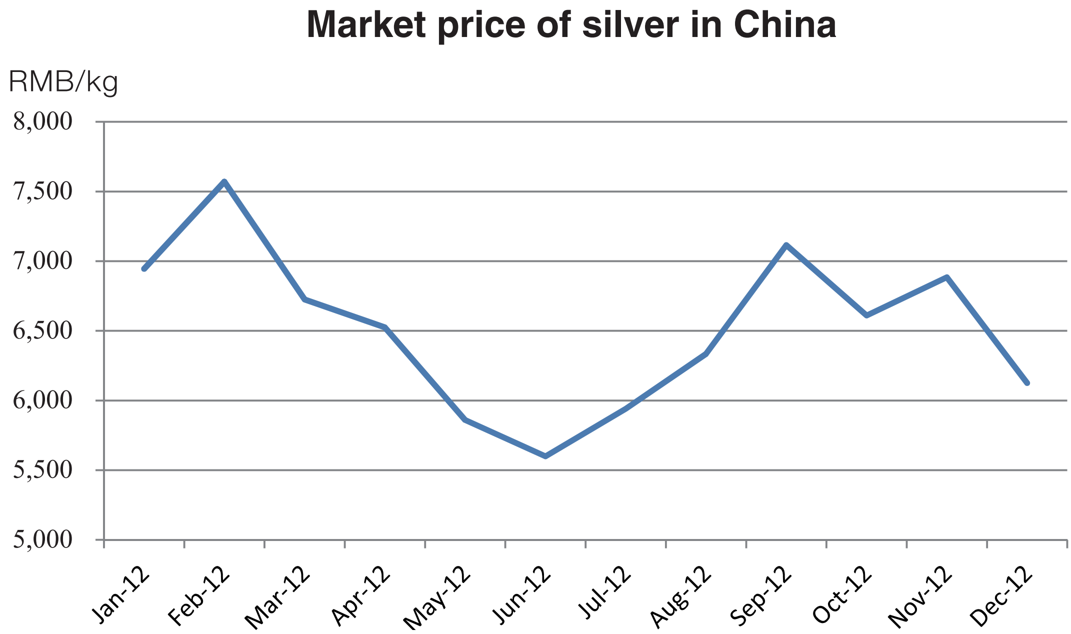
Furthermore, despite the global economic downturn, both our consolidated revenue and net profit reached historical highs of RMB1,540 million and RMB158 million, respectively, for the year ended 31 December 2012, which is a tremendous achievement, given the backdrop of a slowing Chinese economy that worked against us.

Last but not least, despite the volatility in the Hong Kong capital market in 2012, we have successfully completed our initial public offering, raising net proceeds of HK$101 million, and our shares commenced trading on the Main Board of the Stock Exchange on 28 December 2012. Our successful listing marks a new chapter for the Group with an expanded shareholder base and increased equity, which form a strong foundation for the future development of the Group.

Market review

The global commodity market was volatile in 2012. The world economy continued to be troubled by a number of issues such as the European debt crisis, the US debt ceiling crisis and the slowdown in the Chinese economy. As such, the commodity market and commodity prices had experienced some extreme fluctuations during the year.

Below is a graph showing the change in the domestic market price (value-added tax ("**VAT**") inclusive) of No.1 international silver quoted on the Shanghai White Platinum & Silver Exchange, China's only officially designated silver exchange, throughout 2012:



As a result of the European debt crisis, the price of silver retreated from RMB7,570 per kg (VAT inclusive) by the end of February 2012 to RMB5,600 per kg by the end of June 2012. Subsequently, the price of silver recovered to RMB6,885 per kg by the end of November 2012 as a result of the adoption of the quantitative easing measures by the U.S. Federal Reserve in mid-September 2012 while the financial markets began to stabilize.

On the other hand, several new developments concerning silver as an investment in 2012 have been encouraging. In May 2012, the Shanghai Future Exchange introduced silver futures in China for the first time, generating remarkable response from domestic investors. By the end of 2012, the first silver Exchange Traded Fund was launched on the Stock Exchange. We believe all these developments will increase the popularity of silver products and stimulate positive sentiment for silver investment in the future.

Business review

Despite market volatility in the macro-economic environment, the Group still managed to record outstanding growth.

