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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 2013

HIGHLIGHTS OF 2013 ANNUAL RESULTS

- Revenue decreased slightly by 2.1% to approximately RMB1,507 million
- Profit attributable to owners of the Company decreased by 16.7% to approximately RMB131 million
- Sales volume of silver ingots increased by 17.5% to 248 tonnes
- Production capacity achieved full utilization in 2013
- The Board proposed a final dividend of HK\$0.03 per share. Together with the interim dividend of HK\$0.02 per share, the overall payout ratio for 2013 is 27%

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 2013.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Revenue	4	1,506,963	1,540,039
Cost of sales		<u>(1,284,749)</u>	<u>(1,260,865)</u>
Gross profit		222,214	279,174
Other income		1,139	274
Other gains and losses		(4,275)	(374)
Administrative expenses		(27,119)	(20,352)
Selling and distribution expenses		(1,731)	(1,331)
Research and development expenses		(2,051)	(4,709)
Other expenses		(111)	(11)
Listing expenses		–	(25,834)
Finance costs		<u>(7,943)</u>	<u>(6,285)</u>
Profit before tax		180,123	220,552
Income tax expense	5	<u>(48,785)</u>	<u>(62,810)</u>
Profit and total comprehensive income for the year	6	<u>131,338</u>	<u>157,742</u>
		RMB	RMB
Earnings per share	8		
Basic		<u>0.15</u>	<u>0.22</u>
Diluted		<u>0.15</u>	<u>0.22</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	<i>NOTES</i>	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		181,365	142,757
Prepaid lease payments		19,437	19,872
Intangible asset		5,307	5,668
Deferred tax asset		2,485	2,500
		208,594	170,797
CURRENT ASSETS			
Prepaid lease payments		432	432
Inventories	9	122,412	168,672
Trade receivables and prepayments	10	5,091	14,009
Trade deposits		978	11,987
Pledged bank deposit		20,000	—
Bank balances and cash		381,144	221,908
		530,057	417,008
CURRENT LIABILITIES			
Trade and other payables	11	34,618	47,728
Customer receipts in advance		8,400	600
Amount due to a related party		12	—
Income tax payable		20,728	25,173
Bank borrowings		129,947	110,000
		193,705	183,501
NET CURRENT ASSETS		336,352	233,507
TOTAL ASSETS LESS CURRENT LIABILITIES		544,946	404,304
CAPITAL AND RESERVES			
Share capital		7,362	7,172
Share premium and reserves		527,644	387,132
TOTAL EQUITY		535,006	394,304
NON-CURRENT LIABILITY			
Deferred income		9,940	10,000
TOTAL EQUITY AND NON-CURRENT LIABILITY		544,946	404,304

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

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 of Hong Kong Limited (the “**Stock Exchange**”) since 28 December 2012 (the “**Listing**”).

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

2. REORGANISATION AND BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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 People’s Republic of China (the “**PRC**”) on 28 March 2012;
- (ii) On 27 April 2012, the Longtianyong Shareholders transferred their equity interests 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 profit or loss and other comprehensive income and consolidated statement of cash flows which include the results and cash flows of the companies now comprising the Group for the year ended 31 December 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 year, or since their respective dates of establishment/incorporation where this is a shorter period.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

The International Accounting Standards Board has issued a number of new and revised International Accounting Standards (“IASs”), IFRSs, amendments and interpretations (“IFRICs”) which are effective for the Group’s financial year beginning on 1 January 2013 (hereinafter collectively referred to as the “New IFRSs”). The Group has adopted, for the first time, the New IFRSs in the current year.

The application of the New IFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements, except that the Group has retrospectively applied the amendments to IAS 1 “Presentation of Items of Other Comprehensive Income” under which the Group’s ‘statement of comprehensive income’ is renamed as the ‘statement of profit or loss and other comprehensive income’.

New and revised IFRSs in issue but not yet effective

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

Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle ¹
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle ²
IFRS 9	Financial Instruments ³
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures ³
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities ⁴
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions ²
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities ⁴
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets ⁴
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting ⁴
IFRS 14	Regulatory Deferral Accounts ⁵
IFRIC 21	Levies ⁴

¹ Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

² Effective for annual periods beginning on or after 1 July 2014.

³ Available for application – the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised.

⁴ Effective for annual periods beginning on or after 1 January 2014.