For the year ended 31 December 2012, the Group's revenue reached approximately RMB1,540 million (2011: RMB984 million), representing an increase of approximately 56.5% over the previous year. Profit attributable to owners of the Company was approximately RMB158 million (2011: RMB115 million), representing an increase of approximately 36.7% over the previous year. Excluding one-off listing expenses which is non-operational in nature, the adjusted net profit for the year would be approximately RMB184 million, representing a substantial surge of approximately 59.1% over the previous year.

Our key product, silver ingot under our popular Longtianyong brand, continues to be our major source of revenue, representing over 70% of our total revenue. We are the only company listed in Hong Kong enjoying such a high percentage of revenue generated from sales of silver ingots.

Silver is a precious metal that has a very special nature. It not only possesses superior characteristics that make it suitable for the use in a wide range of industrial applications, but at the same time, carries unique investment value, comparable to gold.

Due to the continued increase in disposable incomes in China, demand for silver in China has grown rapidly in the past few years. Notably, China has transformed from a net exporter of silver into a net importer. As we are confident in the consumption power of Chinese consumers, we therefore are optimistic about the long-term outlook for silver demand going forward, particularly in the area of silver for investment.

Nevertheless, due to several economic issues discussed earlier, the commodity market was volatile during the year and our profitability was inevitably affected by short-term market fluctuations. However, thanks to our proprietary production model through which we produce high quality silver and other non-ferrous metals which have commercial value, we managed to largely offset market volatility and continued to record strong growth in both our revenue and profit on a yearly basis.

Furthermore, in order to offset the fluctuations in the price of silver, we are committed to improving our production efficiency and utilization rate. Since July 2012, we produced approximately 20 tonnes of silver ingots per month, and achieved full utilization of our current production capacity. We also gradually improved our production efficiency by reducing our inventory of raw materials, shortening our production lead time, and cutting our average inventory turnover days.

Prospects

Looking ahead, despite the uncertainty in the global economic conditions, China's GDP is expected to continue to grow steadily. The Chinese Government is widely expected to reinforce its economic restructuring policies to expand domestic demand. Riding on the sustained growth in China's consumption power, fabrication consumption of silver is expected to maintain a healthy growth. Moreover, the demand for silver for investment purposes will continue to drive strong growth for silver products in China. Leveraging our well-known brand and our unique proprietary production process, and with the strengthened financial position subsequent to the Listing, we are determined to capture the opportunities brought by these healthy market trends.

We plan to expand our production capacity of silver ingots from the current designed capacity of 250 tonnes per annum to 400 tonnes per annum in 2013 and further to 550 tonnes and 650 tonnes per annum in 2014 and 2015, respectively. We will also continue to improve our research and development capabilities to develop new non-ferrous metal by-products.

Furthermore, we will look for suitable merger and acquisition opportunities. We are particularly interested in high-quality upstream opportunities that can help us secure raw materials so as to enhance production stability and bring strategic and economic long-term value to the Group. We are determined to become one of the leading integrated silver producers in the world.

MANAGEMENT DISCUSSION AND ANALYSIS

Revenue

The revenue of the Group for the year ended 31 December 2012 was approximately RMB1,540 million (2011: RMB984 million), representing an increase of approximately 56.5% from that of last year. The Group's revenue is primarily derived from the sale of our major product, silver ingot, which accounted for 75.2% (2011: 73.1%) of our total revenue. During the production process of silver ingot, we also recover and refine other metal by-products such as lead ingot, bismuth ingot and antimony ingot. The revenue breakdown by product categories is set out in the table below:

	Year ended 31 December,			
	2012		2011	
	Revenue *(RMB'000)*	**% of revenue**	Revenue *(RMB'000)*	% of revenue
Silver ingot	**1,157,574**	**75.2%**	719,448	73.1%
Lead ingot	**206,679**	**13.4%**	137,060	13.9%
Bismuth ingot	**93,754**	**6.1%**	68,856	7.0%
Antimony ingot	**60,399**	**3.9%**	40,473	4.1%
Others	**21,633**	**1.4%**	18,335	1.9%
Total	**1,540,039**	**100%**	984,172	100%

Sales of silver ingot increased from RMB719 million to RMB1,158 million for the year ended 31 December 2012, representing an increase of RMB438 million, or 60.9%, from that of last year. The increase was mainly driven by the increase in sales volume from 113 tonnes to 211 tonnes, and was partially offset by a decrease in the average selling price of RMB6.4 million per tonne (VAT exclusive) to RMB5.5 million per tonne. The drop in average selling price was primarily due to the persistent European debt crisis which caused a general decline in commodity prices in the first half of 2012.

Since metal by-products such as lead ingot, bismuth ingot and antimony ingot are produced during the production of our silver ingot, the increase in sales volume of the by-products was in line with that of our silver ingot. However, the increase was also partially offset by the general decline in the average selling prices of the by-products caused by the downturn in the global economy.

Cost of sales, gross profit and gross profit margin

We recorded gross profit of RMB279 million (2011: RMB188 million) for the year ended 31 December 2012, an increase of 48.6% as compared to that of last year.

Our cost of sales mainly represents the cost of raw materials consumed, direct labor and manufacturing overhead. Cost of raw materials consumed accounted for approximately 96% of our cost of sales. The purchase cost of raw material is determined by the content levels of silver and lead at market prices at the time of purchase; other types of minerals or metals are not taken into account when determining purchase price.

The increase in gross profit was mainly due to the increase in sales revenue as a result of increased sales volume. Gross profit margin dropped slightly from 19.1% to 18.1% was due to the decrease in commodity prices discussed above.

Other income

Other income primarily consists of bank interest income, exchange gain and income from sales of scrap metals.

Administrative expenses

Administrative expenses increased by approximately 28.7% from RMB15.8 million to RMB20.4 million for the year ended 31 December, 2012. The increase was mainly due to the additional staff costs in association with the Listing.

Selling and distribution expenses

Selling and distribution expenses primarily consist of transportation costs and staff costs. The increase was mainly due to the increase in transportation costs, which was in line with the increase in sales volume.

Research and development expenses

Research and development expenses decreased by approximately 53.8% from RMB10.2 million to RMB4.7 million and was mainly due to the completion of the non-recurring research projects during the year.

Listing expenses

Listing expenses represent expenses incurred for the Listing. The listing expenses were non-recurring and non-operational in nature.

Finance costs

Finance costs increased by approximately 18.8% to approximately RMB6.3 million primarily due to the increase in average bank borrowing to support our expansion.

Income tax

Income tax expenses increased by approximately 59.2% to RMB62.8 million. The effective tax rate rose from 25.5% to 28.5% as the listing expenses were non-deductible for tax purpose.

Profit attributable to owners of the Company

Profit attributable to owners of the Company increased from RMB115 million for the year ended 31 December 2011 to RMB158 million for the year ended 31 December 2012 primarily due to the reasons as discussed above. Net profit margin dropped slightly from 11.7% to 10.2% mainly due to the listing expenses.

Inventories, trade receivables and payables turnover cycle

The Group's inventories mainly comprise of raw materials of ore powder and smelting slag. For the year ended 31 December 2012, inventory turnover days was approximately 46.4 days (2011: 64.1 days). There was a significant decrease in inventory turnover days due to the continual improvement of operational efficiency.

The turnover days for trade receivables for the year ended 31 December 2012 was approximately 2.1 days (2011: 1.2 days). The Group generally requires customers to prepay 60% to 90% of the purchase price of the products before delivery. The balance will normally be settled within 10 days after delivery. As a result, the Group did not have significant balance of trade receivables.

The turnover days for trade payables was approximately 3.6 days (2011: 6.4 days). The Group generally required by its suppliers to prepay 30-50% of the purchase price of our raw materials prior to delivery, with the balance to be settled within one month after delivery.

Borrowings

As of 31 December 2012, the Group's bank borrowings balance amounted to RMB110 million (As of 31 December 2011: RMB100 million). The amounts are carried at fixed interest rates and will be due for repayment within one year.

The Group's net gearing ratio was calculated on the basis of total bank borrowings less bank balances and cash as a percentage of shareholder equity. As of 31 December 2012, the Group is in a net cash position with a net gearing ratio of -28.4% (2011: 23.8%). The increase in cash was mainly due to the net proceeds raised by the Listing.

Pledge of assets

As of 31 December 2012, the Group pledged property ownership rights in respect of buildings, land use rights and inventories with total carrying value of RMB62.4 million, RMB11.7 million and RMB82.1 million, respectively, (As of 31 December 2011: RMB66.0 million, RMB11.9 million and RMB48.5 million) to secure the general banking facilities or bank borrowings granted to the Group.

Capital expenditures

For the year ended 31 December 2012, the Group invested RMB16.3 million (2011: RMB10.1 million) in purchase of property, plant and equipment, prepayments for leasehold land and acquisition of an intangible asset.