⁵ Effective for first annual IFRS financial statements beginning on or after 1 January 2016.

The directors of the Company anticipate that the application of the new and revised IFRSs 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 Group, 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 geographical location of assets. Therefore, no geographical information is presented.

Analysis of revenue by products

An analysis of the Group's revenue by products is as follows:

	2013 RMB'000	2012 <i>RMB'000</i>
Silver ingot	1,020,063	1,157,574
Lead ingot	243,819	206,679
Bismuth ingot	105,500	93,754
Antimony ingot	63,200	60,399
Non-standard gold	28,256	9,536
Silver jewellery	27,087	—
Zinc oxide	18,551	11,591
Others	487	506
	1,506,963	1,540,039

5. INCOME TAX EXPENSE

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
PRC Enterprise Income Tax (“EIT”)		
– current year	48,395	63,023
– underprovision in respect of prior years	375	287
	<u>48,770</u>	<u>63,310</u>
Deferred taxation for the year	15	(500)
	<u>48,785</u>	<u>62,810</u>

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

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Profit and total comprehensive income for the year has been arrived at after charging:		
Directors’ emoluments	3,738	2,015
Other staff costs		
– salaries and wages	30,926	26,897
– retirement benefit scheme contributions	6,166	5,330
– share-based payments, excluding those of directors	821	–
Total staff costs	<u>41,651</u>	<u>34,242</u>
Auditor’s remuneration	1,356	1,341
Amortisation of intangible asset	361	332
Cost of inventories recognised as expenses	1,284,749	1,260,865
Depreciation of property, plant and equipment	12,143	12,381
Release of prepaid lease payments	435	428
Rental expenses	477	27

7. DIVIDENDS

In the current year, the Company has declared and paid an interim dividend of HK\$0.02 per share amounting to HK\$18,124,000 to the owners of the Company. The Company has neither paid nor declared any dividend since its incorporation and prior to that interim dividend.

Prior to the Reorganisation, Longtianyong Nonferrous Metals paid dividend of RMB44,000,000 to its then equity holders during the year ended 31 December 2012.

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Dividends recognised as distribution	14,453	44,000

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2013 of HK\$0.03 (2012: Nil) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

8. EARNINGS PER SHARE

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

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Earnings		
Profit for the year	131,338	157,742
	2013 '000	2012 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	905,076	711,692
Effect of dilutive potential ordinary shares:		
Over-allotment Option granted in relation to the Listing	161	37
Weighted average number of ordinary shares for the purpose of diluted earnings per share	905,237	711,729

The computation of diluted earnings per share for the year ended 31 December 2013 does not assume the exercise of the Company's share options because the adjusted exercise price of those options calculated in accordance with IAS 33 "Earnings Per Share" was higher than the average market price for shares of the corresponding period.

For the year ended 31 December 2012, 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 had taken place on 1 January 2012 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

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Raw materials	66,709	77,963
Work in progress	51,484	85,384
Finished goods	4,219	5,325
	<u>122,412</u>	<u>168,672</u>

10. TRADE RECEIVABLES AND PREPAYMENTS

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Trade receivables	4,494	13,162
Prepayments	597	847
	<u>5,091</u>	<u>14,009</u>

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 based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates is as follows:

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
0 – 30 days	<u>4,494</u>	<u>13,162</u>

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 AND OTHER PAYABLES

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
Trade payables	<u>20,666</u>	<u>16,734</u>
Value-added tax and other taxes payables	4,691	8,904
Listing expenses payables	–	13,500
Other payables and accrued expenses	<u>9,261</u>	<u>8,590</u>
	<u>13,952</u>	<u>30,994</u>
	<u>34,618</u>	<u>47,728</u>

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

	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>
0 – 30 days	<u>20,666</u>	<u>16,734</u>

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

BUSINESS REVIEW

The year 2013 was a challenging yet fruitful year for the Group.

First of all, under the backdrop of a slowing Chinese economy and a significant retreat in the international silver price that worked against us, our consolidated revenue decreased slightly by 2.1% to RMB1,507 million for the year ended 31 December 2013. During the year, although we achieved full utilization of our production capacity and sold a record volume of 248 tonnes of silver ingots, the gain was offset by the decrease in the average selling price of silver ingots.