Employees

As at 31 December 2012, the Group employed 668 staff (2011: 677 staff) and the total remuneration for the year ended 31 December 2012 amounted to approximately RMB34.2 million (2011: RMB29.9 million). The Group's remuneration packages are in line with current legislation in relevant jurisdictions, the experience and qualifications of individual employees and 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 year under review. The Group was principally financed by internal resources and bank borrowings. The Group's principal financial instruments comprise cash and cash equivalents, trade and other receivables, trade and other payables and bank borrowings. As at 31 December 2012, the cash and cash equivalents, net current assets and total assets less current liabilities were RMB222 million (2011: RMB41 million), RMB234 million (2011: RMB76 million) and RMB404 million (2011: RMB255 million), respectively. As at 31 December 2012, the Group has bank borrowings amounting to RMB110 million (2011: RMB100 million).

Significant investment held, material acquisition and disposal

During the year, the Group did not hold any significant investment or carried out any material acquisition and disposal.

Use of proceeds from the Listing

The net proceeds from the Listing (after deducting underwriting fees and related expenses) amounted to approximately HK$101 million, which are intended to be applied in the manner consistent with that in the prospectus of the Company dated 14 December 2012. That is, approximately 44% of the net proceeds for construction of new production units and approximately 56% for purchase of additional production machineries and equipment. As of 31 December 2012, the proceeds from the Listing have not been utilized.

Dividend

The Company has neither paid nor declared any dividend since its incorporation. However, prior to the Reorganisation, Longtianyong Nonferrous Metals, an indirect wholly-owned subsidiary of the Company, paid dividends amounting to RMB44 million for the year ended 31 December 2012 (2011: RMB121 million).

No dividend has been proposed by the Company since the end of the reporting period in respect of the year ended 31 December 2012.

Corporate Governance Code

The Company has adopted the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Listing Rules as its own code of corporate governance. Save for the deviation disclosed below, the Company has complied with the code provisions as set out in the Code since the Listing Date and up to 31 December 2012.

Pursuant to code provision A.2.1 of the Code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, the Company does not have a separate chairman and chief executive officer and Mr. Chen Wantian currently performs these two roles. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and efficiently. The Board will continue to review and consider splitting the roles of chairman of the Board and chief executive officer of the Company at a time when it is appropriate and suitable by taking into account the circumstances of the Group as a whole.

The Directors are committed to upholding the corporate governance of the Company to ensure that formal and transparent procedures are in place to protect and maximize interests of the shareholders of the Company.

Model code for securities transactions by Directors

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

Purchase, sale or redemption of the listed securities of our Company

Since the Listing Date and up to 31 December 2012, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company.

Audit committee

The Company established an audit committee ("**Audit Committee**") on 5 December 2012 with written terms of reference in compliance with Rules 3.21 and 3.22 of the Hong Kong Listing Rules and the Code. The primary duties of the Audit Committee will be to review and supervise our financial reporting processes and internal control system and to provide advice and comments to the Board. As of 31 December 2012, the Audit Committee comprised three independent non-executive Directors, namely Dr. Li Haitao, Dr. Jiang Tao and Dr. Zeng Yilong. Dr. Zeng Yilong is the chairman of the Audit Committee.

The Audit Committee reviewed the Company's financial reporting and internal control system, and the Group's consolidated financial statements for the year ended 31 December 2012 in conjunction with the Company's external auditor. The Audit Committee is of the opinion that these statements had complied with the applicable accounting standards, rules and regulations, and that adequate disclosures had been made.

Closure of register of members

The register of members of the Company will be closed from 23 April 2013 to 25 April 2013 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch 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, not later than 4:30 p.m. on 22 April 2013.

Scope of work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2012 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.

Publication of results announcement and annual report

This announcement is published on the websites of the Company (www.chinasilver.hk) and the Stock Exchange (www.hkexnews.hk). The 2012 annual report of the Company will be dispatched to the shareholders and made available on the same websites in due course.

By Order of the Board
China Silver Group Limited
Chen Wantian
Chairman

Hong Kong, 11 March, 2013

As at the date of this announcement, the executive Directors are Mr. Chen Wantian, Mr. Song Guosheng, and Mr. Chen Guoyu and the independent non-executive Directors are Dr. Li Haitao, Dr. Jiang Tao and Dr. Zeng Yilong.