While the commodity prices generally experienced downward pressure in 2013, our overall margin suffered. Our consolidated margin dropped from 18.1% in 2012 to 14.7% in 2013. As the financial market showed signs of stabilization with the international silver price staying above USD20 per ounce in the latter half of 2013, we are hopeful that our margin will return to normal level in the foreseeable future.

Despite all the difficulties that we faced, as the Chinese says “opportunities arise amid challenges”, we are excited to see some interesting market opportunities arising in the silver sector.

More specifically, the retreat in gold and silver prices has triggered strong demand among local consumers. In April 2013, a notable gold buying frenzy had developed among the PRC consumers. Riding on the sustained growth in China’s consumption power, we believe it is the perfect time for the Group to leverage our existing establishment to tap into the massive silver retail market in the PRC.

During the year, we conducted some trial sales of silver jewellery and received an overwhelmingly positive response. In January 2014, we officially launched our proprietary e-commerce platform, www.CSmall.cn, which is the first-ever professional online sales platform of its kind in the PRC. CSmall not only will showcase our own silver jewellery products, but will also invite other quality third party brands to join. We aim to build a fully integrated online sales platform for silver products in China. At the same time, we are developing several channels to tap into different segment in the downstream silver market. We aim to diversify our income streams and consolidate our market leadership in China’s silver industry.

Market review

The global commodity market remained volatile in 2013.

The graph below shows 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 officially designated silver exchange, throughout 2013:



Due to concerns over the tapering measures taken by the US Federal Reserve, silver price retreated from RMB6,440 per kg (VAT inclusive) by the end of January 2013 to RMB3,770 per kg (VAT inclusive) by the end of June 2013, representing a decrease of 41.5%. As the financial market showed signs of recovery in the second half of 2013, silver price subsequently stabilized at around RMB4,000 per kg (VAT inclusive).

Business review

Manufacturing business

Despite market volatility in the macro-environment, the Group managed to withstand rough tides and achieved an encouraging result.

For the year ended 31 December 2013, the Group’s revenue reached approximately RMB1,507 million (2012: RMB1,540 million), representing a slight decrease of approximately 2.1% from the previous year. Profit attributable to owners of the Company was approximately RMB131 million (2012: RMB158 million), representing a decrease of approximately 16.7% from the previous year.

Our key product, silver ingot under our popular Longtianyong brand, continues to be our major source of revenue, representing approximately 67.7% of our total revenue. We are the only company listed in Hong Kong to enjoy such a high percentage of revenue generated from sales of silver ingots.

We applied a proprietary production model to manufacture high quality silver and other non-ferrous metals which have commercial value. During the year, we achieved full utilization in our current capacity and sold a record volume of 248 tonnes of silver ingots.

In addition, we continued to spend great effort in improving our production efficiency. We reduced our inventory turnover days from 46 days in 2012 to 41 days in 2013 by further reducing our inventory of raw materials and shortening our production lead time to manage risks.

The manufacturing business will continue to contribute stable cashflow and serve as a solid foundation for the Group to grow.

Retail business

In China, silver traditionally carries strong symbolic meaning to the people. The word silver is synonymous with cash in Chinese. As such, silver is a precious metal that is highly suitable for processing into jewellery adornment, both for storage of wealth and fashion.

The absence of influential silver jewellery brands in the China market presents a valuable opportunity for the Group to expand its silver business. As the only professional silver producer in China listed in Hong Kong, the Group will leverage its advantage in the upstream silver production business and its leading position in the industry to establish a professional silver jewellery brand.

During the year, we did some trial sales of silver jewellery to test the market, and the response was exceptionally good. As the business achieved an operating margin higher than our manufacturing business, we foresee that the new business can add substantial value to the Group.

In January 2014, we officially launched our one-of-a-kind e-commerce platform, www.CSmall.cn. This is our first strategic move to tap into the downstream market. We also partnered with famous third-party sales platforms, such as Tmall and JingDong. Furthermore, we entered into strategic partnerships with several banks to deliver our silver investment products through their banking platforms.

Apart from online channels, we are simultaneously developing various offline sales channels. We are building a 2,000 square meter exhibition hall in Shuibei, Shenzhen, to showcase our silver products. Shuibei is currently the largest jewellery trading center in China. We will work with experienced distributors to deliver our products through retail shops and shopping mall counters.

The Group will adopt a multi-brand strategy which carries a series of brands targeting different market segments. We will build our own design team and manufacture our silver jewellery products for better control quality.

To ensure success in the retail business, the Group successfully invited two industry veterans, Mr. Kuang Yiping, Karl and Mr. Zhang Jinpeng, to join us. Mr. Kuang is well-known for his expertise and experience in brand management, marketing and promotion in the jewellery industry, and has previously served as brand and marketing consultant at several famous jewellery companies such as Batar, Sinojewel and Xingguangda Jewelry. Mr. Zhang was the vice president of Zbird.com, one of the top jewellery e-commerce brands in China. He also worked at well-known international and local jewellery companies, namely Emperor Watch and Jewelry in Hong Kong, as well as Hiersun and TianPo Jewelry. The management team's extensive experience in China's jewellery and e-commerce sector will strengthen the Group's capability in developing a retail business to tap the enormous opportunities in China's silver jewellery retail and e-commerce market.

To date, the progress in the development of our retail business has been encouraging. We expect the retail business to contribute a significant portion to our overall results in the coming future.

Prospects

Looking ahead, we are very confident about the future of the silver market in China.

We will continue to expand our production capacity in silver ingots. In order to support the new retail business, we decided to strategically reallocate our resources and reduce our expansion target for silver ingots from the previous target of 650 tonnes per annum to 450 tonnes per annum in 2015.

As discussed above, we will develop several channels to tap into the silver retail market in China. We expect the retail business to become a significant contributor of the Group in the foreseeable future.

Furthermore, we will continue to look for suitable merger and acquisition opportunities. That said, we are not in a hurry, and will proceed only if we think that such opportunities fit into our plan well with good potential in return.

We set our sights high since listing. 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 2013 was approximately RMB1,507 million (2012: RMB1,540 million), representing a decrease of approximately 2.1% from that of last year. The Group's revenue is primarily derived from the sale of our major product, silver ingot, which accounted for 67.7% (2012: 75.2%) 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. Apart from that, we also sold silver jewellery during the year.

The revenue breakdown by product categories is set out in the table below:

	Year ended 31 December			
	2013		2012	
	Revenue (RMB'000)	% of revenue	Revenue (RMB'000)	% of revenue
Manufacturing				
Silver ingot	1,020,063	67.7%	1,157,574	75.2%
Lead ingot	243,819	16.2%	206,679	13.4%
Bismuth ingot	105,500	7.0%	93,754	6.1%
Antimony ingot	63,200	4.2%	60,399	3.9%
Others	47,294	3.1%	21,633	1.4%
	1,479,876	98.2%	1,540,039	100%
Retail				
Silver jewellery	27,087	1.8%	—	—
Total	1,506,963	100%	1,540,039	100%

Sales of silver ingot decreased slightly from RMB1,158 million to RMB1,020 million for the year ended 31 December 2013, representing a decrease of RMB138 million, or 11.9%, from that of last year. The decrease was the net result of the increase in sales volume from 211 tonnes to 248 tonnes and the decrease in the average selling price of RMB5.5 million per tonne (VAT exclusive) to RMB4.1 million (VAT exclusive) per tonne. The drop in the average selling price was primarily due to concerns over the tapering measures taken by the US government.

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 the 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 uncertain outlook of the global economy.

Sales of silver jewellery was a new business initiative developed during the year. We aimed to test the response of the downstream market before the official launch of our online sales retail platform.

Cost of sales, gross profit and gross profit margin

Our cost of sales mainly includes the cost of raw materials consumed, direct labor and manufacturing overhead. Cost of raw materials consumed accounted for approximately 95% of our cost of sales. The purchase price 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 the purchase price.

We recorded a gross profit of RMB222 million (2012: RMB279 million) for the year ended 31 December 2013, representing a decrease of 20.4% as compared to that of last year. The decrease in gross profit was mainly due to the decrease in average selling price of silver ingots.

Gross profit margin dropped from 18.1% to 14.7% was due to the decrease in commodity prices as discussed above.

Other gains and losses

The amount primarily consists of loss on disposal of property, plant and equipment and net exchange loss.

Administrative expenses

Administrative expenses increased by approximately 33.2% from RMB20.4 million to RMB27.1 million for the year ended 31 December 2013. The increase was mainly due to the additional staff costs and legal costs in association with the expansion of new business and the Listing.

Selling and distribution expenses

Selling and distribution expenses primarily consist of transportation costs and staff costs.

Research and development expenses

Research and development expenses decreased by approximately 56.4% from RMB4.7 million to RMB2.1 million mainly due to the completion of the non-recurring research projects during the year.

Listing expenses

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

Finance costs

Finance costs increased by approximately 26.4% to approximately RMB7.9 million primarily due to the increase in average bank borrowing to support our new business.

Income tax expense

Income tax expenses decreased by approximately 22.3% to RMB48.8 million due to the decrease in profit before tax. The effective tax rate remained stable.

Profit attributable to owners of the Company

Profit attributable to owners of the Company decreased from RMB158 million for the year ended 31 December 2012 to RMB131 million for the year ended 31 December 2013 primarily due to the reasons as discussed above. Net profit margin dropped from 10.2% to 8.7% mainly due to the drop in gross profit margin.

Inventories, trade receivables and payables turnover cycle

The Group's inventories mainly comprise raw materials of ore powder and smelting slag. For the year ended 31 December 2013, inventory turnover days were approximately 41.0 days (2012: 46.4 days). The inventory turnover days were shortened due to the continual improvement of operational efficiency.

The turnover days for trade receivables for the year ended 31 December 2013 were approximately 2.1 days (2012: 2.1 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 were approximately 5.3 days (2012: 3.6 days). The suppliers generally required the Group 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 2013, the Group's bank borrowings balance amounted to RMB130 million (As of 31 December 2012: RMB110 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 and pledged bank deposit as a percentage of shareholder equity. As of 31 December 2013, the Group is in a net cash position with a net gearing ratio of -50.7% (2012: -28.4%). The increase in cash was mainly due to the net cash inflow from operation.

Pledge of assets

As of 31 December 2013, the Group pledged property ownership rights in respect of buildings, land use rights, inventories and bank deposit with total carrying value of RMB71.0 million, RMB11.4 million, RMB85.0 million and RMB20.0 million respectively, (As of 31 December 2012: RMB62.4 million, RMB11.7 million, RMB82.1 million and nil) to secure the general banking facilities or bank borrowings granted to the Group.

Capital expenditures

For the year ended 31 December 2013, the Group invested RMB53.9 million (2012: RMB16.3 million) in the purchase of property, plant and equipment and acquisition of an intangible asset.

Employees

As at 31 December 2013, the Group employed 698 staff (2012: 668 staff) and the total remuneration for the year ended 31 December 2013 amounted to approximately RMB41.7 million (2012: RMB34.2 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 general market conditions. Bonuses are linked to the Group's financial results as well as to individual performance. 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 2013, the cash and cash equivalents, net current assets and total assets less current liabilities were RMB381 million (2012: RMB222 million), RMB336 million (2012: RMB234 million) and RMB545 million (2012: RMB404 million), respectively. As at 31 December 2013, the Group had bank borrowings amounting to RMB130 million (2012: RMB110 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. According to the plan, 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 2013, HK\$33.5 million of the proceeds from the Listing have not been utilized.

Dividend

The Board has resolved to recommend payment of a final dividend for the year ended 31 December 2013 of HK\$0.03 per share (For the year ended 31 December 2012: nil), totalling HK\$27.2 million (approximately RMB21.4 million), which is subject to shareholders' approval at the forthcoming annual general meeting of the Company to be held on Thursday, 29 May 2014. It is expected that the final dividend will be paid on or about 11 July 2014 to shareholders whose names appear on the register of members of the Company on 6 June 2014.

Compliance with the 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 for the year ended 31 December 2013.

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.

Compliance with the 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 for the year ended 31 December 2013.

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

For the year ended 31 December 2013, 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 are 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 2013, 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 2013 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 during the following periods:

- (i) From 27 May 2014 to 29 May 2014 (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, all transfers accompanied by the relevant share certificates must be lodged with the Company’s share registrar, 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 pm on 26 May 2014 for registration of transfer.
- (ii) From 9 June 2014 to 11 June 2014 (both days inclusive), during which period no transfer of shares will be effected. In order to establish entitlement to the proposed final dividend (payable on or about 11 July 2014), all transfers accompanied by the relevant share certificates must be lodged with the Company’s share registrar, 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 pm on 6 June 2014 for registration of transfer.

Scope of work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group’s consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2013 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 2013 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 2014

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.